

Conference Report

GO-EuroMed
1st Macroeconomic Policy Standing Group Workshop
7th May 2008

The Euro-Mediterranean Partnership – Promoting Shared Prosperity

Jointly organized by



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Summary

The 1st Macroeconomic Policy Standing Group Workshop of the GO-EuroMed Research Consortium has been held in joint cooperation with the Confederation of Egyptian European Business Associations (CEEBA) and the German Arab Chamber of Industry & Commerce (GACIC) in Cairo on **7th May 2008**, from **10 AM** to **5 PM**. Under the label 'Promoting Shared Prosperity' the workshop was aimed at bringing together public, private-sector and academic representatives from Egypt and other MPCs, as well as of the European Union. Special emphasis was placed on the Barcelona Process for the design and implementation of a sustainable economic growth process in the Euro-Mediterranean region and especially on Egypt's negotiations with the EU as a benchmark case for Mediterranean Partner Countries.

The GO-EuroMed project is coordinated by the Free University of Berlin and generously supported by the European Commission as part of the 6th Framework Programme for Research and Technological Development (FP6). The project's specific target is to improve understanding of governance strategies capable of furthering the goals of the Euro-Mediterranean Partnership. In order to facilitate research into the field of promoting sustainable economic growth in the Mediterranean Partner Countries, the Jean Monnet Centre of Excellence has recently established the Macroeconomic Policy Standing Group.

Key Note Speeches

In their key note speeches Dr. Alaa Ezz, Secretary General CEEBA and Dr. Herret, CEO of the German-Arab Chamber of Industry and Commerce (GACIC), welcomed the opportunity to host the joint workshop with the Jean Monnet Centre of Excellence for European Integration from the Free University Berlin, and emphasized the role of the Euro-Mediterranean Partnership in promoting shared prosperity in the Euro-Med region. In this regard, both emphasized the role of the private sector within the Barcelona Process in achieving sustainable economic prosperity. Dr. Herret also stressed



the importance of Egypt for Germany's trade relations and welcomed the opportunity to strengthen these close economic ties within the Barcelona Process. Mr. Abdellatif, Chairman of FACT and General Secretary of the CEEBA remarked that the Euro-Mediterranean Partnership has created a wide spectrum of opportunities for Egyptian and European Businesses to strengthen their cooperation and benefit from these intensified trade links. From his viewpoint, by promoting the establishment of a free trade area between the EU and MPCs, the EMP represents an important step towards enhancing economic prosperity across the Mediterranean Sea. H.E. Mr. Michael Ryan, First Counsellor of the Delegation of the European Commission in Egypt, addressed the prevalent critics on the Barcelona Process. He underlined the achievements of the EMP in the economic aspect, where FTA have been implemented with most MPCs and negotiations on agriculture and services are progressing. Regarding the initiative of the European Union to establish a Union for the Mediterranean, H.E. emphasized that institutional drawbacks within Barcelona Process have to be addressed in designing this new institutional framework. In this respect H.E. Mr. Ryan emphasized the role of MPCs and also the business community's active participation in the Union for the Mediterranean. Dr. Christian Fahrholz, Jean Monnet Chair for European Integration representing the organizing Free University of Berlin and the Go-EuroMed Research Consortium, introduced the the main structure and results of the GO-EuroMed research project. He pointed to the need for deeper macroeconomic coordination between the European Union and MPCs to sustain socio-economic stability in the region. Dr. Fahrholz said that "in particular, the workshop represents a convention, which is aimed to serve as a platform for exchanging ideas and visions among participants from both sides of the Mediterranean Sea and to foster the dialogue between policy makers, business professionals and scientific researchers." In summary, all key note speakers stressed the importance of activating

the Barcelona Process and very much welcomed the opportunity to enhance the dialogue between the public sector, the private sector, and academics across the Mediterranean Sea.

The Euro-Mediterranean Partnership – A Macroeconomic Perspective

In the beginning of the first Panel, Dr. Fahrholz welcomed the audience and stressed the importance of adding a macroeconomic perspective in assessing the effectiveness of the Barcelona Process in ‘Promoting Shared Prosperity’. Chairing the panel together with Dr. Fahrholz, Dr. Alaa Ezz welcomed and introduced the first panellist H.E. Dr. Gamal Bayoumi, General Secretary of the Arab Investment Fund and former ass. Foreign Minister of Egypt. In his remarks, Dr. Ezz



stressed the importance of his Excellency’s contributions and his role in the Euro-Med negotiation process between Egypt and the European Union and in fostering the dialogue among MPCs and Arab countries. Dr. Christian Fahrholz introduced Dr. Nevine Eid, currently Assistant- Professor at the German University of Cairo and Ms. Marga Peeters, Senior Economist at the European Commission in Brussels.

