

THE POLITICAL ECONOMY OF THE PARTNERSHIP IN COMPARATIVE PERSPECTIVE

ALFRED TOVIAS

The Hebrew University

1. On economic adjustment and the Euro-Mediterranean Partnership

As is well documented, it is because of the poor record of Maghreb and Mashrek countries combined with the demographic trends and the economic imbalances between the southern and northern shores of the Mediterranean, that the European Commission, pushed along by its Southern European members highly concerned by all this, decided to launch a new initiative in late 1994, known as the Euro-Mediterranean Partnership(EMP), formally inaugurated in Barcelona in late November 1995. Note that it was a European initiative, not one made by the Mediterranean Non Member Countries (MNMCS heretofore). In the back of their minds, European policy-makers, mainly from Southern Europe were quite impressed by what was perceived as the concrete translation of some of these imbalances in Northern Africa in the early 1990s, such as the sudden and violent developments in Algeria as well as the quite unexpected arrival of “boat people” from Morocco to the Southern coasts of Spain (i.e. the then new phenomenon of the “pateras”).

The heart of the EMP lies in its economic programme (or “basket” in the EMP jargon). The leading idea was to create an “area of shared prosperity” by promoting economic stability, followed by growth in Northern Africa and the Eastern Mediterranean. Two

guiding principles seem to have been behind: First the economic situation in that region had to improve in such a way as to deter as much as possible desperate and/or frustrated people from migrating North. Second, the way to improve the economic lot of the South was by “anchoring”, an idea taken from Breton Woods institutions, with two possible meanings for the same principle: a) the deepening of the existing levels of asymmetric economic interdependence between the economic hegemon, namely the EU and each individual MNMC; b) shoring up efforts made by local MNMC governments to modernize their economies (in the Washington Consensus jargon “anchoring economic reforms”)¹. The main economic instruments by which these ideas and principles were to be materialized were 1) the creation of a Euro-Mediterranean Free Trade Area to be completed by about 2010; and 2) a substantial increase of the financial assistance given by the EU, drawn on the Community's own budgetary resources².

To start with the second item, in practice the EC's Council of Ministers approved in 1996 a new EC Regulation called MEDA (Mesures d'Accompagnement) dealing with all the Mediterranean Non Member Countries (MNMCS) under a unified framework which had to deal with all cooperation activities on a multi-annual basis (see Philippart, 2001; Guggenbuhl and Theelen, 2000, Clara Mira Salama 2002). Roughly speaking slightly less than one billion euros per year drawn from the EU's own budgetary resources were to be distributed on a bilateral basis among 8 of the 12 MNMCS, all of them belonging to the Arab world (namely 3 Maghreb and 5 Mashrek countries,

¹ The literature on external anchors is extensive particularly in relation to macroeconomic policy of developing countries. See e.g. recent contributions by Gros (2001) and Dollar and Svensson (2000). On anchoring reforms in MNMCS see Francois(1997) and Galal and Hoekman, 1997.

² For early assessments of the economic basket of the EMP see Marks (1996), Alonso-Gamo et al.(1997), Aghrout and Alexander(1997), Havrylyshyn, O.(1997), Lawrence (1997) and Galal and Hoekman(1997).

including the PA). Turkey, Cyprus and Malta, all three candidate countries, although also beneficiaries of some MEDA funds, were to receive much pre-accession aid through other channels, whereas Israel was not supposed to receive any bilateral aid from the EU, in view of its own development level. Therefore when dealing with the EMPs anchoring capability one should really leave aside these 4 countries and focus on the other 8. To the annual one billion euro of aid drawn from the EU budget, roughly another one was put at the disposal of the same 8 countries by the EIB (European Investment Bank) in the form of loans. In theory, MEDA bilateral amounts are not pre-determined and the concerned MNMCs are competing for the same multi-annual financial resources to be drawn on the EC's budget (e.g. 3435 Mo. Euros for the MEDA I period of 1995 through 1999 or 5350 Mo.euros for the MEDA II period of 2000-2006).

In the field of trade, the establishment of a Euro-Mediterranean Free Trade Area by 2010 implied in relation to the previous agreements (which were basically in place since the mid-1970s when the first Global Mediterranean Policy of the EC took shape) to oblige MNMCs, which had not done so already (i.e. Israel and Turkey), giving tariff- and quota- free access to industrial products originating both in the EC and partial liberalization in agricultural products as well. The reason is well known : the EC had already eliminated its own tariffs on practically all industrial imports originating from MNMCs in the late 1970s, more than 20 years ago. Because of the discriminatory nature of the trade liberalization to be operated by Arab MNMCs and thus the inevitability of trade diversion effects, this author was the first to predict early on that they would benefit from small long-run welfare effects, in some cases negative for instance in the case of Mashrek countries(Tovias ,1997), in spite of the general

enthusiasm of the early days of the Barcelona Process illustrated in studies produced by the World Bank (Rutherford et al. 1993, Konan and Maskus, 1997). Later on, however, econometric investigations have corroborated this author's predictions (Dessus and Suwa, 2000, p.48; Ghesquiere 1998).

