**POLITICAL, ECONOMIC AND CULTURAL COMPONENTS OF THE EMERGING MEDITERRANEAN IDENTITY**

Institut des études politiques méditerranéennes
Monaco, 17-18/VII/2000

2

# Institut des Etudes Politiques Méditerranéennes
# Meeting of Experts - Monaco
# July 17-18th 2000

**POLITICAL, ECONOMIC AND CULTURAL COMPONENTS OF THE EMERGING MEDITERRANEAN IDENTITY**

## Programme

**Monday July 17th**

| | |
|---|---|
| **09.00 - 09.30** | **Opening session**<br>*May Chartouni Dubarry*<br>*Franco Bruni* |
| **09.30 - 11.30** | **Session I**<br>**The EU Role in the Consolidation and Multilateralisation of Peace in the Middle East** |
| | ***Arab / Lebanese perspective*** |
| **Speaker** | *Nadim Shehadi* |
| | ***Israeli Perspective*** |
| **Speaker** | *Mark Heller* |
| **Discussant** | *Volker Perthes* |
| **Chair** | *May Chartouni-Dubarry* |
| **11.30 - 13.30** | **Session II :**<br>**Northern and Southern Europe and the Euro-Mediterranean Space** |
| | ***The Southern Approach*** |
| **Speaker** | *Alvaro de Vasconcelos and Roberto Aliboni* |
| | ***The Northern Approach*** |
| **Speakers** | *Volker Perthes and George Joffé* |
| **Discussant** | *Alessandro Politi* |
| **Chair** | *Franco Bruni* |
| **13.30** | **Lunch** |

| | | |
|---|---|---|
| | **Session III** | |
| **14.30 - 16.00** | **The Cultural Component : Towards a New Definition of the Mediterranean Identity** | |
| **Speakers** | *Enrico Molinaro* | |
| **Discussant** | *Mark A. Heller* | |
| **Chair** | *Alvaro de Vasconcelos* | |
| | **Session IV** | |
| **16.00 - 17.30** | **The Role of Small and Medium Enterprises (SME) as a condition for a sustainable development of the Southern Mediterranean Region** | |
| **Speakers** | *Sergio Alessandrini* | |
| **Discussant** | *Stefania Bazzoni* | |
| **Chair** | *Françoise Nicolas* | |
| **17.30 - 19.00** | **Session V** **Structural adjustments and domestic policy goals of North African Countries** | |
| **Speakers** | *Francesco Lovecchio* | |
| **Discussant** | *Françoise Nicolas* | |
| **Chair** | *Stefania Bazzoni* | |
| **20.30** | **Dinner** | |

**Tuesday July 18th**

| | |
|---|---|
| **09.30** | **General Discussion on the IEPM - Presentation of IFRI and ISPI's Proposals for 2001** |
| | *May Chartouni-Dubarry*<br>*Franco Bruni* |
| **11.30** | **End of the meeting** |

b

# Institut des Etudes Politiques Méditerranéennes
# Meeting of Experts - Monaco
# July 17-18th 2000

**POLITICAL, ECONOMIC AND CULTURAL COMPONENTS OF THE EMERGING MEDITERRANEAN IDENTITY**

## List of Participants

**Sergio Alessandrini,** Full professor of political economy at the faculty of Law, University of Modena and Reggio Emilia, Italy

**Roberto Aliboni**, Director of studies, Istituto Affari Internazionali, (IAI), Italy

**Stefania Bazzoni**, Senior researcher (ISPI) and economist (Middle Eastern Department IMF, Washington, USA

**Franco Bruni,** Full professor of International Monetary Economics and Director of the Department of Economics, Bocconi University in Milan. Scientific Director of ISPI, Italy

**May Chartouni-Dubarry,** Ifri's coordinator for IEPM, Expert on the Middle East and the Mediterranean in IFRI, France

**Simona Gallotta**, Researcher ISPI, Italie

**Michel Grinda**, General secretary IEPM, General Secretary of the Compagnie Monégasque de Banque, Monaco

**Mark A. Heller**, Principal Research Associate, The Jaffee Center for Strategic Studies, Tel Aviv University, Israel

**Georges Joffé**, Director of Studies, The Royal Institute of International Affairs (RIIA), GB

**Francesco Lovecchio**, Research fellow, Banca de Italia, Italy

**Enrico Molinaro,** Researcher at the Truman Research Institute for the Advancement of Peace, the Hebrew university of Jerusalem, Israel

**Lise Moret,** Assistant to May Chartouni-Dubarry, Ifri, France

**Françoise Nicolas,** Economist Ifri and lecturer in the university of Marne la Vallée, France

**Volker Perthes**, Senior Research Fellow, Stiftung Wissenschaft und Politik, Germany

**Fabio Petito**, Researcher at the London School of Economics and Political Sciences, GB

**Alessandro Politi**, Consutant to the Italian Minister of Defence, Italy

**Nadim Shehadi**, Director, Center for Lebanese Studies, Oxford, GB

**Alvaro de Vasconcelos**, Director, Instituto de Estudos Estratégicos e Internacionais (IEEI), Portugal

(1)

