



The Political Economy of Governance in the Euro-Mediterranean Partnership

Deliverable No. 6

Working Package 5: The Political Economy of Euro-Med Negotiations

The European Neighbourhood Policy A View From the South

GO-EuroMed Working Paper No. 0614

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Date: 31/12/2006

The Sixth Framework Programme
Contract No. 028386



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Abstract

This paper examines the southern view of the European Neighbourhood Policy (ENP), the widely criticized new instrument to govern Euro-Mediterranean relations. We argue that most of the areas objected against in the new policy work in favour of the Mediterranean partners: the vagueness of the National Action Plans leaves more scope for the southern regimes to assert their interests. Moreover, the governments on the southern shore of the Mediterranean have managed to exclude the stakeholders of the civil society from the process of policy-formation. The jointly agreed reform measures in the National Action Plans reflect predominantly the preference of the southern partners for skin-deep reforms of economic and political institutions. Thus, the Mediterranean partners have managed to redirect political support towards their fields of interest without compromising their hold on power.

Introduction

The European Neighbourhood Policy (ENP), adopted in 2004, is a new policy instrument to promote political, economic and social reforms in Europe's periphery more effectively. In contrast to the Euro-Mediterranean Partnership, the ENP abandoned one-size-fits-all approaches and engaged in the negotiation of reform priorities bilaterally with neighbouring countries. National Action Plans were jointly agreed upon and the outcome of the reform process is supposed to be monitored by working groups within the European Commission. Even the incentive structure differs slightly: in return for their neighbours' efforts to strengthen good governance, implement the rule of law, liberalize their economies, and harmonize their trade regimes, the EU offers a 'privileged partnership' which goes beyond the traditional financial assistance provided to the countries at the eastern and southern borders of the internal market.

Once the first National Action Plans were published, however, academics stigmatized the ENP as a well intentioned but ill-designed policy. It is criticized for abandoning the principle of multilateralism (Johansson-Nogues 2003), for not pushing conditionality far enough (Smith 2005) and for lacking effective incentives (Del Sarto & Schumacher 2005). Thus, most academic papers assess the ENP by its potential to further European interests in the Mediterranean, whereas the southern partners are regarded as subject to European policies. However, the question of why the Mediterranean regimes engage in the ENP and in how far they profit from the new policy is widely ignored. This paper therefore illuminates the southern perspective on the ENP.

We explain who 'the other side' is, which interests they pursue and whether the new policy helps or obstructs them in asserting their preferences. In the first step we sketch out why and to what extent the governments of the southern partner countries would be willing to reform their economies and political regimes according to the European Neighbourhood Policy. Afterwards, we analyze who the stakeholders of the envisaged reforms are and how those groups have been involved in the policy-making process. Knowing which the dominant actors in the process of policy formation were, we study the National Action Plans in order to show whether the southern preferences have held sway in negotiations with the European Commission.

SECTION I: Interests of the Mediterranean governments

Like most democratically elected governments in the West, authoritarian rulers in North Africa and the Middle East aim first and foremost at stabilizing their hold on power. The days when ideological concepts like Arab unity or socialism guided politics in the southern Mediterranean are over. Current politics resemble a patchwork with the overarching aim of hedging regimes against potential contestation in a rapidly changing geo-political environment. Even political leaders like Tunisia's President Ben Ali and King Mohammed IV of Morocco, who acceded their reign with a programme of sound economic and political reforms, wound up implementing piecemeal reforms instead that allowed them to retain their hold on power.

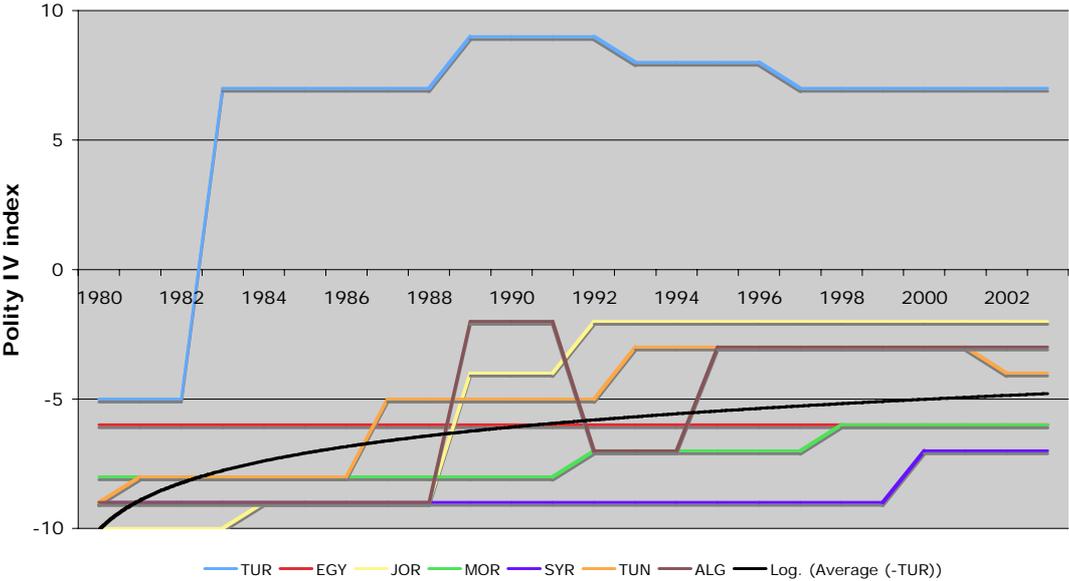
Since regime survival calls for shoring up their governments against internal and external forces of subversion, the ruling elites in the Mediterranean have allowed for regime change for three main reasons: to incorporate popular demands and thus weaken internal opposition, to avoid alienating Western allies in a post 09/11-world and to compensate for the loss of external rents. Hence, the Mediterranean regimes are constantly forced to react to external and internal pressure. Being based on the concept of joint ownership the ENP encourages the southern partners to engage in a modernization process tailored to their needs and to reap the benefits of cooperating with the European Union in those areas. Even though Mediterranean governments might generally try to avoid political as well as economic liberalization for the sake of their hold on power, the incentive structure in both spheres looks different in a wider geo-political context.