Therefore what the new programme really meant was that the short-term adjustment effort had to be done mainly by the Arab MNMCs themselves. Some public officials in the Commission declared explicitly from the outset that the idea behind the economic programme contained in the EMP was "to shake up the MNMCs" and that the European role was to be a catalyst and a facilitator of needed change in North Africa and the Eastern Mediterranean. To shake-up the Arab countries' manufacturing sectors, the EC wanted to encourage specializations, mergers, company reorganizations, quality improvements, renewal of equipment, upgrading of management, privatizations, and so on. In other words, short term adjustment and restructuring costs to be borne by Arab countries were part and parcel of the economic basket of the EMP. For conservative, sometimes fossilized, economic and/or political regimes such costs are *per se* destabilizing. In passing, this expected (for some however unexpected) consequence of the EMP seems at odds with one of the avowed long-term aims of the EMP, namely "to create an area of shared prosperity and stability". The programme meant as well fiscal reform since tariff revenue, an important economic source for governments' budgets in the region, was to be seriously eroded, implying therefore either introducing new taxes or lowering public expenditure (e.g. consumption subsidies). The programme also pointed in the direction of short-run external disequilibria since the trade deficit of the relevant MNMC with the EU was obviously expected to rise (on this see Ghesquiere 1998).

2. What does the EMP imply in terms of the anchoring efforts done by the EU?

The adjustment effort deriving from a correct implementation of the EMP was not meant to be reciprocal. The governments of EU member states did never declare their willingness to give the example and "shake their countries" even a little. Admittedly, on the EU's side, the Commission asked in its initial proposal of October 1994 from the member states a supplementary effort in the agricultural domain but, later on, the Declaration of Barcelona of November 1995, launching the so-called "Barcelona Process", an outcome of the EMP, did not contemplate free trade in agricultural goods at all, unlike NAFTA (Telo, 2001,p.183). In fact the only reciprocal concessions to be made by the EU in the domain of trade were, first, in terms of eliminating a few remaining restrictions on textile and clothing imports from some of the countries under focus, but at a time the EU had agreed to phase out all the MFA bilateral arrangements with other developing countries by 2005, according to what was agreed at the end of the Uruguay Round of Multilateral Trade Negotiations in 1994; second, in terms of "exploring the possibility" of cumulating value in different MNMCs for the purpose of defining the origin of products benefiting from duty-free treatment in the EU. "Exploring the possibility" is taking surprisingly a lot of time, since cumulation is still not put in place 7 years after the EMP was launched and it does not seem it will for several years yet (on this see more below). Regarding non-tariff barriers in trade between the EC and MNMCs, the Commission stated from the beginning that it was prepared to engage in constant dialogue with the MNMCs on a wide range of trade- and investment-related matters such as indirect taxation, standards and customs procedures,

but future membership in European standard institutions was and has not been ever mentioned.

In sum the main supplementary effort to be made by the EU itself was financial, something favored by Southern European members (“aid, not trade”) over other more daring solutions (“trade, not aid”). To the adjustment efforts asked from the MNMCs, the EU came forward with a financial effort. The EU interpreted this effort both as a “concession” and as a “carrot” for the Arab MNMCs to grab. The idea underlying the economic component of the EMP was to use EU finance to help MNMCs to adjust to the new industrial free trade conditions contemplated in the EMP. The avowed intention of the European Commission was to promote (further) economic reform by inducing target countries to do so with rewards (“carrots”) and not sanctions (“sticks”). In political economy terms it reflects a political compromise among the 15 member states, rather than among the 27 members of the EMP. The internal EC compromise consisted in being prepared to increase in relation to past efforts the amount of the bilateral Overseas Development Assistance (ODA) to 8 Arab countries of the Middle East and North Africa (MENA) sub-region. The term “bilateral” is confusing, because as all ODA it is offered on a unilateral basis. There is no contractual obligation with each of the Arab MNMCs to disburse a given amount in their favour. MEDA is an EC regulation, not part of the bilateral association agreements providing for industrial free trade between the EU and the 8 MNMCs under focus. It is important therefore to note that legally speaking the EU “carrots” (MEDA) and the commitment of MNMCs to eliminate their industrial tariffs on EU-originating products are not directly linked. At the most the link is indirect. Even more indirect, if not totally unconnected, is the link

between MEDA and performance in “economic reform”. The link can be termed at most “soft conditionality”, if not “very soft conditionality”(Youngs, 2001).