# The EU Role in the consolidation of Multilateral Peace in the Middle East: An Arab Perspective.

## Paper Presented to the IEPM workshop, Monaco, 16/17 July 2000 (Draft)

*Nadim Shehadi*

**Summary:**

There is, at the moment, too much emphasis on the Peace Process rather than on the peace that is supposed to come after it. Because of its proximity and strategic interests in the region, Europe has played a significant but marginal role in the process itself but stands to play a major one after the treaties are signed. The reason Europe's role is marginalized is because of the US-Israeli special relations that makes the US the obvious broker of the treaties. Europe has a comparative advantage in dealing with post treaty issues that are of a multilateral nature and not necessarily exclusively centred on Israeli-Arab relations. The post peace scenarios demand a more hands on and intimate knowledge of the region, which Europe sees itself as better equipped for. The Arab Israeli conflict, as well as the Peace Process itself, have had a major influence on political developments both within and among the neighbouring Arab states and the signing of peace treaties will be the beginning and not the end of rehabilitating the sub-regional system. When the Peace process reaches its end and peace treaties are signed between Israel and its neighbours, the real cost of the conflict, which has been going on for over half a century will have to be faced.

### Thinking beyond the Peace Process

At their meeting of the European Council at Santa Maria da Feira (Portugal) on 19-20 June 2000, the Heads of State or Government of the European Union adopted a document published under the title of 'Common Strategy on the Mediterranean Region'. Under part III entitled areas of Action and Specific Initiatives and under the title Peace in the Middle East it is specified that the EU will help prepare the 'post peace era' in the Middle East.

This is an important new development that heralds a new role for the European Union in the Middle East. The EU role was marginalized in the Peace Process where the US played the leading role as principal broker.

The Peace Process itself is governed by a set of political agendas and deadlines having to do more with balance of power, electoral pledges, end of presidential terms and sometimes the health and succession concerns of Middle Eastern and American leaders. The treaties that may be in the process of being negotiated as these lines are being written will certainly leave out several issues that are bound to become problematic in the near future. If I may be so bold as to correct the statement of the EU heads of state, it should read 'post treaties era' instead of 'post peace'. If the treaties will signal the end of the conflict, peace is still a long way ahead and will have to be built starting with the rehabilitation of the damages caused by the conflict and by the Peace Process itself to the regional sub system.

Within the framework of the Euro Mediterranean Partnership emanating from the Barcelona declaration, the EU expressed its concern and long-term strategic interest in the stability and prosperity of the Mediterranean region. This is a process that is also concerned with improving South-South relations and differs from the Peace Process which is solely concerned with improving Arab-Israeli relations.

**Post Peace Scenarios:**

One of the major tasks of the moment is to anticipate and prepare for the post-peace period. In the short and medium term, the implementation process needs a lot of effort and micro-management. In the longer term, consolidation and the creation of a sustainable regional order will be the main task. If it is not clear for now what the peace treaties will achieve, it is obvious what they will not produce a comprehensive and sustainable solution. The final result of a process is never equal to the sum of the expectations of all the players. It is rather more a product of the unintended consequences of the various forces at play. This will be the starting point.

The first task is to try and understand where we are now and what the situation is likely to be after the treaties are signed. Even with the best case scenarios that can be anticipated, we can begin to see what kind of regional system is emerging. But there are still many uncertainties that will be determined in the weeks and months to come.

The peace process was by necessity centred on issues related to the Arab-Israeli conflict. In its path it helped create several inter-Arab issues in a region that has also suffered the consequences of the conflict. Consolidating Multilateral Peace in the region must also address these problems.

**Consequences of the Palestine Problem on the Arab sub-system:**

The Arab Regional Sub-system has been affected by developments in the Arab-Israeli conflict. The defeats of 1948 and 1967, the Nakba and the Naksa have had a profound influence on the internal political development of the surrounding states. These defeats discredited the post-colonial regimes and were a factor in the rise of radical nationalism and later of Islamic fundamentalism. The revolutionary, authoritarian nature of certain states was re-enforced by developments in the conflict and pushed many of these countries into the soviet camp during the cold war. Although these regimes were undemocratic, they enjoyed a certain degree of mass support because of their promise to regain what was lost. It is the liberal and cosmopolitan middle classes have suffered most and hence the prospect for democracy in the region.

