



# GO-EuroMed

## The Political Economy of Euro-Mediterranean Governance



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## **Preface**

The GO-EuroMed research project assembles a team of economics and political science institutes from European Union and Mediterranean Partner Countries. The three year project aims to identify institutional design and management strategies for furthering the Euro-Mediterranean Partnership's governance objectives. Research is funded by the European Commission's 6<sup>th</sup> framework programme. The Jean Monnet Centre of Excellence, Freie Universität Berlin (project coordinator) wishes to thank all its partners for their rich and fruitful cooperation during the course of the project.

The project's major milestones are its conferences and publications, its deliverable working package reports, its annual activity reports, its workshops and its public awareness local meetings (PALMs). Since the project started in January 2006, conferences have taken place in Berlin, Istanbul, Madrid and Brussels. Workshops have been held in Warsaw, Orléans, Amman, Ifrane, Beirut, Cairo and Berlin. These events have brought the consortium together to develop innovative analysis of the political and economic challenges of the Euro-Mediterranean region, and to and disseminate research to a wider scholarly and policy community. The project's scholarly output is extensive: 48 working papers, 13 working package reports and three annual summaries have been published.

This report has been compiled on the basis of the consortium's work over the last three years. We are especially grateful to Alexander Salhi and Sönke Ehret of the JMC Berlin team, without whose support and ideas this report could not have been written. While this report reflects the common understanding of the consortium, it can never fully reflect the work of everyone who has taken part in the project. For copies of GO-EuroMed working papers and to learn more, please visit the project website at [www.go-euromed.org](http://www.go-euromed.org).

**Michael Bolle**

**GO-EuroMed Project Coordinator**

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## Executive Summary

The GO-EuroMed research project aims to identify institutional design and management strategies for furthering the Euro-Mediterranean Partnership's (EMP) governance objectives. Since the EMP's launch in Barcelona in 1995, many commentators have expressed disappointment that it has not lived up to the high expectations its launch raised. However, the EMP should not be judged as if it was an endgame – rather, it should be interpreted as a negotiated framework upon which to build future negotiations.

The Barcelona Process conveys two advantages to its member governments:

- The negotiation framework facilitates policy reform coordination between Mediterranean Partner Countries (MPCs) and Europe, providing a stable environment for bargaining.
- Dialogue and exchange in the context of the Barcelona Process create windows of opportunity for mutually beneficial agreements, particularly as changes in political or market circumstances influence the ordering of government preferences.

While satisfied with the stability of the Barcelona Process, some Euro-Mediterranean governments have expressed frustration at the slow pace of change and sought new ideas for increasing the benefits of association.

The institutional setting has been central to the debate. The EMP is a highly asymmetric bargaining framework, heavily biased towards Europe. Although the language of 'partnership' is stressed in the policy documents, the EMP is a European Union policy, financed by European taxpayers and administered by the European Commission. Its principle target is MPC political and economic reform, raising inevitable conflicts of interest with partner governments that wish to control the reform processes in their countries. In this environment MPCs have struggled to develop a common position towards Europe or to come up with new initiatives, while the EU has preferred to conduct most of its business with MPCs bilaterally. The resulting asymmetry has hindered efficient bargaining outcomes that offer benefits to all parties, particularly in sensitive issue-areas.

While calls to change the Barcelona Process' institutional framework are not new, the French government provided political impetus to the debate about the EMP's future. In proposing the 'Union for the Mediterranean' President Sarkozy made it clear that he believes that benefits will flow from better institutional design.

The UPM has the potential to introduce more symmetry into the Euro-Mediterranean bargaining process, thus enabling the region's governments to better manage their varied interests. The UPM framework provides Arab governments in particular with greater incentives to form a common position vis-à-vis the EU. Although more symmetry promises efficiency gains that could benefit all of the EMP's partners, making the most of the UPM's potential still requires political will, careful institutional design, and ambitious projects.

There are several issue-areas that would benefit from projects under the UPM. The following five suggestions are intended to highlight issues where cooperation is both feasible in the short to medium term, and likely to develop in ways that assist the long-term sustainability of economic and political stability in the Mediterranean basin.

- Macroeconomic Coordination (EuroMed COMPAS)
- Cross-Border Rural Cooperation Project (Euro-Med CROP)
- The Euro-Mediterranean Micro-Finance Fund (Euro-Med MICRO)
- Mediterranean Innovation Desk (MID)
- Euro-Mediterranean Illegal Migration Oversight Committee (IMOC)

While the UPM initiative no longer resembles President Sarkozy's original idea for a Union comprised only of countries bordering the Mediterranean, the French government has nonetheless succeeded in returning Mediterranean issues to the top of the EU foreign policy agenda. With their attendance at the UPM's Paris launch party, Mediterranean partner governments sent a strong signal to Europe of the importance they attach to multilateral relations with European countries – provided they are able to have a greater influence on negotiations. Making the most of a new, more balanced multilateral bargaining framework can help the Barcelona Process fulfil its promise in its second decade.

## Introduction

The Euro-Mediterranean Partnership (EMP) has been extensively analysed since its launch in Barcelona in 1995. Much of this research and commentary has aimed to judge the EMP's progress towards its stated goals of achieving a shared area of peace, stability and prosperity in the Mediterranean Basin, often holding these rather abstract notions up as benchmarks. Inevitably, many analysts have come to the conclusion that the Barcelona Process has failed, and that the Mediterranean basin is not nearly peaceful, stable or prosperous enough. Some analyses have assessed progress based on the subject-matter of the Barcelona Process' three baskets, and have used as benchmarks aggregate values such as GDP per capita, or indicators that measure democratic transition or political stability. Other analyses have focussed on programme-based goals: target-specific assessment in terms of allocated funds, measurements of the integration of relevant actors, and achievements in certain programme related areas such as public administration management, civil protection and international crime prevention. The rich EMP literature also includes dense descriptions of policy achievements in areas like institution building, trade liberalisation, security dialogue and migration. Many of these analyses agree that the Barcelona Process has not lived up to the high expectations that were raised by its launch.

The GO-EuroMed consortium's approach has been to analyse the EMP based on an understanding of the functioning of the institutional framework for negotiations. European and Mediterranean partner governments and the European Commission view the Barcelona Process in light of the benefits it can bring, the actual and potential restrictions it entails, and the opportunities it provides for them to pursue their interests. The GO-EuroMed consortium's intention has been to assess the EMP according to its performance as a framework for bargaining among its participant actors, and its results in terms of political and economic outcomes.

The Barcelona Process has the potential for bringing about political and economic stabilisation – a public good – in the Mediterranean basin. Designed for promoting a region of shared prosperity, the EMP aims to achieve socio-economic and political goals through coordination and cooperation among the region's governments and the EU. The EU and its members are interested in preventing political and economic instability at Europe's



periphery. For Mediterranean Partner Countries (MPCs), the EMP represents an external anchor for governments to implement a reform programme according to an agreed set of rules, with backing from an international partner.<sup>1</sup> Potential benefits emerge in terms of access to development aid and technical assistance in the short term and increased prospects for successful economic catch-up in the long term, thus fostering political stability.

In this regard, the Barcelona Process conveys two distinct advantages: first, the negotiation framework facilitates policy reform coordination between MPCs and Europe, providing a stable environment for bargaining. Second, dialogue and exchange in the context of the Barcelona Process may help to create windows of opportunity for mutually beneficial agreements, particularly as exogenous changes in political or market circumstances influence the ordering and intensity of government preferences and the restrictions they face. In the long run, the Barcelona Process may contribute to lifting measurable benchmark indicators for prosperity, social development and stability. In the shorter term, the EMP combines several governance sectors and progress can be expected to be uneven as internal conditions and external shocks influence the process, while transition periods are worked through.

Political and economic change in the south Mediterranean is likely to take generations, just as the transformation of Europe from *Ancien Regime* to European Union did before it. The Barcelona Process should not be judged as if it was an endgame – rather, it can be interpreted as a negotiated framework upon which to build future negotiations. Despite numerous challenges since 1995, the EMP remains in place. Nevertheless, frustration at the slow pace of change in the region has been widespread on both sides of the Mediterranean. Consequently, French President Nicholas Sarkozy has made it clear that institutional change is required if actors on both sides are to gain more from Euro-Mediterranean relations.

The Union for the Mediterranean (UPM), launched with great fanfare in Paris on 13 July 2008, is a proposal to change the framework for Euro-Mediterranean bargaining so that Mediterranean partners have a greater say in the decision-making process. While the UPM initiative no longer resembles President Sarkozy's original idea for a Union comprised only of countries bordering the Mediterranean, the French government has nonetheless

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<sup>1</sup> Tovias, A. and M. Ugur, Can the EU Anchor Policy Reform in Third Countries? An Analysis of the Euro-Med Partnership, *European Union Politics*, Vol. 5, No. 4, 2004, pp. 395 – 418.

succeeded in returning Mediterranean issues to the top of the EU foreign policy agenda. With their attendance at the UPM's launch party, Mediterranean partner governments sent a strong signal to Europe of the importance they attach to multilateral relations with European countries – provided they are able to influence negotiations. Initially, the UPM will focus on relatively uncontroversial projects including motorway building and de-pollution. But like most European agreements, the UPM has the heuristic characteristics of a negotiated framework that can be expanded into more sensitive issue areas over time.

The aim of this report is to analyse and assess the EMP according to the results of research carried out by the GO-EuroMed consortium during the last three years. In doing so, we outline the EMP negotiation framework's main features, and assess its contribution to efficient bargaining over the costs of providing political and economic stability in the Mediterranean Basin. We then discuss the ways in which national governments and the EU have used the EMP framework to work towards their goals in the EMP's three 'baskets' – the political and security partnership, the economic and financial partnership, and the social, cultural and human partnership.

Our second aim is to analyse the proposed Union for the Mediterranean as a bargaining framework, and to suggest five issue areas for UPM projects: macroeconomic coordination, a Euro-Mediterranean micro-finance fund, technology exchange and cooperation on innovation, a rural development initiative, and an illegal migration oversight committee.

Unlike the EMP and the European Neighbourhood Policy (ENP), the UPM is not designed to foster MPC political and economic reform. Rather, it is a proposal to increase the profile of Euro-Mediterranean relations while improving the efficiency of bargaining on specific issues where mutually beneficial outcomes are likely. There remain many potential stumbling blocks that will need to be resolved if the most is to be made of the Mediterranean Union. But by encouraging commitment to a framework in which MPCs have a greater stake, the UPM may, in time, prove a pivotal player in the long-term process of building better institutions, improving governance, and fostering the socio-economic and political development of the Mediterranean basin.

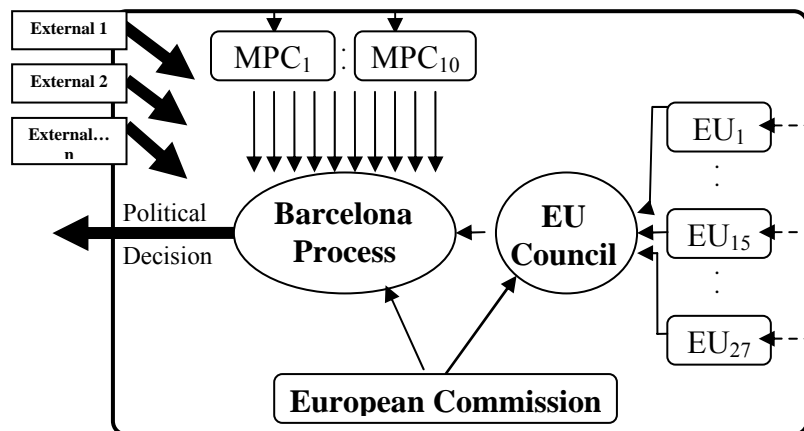
# The Barcelona Process: A Negotiated Framework

## Analysing the Euro-Mediterranean Partnership

Since 1995 the Barcelona Process has represented a period of mutual commitment to the provision of a particular public good: the political and economic stabilisation of the Mediterranean Basin. The interaction of EU member states and Mediterranean partner countries evolves around both sets of actors' interest in achieving political and economic stability. The EU and its members are particularly interested in preventing political and economic instability at its periphery. From the perspective of MPCs, benefits from the EMP emerge in terms of access to development aid and technical assistance in the short term and increasing prospects for a successful catch-up in the long term.

Although political and economic stability is in all actors' interest, conflict exists over the distribution of the costs, particularly those incurred during indeterminate periods of transition. The EMP negotiation framework prepares the ground for distributive bargaining over costs, and seeks to avoid free riding by including all actors in the bargaining process.

**Figure 1: The EMP Decision-Making Process**



Source: JMC Berlin

The EMP negotiation framework is shaped by the political preferences of national governments interacting supra-nationally (see Figure 1). On the EU side, political decisions are made by the European Council, where national interests are equilibrated through intergovernmental negotiations within a two level system. However, on the MPC side no

such equilibrating mechanism exists. The Barcelona Process framework therefore reflects the bargaining power of Europe much more than it reflects the national or collective interests of the Mediterranean partners.

When we consider the EMP as a simple bargaining structure with two groups of actors – European countries on one side and Mediterranean partner countries on the other – the weaknesses in the institutional setting quickly become apparent. European countries have diverse interests and different priorities regarding the Mediterranean, but are able to use the EU as a mechanism to reach a common bargaining position. The EMP, with its objectives, budget and organisational structure, is the outcome of this intra-EU process. On the south Mediterranean side governments also have diverse interests and priorities towards the EU. But as no equivalent equilibrating mechanism exists, each country tries to pursue its interests independently and competitively. Outcomes depend on the MPCs' abilities to arrange for side payments, package deals and other trade-offs to counter the EU's collective bargaining power. This creates problems for Mediterranean partner governments faced with the prospect of negotiating with a huge bloc. It also creates problems for the EU, which is faced with 10 negotiating partners with diverse preferences, all of which it must try to satisfy at the same time.

As a result, bargains are independent from (in)formal unanimity on the MPC side – the EMP is shaped by the distributional nature of the common pool provided by the EU. Policy outcomes have tended to favour a hub-and-spokes pattern of relations aimed at individual country reforms rather than multilateral institution-building. The vast majority of funding for the EMP under the MEDA and ENPI programmes is allocated bilaterally – for 2007 – 2010, only € 343 million has been earmarked for multilateral activities in the three EMP baskets out of a total ENPI budget for southern partners of € 3.3 billion for the period.<sup>2</sup> While these funds are complemented by loans from the European Investment Bank, they are pre-allocated in the EU budget and constitute a closed pool within which MPCs must compete if they want to increase their share. There is little room for MPCs to negotiate the terms of compensation for the costs of implementing the reforms demanded by the EU, effectively

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<sup>2</sup> European Commission, *European Neighbourhood and Partnership Instrument (ENPI) Regional Strategy Paper (2007 – 2013) and Regional Indicative Programme (2007 – 2010) for the Euro Mediterranean Partnership*, 2006; European Commission, *European Neighbourhood and Partnership Instrument (ENPI) Funding 2007 – 2013*, 2006.

leaving them with a ‘take-it-or-leave-it’ choice as regards their decision to participate in the Barcelona framework. As it happens, most MPCs have chosen to ‘take it’ because they consider that participation in the EMP will serve their interests better than remaining outside. Nevertheless, they take this decision grudgingly and on an individual, rather than collective, basis.

There are of course caveats to the portrayal of the EMP as an EU-dominated framework: there are other actors and stakeholders in the Mediterranean region, including governments (the USA, Russia, China and the Gulf states), as well as the IMF and the World Bank. The Barcelona Process framework is not immune to these external influences and some MPC governments have successfully played external actors off against each other. Moreover, the EU has to be careful to design a policy that MPCs will not reject out of hand, logically implying that Europe does not have an absolute supply-side monopoly. The EU cannot dominate the process totally and has not been able to impose strict conditions on MPC governments.

## **Assessing the Euro-Mediterranean Partnership**

In assessing the performance of the EMP, there is little to be gained from using abstract concepts such as the Barcelona Process’ stated objectives ‘peace’, ‘stability’ and ‘prosperity’ as benchmarks. Instead, we refer to the general concepts of Pareto-optimality and Nash equilibrium in a two-level game. In general, the political and economic stabilisation of the Mediterranean basin region would make all actors better off, thus representing a Pareto improving outcome. On some issues, however, bargaining outcomes either resemble deadlock, where no agreement has been reached, or a sub-optimal outcome where there is agreement but the long-term goal of pursuing political and economic stability is poorly served or even endangered.