Sound democratization would mean to expose the current ruling elites to political competition and thus would jeopardize their hold on power. Therefore, Western-style democratization is unlikely to unfold alongside the Mediterranean as long as the current regimes can prevent it. Establishing democratic institutions and containing their influence on the decision-making process of the government, in contrast, helped curb public disaffection in situations of crisis. The trend line in chart 1 illustrates that most Mediterranean partner countries liberalized their regimes as they faced economic crisis in the 1980s and early 1990s.¹ As a result of this strategy of bestowing their regimes with legitimacy by giving in to popular demands and

¹ The two countries that have not opened up their regimes during that period of time were Egypt and Syria, both of which were still supported by external rents. Egypt receives generous funding from the US since Camp David and Syria's oil and gas reserves make it independent of transfers from other countries.

allowing for representation of the public, virtually all Mediterranean partner countries have established parliaments, hold elections on a regular basis and have adopted the separation of powers in their constitutions over the past decades.

Chart 1: Democratization in MENA partners



Source: Polity IV (scores: -10 to 10)

In contrast to Western concepts of representation, however, most of these polities lack essential authorities while the power remains in the hands of the presidents and kings, which is reflected in the low overall scores of the southern Mediterranean. Hence, the rulers in the southern partner countries have managed to utilize public sentiments for the purpose of regime survival, without relinquishing essential powers to democratic institutions.

Human rights are another field in which the regimes enunciated to reform their governance. The motivation here appears to be external pressure: Since the findings of the Arab Human Development Report were published in 2003 (UNDP 2003), Washington and Brussels succumbed to the notion that economic and political marginalization drives individuals into terrorist movements. Consequently, the West started pressurizing governments in North Africa and the Middle East to improve not only socio-economic conditions but also the human rights situation in their countries. Paradoxically, the war on terror also legitimized clamping down on opposition movements, especially in terms of curbing freedom of expression, assembly and press. This context allowed authoritarian regimes to define human

rights in their own way.² The United Nations Development Program³ criticizes that the national laws for combating terrorism give security agencies a free hand over detentions and allow referring suspects to state security and military courts. Since terrorism is broadly defined in most of these national laws, the human rights situation for opposition parties, but also critical journalists, professional associations and human rights organizations in Egypt, Algeria, Jordan, Turkey and Morocco has deteriorated. Overall, the regimes in the southern Mediterranean exploited the global ‘war against terrorism’ for oppressing political opponents, thus suffocating civil society in its fledgling stage. Hence, even if the Mediterranean regimes have opened up their regimes to some extent, a strong undercurrent of reinforced oppression of political opponents holds back real progress with regard to human rights.

Concerning economic reforms, the prime interest of regime survival can prompt the ruling elites in the Mediterranean to adopt different economic approaches. Political stability in autocratic regimes requires that neither large parts of the population nor powerful groups (for example political elites or the military) are trying to overthrow the current regime. Thus, in the absence of peaceful opportunities to usher in change at the top, the biggest threat to authoritarian regimes is escalating public disaffection with the ruling elite. A common strategy of preventing unrest in the Arab world combines general redistribution with incentives for regime support: Bloated public sectors provide jobs and privileges for large shares of the population (see chart 1, Annex), while state control over licensing, the judiciary and the banking system generates mechanisms to discriminate between politically aligned and oppositional citizens.

Hence, the foundation that a regime needs to survive requires tailor-made economic policies for different societal groups: Subsidies and state controlled price limits on basic consumer products (see table 1, Annex) help curbing poverty to the lowest levels among developing regions (Page 2001) and thus satisfy the needs of the poor. Employment in inflated bureaucracies and public enterprises (see chart 1, Annex) creates ties to the middle class, but equally provides income opportunities for unskilled labour, whereas licensing policies and state interference in the allocation of loans are strong incentives for entrepreneurs not to oppose the ruling elites. In sum, redistribution policies and economic privileges buy out

² Tunisia for instance, focussed on improving the human rights situation for children and the elimination of discrimination against women while cracking down stronger than ever on political activists (Murphy 1999).

³ See <http://www.arabhumanrights.org/en/countries/humanrights.asp> for human rights profiles of Algeria, Egypt, Tunisia, Morocco, Syria, Lebanon, and Jordan and <http://www.universalhumanrightsindex.org/hrsearch/search.do> for Turkey.

potential opponents and make fighting the current regime costly enough to deter political rivals.

The key question for resource-poor Mediterranean regimes is how to finance the immense costs of redistribution, clientelism and patronage without compromising their control over the economy. For decades external rents⁴ guaranteed a sufficient inflow of capital to sustain redistribution policies in the Maghreb and Mashreq. In the 1980s, however, the economies on the Gulf peninsula faced drastic contraction as a consequence of dwindling oil prices, which led to a drastic reduction not only of aid from the Arab world, but also of demand for migrant workers.⁵ Having previously harnessed the remittances of large-scale labour migration to the EU for the stabilization of their economies,⁶ the Maghreb countries and Turkey shared the same fate and had to compensate for the lack of capital inflow after the European immigration regime tightened.

Depleted budgets and the lack of external rents necessitated changes in economic policies. The Mediterranean regimes then had to resort to one of two adjustment strategies: drastic cuts in public spending or growth boosting reforms of the economy. Cornered by economic crises in the 1980s, some Mediterranean regimes struck deals with the IMF, and thus committed themselves to the first strategy, which encompassed austerity, privatization, removal of subsidies and trade liberalization. In this way, the Mediterranean regimes attempted to reduce redistribution in exchange for retaining control over the economy. Due to the IMF's focus on the immediate resolution of balance of payment problems, structural adjustment programmes targeted public spending first, whereas governance reforms were only required later in the process. Thus, IMF conditionality imposed the reduction of consumer commodity subsidies, pay cuts and layoffs in the public sector on the Mediterranean countries in order to balance budgets. Reducing government inference in the economy, however, was rather neglected by

⁴ External rents are revenues that are not generated by domestic economic activity. In the Mediterranean context, external rents are mainly aid from Gulf monarchies and Western allies as well as worker remittances in labour exporting countries. Jordan for example received roughly 50 percent of its revenues in the form of grants and loans from the Arab world and Western allies throughout the 1970s and early 80s (Glasser 2001: 95).

