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**Working Paper**

## Ten Years after: Achievements and Challenges of the Euro-Mediterranean Economic and Financial Partnership

GIGA Working Papers, No. 36

**Provided in Cooperation with:**

GIGA German Institute of Global and Area Studies

*Suggested Citation:* Brach, Juliane (2006) : Ten Years after: Achievements and Challenges of the Euro-Mediterranean Economic and Financial Partnership, GIGA Working Papers, No. 36, German Institute of Global and Area Studies (GIGA), Hamburg

This Version is available at:

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GIGA Research Unit:  
German Institute for Middle East Studies

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Juliane Brach

N° 36

December 2006

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GIGA research unit responsible for this issue: German Institute for Middle East Studies.

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## **Ten Years after: Achievements and Challenges of the Euro-Mediterranean Economic and Financial Partnership**

### **Abstract**

EU and twelve countries of the Middle East and North Africa (MENA) engaged in 1995 in the Euro-Mediterranean Partnership (EMP) in political, economic and cultural matters with the aim to foster cooperation, stability, and prosperity around the Mediterranean Basin. The Economic and Financial Partnership (EFP) plays a central role in the EMP design and implementation, which is centered on economic and trade integration as a starting point for and an anchor of socioeconomic development in the MENA region. Against this background, this paper reviews the situation in the MENA partner countries and the past performance of the EFP. It analyzes the association agreements, economic cooperation and financial assistance, discusses the major obstacles, and outlines the potential of the EFP to shape the European Neighborhood Policy.

Key words: EU, Euro-Mediterranean partnership, Barcelona process, MENA, economic integration, socioeconomic development

JEL Classification: O19, O53, F15, F5

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## **Zusammenfassung**

### **Erfolge und Herausforderungen der Euro-Mediterranen Wirtschafts- und Finanzpartnerschaft. Eine Bilanz nach zehn Jahren**

Seit 1995 engagieren sich die EU und zwölf Mittelmeerdriftländer in der Euro-Mediterranen Partnerschaft (EMP), die sicherheitspolitische, wirtschaftliche und kulturelle Themen umfasst, mit dem Ziel, Zusammenarbeit, Stabilität und Wohlstand im Mittelmeerraum zu fördern. Die Euro-Mediterrane Wirtschafts- und Finanzpartnerschaft (EFP) spielt eine wichtige Rolle in der Struktur und Umsetzung der EMP, die sich auf wirtschaftliche Integration und Handelsbeziehungen als Ausgangs- und Angelpunkte sozioökonomischer Entwicklung im Mittelmeerraum stützt. Vor diesem Hintergrund evaluiert der vorliegende Beitrag die Situation in den Mittelmeerdriftländern sowie die bisherigen Leistung der EFP und diskutiert Lösungsansätze für die wichtigsten Problemfelder. Darüber hinaus wird das Potential der EFP zur Gestaltung der Europäischen Nachbarschaftspolitik skizziert.

# **Ten Years after: Achievements and Challenges of the Euro-Mediterranean Economic and Financial Partnership**

**Juliane Brach**

## **Article Outline**

1. Introduction
2. Euro-Mediterranean Economic and Financial Partnership
3. Mediterranean Realities: Radical Changes and High Adjustment Costs
4. Evaluation: Obstacles of the Past and Future Challenges
5. Conclusion

## **1. Introduction**

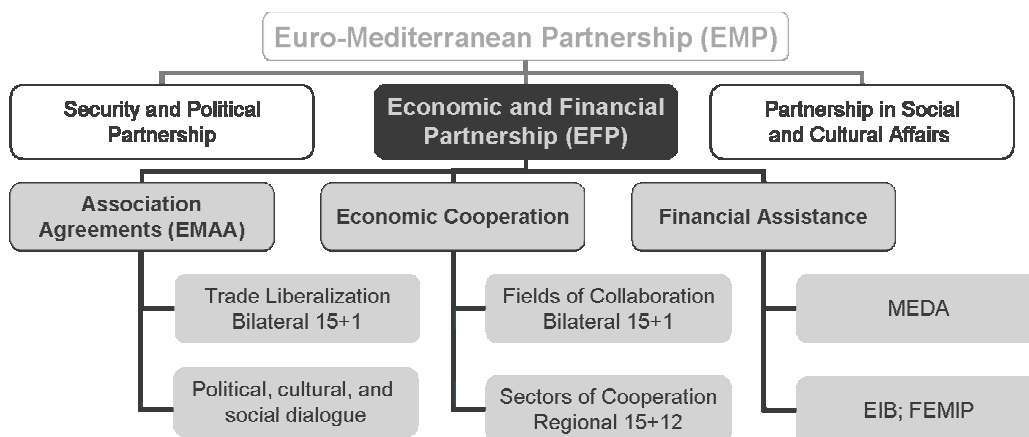
In a favorable environment, the EU-15 and 12 countries of the Middle East and North Africa (MENA) (Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey and – though not a state – West Bank/Gaza Strip) signed the Barcelona Declaration in 1995 and engaged in a strategic process of cooperation around the Mediterranean Basin (Barcelona Process). The end of the second Gulf war and the successfully concluded Israeli-Palestinian Oslo Agreements brought about optimism towards a normalization in the region. The progress of the Middle East Peace Process was considered to be irreversible, and so was the establishment of peace. Accordingly ambitious was the aim: creating a zone of peace, stability and shared prosperity around the Mediterranean Basin based on the comprehensive Euro-Mediterranean Partnership (EMP) in political, economic and cultural matters (Euromed, 1995). But the geopolitical context has worsened since 1995.

Celebrating its 10th anniversary in 2005, the performance of the Euro-Mediterranean partnership is vividly discussed in specialized literature. Many contributions concentrate on the cultural and security dimensions of the EMP, but only few scholars focus on the economic and financial dimension encompassed in the Economic and Financial Partnership (EFP).

This is especially surprising, as the EFP plays a central role in the design, rationale and implementation of the EMP: Economic integration has proven to be a major source of continuous interaction between the Euromed partners in recent times of severe political tensions and institutional changes. Moreover, the EFP has developed the most dynamic and advanced implementation of the Barcelona Process. Over 90 per cent of the funds provided for the EMP are allocated to the EFP. Finally, and most importantly, the EMP takes economic and trade integration as a starting point for and an anchor of socioeconomic development in the Mediterranean region. The EMP is centered on the EFP and on the expected positive effects of establishment of the Euro-Mediterranean Free Trade Area (EMFTA), which will be the world's largest market entity comprising over 800 million people, who operate more than 60 per cent of total trade among each other. Reflecting the strategic nature of the Barcelona Process, the ambitious aim of the EFP is not free trade itself, but acceleration of the pace of sustainable socioeconomic development in the region, through improvement of living conditions, an increase in employment level, reduction of the development gap, and encouragement of regional cooperation and integration (Euromed 1995).

Therefore, the EFP complements trade liberalization with measures of economic cooperation and financial assistance. The EFP has three pillars: Euro-Mediterranean Association Agreements (EMAAs) between the EU and each one of the MPs, economic cooperation, and finally, financial assistance through MEDA (cf. figure 1). Both of the latter pillars aim to smooth consequences from economic reforms, and alleviate adjustment costs.

