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ECONOMIC BREAKTHROUGH BY
THE MEDITERRANEAN COUNTRIES
IN THE CONTEXT OF EU ENLARGEMENT



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SUMMARY

For a long time the European Communities pursued a reactive, rather than a proactive policy stance towards the Mediterranean, insofar as they tended to follow events, not influence them beforehand. No overall policy concept emerged, probably because of differences of interest among EC/EU member-states. Several agreements were reached with individual Mediterranean countries, however, they were limited by being bilateral and having no multicultural or institutional background.

The Community's policy towards the Mediterranean had changed by the 1990s. As the Cold War ceased, the problems moved from the Eastern part of Europe to the South. In December 1990, the 12 member-states introduced a 'New Mediterranean Policy'. Despite a good start, the eventual results were insufficient for the Mediterranean countries. The funds came mostly from the European Bank and investments were not executed because of the risks. The protectionist trade policies of the EC left the Mediterranean region with a trade deficit with the Community. The aid extended was clearly insufficient to treat the social problems, and that the economies of the developing countries called for a different breakdown of the aid programme.

The EU wished to formulate a geopolitical concept responding to the common issues, especially the destabilizing factors (the demographic boom, emigration, developmental differences, and the strengthening of Islamic integration) and the proliferation of weapons of mass destruction. These issues called for a global, coordinated approach.

In 1995 the Euro-Mediterranean Conference formed the basis for the process leading up to an agreement between the EU and the Mediterranean countries. This

multilateral frame, although it considered the differences between member-states, is based on partnership. Although the Community possesses homogeneity of economic and political life, the differences between the Mediterranean countries are clear. Thus, association has to be considered more as an objective. The implementation began with bilateral agreements between the EU and certain countries in the region. Turkey, Cyprus and Malta can be considered special cases, with which the EU reached customs-union agreements. Most other Mediterranean countries have now signed Euro-Med contracts or are preparing to do so. Others are still negotiating. Although the contracts signed are not identical, they correspond in their structure and main points, and resemble the association agreements with the CEE countries. Besides ensuring a free flow of goods, they include stipulations on capital flows, competition law, investment protection, financial and economic cooperation, and improvement of political dialogue and social and cultural cooperation.

The advantages of the free-trade agreements for the EU are obvious: the Mediterranean countries open their markets to the EU by gradually cutting their customs tariffs and non-tariff barriers. As part of the harmonization process, they offer an investment environment with greater advantages, so enabling the EU to use the cheap, qualified labour force of the region. Nevertheless, the EU, as the economically more powerful of the two parties, cannot take a solely mercantilist stance in exploiting the regional markets. Since the EU share in these markets is already quite high in most cases, there will also have to be economic growth before the EU can increase its exports substantially. The EU therefore has a stake in economic growth in the Mediterranean. The EU also has a political stake in creating jobs in

the region to minimize its risks. To put it into other words, all funds invested in the Mediterranean increase Europe's security. It would also be a drawback if European companies failed to discern good prospects in the region.

The free-trade agreement represents a revenue loss for the Mediterranean countries, duties on imports from the EU. This places a big burden on the state budget in the short term, as customs duties provide a high proportion of the state revenues in most countries in the region. Consequently, the Mediterranean countries expect financial assistance mainly from the EU, to balance the costs arising from the free trade agreements and, of course, for social purposes. The advantages of the Euro-Med agreements are that they help governments to undertake reforms, by creating ties between the country and the agreement. The obligations in the agreements and the financial assistance afforded help them to take the necessary steps.

However, economic liberalization and the opening process call for enormous funds in the short run. The EU can only provide limited assistance, due to commitments concerned with Eastern enlargement, structural tasks and other factors. This means that funds are lacking to solve some of the problems, such as the budget balance and employment. These dampen the economy and have social effects, such as encouragement to fundamentalist forces and to migration, that are thoroughly undesirable for the EU. With political reforms, there are also high chances of detrimental effects. The introduction of democracy may give impetus to fundamentalist forces and ideas, which is not the goal of EU policy. In the event, therefore, the Mediterranean policies of the EU have some undesired negative effects as well.

The most important factor to affect EC/EU policy towards the Mediterranean in recent decades has been the end of bipolarity in international affairs. The West has tried to play an active role during the transition period in the CEE countries, where the emergence of stable, prosperous democracies is seen as important for security reasons. The same

arguments have turned the EU into one of the main supporters of political and economic transition in the Arab countries of the Mediterranean. There has therefore been parallel interest in both groups of countries since the beginning of the 1990s.