**Consequences of the Peace Process to inter-Arab relations:**

The 1980's idea of an international conference to resolve the Palestine Problem and bring peace between Israel and its neighbours was abandoned in favour of a bilateral framework in which the problem would be discussed between each country separately and Israel. This is the essence of the Middle East Peace Process which took off in Madrid in 1990. Soon afterwards, it became apparent that some issues needed a Multilateral forum and the Multilateral track evolved in 1992 for such issues as refugees, water, arms control, economic development and the environment. The underlying assumption of the Madrid Process was that although negotiations were bilateral, peace would be multilateral in the sense that all the Arab parties co-ordinated with each other and would sign simultaneously. This process was slow and could have gone on forever without yielding any results. Then came the Oslo agreement and the breakthrough of a Palestinian Israeli declaration of principles which created its own divergent process

**From Camp David to Madrid to Oslo:**

The Peace Process which started with the Camp David Agreement between Egypt and Israel had the immediate consequence of isolating Egypt from the rest of the Arab states surrounding Israel. It also weakened the position of Syria, Lebanon, Jordan and the Palestinians. It was shortly after the signing of the final Camp David treaty that Israel formally annexed the Golan. At Madrid the Arab negotiating teams, although conducting separate bilateral negotiations with Israel, were in co-ordination with each other and the understanding was that when it comes to it, a comprehensive peace would be signed. The Oslo agreement created a process whereby there was competition between the tracks instead of co-ordination and deepened the rift between the Arab parties concerned.

Most serious are the divisions within the Palestinians into the pro and the anti Oslo camps. Ten Palestinian organisations, mainly hosted in Syria and Lebanon have declared their opposition to the agreement. This threatens the ability of the PLO to reach an agreement that can claim some finality and where it can be representative of the Palestinian people. The signing of the Jordanian-Israeli treaty also created competition between Jordan and the PLO. It is generally perceived that Israel can only advance on one track at a time and that there is a zero sum game between the tracks. This is most obvious when talking about the Syrian vs. the Palestinian tracks. It is generally perceived that the PLO, by concluding the deal at Oslo, abandoned the other Arab countries for its own narrow interest. This has also created a situation where issues relating to the Palestinian problem are gradually dropped out of the bilateral agendas of countries like Syria, Jordan and Lebanon. The fragmentation of the process yielded positive results and made the whole operation more manageable by resolving each fragment at a time. The crucial question is whether at the end of the day, when all the resolved fragments come together, will the result form a whole or will there be issues that will slip through the net of bilateral processes that will be left over to be dealt with after all the treaties are signed. One obvious such issue is the refugee question, which I will deal with in more detail below.

The peace process itself has created tensions between the Arab states and further fragmentation within them. The main point here is that issues of a Multilateral nature that have to be resolved in a post peace framework are not just Arab-Israeli but also Arab-Arab. This is a crucial point to bear in mind when discussing sub-regional co-operation. The problems to be solved are not just between individual Arab states and Israel, but also between the individual Arab states themselves. In a way one cannot exist without the other and the second is a pre-requisite for the first. Whereas the peace process was by necessity Israel centric, the post peace era has to adopt a wider perspective.

**Rehabilitating the Arab-Regional sub-system:**

The end of the conflict present an opportunity to rehabilitate political systems and societies as well as the relations between the Levantine Arab states. Only then can sub-regional co-operation, which may include Israel, be a possible option. The process has already started, triggered by the end of the cold war and the coalitions that have developed since the second Gulf War. A new generation of leaders are talking of reform, liberalisation, and adjustment to globalisation. The future of the Levant states cannot be seen in complete isolation from developments in Iraq and there are several uncertainties on that front.

**Core of the Problem: The Refugee Issue.**

Of all the multilateral issues, that of the refugees is probably the most sensitive and most complicated. It is the essence of the Palestine Problem and the one on which compromise on both sides is difficult. Positions on the refugee issue are fundamental to the existence of both parties. On the one hand the PLO, still officially the sole legitimate representative of the Palestine People would risk forfeiting this function if it is seen, by the majority of the Palestinians, to abandon the cause of the refugees in its pursuit of other goals such as the creation of a state and the future of Jerusalem. On the other hand, recognition by Israel of a responsibility or even a share of responsibility in creating the refugee problem would hit at the very existence of the Hebrew State.

The refugee issue is a multilateral issue par excellence. It concerns at least a dozen parties and no solution can be reached which has any pretence of being comprehensive, if all the parties are not involved in formulating it. Yet, in the Peace Process as it evolved after the Oslo agreement, it becomes a bilateral issue between only two parties Israel and the PLO and is discussed as part of a bundle of final status issues that diminish its relative importance.

The parties concerned are:

1 -The host countries: Lebanon, Syria, Jordan and the PA (as host) who have an interest in the issue because of the presence of a significant number of Refugees on their territory. Each of these host countries conceives the presence of the refugees in a different manner and has different problems with them. In Lebanon it is primarily a security issue, in Jordan it is an economic and political one.

2 - There are also separate refugee communities living in the above host countries and who have varying social, political and legal circumstances and different relations with the PLO. Those in Lebanon for example are there as foreign residents and the 1969 Cairo agreement with the PLO that regulated their presence has been abrogated without even a framework within which it can be replacement. Their relation with the PLO is bitter as they feel abandoned and betrayed after the PLO budget and services were cut off following the Oslo Agreement. The refugees in Syria share the same rights as Syrian Citizens but most of them belong to the ten dissident anti-Oslo and anti-Fatah camp. Those in Jordan enjoy full citizenship of the country but pause a threat to its identity.