**Figure 1: Structure of the Economic and Financial Partnership**



Source: Author's illustration.

The EMP and EFP distinguish between two levels of cooperation: The regional level, on the one hand, involves all 15+12 partners. The Euro-Mediterranean conference takes place every two years on the foreign minister level. Following the principles of one-nation-one-vote and a strict unanimous voting procedure, equal rights for all participants are institutionalized. The bilateral level, on the other hand only includes the EU and one MP (15+1). Consequently, measures that have been agreed upon bilaterally, are only binding for the EU and one respective MP. These bilateral activities concerning different MPs are operated simultaneously (cf. figure 1).

The recent eastward expansion of the EU and the introduction of the European Neighborhood Policy (ENP) in 2003, changed the international and regional setting in which the EMP was placed ten years ago and represent a thorough challenge to Euro-Med relations: After the enlargement, the EU today counts 25 members (including the former MPs Malta and Cyprus), four potential candidates are negotiating the accession (among them Turkey) and the remaining 9 MPs are now a subgroup of 16 neighbor countries at the EU's new borders.

The present paper argues that in order to provide a proper and constructive evaluation of the EMP, it is important to consider the economic and financial dimensions in the design and rationale of the Euro-Med Partnership. EFP tools need to be assessed in relation to the high expectations, but also in relation to the high costs of economic adjustment on the side of the MPs. Against this background, this paper reviews the past performance of the EFP by analyzing the association agreements, economic cooperation, and financial assistance through MEDA. Based on this analysis, it outlines the major obstacles that impede full benefits on both shores of the Mediterranean. Finally, the results of the evaluation will be discussed with respect to the role and opportunity of the EFP in shaping the recently introduced European Neighborhood Policy.

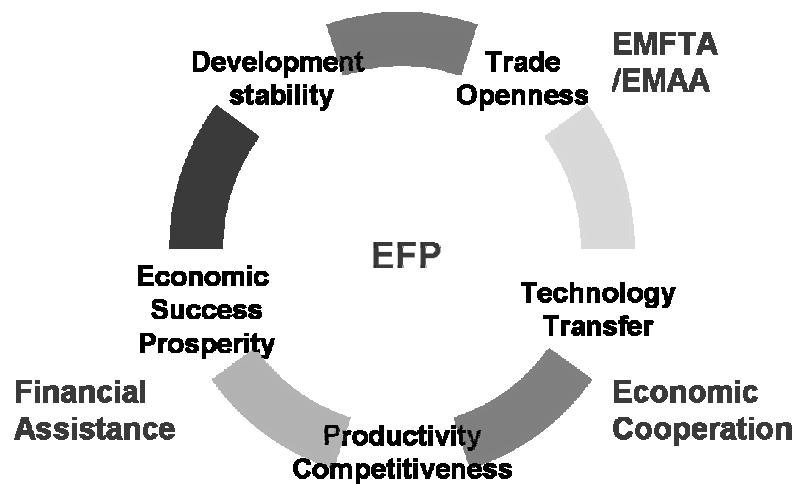
The remainder of the paper is organized as follows: Section 2 describes the provisions, measures and tools of the EFP and its past performance. Section 3 relates these findings to the high expectations raised in the course of the EMP, which commonly serve as a benchmark in literature, to the anticipated mechanism, as well as to the actual economic and institutional situation in the Arab Mediterranean partner countries. Section 4 discusses major obstacles, future challenges and the necessity of appropriate benchmarks in this context. Finally, section 5 outlines the research perspectives and concludes.



## 2. Euro-Mediterranean Economic and Financial Partnership

Three circumstances account for the enforced EU engagement in the Middle East and North Africa (MENA), leading to the establishment of the EMP and the signature of the Barcelona Declaration in 1995: First, the euphoria after the successfully concluded Oslo Agreements, in 1993 and 1995, and the anticipated end of the Middle East Conflict, as already mentioned above. Second, the completed northbound expansion of the EU stoked fears of marginalization in the southern EU member countries. Spain, France and Italy only agreed to accession talks with Eastern European countries, after the European Council resolved upon a common European policy towards the non-candidate Mediterranean countries. Third, with the end of the cold war, the risk perception of the EU shifted towards the soft or new risk of the politically and economically unstable MENA region (Jünemann 2005). In the past decade, the relations between the EU and the Mediterranean Partners (MPs) suffered under great strain from new and persistent escalations and violence between Israelis and Palestinians, terrorism (9/11, bomb attacks, hostage dramas) and conflict in Iraq. Floods of MENA immigrants on European shores, large scale unemployment and the lack of economic perspectives at home. Increasing agitation among citizens with migration background (Öcalan Affair in Germany, riots in France) as well as misperception and disinformation (cartoons of Prophet Muhammad) worsen the situation and carry the conflicts and problems of the region more and more into the EU itself.

Although the EMP was to a large extent motivated by European security concerns, it is based on an economic rationale, which is partially resulting from the EU's own positive experience with economic integration. The EMP is based on the anticipation that trade functions as an anchor of regional integration and economic cooperation as the necessary catalyst. This mechanism is derived from economic theory on innovation and growth, as well as on international trade: Ideally, economies committing themselves to more openness and increased integration into international markets will benefit from increased foreign direct investment (FDI) and technology transfer. With the help of recent technologies, industries and products become more productive and thus increasingly competitive on international markets. Growing economies contribute to socioeconomic development of their country, because jobs are created, salaries raise and living conditions generally improve (cf. figure 2). A healthy degree of interaction and prosperity is thus considered to be the basis also for regional stability. Drawing on this mechanism, the EFP is based on three pillars in order to achieve a socially and economically sound integration and transition of the MPs: (1) the progressive conclusion of Euro-Mediterranean Association Agreements, (2) economic cooperation and concerted action, as well as (3) financial assistance.

**Figure 2: The Anticipated Mechanism: From Trade to Development**

Source: Author's illustration.

### 2.1. Economic Liberalization: Trade and Openness

The first objective of the EFP is to foster trade and openness in the region, in order to improve competitiveness and foreign investment inflows, by spurring international exchange, and also by locking the MP economies on to the world market. The central instrument to achieve this goal is the establishment of the Euro-Mediterranean Free Trade Area (EMFTA). The target date is 2010, providing a 12 year transition period for MPs. As mentioned above, by the time all Euro-Mediterranean Association Agreements (EMAAs) have entered into force and the Union's eastward expansion will have been completed, EMFTA will comprise over 40 countries and about 800 million people.

According to the General Agreement on Tariffs and Trade (GATT), free trade areas together with customs unions, are an important exemption to the most favored nation treatment. In contrast to WTO trade liberalization, the negotiations of the EMAAs are led bilaterally between the EU and one MP (15+1 negotiations), in order to be able to take the special economic situation of each MP (i.e. speed of structural adjustment and/or liberalization and commitment to the process) into account. Thus, the EMFTA is gradually established through a network of "pluri-bilateral" (Jünemann 2001) EMAAs. These take the traditional trade flows between the EU and the MPs as the starting point for progressively elimination tariff and non-tariff protection (Euromed 1995).