Although a more favourable environment developed for investment in the Mediterranean countries by the late 1980s and early 1990s, thanks to economic liberalization, foreign capital investors have preferred the CEE countries. Twice as much FDI went to the CEE countries as to the Mediterranean countries in 1992-4 and three or four times as much in the 1995-8 period. In 1994-5, financial transfers from the EU were seen as the area in which the CEE countries were the biggest rivals of the Mediterranean. Of the assistance in the 1995-9 period, the CEE countries received 59 per cent, as opposed to 41 per cent for the Mediterranean, although the original division announced was 56:44 and the total sum was also reduced.

Examining the future of relations, the most important aspect is that the CEE countries have real chances of full membership and almost all countries in the group have an association agreement with the EU. The latter is the case with only three of the Mediterranean countries. This means that the CEE countries face a prospect of steady integration, as true partners of the EU, while the Mediterranean countries' chances of economic breakthrough are fewer and less certain.

1) INTRODUCTION

Although the Mediterranean was the cradle of Europe, culturally and in many other ways, the continent's political and economic centre of gravity moved northwards at the end of the Middle Ages and the Mediterranean became increasingly peripheral.

However, some significant developments have occurred in recent decades. Several countries along the southern and eastern littoral gained independence and experienced rapid demographic growth. The European Union (EU) enlarged southwards in the 1980s. There was also an oil boom. These have steadily enhanced the political and economic status of the Mediterranean region.

The most important task at the present stage is to adapt more rapidly and completely to the world economy. Here the EU has a vital role to play.

2) EU POLICY TOWARDS THE MEDITERRANEAN

The Mediterranean always received close attention from Europe and from the European Communities, due to its geographic proximity and to former colonial ties. However, no overall policy concept emerged (similar to the Lomé Convention with former sub-Saharan African colonies), probably because of differences of interest among EC/EU member-states. The Community pursued a reactive, rather than a proactive policy stance, insofar as it tended to follow events, not influence them beforehand. Although several agreements were reached with individual Mediterranean countries, they were limited by being bilateral and having no multicultural or institutional background.

The first generation of association agreements, reached before the first EC enlargement of 1973, concerned Southern European countries. The Community made compacts with Greece in 1962 and Turkey in 1963, mainly in response to US pressure, as a means of reinforcing the southern wing of NATO. Similar arrangements were made with Malta in 1970 and Cyprus in 1972. In each case, the other party was a European state, which expected to gain full Community membership at a future date.¹

Morocco and Tunisia, as former protectorates of France, already received special treatment under a protocol attached to the Treaty of Rome.² Negotiations resumed in 1963 and a five-year programme of partial association was endorsed in 1969. These agreements mainly concerned trade preferences. As the preferences given to the Maghreb countries amounted to discrimination against other Mediterranean countries, the EC gradually reached agreements on preferential treatments with the other countries in the region. Such regional agreements covered 15 countries by the early 1970s.³

The agreements gave rise to disputes, since the Mediterranean countries were given different treatment (depending on the interests of specific EC states) and their agricultural exports were hampered by the Common Agricultural Policy.⁴ There were also problems with the food and textile industries. The economically underdeveloped countries were offered special preferences under the General

¹ The agreement with Greece presaged full EC membership in 1981, after 20 years of negotiations. The negotiating process continues with Cyprus and Malta. Turkey only has a chance of gaining full EU membership in the longer run.

² These meant that France did not have to modify its preferences under former customs agreements. The same applied to Laos and Vietnam. Algeria was still considered as an overseas territory of France at that time. See Lister (1997), p. 79.

³ These included Spain, Portugal, Greece and Yugoslavia.

⁴ Between 1960 and 1971 the total export of the Mediterranean to the EU increased by 250%, while the agricultural export increased by only 39% in the same period. See Lister (1995) p. 10.

System of Preferences (GSP), but when the United Kingdom joined, the Commonwealth countries gained an advantage, which decreased the value of the agreements.

The Global Mediterranean Policy (GMP) introduced in 1972 aimed to make up for the deficiencies in the bilateral agreements and compensate for the results of the Northern enlargement of the Community in 1973. It sought to provide free trade (asymmetrically) within five years for manufactures (except for some critical products such as textiles). The EC gave preferential treatment to some 80 per cent of agricultural exports by the Mediterranean countries and offered financial aid and unified treatment of the labour-force issue. Within the GMP framework, several new agreements were concluded from 1974 onwards, for instance association agreements with Morocco, Algeria and Tunisia in 1976, and with Egypt, Jordan, Syria and Lebanon in 1977. For political reasons, no association agreement was signed with Israel in 1975, while Libya did not want an agreement with the Community.