⁵ Lately, many Gulf economies have adopted labour laws that discriminate against foreign workers. This trend of nationalizing the domestic economy aggravates unemployment in traditional labour exporting countries like Jordan and Egypt.

⁶ Worker remittances guaranteed for the inflow of private capital into economies where capital was scarce like in the Maghreb countries. Families that received remittances were able to finance services (especially in the construction sector) and thus, the money trickled down into the local communities and helped fostering grassroots development.

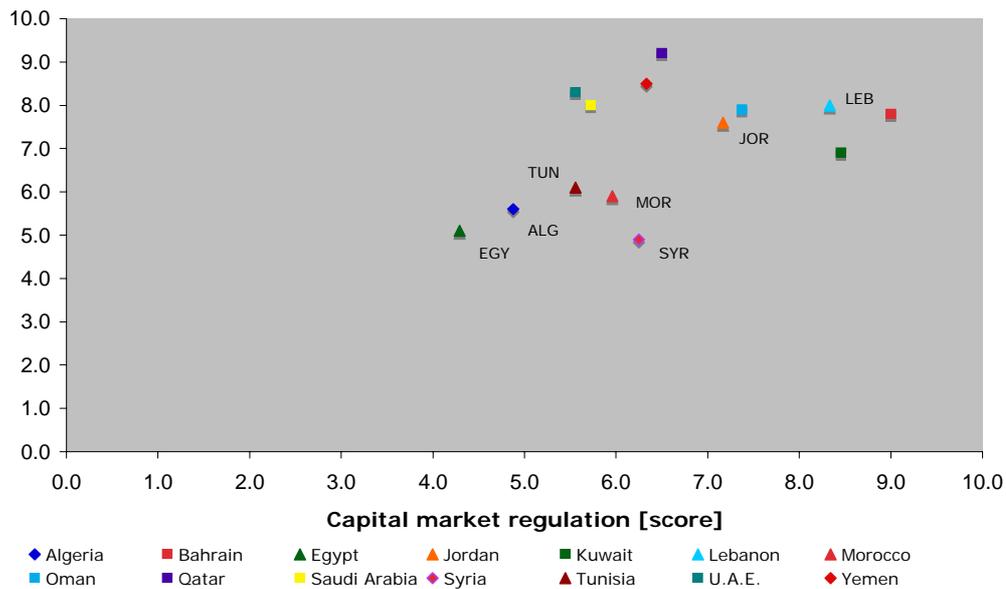
IMF conditionality in this early stage, which allowed Mediterranean governments to hold on to their control over the economy.

It turned out, however, that this economic strategy sparked resistance from different parts of the society: The so-called ‘bread-riots’ and other public uprisings in the 1980s in Lebanon, Syria, Egypt, Yemen, Jordan and Morocco showed that the poorest segments of the society as well as trade unions and Islamic movements were ready to stand up against governments over spiralling costs of living, austerity measures and economic hardship.⁷ Fearing that those movements could present a serious threat to the regimes when unified in their opposition, the Magrebian and Mashreqi governments had to slow down the implementation of structural adjustment programmes and embark on an economic strategy, which fosters economic growth and thus generates sufficient state revenues in order to sustain a high level of redistribution.

Trade liberalization seemed to be a strategy with a favourable cost-benefit ratio: due to the growth-boosting effect that was attributed to trade openness in other parts of the world, Structural Adjustment Programmes of the IMF and the World Bank require and sponsor the removal of trade barriers. Trade reforms also facilitate qualification for membership in the WTO and the European Union was also willing to support the adjustment process by means of its MEDA funding. Trade regimes in the Mediterranean partner countries, however, remain comparatively closed as illustrated in scatter plot 1.

⁷ In August 1983, urban unrest was spurred in Morocco over King Hassan’s decision to reduce consumer subsidies by 20 percent. Protests against lifted subsidies in particular or spiraling costs of living in general also took place in Khartoum in 1982 and 1985, in Tunis in 1984, in Jordan in 1989 and 1996 and in Algeria in 1988. In Lebanon even the rival factions of the Lebanese civil war joined forces to stage an extensive street protest against exchange rate policies, which boosted living expenses in summer 1987.

Scatter plot 1: Regulation of trade and capital markets



Source: Economic Freedom, Arab Dataset 2005, scores: 0=worst, 10= best performance

Limited reduction of import taxes, export subsidies and non-tariff trade barriers, however, contributed little to economic growth in the Mediterranean. Growth, it turned out, needs deeper regional integration and a large inflow of private investment,⁸ both of which require additional governance reforms in order to improve the investment climate (Blanke & Lopez-Claros 2005, Hakura 2004, Yousef 2004, Sala-i-Martin & Artadi 2002, Page 2002, Dasgupta, Keller & Srinivasan 2001). Since international investors attach great importance to the protection of property rights, flexible labour markets, and transparent administrative procedures, reforms in various parts of the economy were required. State intervention in capital markets, the judiciary, red tape, and public price-setting of goods and labour depress economic activity on the southern shore of the Mediterranean by deterring foreign investors. In terms of economic growth, the optimal reform strategy for Mediterranean regimes would be to minimize state intervention. However, since economic rationality is often an inferior motivation in the formation of economic policy compared to political reason, a dilemma occurs: the economic imperative to generate sufficient state revenues for sustaining the current level of redistribution conflicts with the preference of retaining mechanisms of discrimination by means of state interference in the economy.

⁸ Economic studies concluded that the economic stagnation in the 1980 and 1990, which happened at a time of comparatively high overall investment rates in MENA, was caused by the crowding-out of productive private capital by unproductive public investment (Blanke & Lopez-Claros 2005, Hakura 2004, Yousef 2004, Sala-i-Martin & Artadi 2002, Page 2002, Dasgupta, Keller & Srinivasan 2001).