By now, negotiations on the Euro-Mediterranean Association Agreements are concluded and signed with all MPs, except Syria. EMAAs with Tunisia, Israel, Morocco, Jordan, Lebanon and Egypt are ratified and entered into force (in the respective order).<sup>1</sup> The first EMAA,

<sup>1</sup> However, Cyprus and Malta have joined the EU as full members in 2004. Turkey is nominated to be a candidate country, but negotiations have not yet started. The impact and challenges due to

which was signed in 1995 between the EU and Tunisia entered into force in 1998, is considered to be the archetype of all EMAAs (Zaim 1999) and has served as a reference in subsequent negotiations (Ghesquiere 1998). The EMAAs reflect the comprehensive approach of the Barcelona Process and comprise provisions that go beyond traditional WTO free trade agreements. They contain clauses dealing with basic principles such as the respect for human rights, political dialogue or cultural and social matters. Economic cooperation and especially financial aid from the side of the EU are conditional on the respect of these clauses. Bilateral trade relations between the EU and the MPs have traditionally been strong. Today they are solid: the EU is the main partner of the MPs, accounting on average for almost 50 per cent of the MP's total trade. Especially Maghreb countries are intensely connected to the EU, in particular Tunisia where the EU accounts for over three quarters of its total trade. With an average of around a third of their total trade being directed at the EU, Jordan, Egypt and Israel are the least focused on trade with the EU in the Mediterranean region (cf. section 3 and table 1).

Already existing trade links have been strengthened over the past ten years: The annual growth of exports between 1994 and 2004 was 7.7 per cent and 10.3 per cent from the EU to the MPs and vice versa (World Bank 2006). The MPs have a structural trade deficit towards the EU. MPs import almost double the value of what they export to the EU, particularly machinery and transport equipment (Handoussa, Reiffers 2002). In 2005, MPs accounted for 8.5 per cent of total EU-25 external trade. Thus, the Mediterranean region as a whole is the fourth most important trade partner of the EU, ranking after the USA, EFTA and China a head of Russia and Japan (EUROSTAT 2006). Turkey, Israel and Morocco are the main trading partners of the EU from the MPs that together make up a little more than 60 per cent of the total EU-MP trade volume.

## **2.2. Economic Cooperation: Productivity and Competitiveness**

Economic cooperation is the EFP's second pillar. Its objective is to increase productivity and competitiveness in each MP, as well as in the region as a whole, by opening communication channels and building capacities for technology transfer. Bilateral cooperation is oriented towards upgrading the MP's infrastructure and providing support for restructuring (Hoekmann 1999). The measures of the bilateral economic cooperation are settled in the EMAAs to support the MP's own effort to achieve sustainable socio-economic development. The range of methods is manifold, providing a.o. for information exchange through expert exchange, expert services and technical assistance, and encouraging joint ventures. Economic dialogue

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institutional changes within the EU such as the enlargement or European Neighborhood policy will be discussed a later section of the paper.

is established in more than 18 fields of collaboration. These include matters of industrial cooperation, investor friendly climate, transport, telecommunications and customs matters, but also money laundering and drug trafficking. Regional economic cooperation provides for all-party cooperation in eight economic sectors: industry, environment, water management, information society, energy, trade, transport and agriculture. The objective is to strengthen the sensitivity of the MPs to common problems, to institutionalize cooperation and to agree on tangible regional programs. Given the special situation in the Mediterranean, establishing a positive experience of win-win situations, collaboration and trust is a complex task (cf. section 3).

The interconnection of infrastructures, concerted reforms, as well as a harmonization of legal and administrative frameworks are preconditions for the region to become more competitive and attractive as compared to other developing regions. Although (bilateral) trade links between the EU and the Mediterranean have been, as mentioned earlier, traditionally solid, regional cooperation gained momentum only slowly since 2001. Special working groups<sup>2</sup> aim at facilitating trade and investment among the partners. They are working on an action plan on the convergence of competition and customs legislation, which covers important issues such as the convergence of norms, industrial standards, and intellectual property rights. In 2002, the EMP members agreed to the general participation of MPs in the pan-European cumulation of origin (Euromed Report 2002a). However, cumulation of origin is still only possible among Tunisia, Morocco and Algeria, because the EMAAs are not yet amended (cf. section 4).

### **2.3. Financial Assistance: MEDA**

The EFP's third pillar is financial assistance. Its purpose is two-fold. The first is to encourage economic transformation by creating incentives. The second is to alleviate adjustment costs. By providing these funds, the EU stresses its commitment to turn abstract EMP objectives into tangible projects. The assistance is mainly provided through the MEDA-Program<sup>3</sup> and the assistance of the European Investment Bank (EIB), which together account for almost 90 per cent of the EUR 14.580 million committed to the Mediterranean region between 1995 and 2006. All MEDA funds are grants from the EU and do not have to be paid back. MEDA's financial support generally applies to all three chapters of the EMP, but over three quarters of the funds are allocated for activities within the EFP. In contrast to the pre-Barcelona Financial Protocols, the MEDA program is a global fund without fixed percentages or

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<sup>2</sup> WG on Rules of Origin and WG on Trade Measures Relevant for Regional Integration.

<sup>3</sup> Mesures d'accompagnement financiers et techniques à la réforme des structures économiques et sociales dans le cadre du partenariat euro-méditerranéen.

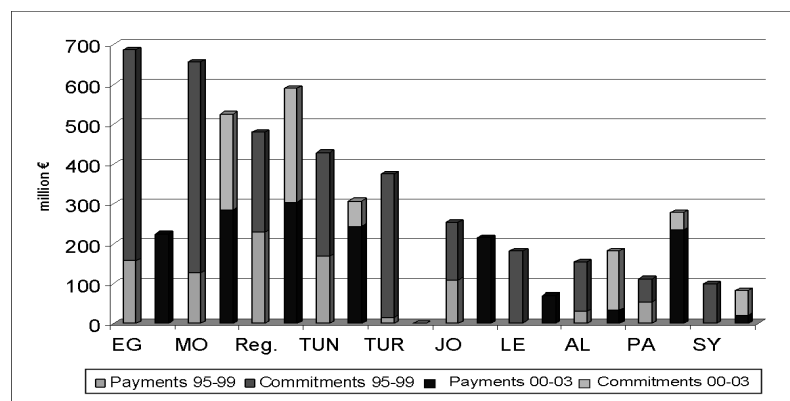
amounts per MP (Parfitt 1997). The amount that each MP receives depends on its efforts and progress, i.e. the allocation of the funds is based on competition between countries, between projects in the same country, as well as between regional projects. MEDA-Regulation provides two other very important details: First, beneficiaries of MEDA support do not necessarily have to be states or regions. This provision allows immediate and decentralized support to all levels of hierarchy. It also requires a high degree of capabilities on site, in order to ensure equal access. Second, Article 3 supplies a political conditionality of MEDA funds; i.e. payments can be frozen or cancelled when the principles or details of the EFP or the Political and Security Partnership (cf. figure 1) are violated. This clause stresses the interdependency of all three chapters of the EMP and reflects its comprehensive approach. But it is also controversial, because the clause is not further specified. This is the main reason why, until now, Article 3 has not yet been called upon.