There are many obstacles on the path to Pareto-optimality: the interests of powerful domestic lobbies may prevent governments from committing themselves to an agreement, or prevent their dealing with an issue at all. Such an outcome may represent a Pareto-inferior Nash equilibrium. An example is the Arab position on the Palestine/Israel conflict, where in general Arab governments cannot see how they can improve their position unless Israel and

the EU change theirs. In other issue areas where multiple equilibria are possible but where no solution has been reached, bargaining towards a Pareto optimal outcome continues. Figure 2 depicts an assessment matrix of the possible bargaining outcomes of a negotiations process.

**Figure 2: Assessing bargaining outcomes from international negotiations**

<b>Pareto</b>	<b>Yes</b>	<b>No</b>
<b>Nash</b>	<b>Yes</b>	<b>No</b>
<b>Yes</b>	Nash Equilibrium Pareto Optimal	Nash Equilibrium Pareto Sub-Optimal
<b>No</b>	Distributional Bargaining	
<b>Nash Equilibrium:</b> Situation where no actor has an incentive to choose a different strategy, given the optimal strategy of the other actors		
<b>Pareto-Optimal:</b> Situation in which no change is possible without making at least one actor worse off		

Source: JMC Berlin

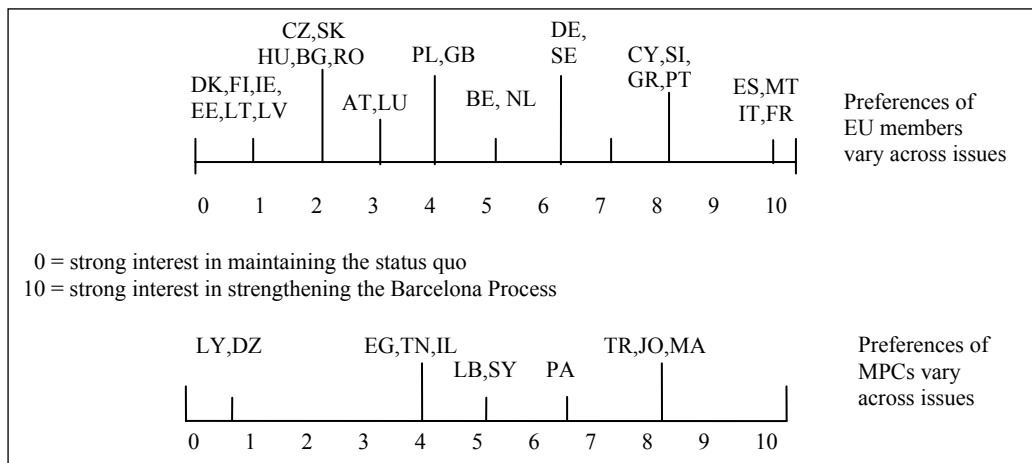
The potential for progress towards the EMP's objectives depends on whether bargaining produces outcomes that are either stable and Pareto optimal, or non-equilibrium. Stable, Pareto-optimal outcomes make all actors better off and reduce incentives to defect. Non-equilibrium outcomes, where actors can seek a solution closer to their preferences regardless of the actions of other actors, represent windows of opportunity for further distributional bargaining. Stable, Pareto-sub-optimal outcomes, where one or more actors are left worse off but are unable to improve their situation unless other actors also change their position, are likely to resemble deadlock where an exogenous shock is required to break the equilibrium. As discussed above, the probability of a certain outcome depends on the participating governments' preferences and their national policy formation environment, as well as on the 'rules of the game', that is on the institutional setting for negotiations. As government preferences are shaped by the domestic political process and for analytical purposes are considered as fixed throughout the negotiations process. Enhancing the prospect of Pareto-improving outcomes therefore requires that changes be made to the institutional setting under which bargaining takes place.

## Factors that Shape Bargaining Outcomes

### Domestic Constraints/Bargaining Discretion

All potential agreements at the international level must be ratified in the domestic arena.<sup>3</sup> MPCs are constrained, just as are EU member states, by the preferences of strong domestic actors and by the character and quality of domestic institutions. Domestic preferences and constraints ensure that the intensity of interest in the EMP is distributed unevenly across partner governments and issues. Figure 3 shows that in both Europe and the south Mediterranean, some governments are more interested in strengthening the Barcelona Process than others.

**Figure 3: Ordering of Preferences for Strengthening the Barcelona Process**



Source: JMC Berlin

The EU's common position reflects those interests that are most keenly held by constituencies that are politically powerful in the most influential member states.<sup>4</sup> EU member government preferences are shaped by many factors, the most important of which are powerful domestic political and economic lobbies, and the interests of the 'median voter.'<sup>5</sup> Lobbies cultivate connections and leverage with policymakers, which they use to get favourable policy positions. Median voters swing elections, their vote is cast according to

<sup>3</sup> Putnam, R., *Diplomacy and Domestic Politics: The Logic of Two Level Games*, *International Organization*, Vol. 42, No. 3, 1988, pp. 427 – 460.

<sup>4</sup> Moravcsik, A., *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*. Ithaca, NY: Cornell University Press, 1998.

their views on the prevalent political issues of the day. Spanish, French and Italian voters are more likely to be swayed by Mediterranean issues – such as bilateral deals on migration – than voters in northern European countries. However the strong interests of some northern European governments in the south Mediterranean are maintained by lobbies that have political or economic interests in the region, including political party foundations and business groups in Germany and human rights groups in Finland and Sweden.<sup>5</sup>

As in Europe, Mediterranean partner government preferences are also shaped by powerful domestic groups. The important difference is that with the exceptions of Israel and Turkey, the median voter does not play as great a role in MPCs as in Europe. Rather, the intensity of preferences towards relations with Europe is shaped by the political and economic priorities of the groups that benefit from private goods provided by the rentier state. Incumbent ruling elites maintain their domestic position through complex patronage systems, and these form a prism through which relations with the outside world are viewed. Preferences for closer relations with Europe are stronger in countries where they are likely to strengthen the domestic balance of power in favour of the incumbent rulers, such as in Jordan or Morocco.

### **The Choice of Bargaining Issues**

A diverse array of policy positions among governments on both sides of the Mediterranean is reflected in the issues that make it on to the negotiating table. Some issues, such as human rights protection, political reform and multilateral security cooperation, are called for in the EMP policy documents but are not pursued seriously during bargaining, as stronger European and MPC preferences regarding migration, anti-terrorism, energy cooperation and private sector investment take precedence.<sup>6</sup>

The threat of the possible failure of the EMP also affects the choice of issues that make it on to the table. Agreements are achieved in policy areas that, firstly, serve the interests of particular groups within the participating states, including power clubs and the general public; and, secondly, do not upset powerful groups in the other side's society. This is

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<sup>5</sup> Lippert, B., The Discussion on EU Neighbourhood Policy – Concepts, Reform Proposals and National Positions, *International Policy Analysis*, Friedrich Ebert Stiftung, July 2007.

<sup>6</sup> Oktay, S., *Post-Enlargement Trauma of the Euro-Med Partnership: An Analysis of Member State Preferences*, GO-EuroMed Working Paper 0701, 2007.



reinforced by the fact that there are no enforcement capacities on either side. Agricultural trade is a good example of an issue where a European lobby has made it very difficult for south Mediterranean policymakers to extract concessions from Europe. The farming lobby's likely response would put the entire EMP at risk. Similarly, the possible reactions of influential MPC security sector actors have precluded initiatives under the EMP's political and security basket that could reduce their power

Since policy issues negotiated in the international setting are those which are unlikely to upset powerful domestic political actors, progress in negotiations tends to be ad-hoc and piecemeal rather than incremental. This does not mean that the region's governments are unhappy with this situation. While issues that are referred to rhetorically but are in practical terms off the agenda – such as formal security cooperation and democratic reform in the Arab world – promise great benefits, they also entail significant risks to key actors in the process. Agreement on an issue that promises less in terms of general benefits but involves less risk can produce an equilibrium that governments can live with.

### **Incentive Compatibility**

Under the current 'hub and spokes' pattern of relations, the EU has to try to satisfy the political and economic preferences of each Mediterranean partner government in turn. Since 2003 this pattern has been reinforced by the bilateral ENP, which some south Mediterranean countries – especially Israel – have viewed as a means of benefiting from closer relations with Europe without having to wait for their neighbours. However, the challenge of designing incentive-compatible agreements for ten or more partners has proved too great for the EU. The EMP/ENP effectively constitutes a 'one size fits all' agreement, where all MPCs are offered an unspecified 'closer relationship' with the EU in return for implementing reforms. The EMP/ENP's demands are too challenging for governments reluctant or unable to reform, such as Libya or Syria, and not rewarding enough for countries that are potentially more reform-willing, such as Jordan or Morocco.<sup>7</sup>

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<sup>7</sup> Bodenstein, T. and M. Furness, *The Edges of External Governance: Europe and its Mediterranean Partners*, GO-EuroMed Working Paper 0614, 2006.

A common south Mediterranean bargaining position vis-à-vis the EU would lessen this asymmetry, making it easier for the EU to design incentive-compatible agreements. Aside from the added weight at the negotiating table that eight or ten states speaking with one voice, for the Arab states especially a common position would clarify exactly what it is that governments want out of their relations with the EU. A common position would therefore improve the flow of information, providing a better indication of the costs of public good provision across the region. Finally, a common MPC position would have to reconcile preference outliers with extreme positions before sitting at the table with the EU, thus reducing the likelihood that non-negotiable items would make it on to the agenda. While political realities suggest that bargaining on a common position among the Arab states, Israel, Turkey and the Balkan MPCs would be difficult, sub-groupings of MPCs would ease some of the structural inefficiency of the hub-and-spokes model.

All the while, the lack of progress in multilateral regional cooperation has strained – and ultimately weakened – the EU’s common position towards the south and east Mediterranean. EU member states that have strong interests requiring South Mediterranean cooperation have strong incentives to pursue these interests, whether or not they make use of the EU framework. For example, the Spanish and Italian governments are faced with a high-profile illegal migration problem that their voters demand they address. Their bilateral relationships with Morocco and Libya respectively are conducted outside the EMP framework. Similarly, France’s relations with Algeria and Libya are heavily influenced by French interests in trading nuclear technology for oil and gas. Meanwhile, the British government has signed ‘memoranda of understanding’ with several Mediterranean partner governments over the deportation of suspected terrorists. These bilateral agreements further weaken the EU’s ability to design and maintain incentives, while providing Mediterranean partner governments with other options outside the EMP.

## **Bargaining Outcomes: The EMP's 3 'Baskets'**

A key insight that has emerged from the GO-EuroMed consortium's research is that, despite weaknesses in the bargaining framework, dialogue and exchange in the context of the Barcelona process helps to create windows of opportunity for mutually beneficial agreements in specific issue-areas. Different issues come into play as changes in political or market circumstances influence the ordering of government preferences, essentially by altering the costs and benefits of alternate strategies.

Bargaining issues where windows of opportunity exist, and bargaining issues that are deadlocked, can be observed in the EMP's three 'baskets' – the political and security partnership, the economic and financial partnership, and the socio-cultural and human partnership.

### **Political and Security Partnership**

The EMP framework is not designed to resolve regional conflicts on its own. Rather, it is meant to help with the management of interdependence by facilitating the convergence of national security policies. The EMP's political and security basket is intended to provide partner governments with a stable forum for general confidence-building, enabling them to take advantage of opportunities for cooperation where security preferences converge. However, just as the EU's common foreign and defence policies (CFSP/EDSP) have evolved more slowly than other areas of European integration, the Barcelona Process' political and security basket remains the least developed area for Euro-Mediterranean cooperation.

The EU has tried to encourage its Mediterranean partners to develop 'comprehensive' regional security cooperation based on the OSCE model and reliant on multilateralism, rules and 'shared values.'<sup>8</sup> However, as events have shown, the high hopes of 1995 have been dashed. EU and MPC governments stepped back from efforts to build comprehensive,

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<sup>8</sup> Biscop, S., Opening up the ESDP to the South: A Comprehensive and Cooperative Approach to Euro-Mediterranean Security, *Security Dialogue*, Vol. 34, No. 2, 2003, pp. 183 – 197.

formal and multilateral Euro-Mediterranean security cooperation long before the Euro-Mediterranean Charter for Peace and Stability was quietly shelved in 2000.<sup>9</sup> Since then, priorities have been redrawn to reflect more immediate concerns, and a compromise bargain on short-term priorities has been reached. These include firstly the interest of most south Mediterranean governments in domestic regime stability; secondly European fears of regional instability and uncontrolled migration; and thirdly a shared interest fighting terrorism at the operational level.

Actual political and security cooperation under the EMP regional programme has been limited to comparatively minor initiatives in police and judicial capacity-building, foreign policy and migration research, training diplomats and supporting the Arab-Israeli peace process. While these efforts focus on the right areas for building more robust and transparent MPC institutions, they are comparatively poorly funded and have struggled to make an impact at the policy level.<sup>10</sup>

### **European Preferences**

The equilibration of national security preferences has never been easy for EU member governments. Operational cooperation among EU militaries is slowly deepening under the ESDP. At the political level groups of EU member governments work together on wider security issues with relevance to the EMP, such as the French, British and German cooperation with the EU's High Representative for CFSP in the 'E3-EU' negotiations with Iran on its nuclear programme. EU member states have opted in or out of engagement on specific issues with clear boundaries (such as cooperation under the UN banner in southern Lebanon). Like other areas of foreign, security and defence policy, the EU's Mediterranean policy represents a bargain on issues where member states do not have preferences that they consider better pursued unilaterally, or in other arena such as NATO or the UNSC.

The outcome of this process is that the EU's common position towards the Mediterranean is an agreement on broad principles – such as rhetorical commitment to human rights – rather

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<sup>9</sup> Schumacher, T., 'German Perspectives', in Aliboni, R., A. Driss, T. Schumacher and A. Tovas, *Putting the Mediterranean Union in Perspective*, EuroMeSCo Paper 68, 2008.

<sup>10</sup> EuropeAid, *Euro-Mediterranean Partnership Regional Cooperation: An Overview of Programmes and Projects*, Brussels: European Commission, 2008.

than formal, multi-issue regime building that pays off in troubled times. Common European action in times of crisis has been undermined by differences in national preferences, as illustrated by the varied French, German and British positions on the 2006 July War between Israel and Hezbollah. At the height of this crisis there was little Brussels could do other than issue statements, launch a humanitarian mission and prepare funds for the aftermath. Other incidents, such as the Parsley Island dispute between Spain and Morocco in the summer of 2002, reopened old colonial sores while highlighting the weakness of the EMP as a framework for negotiations on specific crises.<sup>11</sup>

Fear of Islamist terrorism has shifted the focus of European governments to immediate security concerns. While large-scale terrorist attacks in European countries are still relatively rare, governments have moved to protect voters from random violence. In particular, two issues that have long been sources of discomfort for Europeans – migration from the Arab world and political Islam – have become ‘securitised’ in recent years as migrants have been portrayed in some circles as potential ideological enemies with murderous intentions.<sup>12</sup> Between 2001 and 2005 policing of migration from south and east Mediterranean countries was stepped up at member state and community levels. In recent years the EU added several political Islamist organisations to lists of banned terrorist groups. The EU has used its external relations resources to pursue anti-terrorist measures, including CFSP ‘political dialogues’ with third countries and the targeted use of financial instruments.<sup>13</sup> In early 2008 the Commission proposed sweeping measures to beef up airport and border security technology.<sup>14</sup>

In the heady post-Cold War years, a shift from reliance on military deterrence to reliance on spreading values such as liberty, democracy, the rule of law and respect for human rights was

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<sup>11</sup> Gillespie, R., ‘This Stupid Little Island’: A Neighbourhood Confrontation in the Western Mediterranean, *International Politics*, Vol. 43, No. 1, 2006, pp. 110 – 132.

<sup>12</sup> Argerey, P. and I. Hurtado, *The European Migration Policy: Its Approach Towards the Mediterranean Countries*, GO-EuroMed Working Paper 0609, 2006.