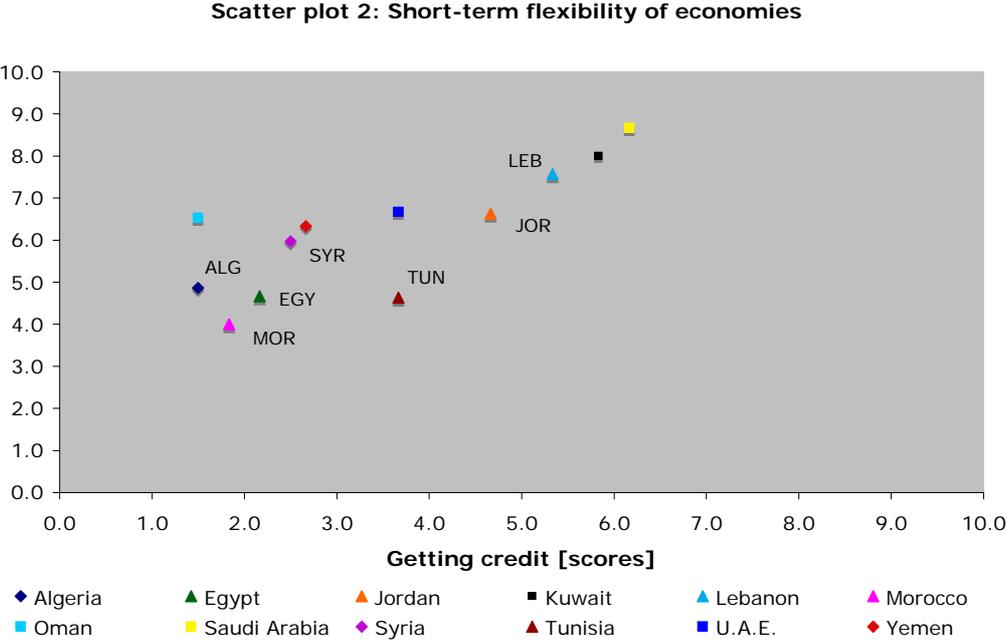
This clash of political motivations led to piecemeal reforms all over the region. Governments of the southern partner countries attempted to grant economic freedom up to a level that allowed for more entrepreneurial initiative, but entailed the least possible loss of control over their discrimination mechanisms. Southern efforts to liberalize their banking sectors exemplify the nature of those piecemeal reforms: recent studies have illustrated that international trade surpasses average integration levels, if trade reforms are accompanied by financial sector reforms (IMF 2002). Hedging the risks of trade flows and expanding production capacities for export markets require access to capital. The access to domestic and international capital facilitates trade integration and is thus desirable to reap the full benefits of globalization.

In MENA however, financial markets tend to be heavily protected from foreign competitors and the banking sectors are state-dominated: State-owned banks account for 95% of total bank assets in Algeria, 49% in Egypt, 43% in Morocco and 30% in Turkey. The Tunisian state directly controls six out of 14 commercial bank and all six development banks. Syria started legalizing private banks in 2001 and has since only licensed six commercial banks, what leaves the private banking sector insignificant. Only the more developed banking sectors in Lebanon and Jordan have opened their financial sectors to foreign competitors. Recently, Libya and Turkey have also removed their restrictions on foreign ownership of banks.

A high share of state-owned banks suggests that the state remains in control of access to credit. In this way, regimes are able to align credit policies with political considerations. Political influence on the selection of which company is able to invest and which enterprise manages to bridge financial impasses effectively allows the government to control which firm or sector grows or goes bankrupt. The banking system has thus turned into a channel through which MENA governments can exercise discrimination between politically aligned and oppositional citizens. The simple possibility of political discrimination (even if not exercised) could be a powerful leverage insofar as risk aversion might deter large parts of the population from engaging in oppositional movements. In a less subtle way of exercising control over the banking sector for political purposes, many governments in MENA use state-owned banks to ensure the financing of their inefficient state-owned enterprises. The political consideration here is to sustain employment in uncompetitive sectors of the economy. The downside of this market distortion is the long-term straining of public banks with non-performing loans. Thus, governments' interference in credit allocation depresses the economy in two ways: it

constrains the innovative potential and reduces the attractiveness of the economy for investors.

Unsurprisingly, economic reforms alongside the Mediterranean have not resulted in short-term flexibility of the economies concerned as scatter plot 2 illustrates. The access to capital is severely limited especially in North Africa and Syria. But even Jordan and Lebanon at the forefront of economic reforms only score mediocre.



Source: Economic Freedom, Arab Dataset 2005; scores: 0 = worst, 10 = best performance

Labour market rigidities are difficult to overcome in countries where Islamist movements act as powerful oppositional forces. Islamist groups are capable of mobilizing large parts of the population, even in countries with weak civil societies, by utilizing public sentiments against mass layoffs in the civil service and the deregulation of labour markets. Hence, labour market reforms would prepare the ground for anti-regime campaigns. Since Islamist movements enjoy strong public support in most Arab societies due to their provision of social services, ruling elites attempt to curb the inflow into these oppositional groups by refraining from deregulating labour markets at the expense of short-term flexibility of their economies

In sum: Despite the differences in reform efforts undertaken so far, it can be shown that the Mediterranean governments have no interest in sound economic reforms. Economic freedom is partly granted in order to stimulate economic activity, but always contained by the regimes' control over the economy and state interference in favour of patronage, clientelism and

discrimination. It remains to be studied in section III whether the incentives provided by the ENP induced a firm commitment to sound economic and political reforms.

SECTION II—The ENP and Southern Stakeholders: An Analysis

In 2004, the European Commission and the European Parliament announced a new framework for relations with the EU's eastern and southern Neighbours, the European Neighbourhood Policy (ENP). The ENP provides a bilateral mechanism to leverage accelerated structural reforms and offers additional rewards in the form of closer integration into the EU single market. By adopting common technical norms and standards, rules for protecting intellectual property rights, competition and consumer protection regulation and so on, European Neighbourhood countries can opt for deeper integration in those areas of the EU internal market that most interest them.