Originally, the amount of EMP resources was related to the funds granted to the CC-13, in preparation of the EU's eastward expansion, to a ratio of 40:60. This translates into EUR 3.435 million for the period of 1995-1999, the so called MEDA I program (European Commission 1995b). 86 per cent (EUR 2.954 Mio) of the MEDA I resources (1995-2000) were allocated to bilateral support, in contrast to 12 per cent (EUR 418 Mio) that were spent on regional cooperation (European Commission, 2001). As mentioned above, about 90 per cent of all committed funds were dedicated to measures of the EFP. However, on average only a third of committed funds was disbursed (cf. figure 3). Whereas the Palestinian Territories, Jordan and Tunisia had implementation rates around 40 per cent, and the commitment/payment ratio for regional assistance reached nearly 48 per cent, Syria did not get any of the committed means. Turkey managed to activate only 5 per cent of possible payments. This poor performance can partially be explained with the complex and bureaucratic structures and procedures within the EU that lead to delays and hinder efficiency (Joffé 2001). On the other hand, the capacities in the MPs that are necessary in order to benefit from EU grants are not sufficiently developed.

MEDA II (2000-2006) is an extensively revised version of MEDA I and more program-oriented than its predecessor. MEDA II is supplied with extended financial resources, EUR 5.350 million for the period 2000-2006 (European Commission, 2002) in addition to MEDA I leftovers that were committed but not implemented. The original key of distribution in relation to the CC-13 is not retained. Since the MEDA revision, the average implementation rate has almost tripled from 26 in 1999 to 74 per cent in 2002. Administration costs of technical assistance are reduced by half, leaving more means for projects. Additionally, regional support gained importance. The share of measures committed to regional projects raised from 12 to 41 per cent of total MEDA II funds in the year 2001 (EUR 311,5 Mio). Thus the effec-

tiveness of the financial assistance has significantly improved. However, figure 3 also reveals differences across countries. Payments match or even exceed commitments in Egypt, Jordan or Lebanon. Syria activated again only a small portion of the committed funds. MEDA II does still not sufficiently link actual compliance with action plans and reform progress to committed MEDA funds: the most active reformer MPs are not necessarily the ones who receive the highest per capita amount of MEDA funds (Tovias and Ugur 2004).

**Figure 3: MEDA I and II – Commitments vs. Payments by MP**



Source: Author's calculations based on Euromed 2000; European Commission 2002, 2003; EuropeAid 2005.

### 3. Mediterranean Realities: Radical Changes and High Adjustment Costs

The structures of the EFP are designed to support the aforementioned anticipated mechanism, which will lead from trade liberalization and economic integration to increased competitiveness, attractiveness and prosperity in the Mediterranean region. However, there is neither guaranty nor automatism to this mechanism. In academia the nexus of openness and trade is discussed contradictory. Insights on the role of FDI in spurring development, the nexus between trade and growth, as well as the impact and nature of international technology spillovers derived from economic models mostly underlie very restrictive assumptions. Nevertheless, both the EU and the MPs communicated positive outcomes of the EMP almost as a matter of course. From the beginning both the EU and the MPs placed high expectations in the EFP. They presumed that inter- and intra-regional trade would increase substantially, that regional competitiveness would rise, that joined ventures would emerge, and finally that foreign direct investment (FDI) would “naturally” escalate with the process of establishing the EMFTA (European Commission 1995a, 1995b).

This section provides a brief introduction to the economic and regional situation in the MENA, in order to assess the appropriateness of these expectations as a benchmark for EFP and EMP performance between 1995 and 2005.

The countries centered around the Mediterranean Basin, the EU members on one side and the 12 MPs on the other, are very different with respect to the degree of sub-regional integration, culture, and economic development. However, they share a common history, religious roots, and past attempts of closer cooperation. EU countries are today the home for many immigrants and guest workers from the MPs (especially Turkey, Tunisia, Algeria and Morocco). Guest-worker remittances sent back to their home countries are economically important, making up an average of 5 per cent of GDP in Egypt, Morocco and Tunisia (World Bank 2001).

Culturally are the MPs close to each other. The majority of the population are Semites (Arabs and Jews), Arabic is the common language and Islam is the prevailing religion. However, in contrast to the EU member countries who share a common identity, common institutions and a degree of national integration that is unique in the world, there is no shared Mediterranean identity.<sup>4</sup> The MPs share general problems and difficulties of the region: the shortage of water and arable land. The high population growth is coupled with high rates of unemployment and widespread environmental damage. Despite these similarities and common concerns, politically concerted actions between the MPs barely exist. Economic and trade relations among the MPs are also limited.

Table 1 tries to give a detailed overview of the region's variety: Not only population (400.000 Malta vs. Turkey, over 71 Mio.) and surface (Malta, 320 km<sup>2</sup> vs. Egypt, over 1 Mio. km<sup>2</sup>), but also the economic structure as well as economic performance differ significantly: Whereas the share of industry is close to 30 per cent of the GDP in all MPs (except in Algeria, 55 per cent), the share of agriculture varies from about 20 per cent in Egypt and Syria to less than three per cent of the GDP in Israel and Malta. The nature of industry at sector-level also varies across the MPs. Algeria and Syria almost entirely depend on hydrocarbons, Egypt on hydrocarbons and fibers. The Jordanian economy is technologically more advanced. It successfully exports chemical fertilizers and medicaments. The economies in Morocco and Tunisia also have a diversified profile of exports (phosphorus, electrical applications or semiconductors), but with a stronghold in textiles.<sup>5</sup> Lebanon economy has to recover from the summer 2006 conflict with Israel, but used to grow in print products, tobacco and phospho-

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<sup>4</sup> As such the term Mediterranean Partners (MP) is misleading. This term was first introduced and established by the EU, referring to the fact that all MPs (except Jordan) are bordering the Mediterranean Sea.

<sup>5</sup> For more details on MP key products, refer e.g. World Economic Forum (2003).

rus. Services account for a relative high share of the GDP, ranging between 50 and 75 per cent in all MPs except in Egypt, Syria and Algeria. A look at the GDP per capita, reveals the development gap between the MPs and Europe on the one hand, and among the MPs on the other hand: Israel's GDP per capita (US\$ 19,070) is higher than those of the southern European countries Greece, Portugal and Spain, whereas Jordan and Algeria barely touch US\$ 2,000. Syria does not even reach US\$ 1,000. The Human Development Index (HDI) ranking stresses this observation. Only Cyprus, Malta and Israel are classified with high human development, the others are only rated medium to lower medium human development.

The political systems in the region are manifold; the forms of government vary from republic, monarchy and democratic structures with a wide scope of interpretation to each term. Centralistic structures, extended bureaucracies and authoritative elements are common in all MPs. The new generation of leaders, educated at European and American universities, which took over the power from their fathers in Morocco (1999), Jordan (1999), and Syria (2000) cautiously consider new solutions to old problems.