3. Cost-Benefit analysis by MNMCs in Political Economy terms

What are the costs and benefits of the FTAs provided for in the association agreements, as seen by the leadership of MNMC countries? Are the benefits sufficient to sustain the demand for the EU as an anchor? Are the countries to be anchored willing to incur loss of policy autonomy (i.e., “tie their hands”, using a commonly-used expression)? How can the discrepancy between the two be reconciled?

For the leaders of the 8 MENA countries’ leaders under focus the short term benefit of the EMP, in political economy terms, was the increased ODA from the EU in the form of MENA grants and EIB loans, not the long-term benefits of the economic reform, which the EU said it wanted to “anchor”³. However as explained above the link between the expected benefits and expected costs is only indirect, therefore uncertain. It could well be that the MNMC leader implements the trade liberalization steps to which the country is committed according to strict timetables inscribed in the association agreements. Nothing guarantees him that the increased ODA will materialize. There is

³ A much more cynical interpretation of the EU’s intentions is also mentioned in the literature on the subject: 1) the EU had to re-equilibrate its external relations, too much tilting towards Eastern Europe in the early 1990s; 2) the EU had agreed with the US also in that period that discriminatory trade agreements they signed with third countries should take the form of FTAs to conform with WTO rules and thus prevent (more) friction between the two trade superpowers; 3) increasing the EC’s market share in the 8 countries under focus; 4) filling the vacuum left in the Mediterranean by

an asymmetry in conditionality. Whereas the EU can condition its increased ODA to implementation of the association agreement, the MNMC cannot condition implementing the tariff liberalization programme to previous MEDA disbursements or concession of EIB loans⁴. There is also time inconsistency since the MEDA calendars are administratively linked to the overall multi-annual financial programmes (so-called “Perspectives”) of the EU, which are formally and organically unconnected to the timetables provided for in the bilateral association agreements. Not only this. Being a “good domestic reformer” does not translate in more MENA funding down the line later.

As for the economic “benefits” of the EMP as perceived in MNMCs, can MEDA (a more than two-fold increase in ODA funding in relation to the EU’s own previous efforts) make a difference and have some real impact on the economic situation of Arab MNMCs? This is the assumption of many policy-makers in the EU. But is that so? It is easy to show that the amounts of aid needed to extract Maghreb, Mashrek countries as well as Turkey from their current predicament are both staggering and unavailable. But clearly, there is no political will in the EU to have the equivalent of the Marshall Plan for these countries. Some numbers: Using 1999 as a benchmark, the EU had committed itself to distribute to each of the citizens of the 9 relevant MNMCs (representing with Turkey included a population of 224 million people) about 9 euros per year, half of it in the form of loans from the EIB, although in practice the amounts actually disbursed were much less than that mainly for administrative reasons. But even if the aid programs are streamlined, as was the case for MEDA II (stretching

the collapse of the Soviet Union. On WTO rules and the EU see Messerlin (1999).

⁴ Flaesch-Mougin (2001), p.86 says that “financial advantages of MEDA I have not been linked to the formal conclusion of the (association) agreement, but to the

from 2000 to 2006), it is a view of the spirit that 9 euros per year per capita can be instrumental in reforming or transforming economic reality. The argument that MEDA can be interpreted as “seed money” to function as a “signal” to foreign investors who will bring afterwards the “real money” seeing how committed European governments are to the economic reform of MNMCs is clearly far-fetched if one goes by the amounts allotted by MEDA just mentioned. As a point of reference, consider that the US is transferring each year 2.2 billion US\$ (i.e. 2.5 billion €) to Egypt alone since 1979 just enough to keep the country afloat with no major effect in drawing massive inward FDI.

Of course, seen from an MNMC leader’s perspective, “little money” is better than none at all, particularly in the short run, to cover even if partially increasing budget deficits. As indicated above, the implementation of the association agreements (i.e. the industrial free trade areas) is likely to increase the budget deficits in the short run at least for two reasons: 1) tariff revenue is going to be slowly eroded over a period of 12 years, the time allotted for the creation of full-fledged FTAs; 2) short-run unemployment in import-competing industries will necessarily rise as a result of the implementation of the different tariff cuts applied on EU-originating exports. Clearly, any MNMC technocrat but also political leader understands perfectly well that MEDA is not there to create jobs or new incomes. The latter could only be expected in the short run by having the EU revamp its trade policies. This in turn would attract foreign investors, which is what is lacking.

progress made with a view to this conclusion....”