<sup>13</sup> Monar, J., Common Threat and Common Response? The European Union’s Counter Terrorism Strategy and its Problems, *Government and Opposition*, Vol. 42, No. 3, 2007, pp. 292 – 313

<sup>14</sup> Guild, E, S. Carerra and F. Geyer, ‘Comments on the Commission’s “Border Package” of February 2008’, in Fabry, E. and G. Ricard-Nihoul (Directors), *Think Global, Act European: The Contribution of European Think Tanks to the French, Czech and Swedish Trio Presidencies of the European Union*, Paris: Notre Europe Foundation, 2008, pp. 186 – 191.

seen as a way of achieving Europe's long-standing security and economic objectives.<sup>15</sup> When basic standards of governance are respected in third countries, European strategic interests are served as well – especially the risks posed by the negative externalities of weak government, including state failure, uncontrolled migration, WMD proliferation and the risk of terrorists acquiring the means to pose a military threat. The Barcelona Declaration linked the economic, social, political and military aspects of security in a comprehensive agenda that promised benefits to third countries that were able to implement it. However, not all of the benefits that would accrue to third countries are intrinsic, and transition entails costs. It is highly unlikely that EU member governments would be able to compensate MPC government costs, particularly to their ability to take unilateral action when they see fit.

### **South Mediterranean Government Preferences**

Mediterranean partner governments have developed mostly divergent interpretations of geopolitical developments and national security interests and objectives, driven by concerns about their survival as independent sovereign entities. The main barriers to the Arab Mediterranean partners responding cooperatively to European security initiatives stem from their domestic political and economic structures. Nevertheless, Arab elites (and sometimes even Israeli government agencies) are prepared to work together bilaterally and multilaterally when necessary, informally or even secretly if need be. However this does not extend to committing formally to regional security initiatives that may develop in ways that curb incumbent governments' unilateral options.

From an empirical perspective the Mediterranean provides a clear example of a region where political outcomes are shaped by the preferences of domestic coalitions that have captured the institutions of government in their countries. In Arab Mediterranean countries the core elite, comprising the king or president, senior members of the military and security services, and other figures that make up the inner circle, set the political agenda and decide about the best way to deploy the resources of the state in pursuit of their goals.<sup>16</sup> To a greater or lesser

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<sup>15</sup> Youngs, R., Normative Dynamics and Strategic Interests in the EU's External Identity, *Journal of Common Market Studies*, Vol. 42, No. 2, 2004, pp. 415 – 35.

<sup>16</sup> Perthes, V. (ed.), *Arab Elites: Negotiating the Politics of Change*, Boulder, CO: Lynne Rienner, 2004.

extent, all Arab ruling elites have protected their domestic position by distributing strategic rents to co-opt politically powerful groups and individuals in their countries.<sup>17</sup>

Rentierism has reinforced an inward-looking regional political economy in the south Mediterranean with few incentives for change as beneficiaries have become dependent on state patronage. The military and security services have been among the greatest beneficiaries in many Arab countries, state bureaucracies have proved resistant to change and the development of a strong private sector has been discouraged as a potential wellspring of political opposition.<sup>18</sup> Analysing the precise channels of influence of these power clubs is difficult due to opaque decision-making procedures and different systems across the region. Economic upheaval during the 1980s and early 1990s forced Egypt, Jordan and Turkey to lessen their reliance on import substitution and rentierism as the organising principles for their societies and to reduce the size of their militaries.<sup>19</sup> But change had limits: although south Mediterranean governments no longer rely on the military for political control as much as they once did, they still spend around 5.5 per cent of their GDP on defence, compared to a global average of around 2.5 per cent. Three Mediterranean partner countries – Jordan, Israel and Syria – are among the top dozen military spenders in the world in per capita terms, and in several Arab countries the military is also an important economic actor.<sup>20</sup>

The Middle Eastern development model has had a detrimental affect on regional peace and stability. Elite rule has not fostered long-term economic growth and has not facilitated a middle class expansion that can lift people out of poverty. For many years, Arab ruling elites have tried to reduce the potential for domestic instability by espousing nationalism and external conflict – especially resistance to Zionism – as focal points for their popular support. In recent years this strategy has started to backfire: in the absence of a strong private sector, western-oriented civil society actors are weak and there are few alternatives to the ruling elite and their agencies, which are often tainted by corruption and questionable

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<sup>17</sup> Ottaway, M. and J. Choucair-Vizoso (eds.), *Beyond the Facade: Political Reform in the Arab World*, Washington, DC: Carnegie Endowment for International Peace, 2008.

<sup>18</sup> Saif, I., *The Process of Economic Reform in Jordan 1990-2005*, GO-EuroMed Working Paper 0709, 2007.

<sup>19</sup> Solingen, E., Pax Asiatica versus Bella Levantina: The Foundations of War and Peace in East Asia and the Middle East, *American Political Science Review*, Vol. 101, No. 4, 2007, pp. 757 – 780.

<sup>20</sup> CIA World Factbook. See [www.cia.gov/library/publications/the-world-factbook](http://www.cia.gov/library/publications/the-world-factbook).

human rights records. Islamist groups have stepped into the vacuum between the ruling elites and the disenfranchised poor, and elite reactions to this development have led to violent conflict in several Arab countries.<sup>21</sup>

The effect of the Arab-Israeli conflict on the EMP has been widely discussed, and most commentators agree that the conflict presents a significant obstacle to deepening regional security cooperation. Arab governments have stated repeatedly that no progress on regional security cooperation is possible until the Arab-Israeli conflict is addressed – a clear indicator that Arab countries want the EU to play a greater role than they have thus far. Due to widespread support for the Palestinian cause in the ‘Arab street,’ the Arab/Israeli conflict affects the whole region, and government responses have undermined cooperation among Arab states as well as between them and Israel.<sup>22</sup> Resistance to the state of Israel has long been cited by Arab governments as legitimising their rule, as justification for resources invested in national and domestic security, and as a good reason for delaying internal reforms.<sup>23</sup> Meanwhile, domestic political coalitions in Israel have been unable to agree on a strategy for resolving the conflict, and external actors have been unable to exert sufficient pressure to push Jerusalem into serious negotiations with Palestinians and other Arab neighbours.

### **The Sub-Optimal Bargain**

Terrorism is perhaps the best example of a security issue where European and MPC governments’ preferences have converged. Most Western governments and security agencies are concerned at the prospects of terrorist groups, generally considered immune to traditional strategies of deterrence, obtaining and potentially using weapons of mass destruction. In the south Mediterranean, Islamist radicals have long posed a direct threat to the incumbent governments’ hold on power. The Maghreb governments in particular have objected strongly in cases where people they have accused of terrorist activities have

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<sup>21</sup> Zbytniewski, M., *Pro-Democratic Domestic Reforms in the Mediterranean Partnership Countries*, GO-EuroMed Working Paper 0706, 2007.

<sup>22</sup> Calleya, S. and M. Heller, *Sub-Regional Cooperation within the EMP*, EuroMeSCo Paper 18, 2002.

<sup>23</sup> Perthes, V., America’s ‘Greater Middle East’ and Europe: Key Issues for Dialogue, *Middle East Policy*, Vol. XI, No. 3, 2004.



received political asylum in Europe, especially during the Algerian civil war in the 1990s.<sup>24</sup> Some south Mediterranean governments have also expressed concern at the numbers of Islamists radicalised in Europe returning home to launch attacks in their home countries.

In the wake of the terrorist attacks in Madrid in March 2004 and in London in July 2005, several EU member states have entered into bilateral arrangements with south Mediterranean governments that focus on the tactical requirements of the fight against terrorism. The French and Algerian security services have worked together closely for many years and Spanish-Moroccan cooperation on terrorism has deepened since the Madrid train bombings. In August 2005 the UK government signed a ‘Memorandum of Understanding’ with the Jordanian government on the treatment of deported individuals believed to pose a threat to public order. In October and December 2005 similar agreements were signed with Libya and Lebanon, with both Mediterranean countries pledging that they would respect international human rights norms in their treatment of suspected terrorists deported from the UK.<sup>25</sup> A diplomatic ‘exchange of letters’ between the UK and Algeria provides similar assurances. Italy and Libya have signed several bilateral agreements to fight terrorism, organised crime, and illegal migration in return for substantial financial support.

Negotiations on rules governing Euro-Mediterranean security cooperation have reached a reasonably stable Nash equilibrium-type situation, where no government can see advantages in changing its position while the positions of the other governments remain unchanged. Most of the region’s governments are content with this situation for the time being, and there is no reason to believe that the arrangement will collapse anytime soon.<sup>26</sup> No progress on the shelved Charter appears likely without exogenous shocks – for example, serious steps towards the resolution of the Arab-Israeli conflict, a change which could alter the mutual policy stance of Arab elites and the Israeli government and create new windows of opportunity for multilateral agreements. A second exogenous change that would, in theory, influence preferences in ways that could break the deadlock and restart negotiations is a change in policy from the United States leading to closer coordination with the EU on

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<sup>24</sup> Joffé, G., The European Union, Democracy and Counter-Terrorism in the Maghreb, *Journal of Common Market Studies*, Vol. 46, No. 1, 2008, pp. 147 – 171.

<sup>25</sup> See [www.fco.gov.uk](http://www.fco.gov.uk).

<sup>26</sup> Furness, M., Exporting the Security Community? The EU and Regional Security Cooperation in the Mediterranean, *Studia Diplomatica*, Forthcoming, 2008.

Mediterranean and Middle East security. The US and EU have clear common interests in the area stemming from their desire to reduce the negative externalities of instability throughout the MENA. However, in recent years there have been significant transatlantic disagreements over the best strategy for pursuing these interests.<sup>27</sup>

The rhetorical intention to work towards a formal Euro-Mediterranean regional security pact has been re-stated in the UPM policy documents.<sup>28</sup> UPM summits may provide a high-profile platform for grand declarations on regional security, particularly on issues such as terrorism and illegal migration. But, as it is unlikely that European and south Mediterranean government preferences and restrictions will change in the short to medium term, changes to the bargaining framework are unlikely to make much difference in the security sphere. Aside from the potential for limited-scope UPM projects (along the lines of those already taking place under regional cooperation in the first basket), few concrete moves towards deepening the Euro-Mediterranean security dialogue can be expected.

Regional security cooperation based on what seems to be a sub-optimal bargain does not resolve the issues at the heart of the Mediterranean region's instability – namely, the lack of transparency in governance, the inability of ruling elites to trust each other; the massive prosperity gap between the southern and northern shores of the Mediterranean; and the regional conflicts that exacerbate social, economic and political schisms. Moreover, this bargain does not appear to be in the best interests of European and other external actors, including the USA and NATO, because it is unlikely to facilitate long-term coordination and cooperation among Mediterranean partner governments leading to a common Arab position towards Europe and the West. External actors are likely to continue to experience difficulties in finding an appropriate bargaining strategy that can account for the wide range of individual MPC security preferences. Nevertheless, in the absence of large-scale regional conflict, it is unlikely that European and Mediterranean governments will take steps that might risk the sub-optimal equilibrium currently in place.

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<sup>27</sup> Crespo, J., L. Estevez and A. Rincon, *The Influence of External Actors on Security Cooperation in the MENA: Are the US and EU Security Interests in the MENA Complementary or Conflictive?* GO-EuroMed Working Paper 0716, 2007.

<sup>28</sup> European Council, *Barcelona Process: Union for the Mediterranean Ministerial Conference, Marseille, 3 – 4 November 2008, Final Declaration*, 15187/08, 4 November 2008.

## Economic and Financial Partnership

The EMP's economic and financial basket is aimed at improving living conditions by accelerating socio-economic development, creating jobs and raising economic wealth in the Euro-Mediterranean region. The economic and financial basket's main strategy has been to enhance economic integration through the establishment of a Euro-Mediterranean Free Trade Area by 2010.<sup>29</sup>

**Figure 4: The Economic Catch-Up Process for Selected Arab MPCs**

	Years to catch up to 50% of EU GDP per capita		
GDP growth p/a	6%	8%	10%
Algeria	62	35	24
Egypt	85	44	30
Jordan	111	46	29
Lebanon	22	13	9
Morocco	70	40	29
Tunisia	49	29	21

Source: JMC Berlin, based on the World Bank's WDI 2008. Assumed EU27 growth: 2.4%.

The important challenge for the EMP has been the substantial prosperity gap between the two shores of the Mediterranean Sea. In 2007, GDP per capita in the EU27 was on average five times higher than in MPCs.<sup>30</sup> A 'back of the envelope' calculation reveals that increasing economic wealth to a level where living standards and economic opportunities are attractive takes time. In the MPC case, the economic catch up process to 50% of average EU GDP per capita will not take years, but decades. Figure 4 shows some estimates of the time needed to increase GDP per capita in different growth scenarios. In a modest scenario of a 6% per capita growth rate for MPCs, the time to catch up to the EU-27 will take more than two generations. In a more optimistic 10% scenario, catching up would still take one generation.

<sup>29</sup> This date has a rather symbolic character: taking into account the agreed transition periods, one could speak of a genuine FTA earliest by 2015. See Gándara, P and Büge, M., *The European Union's Trade Policy towards the Southern Mediterranean: Coherence or Chaos?* GO-EuroMed Working Paper 0601, 2006.

<sup>30</sup> In 2007, EU-27 GDP per capita (PPP) was \$US 28,116 and for the Arab MPCs \$US 6,562 – see World Bank, *World Development Indicators*, Washington DC: World Bank 2008.

The actual MPC average GDP per capita growth rate is around 4%, and so significant increases are needed before the catch-up process can accelerate. Achieving this additional growth will not be easy: increasing per capita GDP by 1% requires much more than merely increasing a country's cash wealth by 1%. Low rates of productivity in the region indicate that not only are additional funds required, but that better governance and stronger institutions are urgently needed if GDP growth is to increase.

**Figure 5: Maintaining Current Unemployment Levels in Selected Arab MPCs**

Country	Official unemployment rate (%)	Additional jobs needed by 2025 (million)	GDP growth needed to keep U constant
	U	L*	g*
Algeria	14.1	16.6	9.72
Egypt	10.1	16.3	6.73
Jordan	13.5	2.1	7.19
Lebanon	20.0	0.9	3.05
Morocco	15.0	6.1	5.20
Tunisia	13.9	3.3	5.18

Source: JMC Berlin, based on ILO data (2008)

Strong demographic pressures in most MPCs indicate a clear need for economic growth in order to cope with a rapidly increasing labour force. The average annual labour force growth rate (1996 – 2006) ranges from 2.2% in Morocco to 4.1% in Algeria. Current regional unemployment estimates have ranged between 10.1% in Egypt up to 20% in Algeria. In order to cope with the coming surge in labour supply, the six MPC governments in figure 5 would need to deliver 45.2 million new jobs just to absorb job seekers entering the labour market between 2008 and 2025. Given the persistence of the wealth gap between the southern and northern shores of the Mediterranean, these demographic dynamics will almost certainly increase migration pressures on the EU's southern members.

The EMP strategy for increasing south Mediterranean GDP and labour market growth has been through the promotion of trade integration between the EU and MPCs, and among MPCs themselves. The EMP has achieved some success in increasing the overall trade exchange between the MPCs and the EU, where MPCs exported 2007 goods and services

worth over € 60 billion, more than twice as high as before the EMP started.<sup>31</sup> By November 2008, all MPCs had signed and ratified a free trade agreement with the EU. Particularly beneficial has been the liberalisation of goods, where every 1% tariff reduction has accounted for 0.3% GDP increase in the MPCs.<sup>32</sup> However, tariffs and non tariff barriers remain at a high level on both sides. Although south-south integration remains a core building block for the deep Euro-Mediterranean FTA, both structural and functional constraints make the prospects for trade based south-south regional integration low. Overall south-south trade integration has improved and intra-regional trade between Arab MPCs has increased by 462% over the past six years.<sup>33</sup> It is important to note that the reason these figures appear so impressive is that trade between these countries started from a very low base. MPCs still only trade around 8% of their total exchanges with other MPCs, which is small in comparison with the intra-East Asian figure of around 30%.