**Table 1: Mediterranean Partner Countries – Selected General Statistics 2005**

	ALG	CYP	EGY	ISR	JOR	LEB	MAL	MOR	SYR	TUN	TUR	WB/G
<b>Form of Government</b>	Rep.	Rep.	Rep.	Parl. Dem.	Const. Mon.	Rep.	Rep.	Mon.	Pres. Rep.	Rep.	Parl. Dem.	
<b>Area</b> 1,000 km <sup>2</sup>	2,381.7	9.25	1,001.5	22.2	89.3	10.4	0.3	458.7	185.2	163.6	769.6	6.0
<b>Population</b> mil.	31.8	0.8	68.1	6.7	5.3	4.5	0.4	30.1	17.4	9.9	70.7	3.1 <sup>(01)</sup>
growth rate %	1.5	0.6	2.0	2.3	2.9	1.4	0.7	1.6	2.4	1.2	1.7	4.3 <sup>(01)</sup>
<b>Unemployment</b> %	23.7	3.4	9.9	10.7	13.9	8.5 <sup>(00)</sup>	4.8	13.1	9.5 <sup>(00)</sup>	14.3	9.4	14.1 <sup>(00)</sup>
under 25 years	53.6	3.0	20.4 <sup>(09)</sup>	16.9	26.6	22.0 <sup>(09)</sup>	6.3	19.9	--	31.3 <sup>(09)</sup>	13.0	20.0 <sup>(09)</sup>
<b>GDP</b> mil. €	67,866	10,273 <sup>(04)</sup>	123,039	127,167	11,312	20,125	3,881	40,853	22,109	24,231	246,224	4,648 <sup>(09)</sup>
growth rate %	5.3	3.7 <sup>(04)</sup>	4.9	5.2	7.2	1.0	2.5	1.6	4.2	4.2	7.4	--
per capita US\$	2,066	12,439 <sup>(04)</sup>	1,662	184,906	2,091	5,627	9,604	1,354	1,161	2,418	3,390	1,640 <sup>(09)</sup>
<b>Economic Structure</b>												
AGR % of GDP	8.3	3.8 <sup>(00)</sup>	13.9	1.7 <sup>(00)</sup>	2.2	7.3	2.8 <sup>(02)</sup>	13.3	21.4	12.6	11.9	7.8 <sup>(01)</sup>
IND % of GDP	62.3	19.9 <sup>(00)</sup>	38.7	25.0 <sup>(00)</sup>	28.9	20.9	26.2 <sup>(02)</sup>	31.2	26.1	28.2	23.7	17.4 <sup>(01)</sup>
SERV % of GDP	29.4	76.3 <sup>(00)</sup>	47.4	73.3 <sup>(00)</sup>	68.8	71.7	68.71 <sup>(02)</sup>	55.5	52.5	59.2	64.5	74.9 <sup>(01)</sup>
<b>Trade</b>												
Total IM mil. US\$ <sup>(03)</sup>	13,533	4,466	10,893	34,211	5,653	71,767	2,727	13,731	5,111	10,147	69,340	2,440
Total EX mil. US\$ <sup>(03)</sup>	24,612	923	6,161	31,783	3,082	1,524	1,959	8,777	5,731	7,354	47,253	349
Merchandise % of GDP <sup>(04)</sup>	59.7	26.0	104.9	69.6	104.9	51.2	--	54.7	46.7	79.6	53.1	--
Services % of GDP <sup>(04)</sup>	--	--	28.2	23.5	36.9	--	--	20.3	19.1	19.9	11.7	--
IM from EU % of GDP <sup>(03)</sup>	59	56	26	41	10	43	64	61	19	72	46	16 <sup>(09)</sup>
EX to EU % of GDP <sup>(03)</sup>	59	56	33	27	3	9	41	76	57	80	52	0.2 <sup>(09)</sup>
<b>HDI</b> rank/177	103	29	119	23	90	81	32	124	106	89	94	102

Sources: World Development Indicators 2006; Euro-Mediterranean Statistics 2002; Radwan and Reiffers 2005; Human Development Report 2006.



The economic linkage between the EU and the MPs are traditionally strong and solid (Quefelec 2003a, 2003b). The EU is by far the most important trade partner with this region, accounting on average for over 50 per cent of the total MP trade, as already mentioned. The economic systems of the MPs are partially shaped through the development policies such as import substitution and disintegration that they have pursued in the past. The industries are to a large extent specialized on import substitution industries with little integration into the world market. The MPs trade engagement in sectors with high international demand is low. Capacities to penetrate those markets remain insufficient and productivity is low (Handoussa and Reiffers 2002). Despite a constant decrease in tariffs throughout the years, the average tariff rate is still 6 per cent higher than in Latin America and 5 per cent higher than in the CC-13 (Handoussa and Reiffers 2002). Major parts of the domestic industries have little to no international experience, and many firms are not capable of competing internationally. Thus, increased competition and trade creation in the course of import liberalization will initially lead to an increase in unemployment. Additionally, the dismantling of tariffs on imports from Europe leads to revenue losses. In the MPs' state revenues, income taxes are of secondary importance, while indirect trade-related taxes remain the most important components (Economic Research Forum 2000). Lebanon and the Maghreb countries suffer the most from these losses, because they have high trade deficits and obtain 50 to 75 per cents of their imports from the EU. For these countries the losses are estimated to be between 16 and 31 per cent of the GDP (Nienhaus 1999). An exact estimation of the extent of the revenue losses, as well as of the increase in unemployment is difficult to forecast, due to the back-loaded character of tariff dismantling and because the liberalization of the products with the highest tariffs has only recently begun. Revenue losses of such a size are difficult to compensate. Tax reforms are needed. MP governments are forced to avoid expenditures and to cut subsidies. As a result, social services and investment outlays that are needed to alleviate the social hardships for the populations decline (Ghesquiere 1998). However, structural attributes and sectoral strengths of MP economies are vast and vary significantly. Therefore, it is difficult to generalize the nature or impact of shock across the MPs.

The economic structures reflect the mentality and cultural background of the region. Traditionally the state interferes actively in the economic process. Governments directly influence the performance of the national economy, e. g. through the administration of extensive subsidies. Most states have huge and inefficient bureaucracies. In addition, state-owned firms or highly subsidized private companies are important elements of the employment policy and are often the bodies responsible for social services (Nienhaus 1999). As such, the role of the government in the EMP is controversial (e. g. Tovias and Ugur 2004). With the signature of the partnership, the national governments have accepted the role of implementing an envi-

ronment that is conducive to increased performance, efficiency, competitiveness (Rhein 1999) and transparency. Furthermore, the informal economy is estimated to be equivalent to as much as 40 per cent of the formal economy (Joffé 1998). Private networks and *wasta* (personal connections) play a prominent role in all areas of life and business. In certain branches, economic success seems to be based as much on connections as on merits (Joffé 1998). Corruption is regarded to be a major constraint to the investment climate, ranging between 17 per cent in Morocco and Turkey, up to 35 per cent in Algeria and over 50 per cent in Egypt and Syria (World Bank 2006). Thus, liberalization of the domestic markets, competition, privatization, structural adjustment and reforms of the institutional framework (independent courts, harmonization of standards and norms etc.), in short the principles of a market economy and success based on merits, stand in sharp contradiction to the prevailing economic systems of most of the MPs. All MPs, albeit to different extents, have to reorganize their economic systems. These radical changes cause essential adjustment costs. As such, the EMAA's obligations constitute a very thorough internal and external challenge for each MP with essential impact on their economies, economic systems and beyond. Structural adjustment breeds a chain reaction that affects not only the economic, but also the judicial and political structures.