After the 1974–5 crisis, the chances of achieving the aims of the GMP decreased, so that few of them were realized in the end. The EC protected its agriculture with unilateral measures as necessary, and the development of the light industry was hampered by the restrictions on textile imports into the EC. In theory, the association agreements were to have provided more advantages than a free-trade agreement, but they offered few consultation rights and did not mention the prospect of full membership at all. Due to protests from the United States, the Mediterranean countries were unable to provide the EC with preferential treatment themselves.

Southern enlargement of the EC in the 1980s had negative effects on the other Mediterranean countries. Free entry to EC markets for the agricultural products of Spain, Portugal and Greece left no room for the products of other countries in the region. Mediterranean products were placed on the same tariff-reducing schedule as those of Spain and Portugal in the period 1987–95.

However, there were significant quantitative limitations, as the preferences applied only to the volumes sold in 1980–84, so that neither the export volumes nor the range of goods could be increased.

The policy of the EC towards the Mediterranean had changed by the 1990s. As the Cold War ceased, the problems moved from the Eastern part of Europe to the South. In December 1990, the 12 Community states introduced a 'New Mediterranean Policy' aimed at tripling their stock of investment in the Mediterranean. The policy included

- * establishing financial funds for horizontal cooperation and regional integration,
- * improving the efficiency of the agreements, by easing tariffs over the period 1993–6, and
- * increasing quotas and reference quantities by 5 per cent a year.

Despite a good start, the eventual results were insufficient for the Mediterranean countries. The funds came mostly from the European Bank and investments were not executed because of the risks. The protectionist trade policies of the EC left the Mediterranean region with a trade deficit with the Community. The aid extended was clearly insufficient to treat the social problems, and the economies of the developing countries called for a different breakdown of the aid programme.⁵

At the Lisbon Summit of June 1992, under the Portuguese presidency, the European Council proposed horizontal widening of the cooperation with the Mediterranean. The additional were regional cooperation, the environment, demography, cultural issues and investment incentives. Several new programmes were launched, including Med-Campus (university cooperation), Med-Avicenna (research

⁵ Distribution of EU aid and loans was not easy because of the different levels of economic development among the Mediterranean countries. Cyprus (population 700,000) has a per capita GDP of over USD 10,000 and Israel (population 5.3 million) over USD 14,000. Egypt, on the other hand (population 58 million) has a per capita GDP of hardly USD 700.

institutes), Med-Urbs (urban improvement and management), Med-Media (TV and radio networks and the media), and Med-Invest (increasing foreign and domestic investment).

Important proposals were made by the Southern countries as well. Morocco, whose application for full membership had been rejected a few months earlier, proposed setting up a free trade between Morocco and the EU, which Tunisia would also join later. Probably it was around this time that the idea of a free trade with the region emerged among the EU decision-makers. In 1994, the Council declared that a Euro-Mediterranean free-trade area was essential, so as to create a zone of security and stability. In December the same year, the Council declared that the Mediterranean was a region of 'strategic importance with priorities'.⁶ The final declaration at Cannes, in June 1995, included the plans for the EU Mediterranean policy that formed the basis for the Union's opinion, advanced at the Barcelona summit in November 1995.⁷

3) EURO-MEDITERRANEAN PARTNERSHIP

The Euro-Mediterranean Conference that opened in Barcelona on November 27, 1995 formed the basis for the process leading up to an agreement between the EU and the Mediterranean countries. The Barcelona Declaration at the end of the two-day conference foresaw wide cooperation in almost every area. A new feature was its institutionalization of the multilateral form, rather than the traditional bilateralism – a

⁶ The Essen Declaration also dealt with the admission of the Central and Eastern European (CEE) countries as well. The relations between the two regions are discussed later.

⁷ The declaration of Cannes expresses the ideas about EU-Mediterranean relations more clearly, since the Barcelona Declaration was founded on several compromises. See Linjakumpu (1995), p. 84.

dimension that had long been lacking from Community policy towards the Mediterranean. Further dimensions to the relations, including an undertaking of 'global and mutual responsibility', was made possible by Maastricht and the Middle East peace settlement.