Presentations Panel I

Dr. Nevine Eid (American University of Cairo)

Dr. Nevine Eid presented the final results of the Macroeconomic Policy Standing Group’s first working paper “The Euro-Mediterranean Partnership as an Macroeconomic Anchor”¹, which she conducted in close cooperation with Dr. Islam Azzam (Assistant- Professor at the American University of Cairo) and Professor Mohamed Omran (Arab Academy Alexandria). Dr. Eid pointed out that in order to sustain macroeconomic stability in the region; governments aiming at sustaining macroeconomic stability will have to pursue prudent fiscal and monetary policy strategies. In the case of Egypt, which has been extensively investigated by the research team, she



pointed to the current challenge of progressing fiscal and budgetary reforms. In addition, Dr. Eid stressed the importance and challenges of targeted central bank interventions, which have been

¹ This research paper can be downloaded on www.go-euromed.org in the Macroeconomic Policy Section.

less effective in Egypt than in comparable emerging market economies. From this observation, the research team has concluded that besides the exchange rate channel of monetary transmission, all other central banking instruments show signs of modest impact on the real economy. As policy implication, the research team suggested to strengthen financial markets and their regulation, as well as promoting and designing new debt issuance mechanisms, which might increase fiscal discipline as well monetary policy effectiveness in Egypt. In this context, a stronger dialogue with the European Union providing a macroeconomic anchor to Egypt could activate the Barcelona Process and thus support the Egyptian government's efforts to sustain macroeconomic stability.

Ms. Marga Peeters (European Commission, DG ECFIN)

Ms. Peters presented the latest research findings of the European Commission regarding growth and inflation dynamics in the region. Applying a comparative data analysis on key economic figures among MPCs,

Ms. Peeters pointed to the fact that the economic growth outlook is creating large opportunities for achieving prosperity in the medium to the long run, but that this process is object to downside risks, which need to be addressed by government officials on a macroeconomic level. Besides inflationary pressures from supply side shifts due to increasing commodity prices, Ms. Peeters addressed the special role of fiscal policy in sustaining macroeconomic stability. Regarding the case of Egypt, she pointed to the fact that the gross national debt to GDP ratio

has been rather high in comparison to other MPCs and that developing budgetary consolidation strategies are needed to reduce risks arising from these budgetary imbalances. In this regard, she pointed to the special role of the EMP in supporting such fiscal retrenchment activities in MPCs. Being involved in the technical cooperation framework of senior experts on the behalf of the



EU Commission in Egypt, Ms. Peeters pointed to the structure of public debt in Egypt. Observing that besides interest payments, the largest share of public debt arises from subsidy schemes, from the viewpoint of the European Commission, the economic reform process should be focused on a cutback of subsidies. According to Ms. Peeters the EC supports and fosters such economic reform efforts in order to enhance private sector competitiveness and increase overall economic efficiency. Increasing competitiveness on the business level is essential for achieving the aim of a region of shared prosperity.

H.E. Dr. Gamal Bayoumi (Chairman of the European Partnership Unit)

After the first two presentations, H.E. Dr. Bayoumi added a practitioner's view to the discussion.

At the outset of his remarks H.E. stressed the achievements of the initiated reform process in Egypt. H.E. further emphasized the importance of a continuation of mutual trade liberalisation effects on both sides of the Mediterranean Sea. By presenting the latest figures on increasing exports to and imports from the European Union, H.E. Dr. Bayoumi emphasised the role of the European Union



in promoting a region of shared prosperity via this trade channel. In addition, H.E. introduced to importance of economic and political integration across MPCs, stressing his regret over the slow process of south-south economic and political integration efforts. H.E. very much welcomed the Barcelona Process as an opportunity for the MPCs to enhance economic cooperation and coordination, which have not reached their full potential yet. According to his Excellency's point of view, the European Commission and Barcelona Process have to be strengthened. Activating the full potentials of the EMP will require a stronger commitment from European Union and MPCs to the assigned goals of the Barcelona Process.

Panel II – Assessing the EMP: A view from Politics, Buisness and Science

After the lunch break Dr. Alaa Ezz and Dr. Christian Fahrholz opened the afternoon session, which was labelled “Assessing the EMP: A view from Politics, Buisness and Science”.

In their introductory notes Dr. Ezz and Dr. Fahrholz stressed the role of the Euro-Mediterranean Partnership to enhance political, scientific and economic dialogue in the Euro-Med region. Dr. Ezz then introduced Dr. Hany Bakarar, 1st Undersecretary Ministry of Trade and Industry of the Arab Republic of Egypt, as a committed supporter of the business community



in Egypt, fostering the reform efforts of the Egyptian government in enhancing the investment climate in Egypt. Dr. Fahrholz introduced Professor Thierry Baudassé and Professor Raphaelle Bellando from the Laboratoire Economique d'Orléans, who were representing the Go-EuroMed Consortium and thus the academic perspective on the second panel.