### **Successful Bargaining**

Liberalisation of industrial goods has been at the core of trade talks in the EMP. As the EU already gave duty free access to most MPC industrial products on the basis of the Generalised System of Preferences, talks have focussed on regulatory convergence for industrial products as well as on improved market access for EU products. Talks on the approximation and harmonisation of technical legislation, standards and conformity assessment procedures with the EU system are a key part of trade-facilitating measures financed by the EU. Mediterranean producers are fearful of strong competition from more efficient European industrial goods and have asked for asymmetrical transition periods in order to cope. Negotiations over the past decade have resulted in tariff-free access for all MPC manufactured products to the EU market. Reciprocally, MPCs reached transitional periods of up to 12 years and even some like Tunisia have dismantled tariffs. Moreover, the EC has launched several initiatives for supporting the competitiveness and innovation of enterprises in MPCs as well as further trade facilitating measures.<sup>34</sup>

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<sup>31</sup> EuroStat, 2008.

<sup>32</sup> FEMISE Annual Report, 2007, p. 3.

<sup>33</sup> El-Rayyes, T., *Trade and Regional Integration Between Mediterranean Partner Countries*, GO-EuroMed Working Paper 0711, 2007.

<sup>34</sup> Statement by Commissioner Günter Verheugen at the Euro-Mediterranean Conference of Ministers for Industry, Rhodes, 22 September 2006.

A second area in which progress has been achieved is the implementation of common rules of origin within the Agadir Agreement. Rules of origin are among the most effective non-tariff barriers to trade as they are sector specific and thus targeted by protectionist interest groups. Implementing common rules of origin not only hinders trade deflection, but also allows for using positive hub-and-spoke synergies. In this context, European companies have an incentive to establish themselves in south Mediterranean countries and to encourage local firms to cooperate when exporting to the European market. The textile sector, which accounts for many jobs in the MPCs has urged the adoption of a pan-EuroMed cumulation system, allowing a variable geometry of origin. This has helped MPCs to maintain their competitiveness in the face of the ongoing changes in the industry and the growing role of overseas players.

Euro-Mediterranean regional integration has been pursued not only by liberalisation and regulatory harmonisation in trade, but also by implementing cross-national common economic infrastructure projects in various sectors including transport, water supply, telecommunications and energy. In particular, the pivotal role of energy for fostering regional cooperation and integration has been further developed through creating strong ties in oil and gas production and transit, electricity interconnection and renewable energy integration.<sup>35</sup> Prospects are positive, as a new Euro-Mediterranean energy partnership was launched in December 2007 and a multilateral institutional body has been established. There remains much to do, particularly regarding convergence within the European Union itself.

### **Modest Progress**

Agriculture is possibly the most important and certainly among the most sensitive issues in Euro-Mediterranean trade relations. The EU remains the main market for MPCs' agricultural exports, accounting for about 46% of farm exports from the region. Annual EU imports of fruit and vegetables are valued at nearly € 1.5 billion.<sup>36</sup> On the other hand, some 37% of the Mediterranean area's agricultural imports come from the EU. Although until November 2008 agreements were signed with Jordan, Egypt and Israel, the scope of agricultural

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<sup>35</sup> Gándara, P., *The Role of Energy for Regional Integration in the EMP: Strengthening Institutions*, GO-EuroMed Working Paper 0712, 2007.

<sup>36</sup> EuroStat, 2008.

liberalisation remains very limited, allowing for large exception lists, quantitative restrictions (quotas) and a broad spectrum of non-tariff-barriers.

Domestic support and trade policies directly affect the levels of production and consumption of food products on both sides of the Mediterranean. Although around 80% of agricultural trade export products from MPCs enter the EU duty free or at reduced rates, the EU's contingent restrictions and SPS measures hinder effective liberalisation.<sup>37</sup> On the other hand, MPCs have no preferential treatment for more than 40% of EU agricultural exports and strongly subsidise agricultural supplies like water and fuel.

The domestic political restrictions levied by interest groups lead to a strong protection of agricultural trade on both sides of the Mediterranean, producing distortions which resemble a Nash equilibrium that is clearly not Pareto optimal. An economically more efficient outcome might be reached by a strong agricultural reform pressure on both sides, produced by exogenous shocks like a growing world market demand, which has led to a significant food price crisis in the MPCs. In early 2008 bread riots were common in Egypt, a harbinger of what may be in store, especially as by 2016 the price of certain basic products like vegetable oils is expected to rise by up to 70% compared to the average price for 2001 – 2005.<sup>38</sup> Furthermore, Euro-Mediterranean agricultural liberalisation talks are strongly intertwined with WTO negotiations on agriculture. The outcome of the global talks will have major implications for Euro-Mediterranean agricultural trade, although bilateral progress will remain the core channel for broader liberalisation.<sup>39</sup> Nevertheless, Euro-Mediterranean trade ministers have agreed on the need for an ambitious reduction of trade distorting domestic subsidies in agriculture and the elimination of all forms of export support.<sup>40</sup>

Although there are likely winners and losers from deeper agricultural liberalisation on both sides of the Mediterranean, south Mediterranean producers are not as familiar with international competition and do not enjoy public compensation mechanisms. Therefore the

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<sup>37</sup> European Commission, *The Euro-Mediterranean Roadmap for Agriculture and Rural Development*. DG Research, 2007

<sup>38</sup> OECD, *OECD-FAO Agricultural Outlook 2007-2016*. Paris: OECD 2007.

<sup>39</sup> Żukrowska, K., P. Czerpak, A. Galek, M. Grącik, M. Hussain, B. Jagiełło, J. Stryjek and M. Zbytniewski, *Building Euro-Med Free Trade Agreement: How to Improve the Bilateral Management Strategies?* GO-EuroMed Working Paper 0804, 2008.

<sup>40</sup> 7<sup>th</sup> EuroMed Trade Ministerial Conference Declaration, Marseille, 2 July 2008.

short-term impact on MPC agricultural producers is likely to be greater, and asymmetric liberalisation flanked by measures for sustainable development will be required. The transfer of European agricultural technology and techniques, rather than aid money, would be of major assistance in preparing south Mediterranean producers for new competition and markets.<sup>41</sup>

## **Deadlocks**

The second major issue for Euro-Mediterranean regional economic integration is the liberalisation of the supply and right of establishment of services, an issue traditionally hampered by strong restrictions. The services sector is as important for MPC economies as it is for EU economies, accounting for almost 60 percent of GDP in most MPCs.<sup>42</sup> However, the volume of services trade flow between both regions is still very low: in 2004 only around 4% of MPC exports to the EU were services. The key sectors for potential growth through liberalising services are business, communications, construction and related engineering, educational, environmental, energy, financial, health services, tourism and transport.

Negotiations with Egypt, Morocco, Tunisia and Israel aimed at reciprocal but not full liberalisation of services and right of establishment are expected to be finished by 2009.<sup>43</sup> Finding a Pareto-optimal solution will not be easy. On the European side, voters' fears of migrants and cheap labour have traditionally limited the scope for agreement. Against this backdrop, negotiations on services liberalisation present major challenges for European policymakers.<sup>44</sup> On the other hand, MPCs have made several unilateral efforts for liberalising key sectors including banking, financial and telecommunication services. But MPCs face the challenge of improving the investment climate and reducing inefficiencies arising from large public sector involvement in domestic markets. Consequently, the EU has opposed progress in the key GATS modes (especially the temporary movement of natural service providers),

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<sup>41</sup> Saif, I. 'The Food Price Challenge in the Arab Countries: Short Term Responses to a Lasting Challenge', Carnegie Endowment Middle East Program Web Commentary, June 2008.

<sup>42</sup> European Commission, *Services and Investment Liberalisation in the Euro-Med Region*, DG Trade, 2006.

<sup>43</sup> 7th EuroMed Trade Ministerial Conference Chairman's Conclusions, Marseille, 2 July 2008.

<sup>44</sup> Rabaud, I and T. Montalieu, *Trade in Services: How Does it Work for MENA Countries?* GO-EuroMed Working Paper 0602, 2006.



bargaining merely about visa agreements. Although economically desirable, negotiations about full liberalisation of services currently remain far from being politically feasible.

## Macroeconomic Responses

The Barcelona Process is a natural candidate to address macroeconomic challenges in the Euro-Mediterranean region. Addressing key policy issues within EuroMed relationships, the EMP can be regarded as a ‘policy anchor’ to support MPC governments in coping with the significant macroeconomic challenges in the region.<sup>45</sup>

Although several Euro-Mediterranean macroeconomic governance initiatives already exist, these make use of various multilateral and bilateral institutional platforms, and are uncoordinated. Aside from the establishment of the Euro-Mediterranean network of public finance experts in 2007, a twinning scheme between the European Central Bank and the Central Bank of Egypt, and the support of research networks in the field of macroeconomic research (i.e. FEMISE), the potential for further enhancing macroeconomic coordination and cooperation schemes has not been exploited. To the extent that trade liberalisation, liberal reform measures and more importantly demographic dynamics in MPCs will impact on macroeconomic balances, it is somewhat surprising that the EU has implemented only two programmes – the ECONFIN Ministerial Meetings and the annual Euro-Mediterranean Seminar – to foster dialogue and coordination on macroeconomic policy.

A seemingly ‘benign neglect’, together with a general impression of ambiguity, characterises the EMP Association Agreements and ENP Action Plans when it comes to macroeconomic policy measures. Negotiated clauses these agreements do not commit partners to achieving direct targets within a given time frame. A partial explanation of why macroeconomic issues have suffered from neglect lies in the fact that current regional macroeconomic performance has been judged as relatively robust in comparison to other emerging market economies<sup>46</sup>. Nevertheless, there is a danger that lack of attention to detail could trigger partial

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<sup>45</sup> Omran, M., I. Azzam and N. Eid, *The Euro-Mediterranean Partnership as Macroeconomic Policy Anchor*, GO-EuroMed MPSG Working Paper 0801, 2008.

<sup>46</sup> Kern, A and A. Salhi, *The Euro-Mediterranean Partnership: A Macroeconomic Perspective*, GO-EuroMed MPSG Working Paper 0803, 2008.

liberalisation in certain policy fields without any lasting institutional improvements, benefiting existing power clubs.<sup>47</sup>

Relying on these agreements and the effectiveness of international financial institutions' technical assistance schemes cannot be regarded as a sign of strong EU commitment to the region. Recent economic growth has opened up a window of opportunity to cope with rising labour market pressures. However, reliance on technological advancement might not result in the required level of job creation to employ additional job seekers. As the GO-EuroMed Macroeconomic Policy Standing Group's (MPSG) findings indicate, the success of the latest macroeconomic policy initiatives will be determined by whether these growth accelerations produce sufficient job creating effects.

In order to balance the effects of an upswing in labour supply, private investment mainly in labour abundant industries is required.<sup>48</sup> In resource rich and labour abundant economies, revenues from international commodity sales and remittances could be used for productive investment, but have been channelled to the resource sector and to consumption. The resulting 'Dutch-disease', in which a real exchange rate appreciation has eroded the competitive edge for other economic sectors, has been exacerbated by the rentier nature of the region's economies.

The generally low level of GDP in the region means that in order to increase investment, the population would need to make large sacrifices in terms of current consumption. MPC governments have a choice between cutting consumption – a politically unpopular option – or increasing the rate of foreign investment. Although FDI represents politically more palatable alternative, MPCs have not managed to attract sufficient foreign savings and funds to initiate a self-sustained economic growth process. One of the major reasons has been the lack of appropriate institutions, characterised by weak legal and macro-economic environments.<sup>49</sup> During the past decade MPC governments have followed a reform agenda aimed at upgrading macro-economic frameworks, liberalising financial markets and

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<sup>47</sup> Alissa, S., *The Challenge of Economic Reform in the Arab World: Toward More Productive Economies*, *Carnegie Papers*, No. 1, 2007.

<sup>48</sup> Yilmaz, B. and G. Akın, *Foreign Direct Investments in the Mediterranean Countries: Developments and Determinants of FDI in the Mediterranean Countries?* GO-EuroMed Working Paper 0606, 2006.

<sup>49</sup> Żukrowska, K., M. Graćik, J. Stryjek and M. Hussain, *Economic Domestic Reforms in Mediterranean Partner Countries*, GO-EuroMed Working Paper 0705, 2007.

improving the business climate.<sup>50</sup> However, these institutional reforms have been shaped in some cases by power clubs and have led to only partial liberalisation while reinforcing political influence on economic policy making.<sup>51</sup> In terms of results, studies have shown that while economic indicators have improved marginally across the region since 1995, there are major country-to-country variations.<sup>52</sup> In such an institutional environment, further efforts to increase investment levels through financial market and external account liberalisation come at the price of increased macro-economic vulnerabilities.

The GO-EuroMed MPSG found that the combination of an inefficient banking sector with institutional deficiencies would effectively channel any additional resources towards financing excess domestic consumption and state-owned enterprises, fuelling inflationary pressures and thus eroding any basis for repayment. Given MPCs monetary policy stances, which have been characterised by de facto fixed exchange rates, macroeconomic liberalisation could lead to excess demand for foreign loans and credits and a rapid inflow of international funds, leading to the overvaluation and corresponding correction of domestic currencies. In this regard, macroeconomic liberalisation in combination with a weak institutional environment could lead to sudden exchange rate shifts, current account reversals and macro-economic volatility, endangering sustainable economic catch-up and political stability.

The key suggestion of the GO-EuroMed MPSG is to assign responsibilities for macroeconomic cooperation to an external institutional anchor. Such an institution would function as a coordination and cooperation platform. From this perspective, opportunities for the EU emerge – under the umbrella of the Barcelona Process, and possibly the UPM – to serve as an external commitment device for the implementation of a reform agenda. Besides financial support, direct technical assistance and enhanced day-to-day cooperation represent key channels through which the EU can anchor the implementation of market-led reforms. This also includes upgrading financial sector governance via coordinated

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<sup>50</sup> Malaeb, M., *Domestic Institutions for the Enforcement of Contracts: Between Formality and Informality*, GO-EuroMed Working Paper 0803, 2008.

<sup>51</sup> Hufbauer, G and C. Brunel, *Maghreb Regional and Global Integration: A Dream to Be Fulfilled, Policy Analyses in International Economics*, No 86, Washington DC: Peterson Institute 2008.

<sup>52</sup> Driouchi, A. and N. Zouag, *Overview and Discussion of Impacts of Domestic Reforms in Mediterranean Partner Countries of the European Union*, GO-EuroMed Working Paper 0707, 2007.

multilateral and bilateral technical assistance programmes. Given sufficient coordination and cooperation in the EMP framework, macroeconomic policy measures clearly represent a window of opportunity to set incentives for governments to enhance overall economic efficiency and improve the coordination between key economic actors.

## **Outlook**

Cooperation in the economic and financial basket has delivered positive results in several aspects. The EMP has served not only as a bargaining framework for central economic issues like industry, agriculture and services liberalisation, but also as a dialogue forum to address common challenges like increasing energy, raw material and food prices. The key European incentive for assisting MPCs in implementing domestic reforms is offering better market access, especially for services and agricultural products. Although both sectors are particularly sensitive for the European side, the economic benefits for European and south Mediterranean economies are clear. Nevertheless, a sound regulatory environment and strong enforcement institutions remain the key factor in order to ensure that the economic and financial basket will contribute to sustainable economic growth and job creation in the south Mediterranean.

## **Social, Cultural and Human Partnership**

The Social, Cultural and Human partnership has the declared objective of preventing a ‘clash of civilisations’ in the Euro-Mediterranean region. It can also be regarded as a socio-cultural support mechanism for the EMP’s political and economic objectives. The socio-cultural basket encourages media and communication and facilitates cultural events and exchanges. The European Commission has stated that women’s empowerment and access to education are the two most pressing issues where Europe can assist in this area.<sup>53</sup> The Commission also intends to target the next generation of leaders with the promotion of youth dialogue and exchange. In May and June 2007 Berlin hosted the first rounds of Euro-Med Youth Parliament, a civil-society initiative aimed at fostering understanding of democratic governance and legislative proceedings among young people from the region. Between 2000 and 2006 €76.9 million was allocated to bringing stakeholders from both sides of the Mediterranean together by fostering civil society contacts and broader capacity-building.<sup>54</sup>

The socio-cultural basket has three features that perform an important role in the functioning of the overall EMP framework: to build trust, to support economic reform, and to play a role in the long-term process of preference shaping in European and Mediterranean partner countries.