The preamble to the Barcelona Declaration outlines the nature of these relations, which are reinforced by history and geographical neighbourhood. The fall of the Berlin Wall and the EU agreements with the Central and Eastern European (CEE) countries caused the Mediterranean states to worry about whether they would lose their privileged status. The EU wished to formulate a geopolitical concept responding to the common issues, especially the destabilizing factors (the demographic boom, emigration, developmental differences, and the strengthening of Islamic integration) and the proliferation of weapons of mass destruction. These issues called for a global, coordinated approach.

This multilateral frame, although it considered the differences between member-states, is based on partnership. Although the Community possesses homogeneity of economic and political life, the differences between the Mediterranean countries are clear. Thus, association has to be considered more as an objective. All paternalistic, re-colonizing approaches by the EU, aimed at offsetting US influence, have to be ruled out.

The new, multilateral frame is supported by bilateral relations. The policy of the Union incorporates a pillar that allows relations with the countries of the region to be differentiated on grounds of economic and social level of development or geographical and historical ties. Thus, the multilateral form is complemented with two additional types of agreements:

The Euro-Mediterranean association agreements, in which free-trade zones are seen as replacing the agreements made with the seven Arab countries and the preferential agreement with Israel. (At the same time, the negotiations will start with the Palestine Authority.)

Customs unions established with Cyprus and Turkey are designed to pave the way for eventual full membership.

The Euro-Mediterranean partnership does not intend to replace any initiatives or actions aimed at stability, development or peace in the region. The parties call for global, just peace in the region, based on the principles and the acts of the UN Security Council and the Madrid Conference. These principles should be emphasized, as EU participation in this process has not always been smooth. Although Europe was not present at the Madrid negotiations in October 1991, the Union today has become one of the invariable participants, taking part in the planning and the participation, with especially positive results in the economic field.

The new, global Euro-Mediterranean partnership rests on three separate, but complementary pillars:

The pillar of politics and security aims to define the Mediterranean region as one of peace and political stability.

The economic and financial pillar provides for setting up an area of mutual prosperity.

The social, cultural and humanitarian pillar aims to develop human resources, as well as understanding among cultures and relations between civil societies.

3.1 The Euro-Med agreements

Implementation began with bilateral agreements between the EU and certain countries in the region. Turkey, Cyprus and Malta can be considered special cases, with which the EU reached customs-union agreements.⁸ Most other Mediterranean countries have now signed Euro-Med

⁸ The agreement with Turkey has been in force since January 1, 1996. Cyprus signed in 1998. Some difficulties have been met with in Malta's case.

contracts (Tunisia, Morocco, Israel⁹ and the Palestine Authority) or are preparing to do so (Egypt and Jordan). Algeria, Lebanon and Syria are still negotiating. Although the contracts signed are not identical, they correspond in their structure and main points.¹⁰ Besides ensuring a free flow of goods, they include stipulations on capital flows, competition law, investment protection, financial and economic cooperation, and improvement of political dialogue and social and cultural cooperation.

3.2 Financial assistance

The Mediterranean countries expect financial assistance from all over the world – especially from the EU, mainly to balance the costs arising from the free trade agreements, and especially for social purposes.

The EU and the United States each account for 43 per cent of the official development aid to the region.¹¹ The funds from the EU central budget increased with the launching of the Euro-Mediterranean Partnership, partly because it was intended to match the aid being given to the CEE countries. As a result, the ECU 1357 million for the period of 1991–5 almost tripled to ECU 4685 million for 1995–9. Several new aspects emerged. The funds are no longer separated by countries, but they are linked to specific conditions, so that the leading reformers receive the larger share. In addition, the Union supports new financing methods, where the basic assistance is not support of certain projects. Instead, priority is given to assisting structural, institutional and administrative reforms, in line with the practice of the international financial institutes.

⁹ Israel's case is slightly different, since it reached a free-trade agreement with the EU in 1989, so that the Euro-Med was only a confirmation of that.

¹⁰ They also resemble the association agreements with the CEE countries.

¹¹ Most of the American aid goes to Israel and Egypt.

In 1995–9, the EU provided 3435 million euros in assistance to the region. The various programmes and projects were financed within the MEDA, which is comparable to the PHARE and TACIS programmes.

Assistance under MEDA I

1. The national programmes (National Indicative Programmes) take 86 per cent. These cover (a) support during the economic transition (45 per cent), including structural transition (15 per cent) and the private sector, to improve the economic environment (30 per cent), and (b) assistance for the socio-economic balance (41 per cent), such as environmental protection, education, health care and social programmes.
2. Regional programmes (Regional Indicative Programmes) take 14 per cent, including 2 per cent in technical assistance.