Why does this author think that a much more liberal EU trade policy than now addressed to MNMCs is what is called for? First, from trade theory we know that short-term adjustment costs deriving from import liberalization are less substantive and therefore more politically acceptable if new export markets develop simultaneously. After all reciprocity in trade concessions is what the WTO and GATT multilateral trade negotiations have always been based on. But regarding the new association agreements between the EU and the MENA countries under focus there is no new reciprocity in trade concessions. Second, given the demographic trends in the Maghreb and the Mashrek, there is an urgent need in creating jobs (otherwise unwanted people there will flow to the Northern shores of the Mediterranean or become alienated at home and causing trouble to the local non-democratic regimes). In passing, observe that the assumption is as for Spain, Greece and Portugal that democratic reform and transition cannot be engineered from outside but economic reform is another matter (Tovias 1995). As indicated above, the possibility of anchoring economic reform and promoting growth in Maghreb and Mashrek countries exists. This much is clear to everybody, including policy-makers in the EU.

In terms of policy, it seems obvious that the best contribution of the EU to promote job creation would be to import more from MNMCs goods regarding which they have a comparative advantage. In turn this would induce a reduction in the trade deficit of MNMCs and thus in their external debt as well. Given the relative factor endowments of Southern Mediterranean economies compared to their industrialized neighbours (the EU) and the short distance to the latter, the former have a clear comparative advantage in the production of sun- and labour-intensive goods and services. They should

therefore specialize in those products and export them to their developed neighbours (the EU)⁵.

Mediterranean agriculture, fishing and tourism services fall all in that category. Tourism is certainly very much job-creating; but as Spain and Italy are well aware since long time, it is highly seasonal. People working in tourism must find complementary jobs for that time of the year where tourism is in the doldrums. This is where agriculture and fishing enters. It so happens that there is only partial overlap in time between agricultural and fishing activities on the one hand and tourism activities on the other. This is why agriculture or fishing (and not industry, which requires regular presence of the worker at his/her line of production) are well suited to complement tourism in terms of employment. Moreover Mediterranean agriculture is, compared to other types of agriculture, very much labour-intensive, because fruit, flower, vegetable and wine production require, as Dutch, Spaniards and Italians know, a lot of attention and even affection; it is almost like gardening; this is what traditionally horticulture is about, which by the way was developed to an extreme sophistication by the Arab people themselves in Southern Spain. And for the moment, machines cannot in many instances replace humans yet in separating the right fruit from the bad one. .Much of the same applies to fishing.

But any specialization and job-creation through specialization does not work without trade. The full realization of the agricultural and fishing potential of Southern Mediterranean countries requires as a necessary condition easier access to EU markets, which is not possible without some changes in the EU's Common Agricultural Policy.

⁵ All what is said here can be applied *tel quel* to Israel, an industrialized country.

and in Blue Europe A job-creating economic strategy for the Southern Mediterranean countries would certainly require certain adjustments on the part of Northern Mediterranean states, such as France, Italy, Spain and Portugal, ultimately leading to entirely different patterns of division of labour around the Mediterranean. In passing, with appropriate technology transfer, much of current food processing activities operated in the Northern shores of the Mediterranean could be transferred to the Southern shores. As proposed by this author long ago, in order to soften the impact on Dutch and Northern Mediterranean farmers, fishermen and food processing manual workers, part of MEDA funds could be devoted to help the latter to adjust to the new situation. It is patently absurd to maintain European markets almost exclusively open to Dutch, Spain and Italy's food producers and then offer adjustment aid to Maghreb countries via MEDA to cope with their adjustment problems derived from the opening of their industrial markets to the EU. In any case, there should not be anymore an "agricultural exception" in the free trade agreements between Europe and Arab countries, given the income levels attained by the former. What is called "*delocalisation*" in French should be accepted now also for Mediterranean agriculture, fishing and food processing, not only for textiles and travel goods, as already is the case now. Note that MNMCs technocrats, particularly those of Morocco and Egypt, have been all along recent years insistent in asking more agricultural concessions from the EU, to no avail. One of the main reasons for delaying the signature of the Egypt-EU association agreement until 2001 was precisely this.

What about other job- and income-creating initiatives not taken (yet) by the EU?