As mentioned above, it is difficult to generalize the nature and impact of the shocks as well as of the adjustment costs, because they affect MP countries differently. However, this section gives an idea about the general situation and difficulties that the Mediterranean is confronted with.

#### **4. Evaluation: Obstacles of the Past and Future Challenges**

There are two prevailing strands of argumentation in literature on the EMP. One strand (e.g. Masala 2000, Bessis 2005, Weipert 2006) concludes that the EMP has more or less failed because it was not able to materialize its aims and communicated expectations within the first decade. The other strand, especially official EU documentation, emphasizes that it is already a success that the process did not collapse, despite the difficult geopolitical context in which it is placed. In contrast, this paper aims to provide constructive and less generalist criticism, with special respect to the EFP.

When analyzing the performance and importance of the economic dimension within the Barcelona Process, it becomes obvious that the EFP accounts for most of the visible progress. The EFP is the most effective realization of the Barcelona Process. Economic interaction is a major source of continuity in Euro-Mediterranean relations, throughout politically difficult

times. The EFP has shown many positive results. It became a dynamic process that institutionalizes exchange, as well as bilateral and regional communication channels. The EFP essentially contributes to establish the EMP as a stable and lasting framework of regional cooperation. The mere number of conferences, working groups, meetings and activities undertaken on a regular basis indicate the continuity of this process; expanding the dialogue on important regional concerns despite difficult regional and international settings (escalation of Middle East Conflict, events of September 11). The Barcelona Process is the only forum outside the United Nations where the conflicting parties continue to meet. Furthermore, the regional and international integration of the Mediterranean region improved since the establishment of the EFP. All MPs (except Syria) are now members of the WTO or negotiating accession (Algeria and Lebanon). Economic and institutional reforms have gained momentum in the MPs (Handoussa and Reiffers 2001). MPs are undertaking considerable efforts to create a more investor friendly business environment. Sizeable regulatory framework reforms for investment are already implemented (Handoussa and Reiffers 2001). Most MPs currently show comparatively stable macroeconomic situation: Inflation rates are relatively small (less than ten per cent), budget deficits have been reduced, and even the high burden of debts is slightly declining. Financial assistance from the EU to MPs has been extended in comparison to the pre-Barcelona Financial Protocols.

Thus, the Economic and Financial Partnership contributes to preventing the MPs falling into an international economic isolation in this difficult environment. Furthermore, economic cooperation and structural adjustment activities are preparing the region to be capable of greater benefits in more peaceful times. It also provides a firm foundation for intensified cooperation between the EU and the MPs.

The EFP shows more significantly more progress than the other two EMP baskets (political and cultural matters). But EFP performance stays behind its own benchmarks, when being judged on the accomplishment of its, above-mentioned, explicit aims. Nevertheless, it is wrong to conclude that EFP has failed, because, as this paper shows, these expectations were from the beginning overly ambitious.<sup>6</sup> The aims stated in the Barcelona Declaration are not the appropriate benchmark for a short to medium term evaluation of the past performance.

Given the unrealistic nature of expectations towards the EFP, this paper argues that the impact of the EFP should not only be judged by these expectations. Its context and construction as well as the economic situation of the MPs need to be considered. The central importance of the EFP for the EMP makes it especially important to provide an adequate evaluation of EFP performance. An objective assessment of its instruments and structures is a precondition

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<sup>6</sup> These high expectations are also considered to be a burden on Euro-Mediterranean relations, because the constant disappointment of expectations reduces the commitment (Brach 2002).

tion to using the experience of the past ten years and to meeting the new challenges of Euro-Mediterranean relations.

I now point out improvements that are necessary in order to exploit the possibilities that are at stake better. These adjustments can help to overcome past short-comings and to come to terms with future challenges, such as the EU enlargement and the introduction of ENP.

#### **4.1. Capacity Building and Commitment**

Despite sizable implementation of regulatory framework for investment, the business environment is still not satisfactory. Investment codes are an important necessary, but not a sufficient condition for attracting investment. Independent juridical systems that guarantee the enforceability and transparency of commercial administration, as well as political stability are as important for investor decisions as are labor, input or transportation costs. None of the MPs sufficiently meets these conditions. This reduces the efficiency of progress in single areas.

Some structural adjustment measures even undermine other reforms. MP governments primarily privatize profitable parts of state-owned enterprises in order to increase government income and keep the unprofitable parts in order to preserve jobs. As stated earlier, the state is often the most important employer in the MPs, accounting for over 50 per cent of the jobs in Jordan or Algeria, and still more than 35 per cent in Egypt, Morocco and Tunisia (Loewe, 2004). State owned enterprises constantly create jobs, even if many of these jobs are redundant. Privatizing these enterprises at a large scale, would put an extra strain on the already tight labor market. In addition, privatization in the MPs often leads to a partial transfer of state monopolies to private monopolies rather than competitive market structures (Handoussa and Reiffers 2001). In this manner privatization neither modernizes economic structures by improving competitiveness, nor does it counter investor distrust. Seen in this context, the distribution criteria for MEDA financial assistance do not give sufficient emphasis to limit rent-seeking behavior of the beneficiaries (Ghesqiere 1998).

Furthermore, analysts continue to give too little attention to the fact that the economic structure in the MPs is based on small, family-run businesses that have little knowledge of EU standards and procedures. Although the share of high-technology exports has increased within the past ten years, they account for an average of less than 4 per cent of the total manufactured outputs (cf. table 2). Jordan and Tunisia are the only Arab MPs showing a technological readiness which is slightly above the international average of 3.7 (cf. table 2). Against this backdrop, it is no surprise that the attractiveness of the Mediterranean region to FDI has not changed significantly. European FDI in the MPs increased since 1994, but the worldwide level remains very low. In all MPs, except Jordan, FDI inflows are equivalent to

two or less per cent of GDP (cf. table 2). In contrast, FDI inflows make up an average of 13 per cent GDP in Latin America, and four per cent in South Asia and Sub-Saharan Africa (World Bank 2006). Both, the EU and the MPs do not attach enough importance to the need for building technological and administrative capacities. On the one hand, more measures need to be taken to improve MP's capacities to adapt existing technologies to their specific needs and to ensure a better diffusion of such technologies. On the other hand, better education and more training is necessary to increase administrative capacities, e.g. to handle mandatory European standards on food safety. Small and family-run businesses will significantly improve their chances to be successful on European and international markets.

**Table 2: Technological Competitiveness of the Mediterranean Partners**

	High-Technology Exports (% of manuf. exports)		Foreign Direct Investment (net inflows % of GDP)		Technological Readiness (Index)	
	1995	2004	1990	2004	1996	2005
ALG	0.5	1.1	0.1	1.0	--	2.7
EGY	0.4	0.6	1.7	1.6	3.67	3.7
ISR	15.8	18.8	0.3	1.4	4.07	6.2
JOR	5.9	5.3	0.9	5.4	2.63	4.3
LEB	--	2.0	0.2	1.3	--	--
MOR	0.5	10.2	0.6	1.5	--	2.8
SYR	--	1.0	0.6	1.1	--	--
TUN	1.6	4.9	0.6	2.1	--	4.1
TUR	1.3	2.0	0.5	0.9	3.40	3.8
WB/G	--	--	--	--	--	--

Sources: World Development Indicators 2006; Global Competitiveness Report 1996, 2006.