3 - Then there are the PLO and the PA who are in practice the same but with one of them enjoying the power to negotiate over the refugees. For the PLO the balance is tipped against the refugee issue in terms of its priorities within final status issues. There is lack of communication and co-ordination between the PLO and the Palestinian refugees which puts in danger any agreement that the former reaches without consultation with the later. There is also a serious problem in inter-Palestinian relations that will have to be coped with in the post peace period if the refugees outside the PA will feel that the PLO has abandoned them in the agreement with Israel.

4 - Israel is the major other party to the conflict but does not recognise itself as such when it comes to the refugee issue. It is not likely that the issue will come up on the agenda of bilateral negotiations between it and the other host countries. There is a clause in the Jordanian-Israeli treaty of 1994 that assumes that a just solution to the refugee issue will be achieved according to international law but it is not clear what that is and what is Jordan's input in achieving it or its recourse if it is not achieved.

5- Another party to the issue are the refugees in the diasporas who are not registered with UNRWA or who may not fit in the legal definitions of refugees but who will have individual claims to pursue either for their property rights or their right of return. There is also no mechanism or institutional framework for the pursuit of such claims and they are unlikely to be included in an agreement.

6 - Finally there is the UN represented by UNRWA.

Of all the above parties only two have an existing framework within the peace process to discuss. Whatever solution to the refugee issue is reached bilaterally between Israel and the PLO within the bundle of final status issues is unlikely to represent the interests of all the other parties to the problem. If a solution is reached it will come as a surprise or an imposed solution on the other parties and it is important to anticipate what problems will arise from it. The problems will be more likely to be inter-Arab and resulting from imperfections in the mechanisms of the peace process. If a solution is reached between the PLO and Israel, the other parties will have to refer to the PLO to solve their problems.

There exists no multilateral mechanism for reaching a solution to the issue of refugees. The Multilateral track is not a negotiating forum and has no decision-making powers.

A new multilateral mechanism has to be created to resolve residual post peace refugee issues in parallel with the Refugee Working Group of the Madrid Multilateral track.

**A Palestinian State Within a State (SWS):**

We have bee there before. Such a state within a state existed in Jordan and caused the 1970 war between the Hashemite Kingdom and the PLO, which resulted in the expulsion of the Yasser Arafat, and the PLO to Lebanon. There another Palestinian State within a State was created and resulted in clashes in 1973 which ultimately led to the breakdown of the state in Lebanon and the outbreak of a civil war where the existence of the Palestinians in Lebanon and support for their cause was one of the main issues the Lebanese fought over. The Palestinian state within a state grew from strength to strength until Israel invaded in 1982 and Yasser Arafat and the PLO were expelled to Tunis. The Oslo agreement brought this SWS phenomenon for the first time to the soil of Palestine and this time it seems to have reached its final destination; there is nowhere else to go.

The Palestinians have gone a long way since Oslo, and if no final peace treaty is signed by September, they would have given up very little to achieve it. In a way, they have achieved gains without paying the ultimate price and are thus in a strong position. They have very little to loose by not signing the peace that is on offer and everything to loose by accepting the humiliating conditions that are on the table. If Arafat issues a unilateral declaration of statehood in September, that state will be recognised by many countries in the world including Europe. In fact some say that the state was already declared in 1988 and recognised, the difference is that this time it is so on Palestinian soil. If an agreement is reached giving the Palestinians statehood, the state is unlikely to be sustainable as a sovereign entity given the geographical realities of the settlements and borders that are most likely to be granted to them.

The economy and polity of this SWS is highly integrated with that of Israel, more so that it is with any other Arab country. If on the official level there are unsolvable problems, relations on the level of civil society are far ahead of any treaties. There are joint associations and lobbies that include both Israelis and Palestinians. The Arab population of Israel, who are full Israeli citizens, are their biggest lobby within the Jewish State. But there are also many other manifestations of close, if turbulent relations between the two societies.

The situation in Israel today bears a lot of resemblance to that of pre-war Lebanon. What we have is a Palestinian State within a state with no contiguous borders and on which there are serious divisions of opinion within Israel.. The SWS itself is not homogeneous and there are several tensions within it between returnees, residents, refugees and the displaced. Not to mention the regional differences between the West Bank and Gaza. If no separate state were declared with recognised and contiguous borders and sovereignty, all these contradictions would de facto be present within the borders of the state of Israel. Israel would in fact be on the way of becoming a bi-national state.

These are problems that have to be dealt with whatever the outcome of the Camp David 2 talks.

**Failure of Comprehensive Peace: Different Temperatures**

Peace is being concluded between states that have different interests and levels of operation. It is a misconception to think of it as a peace between 'the 'Arabs' in the abstract and Israel. It is therefore reasonable to assume that there will be different levels or temperatures of interaction between various states and Israel, what is commonly called cold/warm peace. One of the indicators that can be used to measure the temperature of the peace between parties is the differential between official and civil society state of affairs.

There emerges three distinct areas or modes of interaction between Israel and its neighbours.