But who is involved in making these choices? Who are the negotiators on behalf of the millions of people living in the Southern Mediterranean? This section will try and answer some of these questions. By analysing the final outcome of negotiations within the Association Agreements, as well as examining the internal political economy of a number of Mediterranean Partner Countries, this section will attempt to shed some light on the processes and forces involved in, and excluded from, the ENP negotiations. Finally, this section will suggest policy proposals for both the EU as well as Southern governments in order to enhance the participatory process of the ENP, and to include integral stakeholders within the dialogue. The ultimate aim of such an inclusion will be to enhance the effectiveness of the ENP in the South.

The general outlook across the Southern Mediterranean is that, while many partner countries have articulated reform strategies in many important areas, it remains true that these policy commitments are negotiated by a selective group of senior-policy makers, and most of the benefits accrue to only an elite selection of society (Jones and Emerson 2005). The primary goal of these elite policy-makers is to ensure the survival of their regimes and to adapt their institutions to a rapidly changing environment. Thus, policy proposals that deal with economic and political reform are often based on this premise; these processes of 'reform' are

strictly controlled and regulated in such a way that regimes can retain their sources of power, with the goal being to profit from the new policies without transforming the current system.

Stakeholders within Political Reform: The Exclusion of the Islamists

The stakeholders involved in negotiations are quite evident when examining ENP policy towards political reform. As Haddadi (2002) argues, democratic openings in Arab countries should be seen in the light of the perennial struggle for control over the political system between the rulers and the opposition. Neither the ENP, nor the EMP, have been effective in breaking through and expanding negotiations beyond the tight circle of elites in the Southern Mediterranean: after ten years of engagement with the EU, the Moroccan, Jordanian, and Egyptian regimes are still strongly authoritarian, poor, and more 'Islamicised' than ever.

Problems with expanding the negotiation table have a lot to do with the structure of the decision-making process in many Arab countries. The Parliament's power in countries such as Jordan and Morocco are severely limited, and are easily trumped by the monarchy (Baracani 2005). In a recent interview, Moroccan constitutionalist Omar Bendorou confirmed that in light of the present constitution, "all power is really in the hands of the King" (*Le Journal Hebdomadaire* 2005: 28). This means that negotiations are often superficial and based on the fundamental understanding that the power will remain with the current regime.

The European support of civil society actors has also failed to bring about groups that are powerful enough to be incorporated in Euro-Med negotiations. This is due to the fact that aid for democracy and human rights projects is channeled through Arab governments. As a result, "much of the money has been channeled through human rights councils and commissions controlled by Arab governments, and many civil society groups receiving EU money are not independent. In Jordan, for example, much of the 'civil society' support goes to 'NGOs' headed by members of the royal family." (Young 2006: 4)

Since the events of September 11th, negotiations on political reform have further marginalized many players in the South. The US-led War on Terror has been more concerned with short-term security and has allowed room for the cooption of the language of reform by authoritarian regimes in an effort to consolidate their hold on power. In Morocco and Jordan, superficial reforms led by the monarchs have gone hand-in-hand with further restrictions on the media, professional associations, civil society, and political parties (Young 2006).

Similarly, since Egypt's contested 'elections' in 2005, the Egyptian regime has tightened emergency law provisions, cracked down on opposition figures of all kind, and detained many Muslim Brotherhood sympathizers (Young 2006).

Hence, the EU has not made much headway in expanding dialogue with the opposition, and has been unable to invite a representative civil society into ENP discussions. Arab regimes have been able to dominate the discourse on political reform, thus ensuring that any reform does not destabilize their hold on power. Liberal opposition in many partner countries such as Morocco, Egypt, Tunisia, and Jordan, is particularly weak, and is part of an even weaker civil society.

The weakness of the opposition—particularly political parties that seek genuine liberal democratic change—stems from decades of oppression and self-censorship at the hands of the incumbent regimes. This has meant that the only civil society organizations that have remained powerful are those with ethnic, religious or cultural ties. The lack of political party development in many countries does not allow for a meaningful vote on particular policy issues, and this weakness has meant that there has been little representation of these players at the ENP negotiating table.

The case of Jordan provides a perfect example of the model of personalised authoritarian rule that predominates in the region. The basis for the political support of the King has been tribal-based and dominated by a conservative Transjordanian political elite (Jones and Emerson 2005). Because political parties have, until recently, been banned, there has been a severe underdevelopment of the political party culture, and thus the Islamic Action Front is the country's biggest (and only) opposition party. As far as payment appropriations are concerned, Jordan has so far received a total of 264 million Euros (108.4 million under MEDA I and 155.6 million under MEDA II); the aforementioned civil society vacuum has ensured that the economic and political reform agenda of the ENP has provided the king and his appointed executives with its key priorities for maintaining a level of control over the state (Jones and Emerson 2005).

The EU should work towards assisting the liberal opposition (and opposition more generally) in fulfilling their functions of political representation that transcend the lines of ethnicity and religion. This can be done by creating a level playing field for civil society actors, by criticizing oppression, funding independent and peaceful civil society groups of all kinds, and refocusing efforts towards positive conditionality in the form of linking aid to repeal of

restrictive laws. “At present EU policies do little to protect genuine voices of opposition to autocratic regimes” (Young 2006: 6).

EU and Islamism

It is implicitly understood in the EU that the key ‘problem’ in the Middle East is political Islam, and this is reflected in the application of the political reform policies promoted by both the EMP and ENP, which have excluded Islamists from any dialogue on reform. The conceptualisation of the adversarial nature of the main opposition in Arab countries is a fundamental stumbling block in EU attempts to maintain an inclusive dialogue with the Southern Mediterranean. The implicit assumption in all the Action Plans is that civil society refers to the non-Islamic sector, which often consists of elite civil society organisations. Islamists have been left out of the dialogue; with their absence comes the absence of a large section of the population. In recent years policymakers in the EU have begun to recognize the importance of ‘engagement with moderate Islamists’. Nonetheless, the European Commission has been reluctant to begin such engagement, and has focused its efforts on negotiating solely with pro-status quo civil society organisations in the Middle East and North Africa. In Morocco, for instance, “the EU fetes the relatively pro-establishment ‘Party of Justice and Development’ (PJD), while shunning the banned and more socially rooted ‘Justice and Spirituality’ movement.” (Young 2006: 5).