### **Building Trust**

Broader social interaction is supposed to reinforce the EMP’s stability by increasing the number and scope of contacts between European and Mediterranean countries at various levels, thereby helping to build trust. This kind of socialisation is important for trade and investment as well as for political and security cooperation, as it builds confidence during negotiations by providing better information and reducing uncertainty.

In the Arab Mediterranean countries building trust is not easy, despite the region’s cultural homogeneity represented by linguistic, religious, socio-cultural, and historical traditions. In

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<sup>53</sup> European Commission, *European Neighbourhood and Partnership Instrument (ENPI) Regional Strategy Paper (2007 – 2013) and Regional Indicative Programme (2007 – 2010) for the Euro-Mediterranean Partnership*, 2007.

<sup>54</sup> See [www.ec.europa.eu/external\\_relations\\_euomed\\_meda](http://www.ec.europa.eu/external_relations_euomed_meda)

Arab countries trust is often produced and shared on the basis of personal relationships. The rules are generally tacit, abstract and unwritten.<sup>55</sup> Culture does not divide MPC societies – the problem is rather the political conflicts that feed on misunderstandings between societies.<sup>56</sup> The region remains differentiated in terms of political governance, mainly in terms of differing ideologies and the establishment of autocratic, authoritarian, and totalitarian regimes. Obstacles to building confidence are more political than cultural, as conflicts are aggravated by a lack of trust among Arab leaders rather than the general population in the ‘Arab street’.

The EU has been working to strengthen civil society cooperation with the more ‘liberal’ MPC civil society groups. However, most of these civil society organisations have been unable to make a major impact either on policymaking or on the wider society.<sup>57</sup> This has resulted in a limited role for civil society organizations during a period that should have witnessed their active participation in shaping market practices and mores as well as with regard to strengthening greater social openness in MPCs. Effects of the Barcelona Process and the ENP on the empowerment of south Mediterranean civil society have been limited at best.

### **Supporting Economic Reform**

From an economic perspective, activities conducted within the socio-cultural basket’s aegis help to accumulate social and human capital and to buttress the catch-up process. Education, health, knowledge and culture are not developed only for their intrinsic benefits, but because they are central areas for the enhancement of domestic development, bilateral and multilateral cooperation and partnerships.<sup>58</sup> In the education sector, MPC governments have a strong interest in encouraging their citizens to study at European schools and

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<sup>55</sup> Laviolle, C., *Arab Mediterranean Countries Facing the ‘Second Generation’ of Reforms: A Political Economy Standpoint*, GO-EuroMed Working Paper 0708, 2007.

<sup>56</sup> Mouawad, J., *The Political Impact of the EU Fifth Enlargement on the Mediterranean Region*, GO-EuroMed Working Paper 0704, 2007.

<sup>57</sup> Saif, I., *The Process of Economic Reform in Jordan 1990-2005*, GO-EuroMed Working Paper 0709, 2007.

<sup>58</sup> Baudassé, T. and A. Driouchi, *The Variety of Cultural Values and the Role of Education and Research for the Improvement of Intercultural Dialogues*, GO-EuroMed Working Paper 0715, 2007.

universities for the future economic benefits that this brings to their countries, either through remittances or when highly skilled people return home.<sup>59</sup>

The Cairo Declaration of June 2007 entitled ‘Towards a Euro-Mediterranean Higher Education and Research Area’ stated that it was necessary to increase MPC standards in education and research by modernising research and development policies. This aspect of the social and cultural partnership appears to be highly promising for institution-building, both from the demand side and from a political feasibility perspective. This underlines the importance of research cooperation for two reasons: first, it creates ties and common understanding between the EU and MPCs; and secondly because this has an impact on the development of social capital.

Governmental organisations from different countries in Europe continue to work mostly bilaterally with individual MPCs on programmes that include, besides the traditional areas, education, research and the promotion of cultural interaction. The development agencies of France, Spain, Germany and other countries continue to support development actions in North African and Middle Eastern countries. This has created clear windows of opportunity for developing this cooperation further, particularly in terms of multilateral initiatives which will require institutional coordination, for example in cooperation with competent civil society actors such as the Anna Lindh Foundation.

### **Preference Shaping**

The third feature of the socio-cultural basket is its ‘preference shaping’ role on both sides of the Mediterranean. There are many aspects of Euro-Mediterranean interdependence that are not well understood by European and MPC citizens, and fear of ‘the other’ can affect government policymaking. Changing these entrenched societal mores will take many generations.

Dealing with the reluctance of European voters is an important function of the socio-cultural basket as governments deal with the process of integrating migrants to Europe.

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<sup>59</sup> Baudassé, T and A. Driouchi, *Labor and Migration in the Euro-Mediterranean Partnership: Issues and Perspectives*, Orléans: LEO 2007.

Popular opposition to migrants on social and cultural grounds can influence government preferences in this area despite the economic demand for migrant labour as Europe's population ages. There are some 5 million MPC migrants resident in the EU, and there is demand for more foreign labour and liberal immigration policies in order to prevent the overall EU population declining by 10%, to 447 million inhabitants in 2052. Replacement migration is needed but the levels of migration needed to prevent population ageing (i.e. to maintain the potential support ratio, defined as the population aged 15-64 in proportion of the population aged 65 and over) are extremely large.<sup>60</sup> The difficulty of managing the transition period mean that few European governments would be re-elected on a platform of encouraging the level of migration necessary to ease the fiscal challenge posed by an aging population.

In the MPCs, opposition to Western political and economic models among the general population has helped to reinforce the social contract between semi-rentier governments and the general population. This is a sensitive area for MPC societies and for the EU, as it raises the spectre of Western cultural imperialism and memories of the pre-independence struggles against colonial rule. In the EMP context this poses challenges for socio-cultural cooperation, which has been criticised for failing to extend beyond narrow cultural elites in Europe and in the Mediterranean partners.<sup>61</sup>

In sum, the socio-cultural basket has been designed with specific objectives in mind that contribute to the EMP negotiating framework. By increasing the number and level of contacts through which issues are discussed, the socio-cultural basket brings more stakeholders into the process. The socio-cultural basket is also intended to reduce uncertainty by improving the wider visibility of the EMP. These features are meant to contribute to the EMP's stability and the ability of its member governments to cope with exogenous shocks when they occur.

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<sup>60</sup> Trandas-Boboc, C., H Jennequin, A. Lavigne, I. Rabaud, and E. Unan, *Migration as a Win-Win Process in the Euro-Mediterranean Area: Remittances and Intergenerational Transfers between Countries with Different Demographic Cycles*, GO-EuroMed Working Paper 0714, 2007.

<sup>61</sup> Volpi, F., Regional Community Building and the Transformation of International Relations: The Case of the Euro-Mediterranean Partnership, *Mediterranean Politics*, Vol. 9, No. 2, 2004, pp. 145 – 164.



## **Whither the EMP? Windows of Opportunity under the Current Framework**

The GO-EuroMed consortium has identified several issues where progress within the current EMP framework could provide benefits at domestic, bilateral and multilateral levels. A new bargaining framework enabling greater MPC participation in decision-making would enable these windows of opportunity to be better exploited.

At the domestic level, promising areas include intellectual property rights protection and the legal environment for business. In these areas better institutions, including reforms modelled on the *Acquis Communautaire*, could protect private sector actors while avoiding clashes with the core interests of MPC ruling elites. Intellectual property rights have been stressed as an important element in the free trade agreement between the EU and Morocco.

Bilateral agreements are a key aspect of Euro-Mediterranean relations, especially as the ENP will continue to operate alongside the UPM. Bilateral cooperation is especially important in issue-areas where governments experience strong pressures from key domestic constituencies. In the case of both bilateral trade and bilateral agreements for fighting illegal migration, an overarching framework setting clearer standards and guidelines for bilateral agreements would provide gains in terms of efficiency and legitimacy.

At the multilateral level, windows of opportunity exist for institutional strategies aimed at maximising the economic potential of returning migrants, and for improving the efficiency of conditionality based on other multilateral models. New multilateral initiatives in basic education and tertiary research would foster long-term socio-economic development. Macroeconomic policy coordination represents another area in which the EU's expertise could help foster south Mediterranean economic growth.

Taking advantage of windows of opportunity creates benefits in specific areas, but can be expected to have no more than a marginal impact on deadlocked issues. The realisation that the existing institutional setting has struggled to cope with the region's governments' diverse interests has prompted new thinking on Euro-Mediterranean bargaining, and the launch of a new framework: the Union for the Mediterranean.

## The Union for the Mediterranean: Striking a New Euro-Med Bargain?

The Union for the Mediterranean proposal, if implemented as the Joint Declaration of the July 2008 Paris Summit suggests, could radically change the framework for Euro-Mediterranean bargaining. The idea is to provide Mediterranean partner countries with a greater say in the decision-making process on specific issues where positive-sum outcomes are likely and costs easiest to distribute. Initially, the UPM will focus on relatively uncontroversial projects, but – like most European agreements – the UPM has the heuristic characteristics of a negotiated framework that can be expanded into more sensitive issue areas over time.<sup>62</sup>

### A Short Overview of the Proposed Union for the Mediterranean

Extensive debate about the objectives and potential of the UPM started as soon as the proposal was mooted during the French election campaign in 2007, and intensified as intra-EU negotiations became heated during the first half of 2008. Some analysts expressed considerable scepticism about the UPM's potential to address the deficiencies of the EMP.<sup>63</sup> Others have been more guardedly optimistic, but have called for the UPM to better address the expectations of the countries and peoples involved than the EMP has.<sup>64</sup> One prominent scholar has described the UPM's launch as 'potentially a significant turning point in the Barcelona Process,' so long as the Union is 'for the Mediterranean' and not just for the EU.<sup>65</sup>

The UPM proposal appears to address two of the EMP's greatest weakness: first, the lack of south Mediterranean influence over decision-making; and second, the tendency of political deadlocks in certain issue-areas to overshadow progress on issues where common interests exist. By introducing biennial Euro-Mediterranean summits chaired by a co-presidency, a

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<sup>62</sup> Joint Declaration of Paris Summit for the Mediterranean, Paris, 13 July 2008.

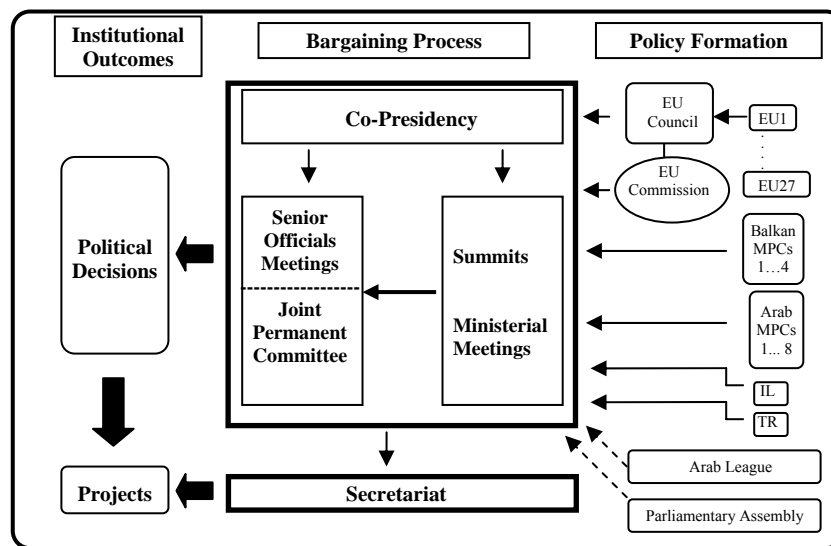
<sup>63</sup> Schwarzer, D., and I. Werenfels, *The Union for the Mediterranean: A Missed Opportunity*, *SWP Comments*, No. 5, April 2008.

<sup>64</sup> Geiger, A. and E. Stetter, "Barcelona Process: Union for the Mediterranean" *Readjusting the Euro-Mediterranean Partnership*, *Brussels Focus*, Friedrich Ebert Stiftung, April 2008.

<sup>65</sup> Gillespie, R., A 'Union for the Mediterranean' ... or for the EU? *Mediterranean Politics*, Vol. 13, No. 2, 2008, pp. 277 – 286.

new secretariat and by beefing up joint permanent committee (JPC) and senior officials meetings, the UPM provides non-EU countries with – at least in theory – a greater say in decision-making regarding projects carried out under its mandate. It is intended that these institutions will propose, discuss and implement specific projects, enabling progress on discrete issues of common interest while leaving more difficult issues aside.<sup>66</sup>

**Figure 6: Potential UPM Decision-Making Process**



Source: JMC Berlin

- **Co-Presidency**

The basic idea behind the co-presidency is that it will enhance the joint ownership of Euro-Mediterranean cooperation. The European and south Mediterranean co-presidents will issue declarations on behalf of the UPM's members after summits, providing the UPM with a higher political profile and its projects with greater exposure. Furthermore, the co-chair will apply to all summits, ministerial meetings, senior officials meetings, the joint permanent committee and, when possible, expert/ad hoc meetings taking place under the UPM initiative, thus introducing greater equanimity at all levels.

<sup>66</sup> European Commission, *Communication from the Commission to the European Parliament and Council, Barcelona Process: Union for the Mediterranean*, COM (2008) 319 final, 20 May 2008; European Council, *Barcelona Process: Union for the Mediterranean Ministerial Conference, Marseille, 3 – 4 November 2008, Final Declaration*, 15187/08, 4 November 2008.

Perhaps the most important tasks of the co-presidents are behind the scenes – their role in seeking consensus among the partners on bargaining issues, and their agenda-setting role for the biennial summits, annual foreign affairs ministers’ meetings and the more frequent senior officials meetings. If a member government wishes to have an item included on the agenda of any of these meetings, they have to send a delegation to the co-presidents. Together, these mandates make the co-presidents the actors through which common positions may be expressed following negotiations among the governments of the participating states.

The major potential weakness of the co-presidency approach is that serious questions remain as to how the southern co-presidency will change hands. On the EU side, the UPM co-president will change every six months along with the Council presidency. On the MPC side, a new co-president is to be chosen every two years by consensus. Few Arab states would support an Israeli presidency, Israel would not support the presidency of an Arab state with which it has no diplomatic relations, and a president from one of the new Balkan MPCs – which are likely to join with the EU on most issues – may be problematic for the south Mediterranean MPCs. It is likely that the only candidates that would be acceptable to all partners are Egypt, Jordan, Turkey, Mauritania and possibly Morocco. The process by which consensus on the new presidency is reached when Egypt’s term ends in two years will provide a strong indicator as to MPCs’ political commitment to the UPM.

- **Joint Permanent Committee / Senior Officials Meetings**

The JPC replaces the Euro-Mediterranean Committee of the Barcelona Process, and will perform a similar role in preparing meetings and following up on their conclusions. The JPC must also act as a mechanism to react rapidly if an exceptional situation arises which requires the consultation of Euro-Mediterranean partners. Essentially, the JPC represents a common, Brussels-based forum at senior official level in which all member states, the EU troika and the Arab League are represented.

Senior officials meetings will continue to play an important role in refining the details of bargaining outcomes before projects are implemented by the UPM secretariat. Senior officials also have the job of assessing and submitting project proposals to the foreign ministers’ meetings. The senior officials and JPC meetings therefore play a significant role in

the bargaining process, as they form the level where regular dialogue and exchange takes place, both officially and behind closed doors. This may act both as a confidence-building measure, where repeated interaction builds contacts and trust, and as a lower-level arena for sending signals about the likely fate of proposals or processes.

- **Secretariat**

The Barcelona-based UPM Secretariat has a key role in the institutional architecture. It will have the tasks of promotion and implementation of projects, including the search for partners, funding and technical expertise. It will prepare working documents for the JPC and senior officials decision-making level, but its mandate is mostly technical and politically neutral. It nevertheless has the potential to become an important confidence-building measure and symbol of cooperation – its Secretary General will be chosen from among the MPCs and its five deputy Secretaries General include an Israeli and a Palestinian.