- **Egypt - Israel**: The treaty between Egypt and Israel is over twenty years old. On paper, and at the official or inter-state level, the relations seem to be going very well. Trade between the two countries is probable better than that between Egypt and other Arab countries and so are the bilateral relations and institutional co-ordination. However, on the level of civil society, there is still a strong resistance to what is termed as 'normalisation'. There are few cultural and un-official interchanges such as between NGO's and people to people type collaboration. At any rate they take a lot of encouragement and there are rare cases of joint projects although international funding encourages such projects. This is an issue that is frequently raised between both states

- **Palestine - Israel**: By contrast the situation between Palestine and Israel is almost the opposite of the Egypt - Israel case. On the one hand the situation seems desperate at the official level where positions are irreconcilable on most of the final status issues which includes the Palestinian State and its boundaries, Refugees, Water, Jerusalem and the future of Israeli Settlements. On the other hand, at the level of civil society and what the Europeans like to call People to People the situation is very different. There are numerous Israeli-Palestinian joint ventures whether it is on the cultural, political, economic, educational or humanitarian spheres. NGO's collaborate with each other and there are lobbies within both camps that are closer to each other than to parties within their own camp. If on the official level the situation can be described as tense or cold, it is very warm indeed on the unofficial or civil society level. They have become inextricable from each other.

- Jordan-Israel: Between Jordan and Israel the situation is more complex. On the official level the peace is very warm and most of the postulates of the peace treaty have been fulfilled more or less on schedule. The temperature at the civil society level fluctuates greatly. There are certainly advanced business and cultural ties but there is resistance on the part of Jordanian society for complete normalisation. This resistance varies in intensity according to developments in Palestine. Because of the composition of the Jordanian population, where almost half are of Palestinian origin, there is a link between the Jordanian and Palestinian situations where they will eventually form a trio of communicating tubes with Israel that will level out the temperatures. Hence there will emerge a Palestine-Jordan-Israel triangle where the level of integration is more or less uniform.

- Syria-Lebanon-Israel: Here the temperature is the coldest both at the official and at the civil society levels. Although treaties may be signed in the near future, there is little prospect for warm exchanges to follow. In Syria because the system will resist it and in Lebanon because of the atmosphere generated by Israeli aggressions in the last two years. However what need to be worked on by Europe are the regulation of Lebanese-Syrian relations especially within the framework of the liberalisation of the Syrian economy. The Syria Lebanon axis is the third region where no improvement is expected in the short run on either the official or unofficial tracks.

**Conclusion:**

Given European strategic and long term interests in the prosperity and stability in the Mediterranean region as expressed in the Barcelona process, and bearing in mind the perceived marginality of the EU role in the on-going Peace Process as compared to a US role, there are many opportunities for Europe to have a role in the post treaties era. This will entail the creation of multilateral instruments that will deal with inter-Arab as well as Arab-Israeli issues.

2

# Europe in Israel's Foreign Policy

**Draft Discussion Paper**
**Not for Citation or Attribution**

EPM Research Program

Monaco, 17-18 July 2000

*Mark A. Heller*
*Jaffee Center for Strategic Studies*
*Tel Aviv University*

Introduction

In the first two decades of its existence, Israel maintained ties with European states that varied in terms of their intimacy and intensity. From the mid-1950s until the mid-1960s, the relationship with France was particularly close, amounting to a virtual alliance, and France fulfilled the Israeli requirement, elaborated in Ben-Gurion's foreign/security policy, of a partnership with at least one of the Great Powers. But after the imposition of an arms embargo by Charles de Gaulle in 1967, the security dimension of Israeli-European links practically disappeared, while political links became increasingly frosty. In political-security terms, the United States became Israel's main, and often its only, solid foreign partner.

Nevertheless, Europe remained a focus of cultural and personal ties as well as a major trading partner for Israel. Furthermore, Israel recognized the promise of the emerging European economic bloc following the signing of the Treaty of Rome in 1958 and it sought to develop some kind of institutionalized relationship with the European Economic Community. Since then, and especially since 1967, the history of Israeli-European relations, at least from the Israeli perspective, has essentially been one of attempts to maximize the potential for economic ties that were complicated by the intrusion of politics, i.e., by the European inclination to make closer Israeli-European relations contingent on the furtherance of European political interests in the Middle East (including the Middle East peace process).

The purpose of this paper is to examine the ways in which this political-economic tension has evolved over time and to suggest ways in which it may or should be mitigated by actions on the part of one side or the other in the European-Israeli relationship.

## 1. Israeli Approaches to Europe

Despite the persistence of a domestic cultural gap in Israel between "eastern" and "western" Jews, Israel's external orientation has always been to the west. After a very brief flirtation with the idea of neutrality after independence, Israel placed itself firmly in the western camp during the Cold War. For most of the period since 1967, "western," from the Israeli perspective, has essentially meant "American." The reasons for this are two-fold. One reason has been the strong pull of the United States. Security has traditionally been the first priority in Israeli foreign policy, and as the strongest power in the west, the United States was most able to provide Israel with the political-military support it sought. It was also the most willing, partly because of the way in which the United States defined its global agenda, partly because of the structure of American domestic politics and the close links between Israeli and American civil societies, including, but not restricted to, the American Jewish community.