**CASE STUDY: Judicial Upgrading
Strategy (JUST) in Jordan**

JUST provides a good example of the lack of cohesion among the stakeholders within many Southern Mediterranean countries. While the government is fully committed to the reform agenda set out in the JUST, the parliament and political parties have been apprehensive, and have yet to demonstrate any support for the project. This is partly due to the weakness and fragmentation of civil society in Jordan, as well as the deep-rooted tribal culture where access to justice is based on tribal support. Poor public perception and lack of awareness of the benefits of a well-functioning independent judiciary have significantly discouraged many groups within civil society to participate in negotiating reform. This has meant that the ruling elites have seized reform efforts and used them to their advantage (Jones and Emerson 2005).

Such exclusion has also lead to an inherent hypocrisy in EU conditionality; following the arrest of Ayman Nour, the leader of the secular Egyptian ‘al Ghad’ party, EU governments organized a démarche to the government. However, they remained silent during the 2005 and 2006 round-up of Muslim Brotherhood

supporters in 2005 and 2006 (Young 2006). Similarly, despite wide calls for engaging civil society in Morocco's Action Plan, there was no mention of the most popular civil society movement in the Kingdom, an Islamic formation led by Sheikh Yassine (Morocco Action Plan 2004). The Action plan for Jordan is similarly silent on the issue of political Islam, particularly in relation to the prospects for political reform and democratisation, and it is acknowledged that the Commission's civil society programs in Jordan have not reached Islamic organisations.

Thus, negotiations on the political front have only taken place among those within the status quo minority, and the EU itself has not helped such exclusion with its selective partners. The scope to use Action Plans to strengthen engagement with political Islamic movements is constrained by the fact that these documents have to be jointly agreed with the partner states, who engage in aforementioned selective negotiation with their populations (Jones and Emerson 2005). Ironically, as Marina Ottway (2004: 14) argues, "Islamist organisations are key to building constituencies for democracy in the Arab world today." By engaging with Islamists in countries such as Egypt, Jordan, Morocco and Tunisia, the EU might not only develop a mutual understanding between itself and a real 'other', but it will also give credence to an alternative discourse to that of the ruling government, and invite a third party into negotiations that may in fact be more representative of the partner countries than the current governments in power.

Beyond this history of exclusion a rapprochement between the EU and Islamist groups is further complicated by the fear of these movements to be branded 'foreign agents'. Many Arab NGOs have chosen to remove themselves from negotiations on issues tied to European financial assistance. For instance, Egypt's opposition Kifaya movement has declined numerous offers of EU support (Young 2006). Islamists are especially hostile towards European support, which only fuels the tension between them and Western influences. By choosing to ignore EU efforts in the region, such groups are choosing to remain outside of the negotiating table, which in turn means that what could have been genuine European efforts to help the region only strengthen the status quo.

The Power of Conditionality

Rethinking the EU's approach to democratisation in the region is key, and the effective use of conditionality is essential in order to even out the balance of power on the Arab negotiating

table, and, more importantly perhaps, re-invite those who have already been excluded; the inclusion and broadening of dialogue with civil society means taking Islamist views into account when dictating policy conditionalities. While conditionality has been taken more seriously within the ENP, the EU has not lived up to its promise of offering effective incentives for political reform, nor have they consistently applied negative and positive conditionality (Young 2006). “The EU has never activated the human rights clause of its Association Agreements with either the Mediterranean states of the Barcelona Process or the former Soviet Union states” (Jones and Emerson 2005: 20). A perfect example is the case of Morocco, which the EU regards as the best performer, despite its record of continuous human rights abuses.

Effective democracy-promotion is necessarily based on supporting the opposition and increasing their negotiating power. Most of the opposition have either been excluded through the filtering process of the ruling elites, or have selectively chosen to withdraw from any EU-related reform projects. There is thus a need for a more participative aid programming process led by the EU to invite the opposition into dialogue, even if it comes at the expense of the status quo.

Economic Reform: The Importance of Agriculture

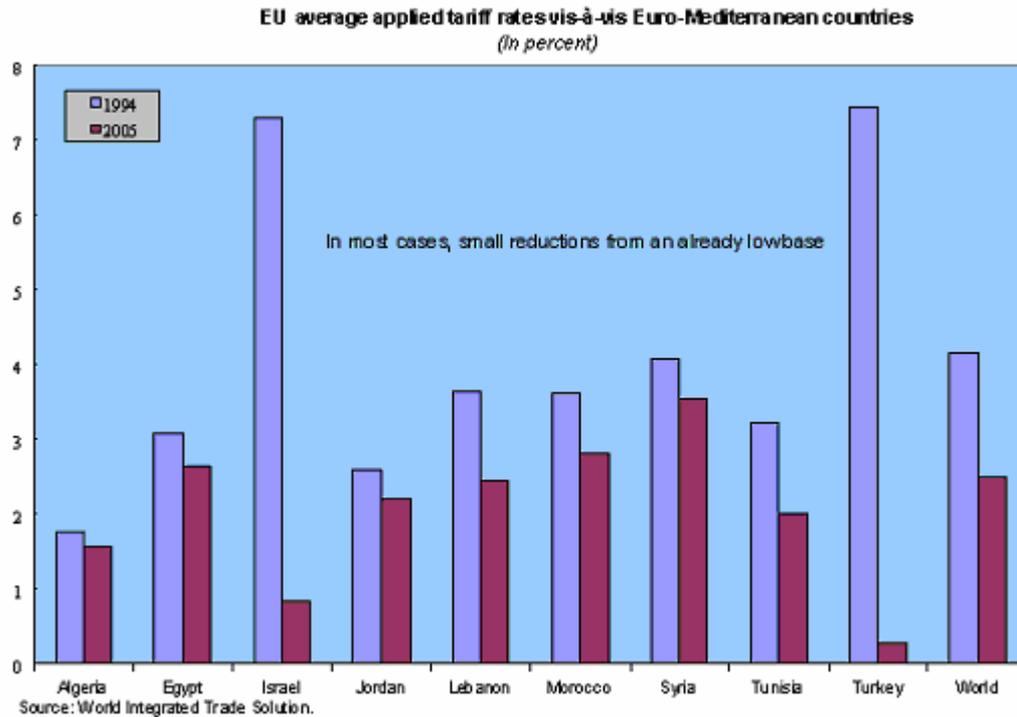
Many have argued that in the area of economic reform, the processes of liberalisation pursued by the ENP have been structured in a way that favours the economic interests of elite groups (Jones and Emerson 2005). Dillman (2001) argues that the reasons for this are owed to the fact that economic reform through the ENP has been successfully hijacked by the ruling elites in the Southern Mediterranean. There are two major reasons for these claims, which shall be addressed here.