Two EU and two MED-partnership countries may participate in any one programme. The programmes are rather complex, although they provide further possibilities.

Changes under MEDA II

The proposals for modifying the MEDA programme were to have fewer, but more thorough and beneficial projects, to have programmes instead of projects, to give more responsibility to the Mediterranean partners in the programmes, and to speed up the decisions-making mechanism. MEDA II covers the seven-year EU budget period (2000–06). As Mediterranean relations are a concern second only to Eastern enlargement, some 25 per cent of the funds for foreign relations go to the former. The funds available for the period are 5350 million euros.

Another important type of financial cooperation is lending. Loans from the European Investment Bank (EIB) in 1995–9 totalled 4808 million euros. For 2000–07, the EIB's Euro-Med II lending mandate is 6400 million euros. The EIB has committed itself to contributing a further 1000 million euros

from its own resources and at its own risk over the same period, for transnational projects.¹² There are several methods of affording the assistance, including direct funding of large-volume projects, assistance to medium and small-scale firms with loans through local institutions,¹³ the creation of risk capital, *etc.*

The EIB funds are aimed at three fields:

1. Development of local financial systems, introduction of new forms of assistance, especially funding of small and medium-sized ventures, which are under-capitalized and at the same subjects of strong competition.
2. Aiding the privatization process, by consolidating companies due for sale.
3. Assisting local companies and preparing them for the stronger competitive environment produced by free trade, mainly by establishing risk-capital foundations.

4) EVALUATION OF THE EURO-MED AGREEMENTS

4.1 The free-trade agreements

The advantages of the free-trade agreements for the EU are obvious: the Mediterranean countries open their markets to the EU by gradually cutting their customs tariffs and non-tariff barriers. As part of the harmonization process, they offer an investment environment with greater

¹² See http://www.europa.int/comm/external_relations/med_mideast/euro_med_partnership.

¹³ Between 1974 and 1996, ECU 1 billion was dispensed in this way, to assist 2900 projects worth USD 2.5 billion (*EIB Information*, 1997).

advantages, so enabling the EU to use the cheap, qualified labour force of the region. Better access to the Mediterranean countries' market will also benefit the EU in global competition.

However, the EU, as the economically more powerful of the two parties, cannot take a solely mercantilist stance in exploiting the regional markets. Since the EU share in these markets is already quite high in most cases, there will also have to be economic growth before the EU can increase its exports substantially. The EU therefore has a stake in economic growth in the Mediterranean. The EU also has a political stake in creating jobs in the region to minimize its risks. To put it into other words, all funds invested in the Mediterranean increase Europe's security. It would also be a drawback if European companies failed to discern good prospects in the region.

The situation for industry in the Mediterranean countries does not change greatly because EU markets have already been open to them. The free-trade agreements have not eased conditions for the goods in which the Mediterranean can be and has been most competitive. There is to be a gradual easing in the quotas for textile products, but the effects of this are dampened by the expiry of the Multifibre Agreement (MFA) in 2005. The MFA has given an advantage to small-scale producing countries by providing them with a fixed quota, so that large-scale competitors (such as China, India, Bangladesh and Pakistan) could not crowd them out of the market. Abolishing the MFA will probably bring benefits for the Asian producers on the European market, making them stronger competitors against the Mediterranean countries. There have been problems with Turkey and Egypt, which the EU has accused of underselling, introducing an import tax on their goods, despite the preferences given.¹⁴

There has been no liberalization of trade in agricultural products. The Barcelona Declaration and certain Euro-Med agreements contain only theoretical statements. No plans

of action have been put forward yet. The negotiations promised after January 1, 2001 have yet to begin. The EU member-states have an interest in retaining the regulations and restrictions for as long as possible.¹⁵ Furthermore, GATT obligations are likely to bring a blanket easing of EU agricultural policies, which will decrease the value of any individual preferential agreements with the EU.

To allow the domestic participants in the Mediterranean economies to strengthen, customs barriers under the Euro-Med agreements are being reduced as late as possible (over an eight-year period starting in 1999), especially in the case of consumer goods. It is unclear whether this period will suffice to build up the resistance of Mediterranean producers through rationalization and modernization. If this fails, the existing industrial base will receive a setback that raises unemployment, with severe social consequences, since already high unemployment is also being exacerbated by population growth.