The second reason was the European approach, or approaches, which were often more "push" than "pull." As perceived in Israel, European attitudes since 1967 have been seen as less than receptive. There have been a few exceptions, of course. Historical sensitivities have imbued German-Israeli relations with a special character, and public opinion in the Netherlands and some other, smaller European states has been viewed as sympathetic. But for the most part, the prevailing sense has been that European attitudes range from "stand-offish" to hostile. Israel has pursued a variety of paths to more solid institutional ties with Europe, ranging from the banal (e.g., the Eurovision song contest) to the profound (e.g., a "privileged status" with the European Union). Wherever these paths exist at the level of civil society, as in the case of

Eurovision or UEFA, the integration has proceeded fairly smoothly. Where they are the subject of governmental decision, progress has been slow, uneven, and subject to political conditionality. That has been the case with Israeli efforts to join the WEO (Western European and Other) Regional Grouping in the United Nations, and particularly with respect to evolving Israeli ties with the European Union.

The most obvious explanation for this was European sensitivity to Arab objections, a function of greater European proximity to the Middle East, closer economic and cultural ties to the Arab world, and, in some cases, an effort to assert some political "distance" from the United States within the bipolar structure of the international system during the Cold War. As a result, European positions, at least as expressed in the declaratory posture of several European governments and of the European Community/Union, tended to be more accommodating of Arab concerns than did those of the United States. This did not necessarily mean that European views on what ought to be the substance of Arab-Israeli peace settlements differed radically from those of the United States. It did mean that Europe expressed those views more explicitly, in ways that Israeli governments often found distressing. Moreover, European governments generally took less alarmist views and pursued more permissive policies on issues such as terrorism, Iraq, and transfer of dual-use technologies than did the United States, and this was interpreted in Israel as indifference to Israeli security concerns. Against the background of an established American record of directly military and economic assistance to Israel and of various European steps to promote a "special relationship" with the Arab world (France's "Arab policy," Euro-Arab dialogue, etc.), this resulted in a negative view of European involvement in the peace process, which was frequently interpreted as gratuitous advice-giving and meddlesome interference.

2. Political-Economic Tensions

At the same time, Israel was eager to promote its economic relations with Europe and to take maximum advantage of the possibilities implicit in the evolution of the EU and the expansion of the European economic space. It was particularly interested in expanding trade (including reduction of the persistent trade imbalance in Europe's favor), but it had a more general interest in participating in EU institutional activities to the maximum extent possible for a non-member. However, progress in this direction was frequently complicated by the intrusion of politics. In a few cases, the constraint came from the Israeli side. For example, choices by El Al, the Israeli national carrier, about whether to purchase Boeing or Airbus aircraft were ultimately determined in favor of the former because of "political" considerations, i.e., the broader context of Israel-U.S. relations.

For the most part, however, the inhibitions were stronger on the European side. Immediately following the signing of the 1975 EC-Israel Industrial Free Trade Agreement (itself the product of over fifteen years of negotiations), Israel tried to begin negotiations on a new institutional arrangement that would more firmly anchor Israel in the European economic space. These approaches were consistently rebuffed, primarily for political reasons, i.e., rejection of Israeli policies on the Arab-Israeli conflict and practices in the occupied territories, and rejection of the idea that Israel's status vis-a-vis the EU should be somehow different from that of the other Mediterranean (i.e., non-European) Non-Member Counties, almost all of which were Arab. In 1991, after the Gulf War, the Italian Foreign Minister, speaking for the Troika, showed a more receptive attitude to the idea of Israel entering the proposed European Economic Area, though he conditioned this on progress in the peace process and the creation of a Palestinian state. But the Commission continued to insist that it had no mandate to discuss any kind of atypical relationship with Israel and argued that Israel could not be treated differently than the other MNMCs. Following the 1991 Madrid Conference, the EC took a more positive view of the idea of amending the 1975 Agreement, but it still demanded that Israel first deepen its ties with its neighbors and opposed anything that could be construed as discrimination. It was only after the Oslo Accord of September 1993 that the EU agreed to begin negotiations for a new EU-Israel Agreement. This agreement was formally entitled a Euro-Mediterranean Association Agreement (though the negotiations began 21 months before the formation of the Euro-Mediterranean Partnership), and was concluded in November 1995, the same month the EMP came into being.

This Agreement was not without its drawbacks. For one thing, because of continuing limitations, and not only on agricultural access, it did not address directly the issue of the trade imbalance, which ran to about $7 billion in Europe's favor. This was a matter of some embarrassment for Israel vis-a-vis the United States, which provided Israel with very extensive economic/security assistance and nevertheless saw its trade with Israel (though a real free trade agreement) run in Israel's favor. More generally, the Accession Agreement left Israel firmly in the category of Mediterranean non-member countries, without the preferred economic arrangements with the EU enjoyed by European non-members (Switzerland, EFTA).