Firstly, business interests in many Arab states have not provided an effective lobby to negotiate their interests within the ENP dialogue (Jones and Emerson 2005). Although the Association Agreements in countries such as Morocco and Jordan offer a unique opportunity for Arab firms to access new and large markets, local private sector firms in these countries face the enormous challenge of securing sustainability and competitiveness in local and traditional markets, which are small and already flooded with cheaper and higher quality imported products. Thus, not only are many of these firms incapable of competing within the EU market, they also lose a large share of their domestic market to more competitive and

higher quality EU goods. Many of these businesses, particularly the smaller and less-connected ones, have been unable to voice their opinions on EU reform policies.

In order to overcome these challenges, the EU has come up with a reform initiative to make the private sector in Arab countries more productive and competitive, to enable it to withstand the challenges they may face by the global economy. One such initiative is the Euro-Jordanian Action for the Development of Enterprise (EJADA). It remains to be seen whether such initiatives are able to widen the scope of negotiation and allow room for smaller-scale businesses to assert their interests. At this moment, however, it seems that these considerations have been negotiated on the extent to which ruling elites see EJADA (and other such initiatives) as desirable to protect their economic and political position (Jones and Emerson 2005).

The second reason for stalled negotiations has to do with the restrictive “free trade” offered by the EU. “Arab states have not been given the prospect of full market integration in those sectors where they are most competitive, free movement of people into the EU, or access to European regional and cohesion funds” (Young 2006: 3). With the exception of Israel and Turkey, the level of and reduction in the EU’s average applied tariffs have been minimal, as illustrated in the graph below. The exclusion of agricultural products from the Euro-Med Free Trade Area has meant that any negotiations within the domestic sphere of MPCs must have either excluded farmers or not taken their views into account when drafting the final policy proposals.



If the EU really does have in mind the broadening of the ENP beyond the elite circles of Arab diplomacy, then it must work to engage civil society, many of which are Islamists. Cavatorta et al. (2006) argue that “if the EU were truly attempting to promote a concept of security based on economic development and democratisation, we should see a form of economic cooperation that does not benefit the current governing elites, we should see the use of conditionality when a partner country ‘misbehaves’, we should see a positive engagement with opposition parties” (p. 9). Misplaced focus on economic liberalisation as a launching pad for democratic reforms is not possible, and such a casual mechanism is at best tenuous, if not counterproductive to the goal of achieving security, development, and democracy.

New influence of the Southern partners on Euro-Med policies?

By comparing the EU country reports and strategy papers produced by the European Commission with the jointly agreed National Action Plans, we can identify the impact of the Mediterranean regimes on determining the policy priorities. At present, however, only Morocco, Tunisia, Jordan and the Palestinian Authority have concluded National Action Plans, what reduces the scope of the study.

Political reforms

In the field of democratization it is striking that the strategy papers identify the shortcomings of political liberalization, whereas the National Action Plans are either vague or unambitious regarding political reform. The Action Plans avoid tackling any of the three major impediments to political openness in the Middle East:

Separation of powers is a concept that the Mediterranean partners only adhere to formally. Prerogatives of the rulers and their interference in legislation undermine systems of checks and balances. In Jordan and Morocco, the king appoints the upper house, has the right to suspend the parliament and to appoint ministers in key positions to his liking. Exercising his rights, the Jordanian king for example suspended the parliament in 2001, postponed parliamentary elections for two years and passed 211 bills before the next parliament assumed office. The Tunisian constitution gives the president the monopoly of legislative initiatives and law enactment, while he also interferes in the judiciary.

The National Action Plans fail to address the lack of checks and balances. Instead, short-term measures suggest strengthening domestic and international dialogues on democratization instead of democratizing. If the National Action Plans contain references to ‘good governance’, like the Jordanian one, actions in this regard remain unspecified.

Elections for the parliament or presidential positions are rather formal exercises than open political competitions. The reason for this phenomenon lies in the set-up of institutions that pre-select candidates or favour the ruling elite. Examples for that are the Tunisian provision that candidates secure endorsement by 30 legislators or mayors, virtually all of whom belong to the governing party or the interference of the Algerian military in the election process due to which six out of seven presidential candidates withdrew their candidacy in 1999.

Reforms of electoral laws are only envisaged in the National Action Plan of Jordan, but omitted in the others.

Oppression of civil society actors like professional associations and crucial social movements persists. Essential human rights like the freedom of assembly and the freedom of

expression are insufficiently protected in Morocco, Jordan, Tunisia. The media is controlled by the state, censorship prevails and negative commentary on the rulers is forbidden.

The NAP, however, omit the commitment to specified actions in this regard. The vagueness of the Action Plans is especially striking in the Tunisian case: In a country whose authorities even control the use of telecommunication and internet, the NAP envisages to ‘further increase participation by all sections of Tunisian society in political life’ and to ‘further develop the role of civil society’ without defining reform measures in this respect. In the field of human rights, skin-deep measures like parliamentary dialogues are envisaged, whereas the problem of human rights abuses in the name of the ‘war on terror’ was not tackled in any of the Action Plans.