#### 4.2. Trade in Agricultural Products

EMAs are negotiated bilaterally in order to take the special situation of each MP into account, but de facto there is very little variance across the agreements (Hoekmann 1999). Trade of agricultural products accounts for six per cent of the total trade between the MPs and the EU. The MPs are therefore the second most important extra-EU trading partner after the US (Quefelec 2004a). Still, agricultural goods were from the beginning excluded. This led to a deadlock in EMA negotiations with MPs heavily depending on agricultural products such as Morocco. Only since 2003 is a revision of the market access for agricultural products is on the Euromed agenda, but any success depends on an internal reform of the European Common Agricultural Policy, as well as the ongoing the WTO negotiations.

Trade in services is regulated within a limited scope, only referring to the provisions of the GATS. Although agricultural products are an important source of revenues in many MPs today, services increasingly gain importance as a more promising source of economic growth. Because EMFTA is de facto limited to trade in industrial goods, the MPs cannot expand their access to the European agricultural market far beyond the preferential treatment they were already granted since the 1970s. In this respect, EMFTA establishes a preferential unilateral opening on the side of the MPs for European exports, rather than reciprocal trade liberalization.

The import of industrial goods from the MPs to the EU is also not generally free of customs, but is only granted if a 60 per cent local content requirement is met. This provides that 60 per cent of the value added must originate from the exporting MP in order to enjoy duty-free treatment (Licari 1998). So far, only EMAAs with Tunisia and Morocco allow an accumulation of origin among each other and with Algeria. All other MPs have to produce the demanded value added themselves.

These limitations of the EMAAs can be adequately explained with inner structures and concerns of the EU. Trade in agricultural products and services are two very sensitive issues for the EU. The problems of the Common Agricultural Policy are widely discussed and a solution is not within reach at this point in time. As for trade in services, the EU member countries fear further waves of immigration from the MPs to the EU, if the freedoms of settlement and movement are granted within the EMFTA.

Although trade in agricultural products is an important feature to many MPs, especially in the Maghreb, the impact may well be overestimated, on both sides: The EU, in particular its southern member states such as France, Spain, Portugal and Greece, do not seem to realize, that the EU does already exports more agricultural products to the MPs than it imports (Quefelec 2003a, 2004a). The MP governments should also carefully consider that agricultural production is not a pioneer sector, which bears many future growth or development prospects.

The reluctance of the EU to tackle a reform of its Common Agricultural Policy and the difficulties of the ongoing WTO round demonstrate how little progress liberalization in this sector is to be expected in the short to medium range.

### **4.3. South-South Integration**

The development of Tunisia during the Partnership is widely as regarded a success story. Tunisia has gone the furthest on the way of structural adjustment showing a positive development in important fields, such as macroeconomic stabilization, economic liberalization, and increased openness. Tunisia managed to increase industrial diversification, as well as

legal and institutional framework reforms (Handoussa and Reiffers 2002). However, the positive dynamic gains made, such as an increase in FDI inflows, do not match the expectations. The fact that the developments in model country Tunisia do not generate the expected results renders two important points. First, that benchmarks and expectations should be reconsidered, as already discussed. Second, one well performing MP cannot on its own compensate for the disadvantageous regional setting. Economic integration and political cooperation among the MPs is indispensable for future development. Failing substantial multilateral liberalization on a MFN basis, south-south integration represents a key element for the success of the region as a whole (Ghesquiere 1998). Linkages between the MPs can partially compensate for the small domestic markets and facilitate economies of scale to increase productivity (Handoussa and Reiffers, 2002). But also from a political point of view would the creation of agreements among the MPs be a signal for fostered habits of cooperation and a normalization of relations between the MPs (Tovias and Bacaria 1999). The benefit of creating EMFTA is especially for the MPs increased, when they manage to link each other through free trade agreements.

Obviously this is no easy task. Trade links between the MPs have traditionally (not including the medieval era) been very low, accounting on average for less than 5 per cent of the total trade flows (Radwan and Reiffers 2005). In contrast, trade relations with Europe account on average for 45 per cent of the MPs' external trade. Previous attempts of intra-regional economic cooperation and concerted action, e. g. Arab Maghreb Union (UMA) in 1989 and the Greater Arab Free Trade Area (GAFTA) in 1998, were not successful.

However, there is significant potential for development: Trade within the region in 2003 accounts for less than one per cent of the total trade in Israel, but 14 per cent in Lebanon and Syria, and eight per cent in Jordan (Radwan and Reiffers 2005). The annual average growth rate between 1994 and 2004 for exports among the MPs was 14 per cent in comparison to 7.7 per cent with the EU (World Bank 2006). Thus, the MPs' will to open up also among them increased during the Partnership. With the recent Agadir Process, the progress of economic cooperation gained a new momentum. Egypt, Jordan, Morocco and Tunisia signed a free trade agreement among each other in March 2001, which is scheduled to enter into force in 2006. This initiative is more promising than the past attempts. As opposed to the AMU it comprises MPs from the Maghreb (Tunisia, Morocco) and the Mashreq (Egypt, Jordan). The Agadir-Process extends the regional impact is extended and includes more complimentary economies. Compared to GAFTA it has a manageable size. Although regional and intra-regional cooperation is a declared focus of the EFP, the possibilities to enhance south-south cooperation have not been exhausted. The EU only recently started to create more incentives. Considerations to include the MPs into the pan-European system of origin are con-

cluded, and the EMAAs can be amended. The share of MEDA funds dedicated to regional cooperation and projects increased.

MP economies cannot separately compete with other emerging regional blocks (e. g. Latin America, Eastern Europe). Each individual MP market is too small and is located in an uncertain environment. In times of an increasing global economy and decreasing transaction costs, proximity to the market is only one aspect among others that contribute to attract FDI. The general regional circumstances are at least as important as the performance of an individual country.

Clearly, south-south, or intra-regional, cooperation is needed to improve the MPs' performance, to improve their bargaining power and, above all, as a signal for normalization and cooperation in the region. However, the anchorage of reforms and liberalization in the MP through cooperation and deeper economic integration with the EU is already an asset that should not be underestimated. Especially against the background that there is neither mutual political interest, nor substantial economic incentives for intra-regional trade as compared to the possibilities the EU has to offer. In the framework of the EFP, a unique degree of economic integration is achieved between industrialized and their neighboring developing countries. Finally, recent economic research stresses the importance of high performing trade partners for domestic growth and performance of developing countries (e. g. Arora and Vamvakidis 2006).

#### **4.4. European Neighborhood Policy and Enlargement**

Besides the deterioration of the Middle East Peace Process, especially the EU's eastward enlargement (2004) and the ENP (2003) affect the EFP fundamentally. In 1995, the EMP comprised 15 EU and 12 Mediterranean Partners. Today, the MPs are confronted with a different situation. The EU comprises 25 members (including the former MPs Malta and Cyprus)<sup>7</sup>. The ENP addresses the relations between the EU and its bordering countries, the 16 neighbors: Ukraine, Belarus, Moldova, Libya, Armenia, Georgia and Azerbaijan as well as the remaining nine MPs<sup>8</sup>.