In 1994, the European Council Summit Meeting in Essen in 1994 decided that Israel should be accorded a "special status" in light of its level of economic development, and this status was indirectly recognized through the fact that apart from Cyprus and Malta (two countries that eventually became candidate-members of the Union), Israel was the only non-European member of the EMP not eligible for direct

MEDA assistance. Nevertheless, many of the restrictions in effect for non-European non-members remained applicable to Israel (e.g., non-recognition of certificates and degrees, ineligibility for service tenders, etc.). Moreover, further progress in the direction of closer Israeli integration with Europe remained tied to closer Arab integration with Europe and to Israeli integration with its neighbors.

This has been particularly evident since the formation of the EMP, which envisaged the creation of a common Euro-Mediterranean economic space (at least in industrial goods) through the formation of a Mediterranean-European Free Trade Area by 2010. Israel had no objection to the development of closer ties in economic and other areas with its Arab neighbors, but most of them interpreted this process as "normalization," which in their view was something that could be pursued only after the conclusion of a comprehensive peace. In other words, the pursuit of closer Israeli-European relations was made hostage to Barcelona, which in turn was made hostage to the peace process. The problem became more troublesome during the three-year tenure of Prime Minister Benjamin Netanyahu, when the Arab-Israeli conflict intruded into the work of the EMP and EU-Israel relations were complicated by disputes over agricultural rules-of-origin and European objections to the structure and pace of implementation of the Oslo Agreements (e.g., the suggestion by Commissioner Marin in 1997 that the 1995 Paris Economic Agreement between Israel and the PLO be canceled). As a result, even the 1995 Association Agreement, which was supposed to become operational one year later, did not actually come into force until June 2000. And even then, the symbolic richness of the signing ceremony in Brussels was diluted by the enforced absence of most the EU Foreign Ministers in order to attend the funeral of Syrian President Hafez al-Asad (some Israeli cynics labeled this Asad's last spoke in the wheels of EU-Israel cooperation). It is true that some areas of cooperation proceeded independently of Barcelona and/or the peace process. For example, Israel was invited to participate in the $4^{th}$ and $5^{th}$ Framework Agreements on Research and Development. But all in all, politics continued to intrude into Euro-Israeli economic relations throughout most of the 1990s.

There was a perceptible change in this ambience only after the Israeli elections of 1999, not so much because politics ceased to be relevant but rather because the political context changed. This was partly due to a different attitude on the part of the new Israeli government to the peace process, in general, and to the European role, in particular. There was, of course, no question of Prime Minister Ehud Barak denying the continuing primacy of the United States in political-security matters. But his government was much more receptive to active European involvement. At one level, this was evident in the role of individual European governments. Barak solicited the views of the major European leaders and kept them informed of his plans. He actively consulted British Prime Minister Tony Blair and welcomed the back-channel mediation of Blair's personal envoy, Lord Levy, in the on-again, off-again Syrian-Israeli negotiations. And he took care to coordinate with French President Jacques Chirac in everything concerning Israeli plans with respect to Lebanon. Moreover, he maintained contact with both those leaders concerning the Palestinian track, even paying them quick personal visits in advance of his departure to the summit-level Israeli-Palestinian permanent status negotiations at Camp David.

But it was also due to changes in the European approach, including the collective role of the Union. After many years of translating the European desire for a more active role ("a player and not just a payer") to mean involvement in mediation of Arab-Israeli agreements, there emerged a greater emphasis on providing the supporting infrastructure for peace through the encouragement of regional/multilateral cooperation. This may have stemmed from an acknowledgement of where Europe's greater comparative advantage lay – in the theory and practice of multilateralism – or from a better understanding with the United States about a tacit division of labor between the Trans-Atlantic allies, or even of the need to take greater account of Israeli preferences in order to overcome some of the objections that had limited European effectiveness in the past. In any case, it was reflected, among other things, in the declaratory posture of the EU, which shifted from statements about what the substantive content of agreements ought to be and condemnations of Israeli practices (e.g., Venice and Berlin declarations) to expressions of willingness and intent to provide whatever support the parties themselves requested (e.g., Helsinki). This reorientation comes through most clearly in the Common Mediterranean Strategy adopted at the EU Summit in Portugal in June 2000. In the section devoted to the Middle East peace process, the "post peace era" is given stress equal to the conclusion of peace agreements, and the operational focus is on the multilateral track and the support of regional economic cooperation and integration. This approach comes closer to the Israeli view of what the European role ought to be and thus reduces some of the political obstacles to better EU-Israel relations.

Secondly, there is some evidence of a tendency to weaken the linkage of the peace process to Barcelona, and of both of those to EU-Israel relations. This is hinted at in the changing tone of statements by European leaders on the peace process itself (e.g., French Prime Minister Jospin and Defense Minister Richard on Lebanon and Syria) and the references to common interests and values, and it may reflect attitudes to the process. But it also suggests an acknowledgement that the prospects for regional cooperation – the long-standing "condition" for closer European-Israeli relations – are not dependent solely, or even primarily, on the consummation of the peace process (e.g., Egyptian refusal to sign its Accession Agreement). In other words, it may suggest some European disillusionment, after years of OSCE, NATO and EMP initiatives, with the prospects for Mediterranean/Middle East regionalism under any circumstances.