Economic reforms

The same tentativeness characterizes the National Action Plans in their economics section. Profound barriers to economic growth, which were singled out by the Strategy papers, remain ignored in the jointly agreed reform programmes:

Trade reforms as suggested by the NAP lack determination to aim at deeper regional integration. The agreed reform steps mainly seem to reflect the conditions of the WTO. Measures to harmonize technical standards and import regulations, however, are not specified in the suggested programmes for economic reform, and the Mediterranean partners attempt to restrict the Palermo action plan to specific sectors. Thus, the outcome of integration a la carte might be that the southern partners fail to reap the benefits of the international division of labour and thus forgo their opportunities to develop comparative advantages in the era of offshoring.⁹

Even though burdensome **bureaucracies**, and the lack of transparency in the regulatory framework and widespread corruption are criticized in the EU country reports on Morocco, Tunisia, and the Palestinian Authority, governance reforms are omitted from the National Action Plans. New institutions (like one-stop agencies and regional investment centres) were

⁹ In contrast to the traditional models of comparative advantages that assumed the specialization of economies on particular goods, economists regard the division of labour as the specialization on tasks in a globalized world (Grossman & Rossi-Hansberg 2006).

established in some countries, which in part adds to conflicting competences. Thus, entrepreneurs still have to spend significant shares of their profits on intermediaries and full-time employees, who deal with local bureaucracies.

State control over the banking sector and state interference in the judiciary remain a shortcoming in the efforts to improve the investment climate. The suggested ‘modernization of the financial system’ in the Moroccan National Action Plans, for instance, aims at establishing monitoring institutions, but falls short of resolving the problem of state ownership and governmental interference in the allocation of credits.

Conclusions

It has been shown that the Mediterranean governments succeeded in excluding the stakeholders of the civil society out of the process of policy-formation in the European Neighbourhood Policy. Hence, the ruling elites were able to assert sole representation as well as their preference for skin-deep reforms.

Jointly agreed short-term measures on political liberalization fail to specify institutional reforms in the National Action Plans. None of the three major obstacles to political liberalization in the region – the missing separation of powers, the oppression of the civil society and flaws in electoral procedures – are sufficiently addressed, if tackled at all. Many of the steps of economic reform suggested in the National Action Plans rather represent conditions for the participation in other international organizations like the WTO than suggesting solutions to imminent obstacles to economic development.

Thus, the Mediterranean partners have managed to redirect political support towards their fields of interest without compromising on their hold on power. If the first generation of National Action Plans intended to bolster the Euro-Mediterranean Partnership by omitting any contentious issues, it could succeed as a trust building exercise. As an instrument for leveraging sound reforms in the economic and political sphere, the European Neighbourhood Policy has failed so far.

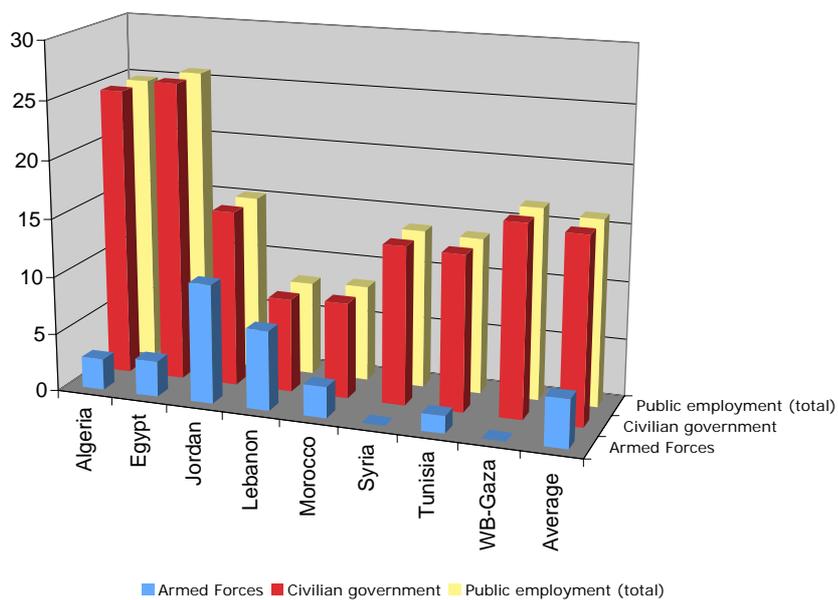
Policy Proposals to for a more Inclusive Neighbourhood Policy

The ENP contains many faults that must be addressed in order to be successful for everyone involved. There are a number of policies the EU could pursue in order to widen the scope of negotiation on reform and in order to build a more inclusive EuroMed region. These are outlined below:

- **Supporting all forms of peaceful reform movements in the South.** The first objective should be to build the foundations of democracy, such as fostering all forms of civil society and developing an independent media. A second step should progressively address the political core of power relations by choosing to engage with mainstream Islamist parties. Just as important, the EU must change its funding rules to make it easier to fund civil society organisations it chooses, rather than those favoured by the ruling elites.
- **Rethinking trade policies between Europe and the Southern Mediterranean.** The EU should rethink the trade policies promoted by the ENP, particularly those relating to agriculture. With regard to economic reforms, the ENP needs to go beyond skin-deep trade integration and to address the problems of state interference in various parts of the economy and red tape.
- **Tougher enforcement of positive and negative conditionality.** The European Neighbourhood Policy must begin to address the major impediments to economic development and political reform instead of dealing with issues of marginal importance. In the political realm the EU should criticise Arab governments for failing to live up to their commitment to sound reform. In terms of positive conditionality, the EU should provide greater incentives for positive reform efforts that include all sectors of society. As a start, the Union should develop a better understanding of the constellations of power in the Southern Mediterranean.

Annex

Chart 1: Public Employment in Mediterranean Countries [%]



Sources: Abrahart et al. 2000

Table 1: Public subsidies and price regulation in MENA

	Electricity/ fuel	Water	Transport	Food	Medicine
Egypt	X		X	X	X
Algeria				X	
Morocco	X			X	X
Tunisia				X	
Lebanon	X			X	X
Syria				X	
Jordan	X		X	X	
Turkey				X	X
Libya	X	X	X	X	X

Source: Heritage Foundation, Economic Freedom, 2003

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