4.2 Foreign investment

The Euro-Mediterranean free-trade zone will succeed in fuelling economic growth mainly if it manages to attract significant foreign direct investment (FDI) into the region. (*Table 1*) This will provide funds and technology that the economy requires.

However, the free-trade agreement is only a necessary condition for such investment, not sufficient in itself. Other requirements include the following:

- * Skilled labour. Education and training have developed significantly in recent decades, but still lag behind the CEE and South-East Asian countries.

¹⁴ See Ash (1997), p. 5.

¹⁵ Spanish products have enjoyed wholly free access within the EU only since 1996. Spain wishes to gain as much advantage from this as possible.

* Infrastructure. Here the Mediterranean region is comparatively underdeveloped. Improvements are needed in the financial system, transportation and communications.

billion in Turkey.

The positive political changes of the 1990s benefited most of the region's countries. However, the inflow of FDI was affected only in Israel, where previous annual figures of USD 200–400 million increased to USD 1.3–1.8 billion after 1994, accounting for 30–40 per cent of the total for the region. In general, the FDI inflow remained slow, as the region was still not attractive enough politically or economically. The crisis in the Middle East remained unsettled, the economies were relatively isolated, corruption was too prevalent, the

infrastructure was still underdeveloped, and Islamic fundamentalists represented a threat to political stability.

Table 1
FDI flows in the Mediterranean and the CEE countries
(USD million)

	1991	1992	1993	1994	1995	1996	1997	1998
Cyprus	82	107	83	75	119	259	175	200
Malta	77	40	56	152	183	325	128	130
Turkey	810	844	636	608	885	722	805	807
Algeria	12	10	-59	22	-24	447	630	500
Morocco	317	422	491	551	332	354	1079	258
Tunisia	125	526	562	432	264	238	339	650
Egypt	253	459	439	1256	598	636	891	1076
Israel	350	539	429	355	1306	1389	1455	1839
Jordan	-12	41	-34	3	13	16	361	223
Lebanon	2	4	7	23	22	64	150	230
Syria	62	67	176	251	100	89	80	100
<i>Total</i>	<i>2078</i>	<i>3059</i>	<i>2786</i>	<i>3728</i>	<i>3798</i>	<i>4539</i>	<i>6093</i>	<i>6013</i>

* The law and institutions. Although the Euro-Med agreements allow for legal harmonization with the EU, administrative and bureaucratic barriers are hard to eliminate, as they offer one of the main sources of employment in times of high unemployment.

* Raising taxation and revenues. The low revenues of the state place a heavy burden on the budget.

* Reducing country risks. There is much to do in this respect, as there are several political and economic risk factors in these countries.

The Mediterranean region has seen little FDI outside the energy sector in the last 20 years. Even with the high global capital flows of the 1990s, the amount attracted to the region scarcely exceeded Hungary's. Egypt was the only country in the region to attract an appreciable flow of foreign capital. The stock there was USD 14.8 billion in 1996, with USD 7.4 billion in Israel and USD 6.2

4.3 Macroeconomic effects

The free-trade agreement represents a revenue loss for the Mediterranean countries, duties on imports from the EU. This places a big burden on the state budget in the short term, as customs duties provide a high proportion of the state revenues in most countries in the region (*Table 2*). The severest consequences are in Tunisia and Morocco. Tunisia derives a third of its budget revenue from import duties, so that revenues will fall by 24.3 per cent. In Morocco, the fall will be 11.1 per cent.

Table 2
Revenue losses from tariff reductions on imports from the EU, %

	Algeria	Morocco	Tunisia	Turkey	Egypt
Import taxes and duties/total budget revenues	10.2	19.0	33.0	4.5	12.1
Import taxes and duties/GDP	2.9	5.0	8.2	1.0	3.9
EU imports/total imports	53.2	58.2	73.5	47.9	36.7
Lost revenue/total revenues	5.4	11.1	24.3	2.2	4.4
Lost revenue/GDP	1.5	2.9	6.0	0.5	1.4

Source: Bensidoun and Chevallier (1996), p. 51.

The advantages of the Euro-Med agreements are that they help governments to undertake reforms, by creating ties between the country and the agreement. The obligations in the agreements and the financial assistance afforded help them to take the necessary steps.

4.4 Evaluation of the partnership programme

An evaluation of the results of the Euro-Mediterranean partnership programme reveals both advantages and drawbacks. The advantages are the following:

- * It is a forum where even hostile nations sit together (Israel with Syria and Lebanon, and Greece and Cyprus with Turkey). Furthermore, it covers other subjects besides political issues (scientific, economic, *etc.*)
- * The projects involve others and help to eliminate prejudices.
- * The programme stimulates economic integration among countries in the region.
- * The EU provides financial and technical assistance and takes part in financing infrastructural and environmental projects.