The secretariat will not receive additional funding from the EU unless more can be found in the existing ENPI budget. It is to be supported by host country Spain and by participating governments, and may face cashflow problems, particularly if its funding is politicised. This issue has already proved problematic during preparatory negotiations, as countries not in line to host the secretariat voiced reluctance to support it financially. Moreover, the secretariat is intended to be ‘lean’ body, and all UPM member states are unlikely to be represented. This may promise gains in terms of efficiency, but may also create problems if the secretariat does not have the human and financial resources necessary to carry out its tasks.

### **Introducing Symmetry into Euro-Mediterranean Bargaining**

Under the UPM MPCs will have greater scope for introducing new projects through the co-presidency and the senior officials meetings. This creates a greater incentive for MPCs to reach a common position than under the EMP framework, where the vast majority of business went through the offices of the European Commission before appearing on the Euro-Mediterranean agenda. The challenge for Mediterranean partner governments will be to take advantage of this institutional setting as an umbrella for inter-MPC negotiations. The Arab MPCs especially may be able to strengthen their collective weight in negotiations with

the EU if they are able to take advantage of this opportunity. The inclusion of the Arab League as a full participating member at all levels of the UPM may enhance the prospects of a common Arab position on certain issues. The Arab League's inclusion despite opposition from Israel and some EU member states may be a sign that Arab MPCs are prepared to use their collective bargaining power.

Encouraging more collective bargaining among MPCs has important potential benefits for the EU as well. It partially resolves the EU's dilemma over the hub and spoke pattern of relations under the EMP, even though the bilateral ENP is unaffected by the UPM. A common MPC position towards Europe reduces the need for the EU and its members to deal with ten or more neighbouring countries, each with different interests and demands. Bargaining over the distribution of costs is also likely to be more likely to result in mutual agreement when two supranational positions are on the table, since restrictions for governments on both sides are likely to have been overcome in the process of forming a joint position. Extreme positions, especially, are likely to have been rationalised during intra-EU or inter-MPC bargaining, with the result that both sides have greater flexibility in negotiations.

Three further innovations proposed under the UPM are also likely to prove significant in shaping mutually beneficial bargaining outcomes. First, the UPM has the potential for encouraging greater inclusion of non-governmental actors in the Euro-Mediterranean bargaining process. NGOs, civil society organisations and firms are likely to be involved in proposing, planning, funding and implementing projects carried out under the UPM to a greater extent than under the EMP. Second, the requirement that the UPM secretariat arrange funding for projects reduces the influence of the European Commission in the day-to-day implementation of projects. Under the EMP, all funds have been allocated according to interests and constraints inherent in the MEDA and ENPI programmes. Under the UPM, projects will not be funded unless public or private sector finance is found.

Finally, 'variable geometry' is a core principle of the UPM proposal, enabling actors that do not have an interest in participating in a given project to step back, and for projects to proceed without universal approval (although not when faced by outright opposition from any partner government). This feature essentially enables partners to abstain from decisions

that are likely to reflect badly at home. Nevertheless, as time passes and governments become involved in projects of deepening complexity and interconnectivity, the costs of exit are likely to rise. The new institutional setting therefore has the potential to enmesh Mediterranean partner governments in a framework from which it would become ever more difficult to escape. This increases the potential for tit-for-tat bargaining and issue linkage, as repeated interaction among the region's governments becomes more common.

Taken together, these innovations suggest that the UPM proposal is a departure from the EMP bargaining framework in several significant ways. The UPM remains a European policy, based on European strategic interests in a Mediterranean space. It has its genesis in the French election campaign, and south Mediterranean countries were not consulted during the intra-EU debates of late 2007 and early 2008. Detailed preparation was carried out by the European Commission, which will retain an important role in the UPM and in bilateral relations under the ENP. The inclusion of Croatia, Bosnia-Herzegovina and Montenegro adds a further dimension to Euro-Mediterranean bargaining, particularly with regard to the position of the Arab MPCs. However, the greater incentives that the UPM creates for intra-Arab bargaining, represented by the co-presidency and the inclusion of the Arab League, means that the UPM appears – at least on paper – a less Euro-centric and more Mediterranean bargaining framework.

Taking advantage of these opportunities will not be easy – there has, in theory, been nothing to prevent Arab countries from approaching the EU with a common position in the past. While the UPM goes some way to addressing weaknesses in the EMP bargaining framework, it does not – and cannot – address the second major obstacle facing the Barcelona Process: namely, the differentiated interests of the region's governments in Euro-Mediterranean cooperation. Overcoming this obstacle is a matter of political will, particularly with regard to Arab-Israeli cooperation and the deadlocks in the EMP's political and security basket. The UPM provides Euro-Mediterranean partners with a framework that enables positive-sum outcomes on specific matters of common interest so that projects can proceed. The degree to which this process will have positive externalities for the states and peoples of the Mediterranean Basin depends on the willingness of the region's governments to tackle the deeper issues that have long divided them.

## **Key Issues that Remain to be Addressed, and Suggestions for UPM Projects**

At face value, the UPM may provide new political drive and improve the efficiency of Euro-Mediterranean bargaining on specific issues, principally because it has the potential to increase non-European influence over decision-making. The more that Mediterranean partner governments are involved with decision-making, the greater the likelihood that they will invest more in ensuring that objectives are fulfilled. By offering a framework for bargaining from which Pareto-improving outcomes are more likely, the UPM has the potential to provide significant impetus to Euro-Mediterranean relations.

Former EU Commissioner Chris Patten recently gave President Sarkozy two and a half cheers for the Mediterranean Union proposal. Patten congratulated Sarkozy for attempting to re-invigorate the EMP, which he described as ‘a great idea on the launch pad [that] had difficulty getting off the ground.’ However, Patten warned that the UPM will meet a similar fate unless certain fundamental deadlocks – such as agricultural trade and south-south integration – are addressed.

The UPM proposal, expressed in the Commission’s May 2008 Communication, the Joint Declaration of the July 2008 Paris Summit for the Mediterranean, and the Final Declaration of the November 2008 Marseille Ministerial Conference, deliberately avoids bargaining issues that are likely to result in deadlock. Proposed projects include de-pollution of the Mediterranean Sea; maritime and land transport infrastructure; civil protection against natural disasters; alternative energies, especially solar; a Euro-Mediterranean university in Slovenia; and support for small and medium enterprises. While all of these issues are already dealt with to some extent under the EMP, they are benign enough for partners to be sure that progress can be marked down as a success for the new framework.

Several potential issue-areas remain for which projects could be developed under the UPM – given the right levels of confidence and political will. Progress in more controversial areas would increase the UPM’s chances of avoiding the fate that Chris Patten forewarns. The following five suggestions for projects under the UPM are intended to stimulate debate on



issues where cooperation is both feasible in the short to medium term, and likely to develop in ways that assist economic and political stability development in the Mediterranean basin.

### **Macroeconomic Coordination (Euro-Med COMPAS)**

Although better coordination of MPC macroeconomic policy efforts has great potential in terms of promoting macro economic stability and thus economic growth, an institutional setting for facilitating this function is not embedded within the current EMP framework. This omission has not been addressed in the development and design of the UPM.

In times of financial market turmoil and economic shocks, there is a demand for a project deepening Euro-Mediterranean macroeconomic cooperation and coordination. Such an initiative could be named Euro-Med COMPAS (Cooperation on Macroeconomic Policy Assessment Strategies). The project could involve MPC central banks and the ECB, strengthening coordination and cooperation in order to support regional integration.

Given macroeconomic challenges in the region, COMPAS would focus on the exchange of expertise in the fields of monetary policy making, exchange rate assessment and financial market governance. Firstly, Euro-Med COMPAS could allocate human and financial resources towards technical assistance schemes aimed at upgrading existing frameworks in a cooperative manner. Secondly, upgrading existing Euro-Med Seminars through the organisation of regular conferences and forums would help enhance horizontal and vertical economic integration across the region. As a third instrument, a staff exchange programme among participating MPC and European central banks could be established. This programme would be aimed at enhancing and broadening the professional as well as the intercultural skills of participating members of staff.

In sum, enhancing macroeconomic cooperation and coordination among the central banks of the Euro-Mediterranean region could be expected to deliver valuable results in terms of achieving deeper regional integration under the auspices of the Barcelona Process, with flow-on effects in terms of national-level macroeconomic governance and economic growth.

## **Cross-Border Rural Cooperation Project (Euro-Med CROP)**

In order to reduce the vulnerability of MPCs to volatile food prices, increased agricultural productivity, together with socio-economic development in rural areas, is needed. The best way for the EU to support MPC rural development would be through reform of the Common Agricultural Policy, but this is unlikely given domestic politics in some EU member states. Rather than dispensing cash aid, a more practical means by which the EU could help is through coordinating cross-border cooperation aimed at capacity-building in rural communities.

Since the launch of the Barcelona Process several projects have aimed to improve cooperation in this area. At the local level European regions have significant experience regarding rural development projects, and could build networks with their partners in the south. At the policy level EU governments have expressed support for cross-border cooperation with third countries under the 2007 – 2013 Cohesion Policy. But to date none of the EU-funded ENPI National Indicative Programmes include a comprehensive strategy for rural development. Moreover, there is no region-wide mechanism coordinating and maintaining best practices. Different projects in this area are placed under various headings such as ‘support for agriculture’ or ‘poverty reduction programme.’ The UPM proposal has not addressed the importance of the agricultural sector and MPC rural communities. Consequently, some MPCs are looking outside the EMP for assistance: Morocco’s ‘2020 Strategy for Rural Development’ is being prepared with the help of the World Bank.

The proposed CROP development initiative, undertaken by MPC and EU governments under the UPM, would aim to link the rural development process across the region. The first task of such an initiative would be to modernise the agriculture sector. In meeting this objective MPC governments have the most important role, providing incentives and promoting efficient techniques and rural sector employment. This task would be made easier with European assistance and advice to MPC rural communities and agricultural producers on modern cropping techniques, sustainable technologies, more efficient animal husbandry, fertiliser, irrigation, supply chains and managing rural businesses. The primary target group would be small and medium sized agricultural producers facing technological and natural constraints to production.

In the long run rural development needs to be linked with wider socio-economic diversification in rural areas, creating a long-term natural insurance against global commodity price vulnerability. Better public services aimed at basic education, the health of rural communities, and infrastructure for transport, water and energy are long-term goals that would be expected to develop out of a UPM rural development and cooperation initiative.

### **The Euro-Mediterranean Micro-Finance Fund (EuroMed MICRO)**

In 2007 President Sarkozy revived the idea for a Euro-Mediterranean investment bank that had been rejected by the European Council Summit in 2003. EU member governments again opposed this proposal, arguing that there are already enough international investment institutions operating in the region to fund large infrastructure investments such as those proposed by the 2008 Paris Declaration. Small-scale investment is just as important for development, especially at the community level. As an alternative and complimentary project to the proposed Mediterranean Business Development Initiative, a UPM project to create a micro finance fund could have significant potential for boosting access to funds for productive investments and thus economic growth.

FEMIP-led efforts to develop common financial management strategies have benefited local communities in several south Mediterranean countries. Nevertheless, there is room for improvement and the UPM's institutional framework provides an opportunity to build partnerships at the local level. A Euro-Mediterranean Micro Finance Fund could offer finance to small scale borrowers either for start-up or expansion purposes. Loans could be repaid according to either Islamic finance or interest-bearing models. Borrowers could access funds to support entrepreneurship and education, offering women especially access to financial backing.

A further benefit to MPC financial development and overall financial efficiency could flow from the use of savings for investments under micro-credit schemes. The Fund could be run as a savings bank, with initial capital from interested investors and/or international financial institutions. The Fund would be a place for families to deposit savings and remittances received from family members abroad. This model therefore offers an added possibility of

coordinating and ensuring the productive use of remittances, which account for 11.8% of MPCs' GDP.

Currently, no such micro fund exists, despite the obvious demand for more efficient channelling of the savings – investment flow. Improvements in this area would have almost immediate effects in lifting family businesses out of the informal sector, spreading financial literacy, boosting official employment and increasing overall economic growth.

### **Mediterranean Innovation Desk (MID)**

Poor technology and innovation policy coordination between the EU and the south Mediterranean, and among MPCs, remains an obstacle to entrepreneurship and sustainable economic growth. Within the EMP several attempts have been undertaken towards establishing a Euro-Mediterranean zone of innovation and technology exchange. EU members and MPCs have established bilateral and multilateral partnerships networks in sectors including biotechnology, textiles and agribusiness. However, these initiatives have not been channelled through an institutional framework allowing for a greater public visibility and private sector access. Furthermore, an institution safeguarding intellectual property rights on both sides of the Mediterranean shore has not been established.

For that reason, a Mediterranean Innovation Desk (MID) based at the UPM Secretariat could coordinate parallel innovation initiatives across the region, supporting the overall work of the Mediterranean Business Development Initiative launched at the UPM Summit in July 2008. The MID would also provide a forum for addressing issues concerning intellectual property rights protection in the Euro-Mediterranean Region.

The MID would have an important role in encouraging interaction among non-governmental actors, national research institutions and entrepreneurs. An online platform offering contacts, news, and information on technology and innovation activities could be established. The MID would also be responsible for organising international conferences and technology fairs, connecting small business, research and policymaking communities and greatly increasing the profile of entrepreneurship, innovation and technology in the Euro-Mediterranean region.

## **Euro-Mediterranean Illegal Migration Oversight Committee (IMOC)**

A central aspect of the effective management of illegal migration is the adherence to international commitments regarding the rights of migrants. While immigration laws must be upheld and border controls enforced, several observers – including the Euro-Mediterranean Parliamentary Assembly – have noted that the region’s governments have sometimes overlooked human rights violations arising from the implementation of anti-illegal migration policy. Improvements in this highly sensitive area depend heavily on MPC cooperation. Should the political will be found, the UPM could be utilised to facilitate transparent oversight of anti-illegal migration policies, bilateral agreements and operations through a committee comprised of law enforcement, judicial, parliamentary and NGO representatives from EU and Mediterranean partner countries.

As an adjunct to the Euro-Mediterranean Parliamentary Assembly, this body could define best practices for EU member state and MPC border control agencies, and monitor adherence to these standards. Its day-to-day operations could be coordinated through the UPM Secretariat. Such a body could not have any legal jurisdiction, at least initially. Its role would be to provide independent public oversight, perhaps with the option of case referral to the appropriate court at a later date. Nevertheless, as a UPM body, an illegal migration oversight committee would add official weight and visibility to an oversight function currently conducted by NGOs.

Including illegal migration in the UPM’s remit would clearly acknowledge that the phenomenon is a Mediterranean, rather than purely European, problem. While this change may seem merely rhetorical, it would address concerns that the EU protects its borders without regard for the interests of neighbouring countries. While some governments on both sides of the Mediterranean may be uncomfortable with the idea of oversight, it promises important benefits to all. A Euro-Mediterranean illegal immigration oversight committee, operating as a UPM project, would enable more coherent, legitimate and in the long run, a more effective Mediterranean-wide approach to illegal migration management. Better MPC integration in this sensitive policy area has the potential to promote regional cohesion and the overall stability of the Barcelona Process.

## Conclusions

While the UPM initiative no longer resembles President Sarkozy's original idea for a Union comprised only of countries bordering the Mediterranean, the French government has nonetheless succeeded in returning Mediterranean issues to the top of the EU foreign policy agenda and raising their prominence internationally. With their attendance at the UPM's Paris launch party, Mediterranean partner governments sent a strong signal to Europe of the importance they attach to multilateral relations with European countries – provided they are able to have a greater influence on negotiations.

When we consider the existing EMP framework as a simple bargaining structure with two groups of actors – European countries on one side and Mediterranean partner countries on the other – the weaknesses in the institutional setting quickly become apparent. European countries have diverse interests regarding the Mediterranean, but are able to use the EU as an equilibrating mechanism to reach a common bargaining position. The EMP, with its objectives, budget and organisational structure, is the outcome of this intra-EU process. On the south Mediterranean side governments also have diverse interests and priorities towards the EU. But as no equivalent equilibrating mechanism exists, each country tries to pursue its interests independently and competitively. This creates problems for Mediterranean partner countries faced with the prospect of negotiating with a huge bloc. It also creates problems for the EU, which is faced with 10 negotiating partners with diverse preferences, all of which it must try to satisfy at the same time.