The FTA initiative focuses almost exclusively on tariffs. However, for the expansion of trade to be perceived as beneficial for the Mediterranean countries' leaders, it would

have been important that EU's trade liberalization measures would have included phasing out non-tariff barriers as well, since these are nowadays the real impediments to the exports from the southern Mediterranean countries to the EU. But none of the agreements signed provide for the automatic removal of significant technical barriers faced by MNMCs exports to the EU, such as obligatory testing or certification of conformity by local EU authorities for many goods, because mutual recognition agreements (MRA) are not part of the present deals. MRAs on standards are not even contemplated. There is some talk of future standards harmonization, but in fact the idea is that MNMCs shall accept the acquis as far as standards are concerned. Participation in European standards institutions is a privilege reserved apparently to present and future EEA (European Economic Area) members only. This and other second-generation issues are not only important for Israel or Turkey (as one is tempted to think *a priori*), but for Maghreb and Mashrek countries. Take for instance norms and standards relating to fish canning or relating to fishing methods. It is well known that Portugal, Spain and Morocco compete in the same canning products and in the same markets. Whereas Portugal and Spain are key-decision makers in the EU in these matters, Morocco is not even consulted.

In fact the association agreements leading to industrial free trade areas must be criticized not because they are too liberal (as some intellectuals in MENA countries actually do), but because they are not liberal enough. Not only are agricultural tariffs and NTB reductions as well as industrial NTBs practically excluded, but also cumulation of origin is not for tomorrow and may come too late to make a difference. Since 2001 (thus six years after Barcelona), the Commission has accepted in principle that MNMCs be incorporated in the so-called Pan-European cumulation system (which includes Eastern

European countries, many of which will probably enter the EU by 2004). If implemented any time soon this could potentially be a huge bonus for Eastern Mediterranean countries in particular where input complementarities seem more prevalent than in the Maghreb because of the presence of fairly diversified economies such as Israel, Turkey or Egypt with a large industrial base. However cumulation makes sense only insofar as there is a sufficiently high preference margin justifying the time and money to be spent by Mediterranean industrialists in order to comply with (cumulated) rules of origin (e.g. maintaining separate stocks according to their origin, separate accountancy systems, lawyers' fees, etc.). The quite low post-Uruguay Round average Common Customs Tariff of less than 4% is bound to decrease further, should the coming Doha Round succeed, something which would further erode the value of any EU concession in the domain of origin rules. The same applies for agriculture. There is some talk of reforming (once again) the CAP in goods of interest to MNMCs but this would be clearly to accommodate the trade interests of the United States and Latin America, not at all those of MNMCs. As is well known, the EU is working for multilateral trade ("Doha Round") and EU-Mercosur negotiations to succeed.

What about the costs in political economy terms for the MNMC political leader? First, there is the issue of replacing fiscal revenue lost by the creation of an FTA with the EU. The leaders of MNMCs see this as a nuisance cost. Another nuisance is that contingent protection is not tackled really in the association agreements. Let us deal with these two costs as perceived from the South:

Regarding the short-run costs to be borne by the MNMC, the only thing that seems to be amenable to fairly clear *a priori* evaluation is the amount of fiscal revenue to

be foregone as a result of the elimination of customs duties on goods originating in the EU. As well known this is an important issue particularly for Lebanon (29 per cent of total tax revenues, 3.3 per cent of GDP) and Tunisia (16 per cent and 3.2 per cent of GDP), but also so for all remaining Arab MNMCs (Nienhaus, 1999, p.509). There are some empirical studies produced by international institutions such as the World Bank, the IMF or some NGOs and academic independent researchers evaluating the trade, employment and welfare effects of the association agreements (see e.g. FEMISE(2000), Ghesquiere.(1998), Havrylyshyn(1997)). What is far more important for the MNMCs leaders but much more difficult to assess are the short run costs and risks for them involved in the implementation of trade and other policy reforms. For instance, how to gauge the risks involved in having to replace customs duties by new taxes, such as Value Added Tax (VAT)? How will the business community react to that? What about political parties and the public at large? Evidence from the case of Malta, where the introduction of VAT led to the downfall of the pro-EU conservative government to the benefit of the Labour Party in the mid-1990s. shows what might be at stake. What about cutting instead public expenditure, such as food consumption subsidies? Is that not likely to lead to riots, as was the case in Egypt or Algeria in the past?