The aim of the EMP to "create a zone of shared security, peace and prosperity" has been recycled for the formulation of the goal of the ENP (Euromed 1995, European Commission 2004). However, the ENP's geographical basis is much broader and the EU shifted from a

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<sup>7</sup> Bulgaria and Rumania will join the EU within the next two years. Croatia and Turkey are candidate countries. Nominated potential candidates are Albania, Bosnia-Herzegovina, Serbia including Kosovo, Montenegro and Macedonia.

<sup>8</sup> Remaining MPs: Morocco, Algeria, Tunisia, Israel, Syria, Jordan, Lebanon and the Palestinian Authority. Russia refused the participation in the ENP and holds a special status of a strategic partnership.



comprehensive regional approach to a policy of bilateral differentiation. In contrast to the MPs who share (despite all differences) a common culture, history and geographic proximity, the neighbor countries (NCs) only have two things in common. They are direct neighbors to the enlarged EU and have, other than the CC-13 and potential candidates, no perspective to join the EU as member states.

The ENP centers more directly on economic issues than the EMP and provides no social or cultural conditionality on cooperation. Whereas the EFP addresses socio-economic development as a key objective, ENP wants to avoid frictions between Europe and its bordering countries. The closer economic integration of NCs to the European common market is the central objective. Compliance and progress of bilateral negotiated action plans will be the new benchmarks (positive conditionality).

Although the EU stresses the complementary character of the ENP, to supplement existing policies such as the EMP, the ENP is also intended to streamline EU relations with the NCs. From 2007, all funds and budget lines providing financial assistance to these countries (e. g. MEDA, TACIS) will be melted together under the umbrella of the European Neighborhood Instrument (ENI).

But until now, the ENP remains an emerging concept, which is not well defined in the very details. The outlines of the ENP resemble the provisions, goals and tools of the EFP. Therefore the experience and evaluation of ten years EFP are valuable assets, which should be used to model the ENP in detail.

The ENP is often criticized for two points. First, because it offers more value added to the former USSR republics than to the MPs, and second, because it partially abandons the idea of regional identification (e.g. Del Sarto and Schumacher 2005). Both points are correct. But nevertheless, is there a lot at stake for the MPs to gain, because the ENP provides new possible solutions and remedies to some of the past obstacles. The ENP outlines an integration of NCs in the EU common market, which in contrast to EMFTA is not restricted to the flows of goods, but includes all four freedoms (goods, services, people, money) and participation in the pan-European accumulation of origins, presented above. Furthermore, NCs are included in the 7th European framework for research and innovation. Finally, given the limited sub-regional integration among the MPs and the missing regional identity, the introduced positive conditionality can be a chance for each individual country to make progress visible.

In contrast to the Eastern European and Caucasian NCs, the MPs look back on more than 10 years EMP experience and long-grown intensive relations with the EU. Therefore, MPs can play a central and active role in shaping the ENP. In the years to come, MPs might also be

important mediators to bridge EU relations with potential neighbor countries such as Iraq and Iran, if Turkey is joining the EU at some point.

## 5. Conclusion

The present paper investigates the economic and financial dimension of EMP, the Economic and Financial Partnership, and emphasizes its role and tools. It focuses on the question why the performance is suboptimal and discusses adjustments that are indispensable in order to overcome past shortcomings and to come to terms with the changed context and new challenges.

Even though the EMP was to a large extent motivated by European security concerns, it rests upon an economic rationale and draws on economic policy measures. EMP considers trade liberalization as a starting point for and economic integration as the anchor of socio-economic development in the Mediterranean region.

The EFP plays a pivotal role in both the implementation and the design of the EMP. Economic integration has proven to be a major driving force of continuous interaction. EFP progress and its positive results are thus crucial for the overall development of the EMP.

The economic and institutional deficits of the Arab Mediterranean countries are essential. Fundamental reorganizations of the prevailing structures are necessary in order to achieve the Barcelona goals, even though they cause high adjustment costs within the MPs. Europe's own positive experience with regional cooperation and regional stability started from economic matters, but is only partially transferable in this context. European integration was from the beginning build on mutual economic interest, the political will to cooperate and the conviction that each member country profits from regional integration. In contrast, political tensions among the MPs and repeatedly escalating regional conflicts create an environment in the Mediterranean region that is far from optimal.

In order to improve its performance and impact on socioeconomic development in the Mediterranean region, the EFP needs to prioritize more on building and improving capacities. Only then can MP businesses profit better from gains in trade and openness. At present, the majority of firms is neither able to apply nor to adapt recent technologies, although these are increasingly available in MP countries. However, capacities to run technologies and adopt them to country and sector specific needs, is a precondition to enhanced productivity. This does not only include technologies in terms of machinery or tools, but also administratively mastering EU norms, rules and procedures.

The EMP and especially the EFP provide a framework for interaction and economic integration that is unique between industrialized and neighboring developing countries. Since 2004, the institutional changes in the course of the recent EU-enlargement and the introduction of the ENP challenge the EFP, but also offer solutions to some of its essential shortcomings. The ENP outlines e.g. the participation in the pan-European system for rules of origin, the opening of European technology and innovation funds for MPs, as well as positive conditionality. Yet, the value-added of the ENP will not be as high for the remaining MPs as for the Eastern European and Caucasian states, which engage in their first structured relations with the EU.

However, the ENP is not yet very well defined and still needs to be filled with details. Therefore it is important to provide a thorough analysis and evaluation of the EFP's past performance. The experiences of the MPs with economic integration and economic assets as the major sources of motivation for deeper cooperation can be crucial for the establishment and formulation of the ENP.

International experience with economic transition indicates that the MPs' transition is likely to be gradual. In the case of the southern European countries Spain, Portugal and Greece, the economic transition took more than 20 years. Preparing themselves to join the EU as full members, they received substantially larger amounts of financial assistance from the EU, than the MPs do today. The situation with the CC-13 is similar, and after ten years it is still too early to say how long the transition will take. In both cases the EU membership is an essential incentive that most of the MPs do not and will never have.

Against the background of the difficult economic situations and the far-reaching institutional changes that the MPs are confronted with, the EFP and the Barcelona Process will take decades rather than years to bear fruits. Communicating realistic short to medium goals and modest expectations can be essential to prevent constant disappointment and frustration. As such, this paper shows that the generally applied benchmarks are important obstacles: The goals stated in the Barcelona Declaration raised high expectations due to a favorable international and regional setting at the beginning of the EMP in 1995. Given the changed geopolitical context, these expectations are unrealistic and do not reflect Mediterranean realities. Therefore, they are not an appropriate benchmark for the evaluation of EFP performance, especially not in the short to medium run. The EMP is a long term strategy and a farsighted initiative, but learning from and drawing on valuable experience is difficult, as long as assessments remain largely polarized between the diagnosis of utter failure on the one hand and euphemistic portrayal, on the other hand.

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