The results of the EMP's first 13 years have been mixed, and most analysts have been disappointed with progress in the three baskets. Political and security cooperation, in particular, has been slow – ambitions to build a comprehensive, formal regional security agreement quickly reached deadlock and the Euro-Mediterranean Charter for Peace and Stability was shelved in 2000. The region's governments have entered into bilateral cooperation on illegal migration and terrorism outside the EMP framework, leading to a relatively stable but sub-optimal equilibrium. In the economic and financial basket, there has been more activity and significant windows of opportunity remain to be exploited, especially in energy and macroeconomic governance. But progress has been piecemeal and beset by deadlocks, especially in agriculture and services. Initiatives conducted under the socio-

cultural basket, designed to support economic and political progress, have not increased the role of civil society actors in the EMP and have struggled to reach a broad public in south Mediterranean countries.

Two reasons for this mixed progress are the varied intensity of EU and Mediterranean partner government preferences for closer cooperation under the EMP, and the asymmetric nature of the rules of the game, which are heavily weighted in Europe's favour. Nevertheless, the EMP framework remains in place, and the region's governments have agreed that it is in their interests to try to revive cooperation under the new Union for the Mediterranean.

Several potential stumbling-blocks remain to be overcome if the UPM is to make a positive impact on Euro-Mediterranean cooperation. In the set-up phase the keenest bargaining has involved the precise mandates of the various UPM institutions and the role of governments in these institutions. The outcome of bargaining on these details as the UPM takes shape will reflect the political will of actors on both sides. For the EU and its members, the temptation to try to retain control of the process is high, especially as the Commission's technical expertise will be called upon as institution-building proceeds. But efficient outcomes that benefit all actors are unlikely unless MPCs are given a real say in decision-making. For south Mediterranean governments, the inability to form a common position towards Europe has long been a problem. While political reality suggests that Turkey, Israel, Arab states from the Maghreb and Mashreq, and new MPCs from the Western Balkans are unlikely to come together on many issues, the Arab countries in particular would gain significantly if they are able to use the UPM framework to formulate joint bargaining approaches.

It is important for analysts assessing the progress of cooperation under the Barcelona Process to remember that the proposed UPM is not designed to foster political reform in Mediterranean partner countries. Rather, it is a proposal to improve the efficiency of bargaining on specific issues where mutually beneficial outcomes are likely, based on bargaining among sovereign governments in a multilateral framework. Over time, this framework has the potential to expand into more controversial policy areas, including those where negotiations have reached effective deadlock under the EMP. The expectation should be that by encouraging commitment to a framework in which MPCs have a real stake, concrete benefits may accrue to all partner countries.

## Appendix 1. Project Participants

### The GO-EuroMed Consortium

**Professor Michael Bolle** (Jean Monnet Centre of Excellence, Freie Universität Berlin – coordinator) has with his research team managed the project on a daily basis, while participating in most of GO-EuroMed’s research activities.

**Professor José María Beneyto Pérez** (Jean Monnet Centre of Excellence, Instituto de Estudios Europeos, Universidad San Pablo CEU, Madrid) holds a Jean Monnet Chair in law and European cultural identity, and his centre has been ideally placed to undertake research into the nexus between economics, security and culture in the Euro-Mediterranean region.

**Professor Ahmed Driouchi** (Institute of Economic Analysis and Prospective Studies, Al Akhawayn University in Ifrane) has dealt with a variety of issues within the discipline of applied economics. He brings to the project expertise in human development, the impact of knowledge on economic development, and technological progress in the Mediterranean.

**Mr. Oussama Safa** (Lebanese Center for Policy Studies, Beirut) has written or co-authored several publications on political economy and social development in Syria and on authoritarianism, semi-rentierism and dynastic succession in the MENA region. His most recent work has focused on the political economy of hereditary transition in Middle Eastern countries.

**Professor Anne Lavigne** (Laboratoire d’économie d’Orléans) has brought considerable expertise in labour market economics to this research, including an interest in theories of migration; labour, social policy, and poverty reduction and migration.

**Dr. Ibrahim Saif** (Centre for Strategic Studies, University of Jordan) has extensive expertise in the international relations, security and political economy fields. Dr. Saif has brought an in-depth knowledge of Middle East politics and economics to this project.

**Professor Bahri Yilmaz** (Sabanci University, Istanbul) has an extensive research and publication record covering various topics related to the political economy of Turkey’s geopolitical and strategic position at the crossroads between Europe and Asia.

**Professor Katarzyna Żukrowska** (Warsaw School of Economics) has published several books and articles on European external relations, and her Institute of International Studies is currently engaged in research in the field of economic security.



**The following individuals participated in project conferences, workshops and other meetings, and/or contributed to project publications and dissemination:**

Achehboune	Amale	Al-Akawayn University at Ifrane, Morocco
Al-Akhad	Nagham	University of Jordan
Alfe	Manuela	DG Research, European Commission
Akin	Gökçe	Sabancı University, Istanbul, Turkey
Amirah Fernández	Haizam	Elcano Real Institute for International and Strategic Studies, Spain
Ángel Bastienier	Miguel	El Pais, Spain
Aran	Bozkurt	Ambassador, Ministry of Foreign Affairs, Turkey
Argerey	Patricia	Universidad San Pablo CEU, Madrid, Spain
Arikan	Cemil	Sabancı University, Istanbul, Turkey
Aubarell	Gemma	European Institute for the Mediterranean, Spain
Azzam	Islam	American University in Cairo
Baer	Jean-Michel	Director, Science, Economy and Society, DG Research, European Commission
Barakat	Hany	1 <sup>st</sup> Undersecretary, Ministry of Trade & Industry, Egypt
Baudassé	Thierry	University of Orléans, France
Bayoumi	Gamal	Ambassador, Ministry of Foreign Affairs, Egypt
Becerril	Belen	Universidad San Pablo CEU, Madrid, Spain
Bellando	Raphaelle	University of Orléans, France
Beneyto	José María	Universidad San Pablo CEU, Madrid
Benmokhtar	Rachid	Al Akhawayn University at Ifrane, Morocco
Bodenstein	Thilo	Freie Universität Berlin, Germany
Böhme	Bela	Freie Universität Berlin, Germany
Bolle	Michael	Freie Universität Berlin, Germany
Braunstein	Virginia	DG Research, European Commission
Büge	Max	Freie Universität Berlin, Germany
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Chammas	Rita	Lebanese Center for Policy Studies, Beirut, Lebanon
Chourou	Bechir	South Mediterranean University, Tunisia
Clemens	Conrad	Freie Universität Berlin, Germany
Cord	Christian	German Council on Foreign Relations
Crespo	Juliano	Universidad San Pablo CEU, Madrid, Spain
Czerpak	Pawel	Warsaw School of Economics (SGH), Poland
Daghmoum	Abdelfetah	Plenipotentiary Minister of the Algerian Republic
Dagnino	Alfredo	President, Universidad San Pablo CEU Foundation
de Arce	Rafael	Universidad San Pablo CEU, Madrid
Delaye	Bruno	Ambassador of France in Spain
Doruk Basar	Mustafa	Sabancı University, Istanbul, Turkey
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El Baradei	Mona	Cairo University, Egypt
El Ehwany	Naglaa	Cairo University, Egypt
Elorabi	Mohamed	Ambassador of the Arabic Republic of Egypt in Germany
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Fickinger	Tobias	Freie Universität Berlin, Germany
Florensa	Senén	European Institute for the Mediterranean, Spain
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Gambini	Manuela	Universidad San Pablo CEU, Madrid, Spain
Gándara	Pablo	Freie Universität Berlin, Germany
Gebara	Khalil	Lebanese Center for Policy Studies, Beirut, Lebanon
Ghoneim	Ahmed	Cairo University, Egypt
Ginsburg	Michael	Freie Universität Berlin, Germany
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Haddad	Saleem	University of Jordan
He	Yahui	Freie Universität Berlin, Germany
Herret	Rainer	German-Arab Chamber of Industry and Commerce, Egypt
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Jennequin	Hugues	University of Orléans, France
Jering	Dietlind	European Commission Delegation in Germany
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Kalaycioglu	Sema	Isik University, Istanbul, Turkey
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Mouawad	Jamil	Lebanese Center for Policy Studies, Beirut, Lebanon

Muñoz	Gema Martín	General Director, Arab House (IEAM), Spain
Neugart	Michael	Social Science Research Center Berlin, Germany
Oktaý	Sibel	Sabanci University, Istanbul
Omet	Ghassan	University of Jordan
Omran	Mohammed	Vice Chairman, Cairo & Alexandria Stock Exchange, Egypt
Oreja	Marcelino	Institute for European Studies, Universidad San Pablo CEU, Madrid, Spain
Oztürk	Ezgi	Sabanci University, Istanbul, Turkey
Pamp	Oliver	Freie Universität Berlin, Germany
Peeters	Marga	DG EconFin, European Commission
Poggoda	Sandra	University of Cambridge, Great Britain
Rabaud	Isabelle	University of Orléans, France
Ramos	Luis Emilio	Universidad San Pablo CEU, Madrid, Spain
Razgallah,	Abdelaziz	EuroMed Migration II Project, Brussels, Belgium
Riera	José	Special Ambassador for the Mediterranean, Spanish Foreign Ministry
Rincon	Alfonso	Universidad San Pablo CEU, Madrid, Spain
Ryan	Michael	European Commission Delegation in Egypt
Sabathil	Gerhard	European Commission Delegation in Germany
Safa	Oussama	Lebanese Center for Policy Studies, Beirut, Lebanon
Saif	Ibrahim	University of Jordan
Salhi	Alexander	Freie Universität Berlin, Germany
Salvador	Rueda	Embassy of the Kingdom of Spain in Germany
Schade	Anette	Freie Universität Berlin, Germany
Schmidt	Chloè	Freie Universität Berlin, Germany
Schumacher	Tobias	EuroMeSCo Secretariat, Lisbon, Portugal
Scicluna	Colin	Middle East and Mediterranean Unit, European Council
Sendagorta	Fidel	Ambassador for Mediterranean Affairs, Spanish Foreign Affairs Ministry
Skuratowicz	Agnieszka	DG Trade, European Commission
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Tabbaa	Yasmeen	University of Jordan
Tarawneh	Mohammed	Embassy of the Kingdom of Jordan in Germany
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Thomson	Henry	Freie Universität Berlin, Germany
Ulu	Fatih	Sabanci University, Istanbul, Turkey
Unan	Elif	University of Orléans, France
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von Bismarck	Marie	Freie Universität Berlin, Germany
von Geyer	Geza	German Federal Chancellor's Department
Weber	Johanna	Freie Universität Berlin, Germany
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Zimowska	Ewa	Warsaw School of Economics (SGH), Poland
Zouag	Nada	Al-Akawayn University at Ifrane, Morocco
Żukrowska	Katarzyna	Warsaw School of Economics (SGH), Poland

## Appendix 2: Macroeconomic Policy Standing Group (MPSG)

In May 2007 the GO-EuroMed consortium established the Macroeconomic Policy Standing Group. Its aim has been to consider Egyptian macroeconomic governance as a benchmark case for economic reform in the wider south Mediterranean region. The MPSG's research has been guided by the core question of whether the EMP has influenced domestic macroeconomic policymaking in Egypt and other MPCs.

### Participants

Omran	Mohammed	Vice Chairman, Cairo & Alexandria Stock Exchange, Egypt
Eid	Nevine	German University Cairo, Egypt
Azzam	Islam	American University in Cairo, Egypt
Fahrholz	Christian	Freie Universität Berlin, Germany
Kern	Andreas	Freie Universität Berlin, Germany
Salhi	Alexander	Freie Universität Berlin, Germany

### Activities and Publications

GO-EuroMed Macroeconomic Policy Standing Group Workshop, Confederation of Egyptian-European Business Associations / German-Arab Chamber of Commerce, Cairo, Egypt, 7 May, 2008.

Omran, M., I. Azzam and N. Eid, *The Euro-Mediterranean Partnership as Macroeconomic Policy Anchor*, GO-EuroMed MPSG Working Paper 0801, 2008.

Eid, N., A. Kern and A. Salhi, *Financial Markets, Economic Growth and the Missing Link – A Role for the EMP?* GO-EuroMed MPSG Working Paper 0802, 2008.

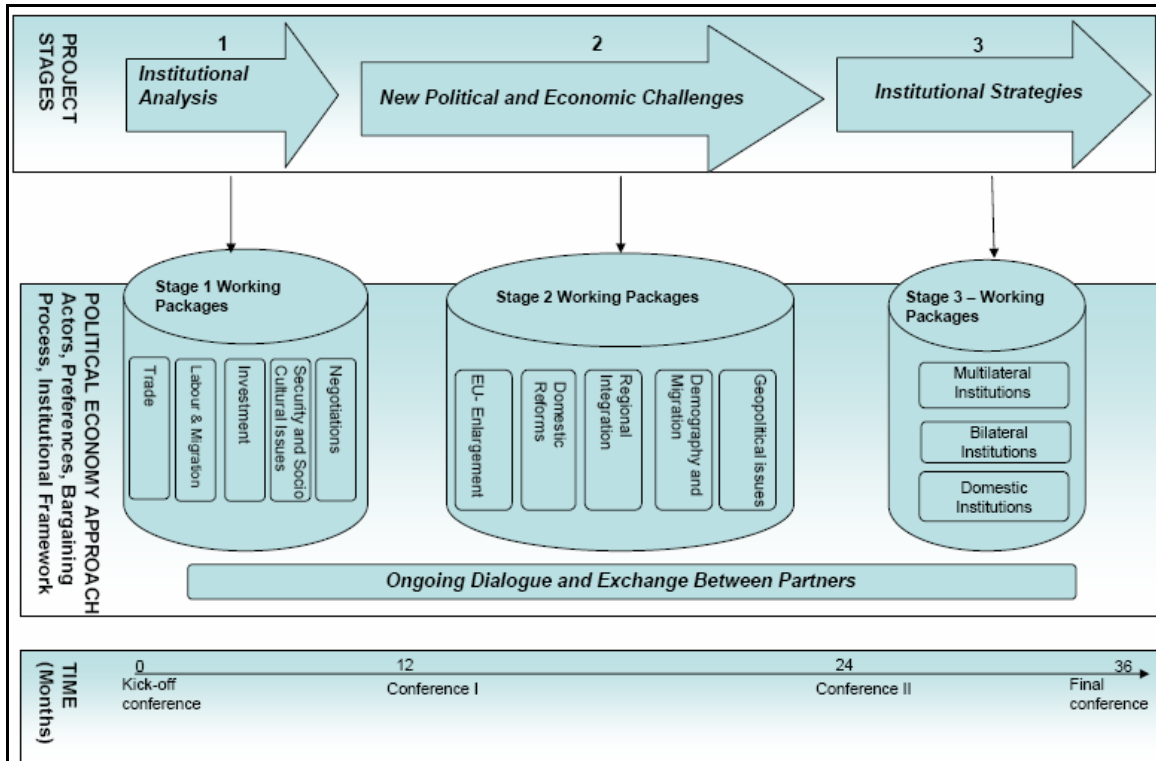
Kern, A. and A. Salhi, *Macroeconomic Challenges in the Barcelona Process: Benign Neglect or Lost at Sea*, GO-EuroMed MPSG Working Paper 0803, 2008.

### Acknowledgments

The GO-EuroMed consortium wishes to thank the Confederation of Egyptian European Business Associations (CEEBA) and the German Arab Chamber of Industry & Commerce (GACIC) for their invaluable assistance in preparing the MPSG conference in Cairo. We are grateful to the Delegation of the European Commission in Egypt, Deutsche Bank in Cairo, Deutsche Bank Research in Frankfurt and Berlin, and Mansour Price Waterhouse Coopers for their help in establishing the MPSG in Egypt. Thanks also to the Central Bank of Egypt, the Egyptian Ministry of Trade & Industry, the German Technical Cooperation Office (GTZ) in Egypt and the Cairo & Alexandria Stock Exchanges for their constructive support.

## Appendix 3: Project Implementation

The GO-EuroMed project has been implemented in 3 stages over a period of 36 months.