On the other hand, although rules on market access to the EU are entirely specified in the association agreement, it is worthwhile mentioning here that contingent protection applied by the EU on MNMC-originating imports is still a possibility. And as is well known the EU has tended in the last decade to use more profusely anti-dumping legislation including on trade originating in MNMCs (e.g. Turkey). Of course it can be argued that this legislation is well known to MNMC economic operators, as well as

to their governments at the time the association contract is signed. However it is the way this legislation is implemented which is not so transparent and for many outside observers quite arbitrary. To be fair, experts also indicate that there is a tendency by the European Commission to be more lenient in cases regarding countries with which the EU has a bilateral preferential deal, such as those currently benefiting from the Europe Agreements in Central and Eastern Europe. However it is not clear if this is due to the existence of these agreements or to the fact that those countries are candidates for membership in the EU in the future (see Pelkmans and Brenton 1999). The difference between membership and partnership is thus an issue that deserves further research. Some further observations in this respect will be made in the next section.

To sum up, it appears that the economic concessions the EU is prepared to offer to make sense of the idea launched by the European Commission of establishing a "zone of shared prosperity" through a "real Partnership" are way out insufficient to entice MENA leaders to "tie their hands". The impression is that regarding MNMCs, Europe is in a mood of what musicians call : *Allegro ma non troppo*... In the opinion of the author, the way to strengthen the EU anchoring power is via more trade concessions and not via a supplement of adjustment assistance. The opening of new export markets, not only in terms of sectors but also in terms of seasons, drastically diminish the short-term adjustment costs for the MNMC and therefore the immediate political costs for the leader of the regime.

4, The EMP and the association agreements seen as contracts

Is the EMP (or can it be approximated to) a complete contract? If not, is this the case of the association agreements? The Euro-Mediterranean Partnership is supposed, according to the Bretton Woods institutions (and of course the EU), allowing Arab countries to anchor externally domestic economic policy reform. This ignores that partnership leads only to “association” to and not “membership” in the EU, which is the “real thing” (Tovias, 1992). The fact that none of the present and past association agreements has had a strong judiciary review mechanism explains partly their lack of credibility. In other words, while candidates to the European Union understand what membership implies for better or for worse, other concepts such as association are pretty elastic, undermining the value of what is being offered by the EU. The credibility of what the EU offers depends of the policy issue one speaks about. Clearly in trade matters concessions offered by the EC/EU are quite meaningful because trade policy (related to goods) is in the almost exclusive realm of the Commission and the degree of “politicization” and possibility of interpretation of EC laws quite limited. Although there is not too much room for optimism here either. For instance, were it not for the fact that Israel’s 1975 FTA agreement with the EC was based on reciprocity and that the EC has had always a large bilateral surplus in its trade with Israel, it is almost for granted that a substantial number of EC governments would have voted the suspension of the agreement at every instance that Israel did not behave with its neighbours as they thought it should. On top of it, the value of trade concessions made by the EU is a function of how much “exclusive” the concession is going to be over the life of the specific preferential agreement, not only at its signature. Indeed, “preference erosion” has been invoked frequently by MNMCs to

justify backtracking from commitments. Of course the record of the EC/EU as an anchor in economic domains other than trade in goods has been even worse, for example regarding migration, trade in services or right of establishment .

That should not come as a surprise. Many agreements by the EC/EU with Mediterranean countries since the 1970s have included shallow articles on the items above, whereas in some other instances the Council of Ministers stick its neck out by committing itself to things that it was imprudent to promise in the first place. Such was the case of free movement of labour between the EC and Turkey , the negotiators of the 1963 Association Agreement forgetting that migration policies were the reserved domain of EC member states and that there were no plans for the unification of such policies in the Rome Treaty. Not surprisingly, when that item of the association agreement was not implemented in 1986 as scheduled because of the German veto, Turkey did not make a fuss about it and instead took that as an *alibi* to deviate in the future from its own commitments should the need arise.

In other words neither the EMP nor the association agreements signed under its umbrella framework are complete contracts. This contrasts with membership which is a sort of Catholic marriage; no divorce; irrevocable interdependence; no opt-outs; it is sharing the same roof for ever in a house where some members of the family are going to have more influence and power than others. Some MNMCs countries might be prepared to be one of those with lesser power but do current EU members consider that economic (and political) reform in those willing MNMCs are worth the effort of absorbing them into the EU or at least into the EU's orbit (e.g. in the EEA)? The answer clearly is negative.