The inherent aim of the EU's Mediterranean initiative is to minimize its own risk by helping the region's development. However, economic liberalization and the opening process call for enormous funds in the short run. The EU can only provide limited assistance, due to commitments concerned with Eastern enlargement, structural tasks and other factors already mentioned. This means that funds are lacking to solve some of the problems, such as the budget balance and employment. These dampen the economy and have social effects, such as encouragement to fundamentalist forces and to migration, that are thoroughly undesirable for the EU. With political reforms, there are also high chances of detrimental effects. The introduction of democracy may give impetus to

fundamentalist forces and ideas, which is not the goal of EU policy. In the event, therefore, the Mediterranean policies of the EU have some undesired negative effects as well.

5) RELATIONS OF MEDITERRANEAN COUNTRIES AND SUB-REGIONS WITH THE EU

It is important to consider countries and sub-regions separately as well when examining the relations between the EU and the Mediterranean region. What are their relations like? What approach do they take to the EU? How far does the EU consider them partners in the convergence process?

5.1 The Europeans

Three countries in the Mediterranean region are European: Cyprus, Turkey and Malta. They are likely to gain full EU membership in the future. Cyprus has already started negotiations in the first wave and Malta in the second. Talks with Turkey have not yet been scheduled.

Full membership for Malta, with its population of 350,000, would cause no problems. The standard of living falls in the lower part of the EU range, at USD 7394 in 1995. More than 70 per cent of the country's trade is done with the EU and there are other strong economic ties as well. Malta could probably have joined the negotiations in the first wave, if the government that took power in 1996 had not withdrawn the country's application.

The case of Cyprus is more complicated. It was invited to join the first wave, along with four CEE countries and Estonia. Economically open, the country has a per capita GDP of almost USD 10,000, which is similar to that of

Greece. The main problem is the political partition that has existed since 1974. Turkish military intervention and the self-styled Turkish Republic of Cyprus used partition as a way of preventing the unification of the island with Greece. This issue needs to be settled before full membership becomes feasible. The invitation to Cyprus was a compromise made to Greece, which would otherwise have refused to sign the customs-union agreement with Turkey.

Turkey has been in a state of association with the Community since the 1960s, under the only such agreement in which full membership is stated to be the ultimate goal. Despite this, the customs union was not realized until 1996, mainly because of Greek vetoes and of political changes in the 1980s. The country's leaders and the public are in favour of full membership.¹⁶ The problems are usually mentioned by the EU. Important obstacles include the democratic shortcomings, the too powerful army, the unsolved issue of the Kurds, and the social underdevelopment.¹⁷ Further difficulties are posed by the antagonism with Greece and the unsolved issue of Cyprus. Apart from all these factors, the admission of Turkey would bring into the EU a large Islamic entity, for which Europe is not yet ready, politically, socially or economically. At present, Turkey seems likely to remain in its role of a bridge between Europe and Asia, the West and Islam.

5.2 The Maghreb

The three Maghreb states are the Arab countries with the closest relations to Europe, mainly because of former French colonial rule. Morocco applied for admission in 1987, but the Council refused based on Paragraph 237

¹⁶ Although some groups (notably Islamists) have expressed opposition, this should be seen in the context of local rivalries. No group in government, even the Islamists, has ever expressed opposition to membership.

¹⁷ The GDP per capita of about USD 2500 is even for lower than in the CEE countries.

of the Treaty of Rome, as Morocco is not a European country. The approach has speeded up within the frames of the Euro-Mediterranean Partnership since 1995. Morocco and Tunisia were the first to sign Euro-Med agreements, whose opportunities they are keenly exploiting.

Due to the circumstances, Tunisia's economic development is stable, with a higher average standard and less pronounced social inequalities than Morocco. Politically, the Tunisian regime is rather self-reliant and opposition opinion suffers suppression, so that economic success is offset by deficiencies in democracy.¹⁸ The Euro-Mediterranean partnership is present in official policy, because a positive image is important to tourism, which is central to the economy.

Morocco is on the brink of launching reforms, although the country's economic performance is not really stable – GDP can still fall in drought years. Politically, the integrating role and unquestionable authority of the king provide a platform for the opposition as well. The strong tradition of enterprise creates the basis for an economy founded on the private sector. The earlier application for admission made clear the country's commitment to Europe and strong interest in approaching closer to it.