### Stage 1 (months 1 to 12): The Political Economy of Governance in the Euro-Mediterranean Partnership

Stage 1 was directed towards improving academic and policy literature concerning the political economy of governance in the Euro-Mediterranean Partnership, with the intention of identifying the key areas in which the Barcelona Process can better serve the interests of governments and the needs of citizens. Research focused on theoretical and empirical analysis of governance issues concerning trade, investment and labour relationships between the EU and south Mediterranean countries. The relationships between these economic institutions and the EMP's security and socio-political goals were investigated, as were the negotiation processes through which outcomes are reached.

## **Stage 2 (months 13 to 24): New Challenges**

What are the key challenges that the Euro-Mediterranean partnership will face during the next decade? How can the EU and Mediterranean Partner Countries deal with these challenges in order that the Barcelona Process achieves more success in its second decade than in its first? These are the main questions that GO-EuroMed partners addressed in the project's second phase. Five working packages were designed which dealt with the most important challenges ahead: 'EU Enlargement', 'Domestic Reform in Mediterranean Partner Countries', 'Regional Integration in the MENA', 'Demography, Migration and Culture' and 'Geopolitical Change'.

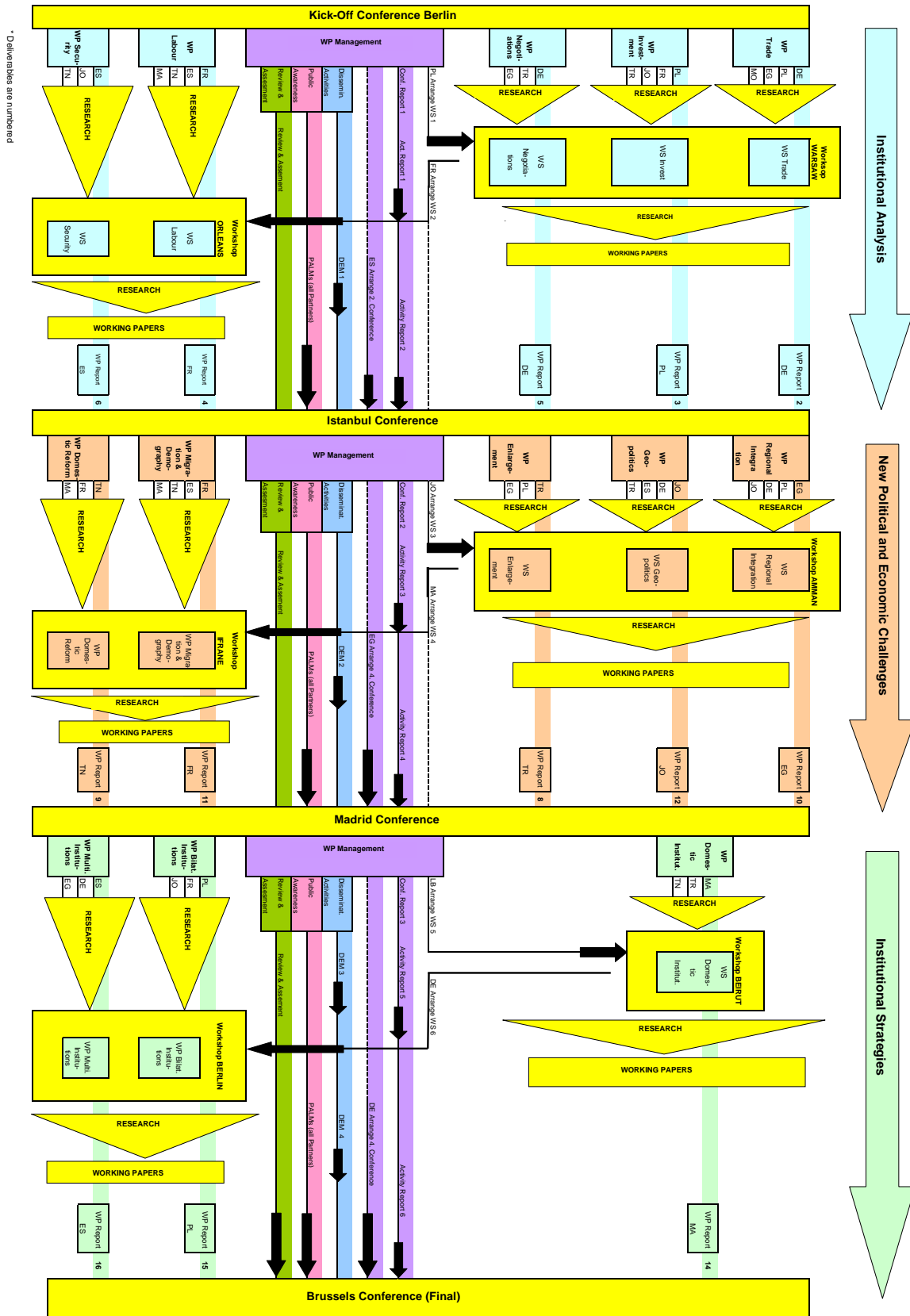
## **Stage 3 (months 25 to 36): Institutional Strategies**

The project's main objective is to improve scientific and policy level understanding of institutional governance strategies under the Euro-Med Partnership. This entails conducting detailed analysis of institution building and management mechanisms, and testing these models against various legitimacy and efficiency standards. The goal at state 3 was to identify strategies capable of providing concrete benefits to governments and peoples on both sides of the Mediterranean Sea. For analytical as well as policy reasons, working packages were built around three interlinked institutional settings: domestic, bilateral and multilateral institutions.

## **Project Management**

The project's three phases have been designed to incorporate research that improves scientific and technical understanding of the state-of-the-art for the respective topics, as well as providing policy insights for the European Commission, EU Member governments, MPC governments, and other public sector bodies as well as private companies and individuals with an interest in Euro-Mediterranean relations. Moreover, each phase builds upon previous research findings and therefore constitutes a logical, analytical extension of the previous stage. GO-EuroMed's major milestones have been timed to provide partners with the opportunity to present research findings during and at the conclusion of each stage of the project.

# GO-EuroMed Project Management



## GO-EuroMed Partners and Working Package Participation

Number	Acronym	Participant Country
1	DE	Germany
2	FR	France
3	ES	Spain
4	PL	Poland
5	TR	Turkey
7	JO	Jordan
8	LB	Lebanon
9	MA	Morocco

WP #	WP Name	Coordinator	Participants			
<b>Stage 1</b>						
1	PE Trade	<b>DE</b>	FR	TR		
2	PE Investment	<b>PL</b>	TR	JO		
3	PE Labour	<b>FR</b>	ES	TN		
4	PE Security/Socio-Cultural	<b>ES</b>	JO	TN		
5	PE Negotiations	<b>DE</b>	PL	JO		
<b>Stage 2</b>						
6	NC Enlargement	<b>TR</b>	PL	LB		
7	NC Domestic Reform	<b>MA</b>	FR	PL		
8	NC Regional Integration	<b>JO</b>	DE	LB		
9	NC Demography/Migration	<b>FR</b>	ES	MA		
10	NC Geopolitical	<b>DE</b>	ES	TR	JO	LB
<b>Stage 3</b>						
11	Domestic Institutions	<b>TR</b>	MA	LB		
12	Bilateral Institutions	<b>PL</b>	DE	JO		
13	Multilateral Institutions	<b>ES</b>	FR	MA		



## Appendix 4: Project Meetings and Events

### Conferences

**17 – 18 February 2006:** GO-EuroMed kick-off Conference, Jean Monnet Centre of Excellence, Freie Universität Berlin / Representation of the European Commission in Berlin, Germany.

**1 – 3 February 2007:** GO-EuroMed General Conference, ‘What is at Stake in the EMP’s Second Decade?’ Sabanci University Istanbul, Turkey.

**21 – 22 February 2008:** GO-EuroMed General Conference, ‘Euro-Mediterranean Dialogue: A Challenge for the 21<sup>st</sup> Century.’ San Pablo CEU University, Madrid, Spain.

**27 – 28 November 2008:** GO-EuroMed Final Conference, ‘Making the Most of the Mediterranean Union.’ Borchette Centre, Brussels, Belgium.

### Workshops

**22 – 24 June 2006:** 1<sup>st</sup> GO-EuroMed Workshop, Warsaw School of Economics (SGH), Warsaw, Poland.

**7 – 9 September 2006:** 2<sup>nd</sup> GO-EuroMed Workshop, Laboratoire d’économie d’Orléans, University of Orléans, Orléans, France.

**3 – 5 May 2007:** 3<sup>rd</sup> GO-EuroMed Workshop, Centre for Strategic Studies, University of Jordan, Amman, Jordan.

**9 – 12 September 2007:** 4<sup>th</sup> GO-EuroMed Workshop, Institute of Economic Analysis and Prospective Studies, Al Akhawayn University in Ifrane, Ifrane, Morocco.

**26 – 27 March 2008:** 5<sup>th</sup> GO-EuroMed Workshop, Lebanese Centre for Policy Studies, Beirut, Lebanon.

**7 May 2008:** GO-EuroMed Macroeconomic Policy Standing Group Workshop, Confederation of Egyptian-European Business Associations / German-Arab Chamber of Commerce, Cairo, Egypt.

**21 – 23 September 2008:** 6<sup>th</sup> GO-EuroMed Workshop, Jean Monnet Centre of Excellence, Freie Universität Berlin / Representation of the European Commission in Berlin, Germany.

## Appendix 5: GO-EuroMed Project Publications 2006 – 2008

### Working Papers 2006

0601 Pablo Gándara and Max Büge (2006): The European Union's Trade Policy towards the Southern Mediterranean: Coherence or Chaos? Jean Monnet Centre of Excellence, Freie Universität Berlin, Germany.

0602 Isabelle Rabaud and Thierry Montalieu (2006): Trade in Services: How Does it Work for MENA Countries? Laboratoire d'Économie d'Orléans (LEO), University of Orléans, France.

0603 Bahri Yılmaz and Gökçe Akın (2006): International Competitiveness and Foreign Trade Specialization: The Mediterranean Neighbouring Countries and the EU15. Sabanci University Istanbul, Turkey.

0604 Hugues Jennequin and Isabelle Rabaud (2006): Location of Industries in MENA Countries, in the EU and NMS: a Comparative Analysis. Laboratoire d'Économie d'Orléans (LEO), University of Orléans, France.

0605 Katarzyna Żukrowska, Aleksandra Galek, Magda Hussain, Pawel Czerpak, Małgorzata Graçik and Joanna Stryjek (2006): FDI in Mediterranean Partnership Countries. How to improve the institutional environment in Mediterranean region in order to attract the FDI? International Security Department, Warsaw School of Economics (SGH), Poland.

0606 Bahri Yılmaz and Gökçe Akın (2006): Foreign Direct Investments in the Mediterranean Countries: Developments and Determinants of FDI in the Mediterranean Countries? Sabanci University Istanbul, Turkey.

0607 Ghassan Omet and Ibrahim Saif (2006): Foreign Direct Investment in the MENA Region and Jordan: Regional Experience and Causality Analysis. Centre for Strategic Studies, University of Jordan, Amman.

0608 Christophe Laviolle and Elif Unan (2006): Institutional Aspects of the Governance of Labour Markets in the Euro-Mediterranean Case. Laboratoire d'Économie d'Orléans (LEO), University of Orléans, France.

0609 Patricia Argerey and Inmaculada Hurtado (2006): The European Migration Policy: Its Approach towards the Mediterranean Countries. Institute for European Studies, Universidad CEU San Pablo, Madrid, Spain.

0610 Ahmed Driouchi, Cristina Trandas-Boboc and Nada Zouag (2006): Migration of Highly Skilled Labour and the New Economics of Brain Drain. Institute of Economic Analysis and Prospective Studies (IEAPS), Al Akhawayn University, Ifrane (AUI), Morocco, Laboratoire d'Économie d'Orléans (LEO), University of Orléans, France.

0611 Alfonso Rincón, Luis Emilio Ramos and Lucana Estévez (2006): Soft-security within the Euro-Mediterranean Partnership. Institute for European Studies, Universidad CEU San Pablo, Madrid Spain.

0612 Saleem Haddad (2006): The Cultural Component of Security within the Euro-Mediterranean Partnership: Perceptions and Misperceptions. Centre for Strategic Studies, University of Jordan, Amman, Jordan.

0613 Mark Furness (2006): The European 'Security Community' as an Export Commodity: EU Security Policy and Crisis Resolution in the Middle East and North Africa. Jean Monnet Centre of Excellence, Freie Universität Berlin, Germany.

0614 Thilo Bodenstein and Mark Furness (2006): The Edges of External Governance: Europe and its Mediterranean Neighbours. Jean Monnet Centre of Excellence, Freie Universität Berlin, Germany.

0615 Katarzyna Żukrowska, Aleksandra Galek, Marcin Zbytniewski, Beata Jagiello, Magda Hussain and Malgorzata Grącik (2006) : Easternization vs Southernization. The European Neighbourhood Policy and the Polish Foreign Policy Interests. International Security Department, Warsaw School of Economics (SGH), Poland.

0616 Saleem Haddad and Sandra Poggoda (2006) The European Neighbourhood Policy: A View from the South. GO-EuroMed Consortium.

0617 Thierry Baudassé (2006): Governance and Migration in a South-North Partnership: the Teaching of Economic Analysis. Laboratoire d'Économie d'Orléans (LEO), University of Orléans, France.

0618 Thierry Baudassé, Patricia Argerey and Inmaculada Hurtado (2006): The Labour Side Agreement in NAFTA: an Example to Follow? Laboratoire d'Économie d'Orléans (LEO), University of Orléans, France, Institute for European Studies, Universidad CEU San Pablo, Madrid Spain.

## **Working Package Summaries 2006**

Jean Monnet Centre of Excellence, Freie Universität Berlin, Germany: Working Package I – The Political Economy of Euro-Med Trade.

International Security Department, Warsaw School of Economics (SGH), Poland: Working Package II – The Political Economy of Euro-Med Investment.

Laboratoire d'économie d'Orléans (LEO), University of Orléans, France: Working Package III – The Political Economy of Labour and Migration in the Euro-Med Partnership.

Institute for European Studies, Universidad CEU San Pablo, Madrid, Spain: Working Package IV – The Political Economy of the EMP's Security and Socio-Cultural "Pillars".

Jean Monnet Centre of Excellence, Freie Universität Berlin, Germany: Working Package V – The Political Economy of Euro-Med Negotiations.

## **Working Papers 2007**

0701 Sibel Oktay (2007): Post-Enlargement Trauma of the Euro-Med Partnership: An Analysis of Member State Preferences. Sabanci University, Istanbul, Turkey.

0702 Bahri Yilmaz and Ezgi Özgül Öztürk (2007): International Competitiveness and Foreign Trade Specialisation in the Enlarged European Union and MPCs. Sabanci University, Istanbul, Turkey.

- 0703 Aleksandra Galek and Katarzyna Żukrowska (2007): Competitiveness of the EU Neighbours after the 2004/2007 EU enlargement. International Security Department, Warsaw School of Economics (SGH), Poland.
- 0704 Jamil Mouawad (2007): The Political Impact of the EU Fifth Enlargement on the Mediterranean Region. Lebanese Center for Policy Studies, Beirut, Lebanon.
- 0705 Katarzyna Żukrowska, Malgorzata Graćik, Joanna Stryjek and Magda Hussain (2007): Economic Domestic Reforms in Mediterranean Partner Countries. International Security Department, Warsaw School of Economics (SGH), Poland.
- 0706 Marcin Zbytniewski (2007): Pro-democratic domestic reforms in the Mediterranean Partnership Countries. International Security Department, Warsaw School of Economics (SGH), Poland.
- 0707 Ahmed Driouchi and Nada Zouag (2007): Overview and Discussion of Impacts of Domestic Reforms in Mediterranean Partner Countries of the European Union. Institute of Economic Analysis and Prospective Studies (IEAPS), Al Akhawayn University, Ifrane (AUI), Morocco
- 0708 Christophe Lavialle (2007): Arab Mediterranean Countries facing the "second generation" of Reforms: A Political Economy Standpoint. Laboratoire d'Économie d'Orléans (LEO), University of Orléans, France.
- 0709 Ibrahim Saif (2007): The Process of Economic Reform in Jordan 1990-2005. Center for Strategic Studies. University of Jordan, Amman.
- 0710 Khalil Gebara (2007): The Particularity of MENA Integration: The Case of Lebanon. Lebanese Center for Policy Studies, Beirut, Lebanon.
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