5. Nature of the commitments arrived at by the Partners in the EMP and the association agreements

To what extent the EU and MNMCs are likely to veto common decisions on the grounds that non-negotiable national interests are at stake? To begin with, decisions in the EMP are made by consensus, which means that the lowest common denominator tends to prevail. There is no formal voting, therefore no majority voting for the matter. Veto power by any of the 27 EMP members is the rule (Lannon et al.(2001), pp.117-8) . Regarding financial matters, as indicated above, MNMC have no voice. All is ultimately in the EU hands. Regarding the association agreements they are inter-governmental, not supranational . This means that voting is inapplicable. Needless to say that this is in total contrast with membership. Of course as in any reciprocal trade agreement, if one of the parties decides not to proceed with the tariff liberalization programme it is committed to implement by the agreement, the other side can always retaliate by suspending in turn its own “concessions”. In the case of the EMP association agreements, a non-compliance of one of the 8 MNMCs with their tariff disarmament programme could lead, e.g., to a re-establishment by the EU of most-favoured-nation duties on imports originating from the violating MNMC. Nobody in the WTO would protest such a move, of course!

On a more micro-economic level the question arises to what extent the EU and MNMCs are likely to veto common decisions or impose decisions because of business/interest group lobbying. Here the answer is a little more optimistic overall.

Because of what is explained above, it is obvious that before any EMP ministerial summit, each EMP member country prepares its national position on the different items on the agenda. In the case of the EU the position of the member states is coordinated by the Commission, although it must be stressed that each individual EU member state is represented by its own minister at the EMP bi-annual Summit, which is purely intergovernmental. Each partner in the EMP draws its position on the basis of the so-called national interest, which is fashioned by the positions taken by the lobbies directly implicated. There is almost no leeway for the representative of the partner countries to negotiate its position once in the Summit. This is even less likely in the case of EU member states' representatives which not only are unlikely to move even one centimeter for fear of un-bundling finely-tuned compromises arrived at in the EU's Council of Ministers (e.g. in terms of language to be used in official documents regarding changes in the CAP or in cumulation rules). In fact, the underlying pressures of the lobbies lead to *de facto* paralysis at the level of the EMP bi-annual Ministerial Summit. This is not so much the case in the context of the annual association councils provided for in the bilateral association agreements. Here the MNMC minister in charge might reach a political deal with the EU representatives, knowing he might be opposed by some lobby back home. He will have to make his mind if he can cope with the pressure exerted by the latter on the government. But here one cannot speak of sheer veto power by lobbies. An example will suffice. The EU is in conflict with Israel regarding the application of origin rules by the latter which considers the occupied territories since 1967 as part of Israeli customs territory. Therefore goods originating in settlements have been traditionally shipped to the EC duty-free. Lately the EC-EU has decided to strictly apply the association agreement to Israel in its frontiers of June 4 1967. Negotiations to look for a compromise are in the

offing. The Israeli minister in charge will obviously have to negotiate a compromise knowing that business interests in the territories (e.g. Golan wine-makers) or in Israel will strongly oppose it.

6. Some conclusions and further remarks

If the goal of creating a zone of shared prosperity included in the Euro-Mediterranean Partnership is to have any real meaning or substance, it is not sufficient to oblige the southern Mediterranean countries to proceed with economic reform and trade liberalization by asking them to eliminate tariffs and QRs (quantitative restrictions) on EU originating industrial exports, if there are no adequate rewards. The EU should also join in the endeavour and work for the extension of the Internal Market in goods, business services and human capital to the MNMCs. If that is not possible, at least it should improve the terms of market access in the Euro-Med bilateral agreements, by launching now (and not in a decade when it will be irrelevant) a system of cumulation of origin rules which would promote regional economic cooperation among MNMCs, something the Commission says it is one of the Partnership objectives. In the medium run, the elimination of tariffs in MNMCs as a result of the implementation of the FTAs and the ensuing adjustment pressures will increase, not decrease, migration flows from the Southern Mediterranean to the North. The answer will have to come from those in Europe which will realize sooner or later that only by importing more primary and labour-intensive goods from MNMCs can the flow of MNMCs be stopped by peaceful means. There is also a moral dimension, something so important to many Europeans nowadays. There are two parts to it. First, “anchoring” is an activity which consists in