Presentations Panel II

Dr. Alaa Ezz (Chairman CEEBA)

Dr. Ezz emphasized how important the multi- and bilateral negotiations within the Barcelona Process have been for both the public and private sector in sustaining a peaceful and constructive dialogue across the Mediterranean Sea. Furthermore, Dr. Ezz was calling for more cooperation among MPCs, which has to be intensified on the scientific, political and mainly on the economic level within



given institutional frameworks. Dr. Ezz pointed out that the European Union, which started its economic and political integration process with a Coal and Steel Treaty between Germany and France, might serve as a benchmark for regional integration for Southern-Mediterranean countries. In this context Dr. Ezz pointed to the fact that institutions for achieving this aim are already existing, but not utilized effectively to reap the benefits and opportunities of enhanced cooperation among MPCs. In his final remarks, Dr. Ezz stressed that deeper integration was not about inventing “new white elephant(s)” institutions not prepared for effectively supporting the aim of achieving shared prosperity. Dr. Ezz concluded his presentation by quoting Amepheton (2500 B.C.) “rig your Boat, travel near and far, look for a wise partner, knock his door, seek his knowledge, welcome him in your home, this is how your people will prosper” calling for a stronger commitment to the Barcelona Process on both sides of the Mediterranean Sea.

Professors Thierry Baudassé & Raphaelle Bellando, Laboratoire Economique d’Orléans

Professor Thierry Baudassé and Professor Raphaelle Bellando stressed the role of financial markets in the Mediterranean Partnership with special emphasis on the role of financial markets in promoting shared prosperity. Although financial market liberalisation is on the top of the policy-making agenda in MPCs and perceived to spur investment activities and thus fuel economic



growth, the researchers pointed to the down-side risks arising from these liberalisation efforts. In this context, Professor Baudassé emphasised the cases of South-Eastern Asian economies and Latin American economies, which underwent severe financial crises and can be seen as warning benchmark cases for regions in the process of liberalising financial markets. The two researchers concluded that although financial market liberalisation needs to be further enhanced in the

region, the sequencing and speed of reforms as well as the effectiveness of accompanying regulatory frameworks will determine the success of these measures. In this context, the two researchers suggested that the European experience might serve as a benchmark case for the MPCs and that enhancing cooperation on financial market regulation across the Mediterranean Sea would support sustaining socio-economic stability in the Euro-Med region, safe-guarding the idea of achieving shared prosperity.

Dr. Hany Bakarar, (Ministry of Trade and Industry of the Arab Republic of Egypt)

As final speaker Dr. Hany Bakarar, 1st Undersecretary of the Ministry of Trade and Industry of the Arab Republic of Egypt, introduced the policy-making perspective in assessing the Euro-Mediterranean Partnership. Although the Egyptian government has been trying to further open up its borders to international competition and enhancing international trade linkages, these measures have been target to scepticism within the Egyptian business community.

In order to address this issue, Dr. Barakat explained that the Egyptian government has started to invest into strategies, which are aimed at communicating and supporting SMEs, setting incentives to modernize their production processes in order to increase their international competitiveness. As benchmark project in Egypt, Dr. Bakarar pointed to the IMC project, which



has recently been launched by the Egyptian government in order to foster the economic competitiveness and to facilitate a smooth modernization process of Egyptian businesses. Furthermore, Dr. Barakat emphasised Egypt's need to further open to the opportunities arising from more liberal trade policies. In his final remarks Dr. Barakat concluded that Egypt can benefit from international trade, potentially boosting economic growth in the medium to the long-run, which has been a major precondition in achieving shared prosperity in the Euro-Med region.

The Way Forward

Dr. Fahrholz invited the audience for the final session of the workshop by saying that both Egypt and Europe follow two views which lead into the same direction, although approaches towards the Barcelona Process might differ across the Mediterranean Sea. Following Dr. Fahrholz' brief remarks, Dr. Alaa Ezz emphasized that economic and political institutions between the European Union and Egypt already exist and that thus new institutions should be created carefully without undermining the functioning existing multilateral and bilateral institutions. Instead participating

parties in the Barcelona Process should concentrate on reaping the benefits within already existing frameworks and thus increase the mutual commitment and confidence into the Euro-Mediterranean Partnership. H.E. Michael Ryan, 1st Counsellor of the Delegation of the European Commission in Egypt, opened his remarks on the way forward by addressing the urgent need to actively participate in the Barcelona Process and welcomed the opportunity to address these issues in cooperation with the Government of the Arab Republic of Egypt within the workshop. In his response to H. E. Mr. Ryan, Dr. Barakat stressed the necessity of enhancing the ongoing dialogue across the Mediterranean Sea. In this respect both H.E. Mr. Ryan and Dr. Barakat emphasized the opportunities arising from the Union for the Mediterranean. In addition, H.E. Mr. Ryan said that creating and developing the Union for the Mediterranean represents a large opportunity for Euro-Med relations to further improve, but also an exceptional challenge for the European Union. The Union for the Mediterranean is the first joint European institution being created in cooperation with Non-EU member countries. Along these lines, H.E. Mr. Ryan and Dr. Barakat emphasized the need for a careful and balanced institutional design, which should enable participating parties to cooperatively achieve the aim of the Barcelona Process to establish a region of shared peace and prosperity.