Negotiations are continuing with Algeria. The problem areas are the tense political situation, verging on civil war, and the ill-prepared economy: the one-sided structure of exports and the closure of the market to the outside world. Algeria has several disabilities, but its natural resources are indispensable to the EU.

5.3 The Mashrek

The five countries in the Eastern part of the Mediterranean and the Palestine Authority are also part of the EU's new Mediterranean

¹⁸ As people put it in Tunisia, 'People do not talk while eating.'

policy. Although they do not have such close relations with the EU as the Maghreb countries do, partnership has existed since the 1970s and involvement is also justified by the more active EU role in the ongoing Middle East peace process. Indeed, cooperation between the Mashrek and the EU countries is somewhat dependent on that process. Israel has an edge over the other countries in the sub-region, in its economy and as an equal partner of the EU. However, Israel does not accept EU participation in the Middle East settlement process, while the Arab Mashrek countries try to use the partnership as a balance to the US support for Israel.

The geographical borders of Euro-Mediterranean cooperation have not been charted. Libya is not a partner of the EU, and for political reasons, was not invited to Barcelona, but it remains a potential candidate for the partnership programme. The EU has maintained strong economic relations with the Gulf Cooperation Council (GCC), with intermittent talks since 1989 about a free-trade agreement. However, the interest of the GCC countries does not seem to be strong enough. In the long term, Iraq and Iran might also be EU partners, since they traditionally had strong ties with European countries.¹⁹

6. THE MEDITERRANEAN AND CENTRAL EUROPE

The most important factor to affect EC/EU policy towards the Mediterranean in recent decades has been the end of bipolarity in international affairs. As the European Council declared in Essen in December 1994, the Mediterranean is of strategic importance to the Community. The region's peace, stability and prosperity are among of Europe's priority issues.

¹⁹ See Rhein (1996).

Since the 1980s, the Community has granted aid more readily to its traditional partners, now that the threat of communism has receded. It is instructive to compare the amounts with the aid going to the newly-emerged Central and Eastern European democracies.

Table 3

EU aid to the Mediterranean countries and the CEE countries
(ECU million)

	CEE countries	Mediterranean countries
1995	1154	550
1996	1235	900
1997	1273	1000
1998	1397	1092
1999	1634	1143
<i>Total</i>	<i>6693</i>	<i>4685</i>

Source: Revue du Marché Commun et de l'Union Européenne, August-September 1995, p. 472.

The West has tried to play an active role during the transition period in the CEE countries, where the emergence of stable, prosperous democracies is seen as important for security reasons. The same arguments have turned the EU into one of the main supporters of political and economic transition in the Arab countries of the Mediterranean.²⁰ There has therefore been parallel interest in both groups of countries since the beginning of the 1990s. The EU made association agreements with the CEE countries comparable to the arrangements with the Mediterranean countries, although their content was very different.²¹

Both regions have strong economic relations with the EU, which play the role of a modernization incentive. The supporters of Eastern enlargement and Southern cooperation in the EU divide according to the political and economic interests of member-states. The countries in the South emphasize Mediterranean cooperation, while Germany

²⁰ The interest is conspicuous by comparison with the relatively slight interest shown towards sub-Saharan Africa.

²¹ See Balázs (1995).

and the Northern states prefer Eastern enlargement.

Although a more favourable environment developed for investment in the Mediterranean countries by the late 1980s and early 1990s, thanks to economic liberalization, foreign capital investors have preferred the CEE countries. Twice as much FDI went to the CEE countries as to the Mediterranean countries in 1992–4 and three or four times as much in the 1995–8 period. However, further advances in the Middle East peace process and consequently improving security in the region could lead to faster economic development in some countries, more rapid implementation of the free-trade area, and a re-evaluation of the Mediterranean's role.

In 1994–5, financial transfers from the EU were seen as the area in which the CEE countries were the biggest rivals of the Mediterranean. Of the assistance in the 1995–9 period, the CEE countries received 59 per cent, as opposed to 41 per cent for the Mediterranean, although the original division announced in October 1994 was 56:44 and the total sum was also reduced.

Examining the future of relations, the most important aspect is that the CEE countries have real chances of full membership and almost all countries in the group have an association agreement with the EU. The latter is the case with only three of the Mediterranean countries. This means that the CEE countries face a prospect of steady integration, as true partners of the EU, while the Mediterranean countries' chances of economic breakthrough are fewer and less certain.

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