“demonstrating” and not in “sermonizing”. What is called for is a “demonstration effect” whereby the EU gives the example, not by telling MNMCs “to do what we ourselves already did”, but rather “to do what we do”, namely adjusting. This could be called the “we-are-in-the-same-boat” effect, reflecting thus better that the EU and MNMC are indeed involved in a “real Partnership”, something frequently questioned by Arab countries. Second, the EU should also recognize openly that beyond the short-term adjustment problems, it is increasingly patent that the stabilization of candidates to EU membership (this time round Central and Eastern European countries), which therefore will soon become Peripheral Insiders, does and will contribute to the destabilization of those remaining outside, the Peripheral Outsiders (namely the MNMCs). A clear link has been now established between the announcement of candidates for membership by the EU at the Essen Council in 1994 and subsequent FDI inflows into the candidate countries. Not only that. A second wave of FDI investment into some CEECs took place after negotiations for membership were announced by the EC in 1997 (Bevan et al., 2001; see also Tovias 1994). What seems clear is that some of those FDI flows are investments diverted away from other potential destinations in the EU’s periphery such as MNMCs (what economists call “investment diversion”), although it seems other areas of the world have been more affected by this effect (Tovias 2000). In fact, whether one likes it or not, if one thinks for a moment, the Southern Enlargement of the EC implied that the stabilization of three new Northern Mediterranean democracies (namely, Spain, Greece and Portugal) was obtained partly at the expense of the economic stability of Southern and Eastern Mediterranean non-members (e.g. through trade diversion, in the case of Morocco’s citrus and tomato exports to the EU). In recognizing this fact, the EU might be obliged

to re-think its current Partnership strategies, which clearly have not been able to counteract investment and trade diversion in favour of past and future member states.

Summing up, the main problems in considering the EMP as a possible anchor to economic and (political) reform are that:

- 1) the “carrots” offered by the EU are not enough to make it worthwhile for an authoritarian regime in the Maghreb and the Mashrek to “tie its hands” (and the reader should not confuse the technocrats of the regime with its leader)
- 2) The “sacrifice” made by the EU to anchor Maghreb and Mashrek countries is financial, not “real”. There is no “demonstration” effect. There is no “we-are-in-the-same-boat” effect.
- 3) The nature of the commitments made by the EU are weak (e.g. exploring an issue for years without formal commitment at the outset) and reversible (e.g. contingent protection remains always a possibility)
- 4) The value of the “carrots” is likely to diminish with time (erosion of preferences by Enlargement, erosion of the value of cumulation of origin rules, etc)⁶.

In the opinion of the author, the economic component of the EMP cannot in a substantial way attain its own declared objectives, namely the stabilization and growth of the Mediterranean Arab economies. The main reason is that the EMP does not lead

⁶ See Brenton(2000)on the increasing irrelevance of the EU’s pyramid of preference.

to real economic integration of MNMCs in the European hub, as does, e.g., integration in the European Economic Area or in the EU. Only membership in one of these two clubs can work, albeit in the long run (if we take into account the Greek precedent), as a really effective anchor for wide-ranging reforms and economic modernization. In this respect a mere institutionalization of the EMP would not be helpful (as suggested by Xenakis and Chrysochoou, 2001, p.119). On the contrary, as correctly stated by E.Adler and B. Crawford in the paper prepared for this Conference (p.17), the EMP focused “too much on form and procedure and too little on content”.

It might be that the EMP, as conceived by Brussels, had other than its own declared objectives. If not, then the conclusion is that it was not well conceived. If the EU had other reasons in favour of establishing industrial free trade areas and MEDA (and we have mentioned four possible ones above), then the question arises whether they still hold seven years later. If yes, it makes still sense from the EU’s perspective to proceed. If not, a thorough revision is what is called for. Some of those “historical” reasons are still valid. For instance, the consensus reached in 1993 between the US and the EU to respect the WTO rules on integration agreements (article 24 of the GATT) still holds, although if present tensions on trade issues between the two transatlantic trade partners do not dissipate soon, the above-mentioned consensus could unravel as well, leaving the EU with a freer hand. What about the perceived need of “rebalancing” the EU’s external policies? It seems to this author that progress done since 1994 on Enlargement issues plus the 1999 EU acceptance of Turkey at the Helsinki Summit, as a candidate for membership will also diminish the urgency of “rebalancing” in coming years. For once, most countries called to accede the EU by 2004 do not have at all relations with MNMCs in their priority agenda (Tovias 2000).

Turkey will now be even less enthusiastic than before about the EMP, lest it be considered by the EU as an alternative to membership. Most probably, though, the economic basket of the EMP will prevail as is until the time most Arab MNMCs have to start reducing tariffs on consumer and other final goods imported from the EU, something scheduled to happen only at the end of this decade or later⁷. This will be the acid test both for the EMP and its initiators.

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⁷ Dates of entry into force of the association agreements are 1998 for Tunisia, 2000 for Morocco, 2002 for Jordan. No date is set yet for Egypt, Algeria, Lebanon and Syria. Add to this that immediate tariff cuts are only applied to inputs and intermediate products, all MNMCs having back loaded tariff reduction commitments on what they perceive as sensitive products. And the FTAs are supposed to be only in place after twelve years. Note that the PA has not (yet) an autonomous tariff to reduce.

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