3. Future Prospects

If this is the case, it raises the possibility of even greater delinkage of Middle East regional politics from the institutionalization of closer European-Israeli relations. Of course, this vision can never be completely isolated from politics. There will always be some intrusion of the peace process (as long as it falls short of a comprehensive Arab-Israeli peace) and of the evolving pattern of the EMP (as long as it continues to survive). But if Israeli policies are not perceived by Europeans to be the main or only obstacle to progress in the peace process or to the promotion of the objectives of Barcelona, there is some prospect that problems on those fronts will become less effective brakes on the advancement of European-Israeli ties. This will be particularly the case where, as the Essen Declaration suggested, common interests produced by reciprocity are apparent. The area of technological research and development is one obvious example, as shown by the Framework Agreements. It is even possible that such common interests will extend, not just to economic exchange in general (though a major economic actor by Middle Eastern standards, Israel hardly appears as a blip on the European economic radar screen), but even to defense and security. Various consultation mechanisms already exist, and there is a potential for cooperation in defense economics and technology that has been virtually untapped.

Though unable to compete on equal ground with the United States for access to the Israeli defense market (because of tie-ins to American military assistance), European producers (increasingly operating in the framework of multinational consortia) would undoubtedly appreciate the opportunity to expand their export markets. And that opportunity may arise, especially if the US-Israeli defense relationship loosens because of controversies like that provoked by the Israeli plans to sell AWACS aircraft to China. Indeed, Israel has already established an interministerial committee to examine the possibility of switching part of its defense procurement to Europe. This may well be a bluff aimed at the Americans (and unlikely to intimidate them), and even if it is not, it is not likely to happen in the immediate future. But the very fact that something is being openly discussed that was inconceivable only a few years ago suggests the possibility of more intimacy in Euro-Israeli relations in the future, not just in economics, but in the political and security fields, as well.

END

3

# L'Europe du Sud et la Méditerranée

*Álvaro de Vasconcelos*

L'Europe du Sud dépasse-t-elle le seul concept géographique ? Une identité, assise sur des intérêts communs entre les Etats méditerranéens membres de l'Union, s'est-elle formée au cours des années 90 ? Sur quels points principaux la convergence politique entre les pays de l'Europe du Sud s'aligne-t-elle ?

Le concept d'Europe du Sud peut renvoyer à plusieurs perspectives : l'atlantiste, correspondant au flanc Sud de l'OTAN, liée par un réseau d'accords bilatéraux aux Etats-Unis ; l'européenne, veillant à l'équilibre Est-Sud de l'Union, s'inscrivant à son tour dans une perspective euro-méditerranéenne, préoccupée de la stabilité en Afrique du Nord. Le développement de la politique extérieure et de défense de l'Union européenne tendra à amalgamer les deux Europes du Sud et à diminuer les différences avec l'Europe du Nord.

## L'Europe du Sud atlantique

Le concept d'Europe du Sud était, pendant la guerre froide, clairement lié à l'OTAN, «son flanc Sud[1]» et à la projection du pouvoir nord-américain sur le Moyen-Orient. Les Etats-Unis étaient le fédérateur stratégique de pays avec des priorités très diverses, comme le Portugal, l'Espagne, l'Italie, la Grèce et la Turquie. Par le biais d'accords bilatéraux de défense, ils pouvaient utiliser des bases militaires dans les pays mentionnés, notamment dans le contexte de conflits au Moyen-Orient et dans le Golfe.

La France, qui avait abandonné l'organisation militaire de l'OTAN, n'était naturellement pas englobée dans les pays de l'Europe du Sud fédérés par les Etats-Unis, d'autant plus que la politique française à l'égard du Moyen-Orient différait clairement, et bien plus que celle des autres pays latins, de celle des Etats-Unis.

Des pays de l'Europe du Sud, celui qui s'approchait le plus de la politique française était l'Espagne, qui ne deviendrait membre de l'OTAN qu'en 1982 et n'adhérerait à son organisation militaire intégrée qu'en juillet 1997. Mais l'Espagne a commencé, dans l'après guerre froide, à montrer une attitude plus atlantiste et se rapprochant de la tendance générale européenne en cette matière et même de la position de l'Italie sur certaines questions touchant au rôle de l'OTAN dans la Méditerranée.[2] Le gouvernement d'Aznar, au pouvoir depuis 1996, a cherché à établir une relation privilégiée avec les Etats-Unis. Les gouvernements grecs, malgré le sentiment anti-américain d'une partie de la population et de l'opposition à la politique balkanique des Etats-Unis, ont assumé une position euro-atlantiste à l'égard de l'OTAN, proche de celle affichée par l'Italie ou le Portugal[3].

Malgré les accords de défense bilatéraux avec les Etats-Unis et leur rôle spécifique dans la stratégie américaine, les gouvernements des pays d'Europe du Sud étaient loin de calquer leur politique envers le Moyen-Orient sur celle des Etats-Unis. Pendant la guerre du Kippour, seul le Portugal, sous régime dictatorial et engagé dans une guerre coloniale, a fini par céder, sous forte pression, des bases à la force aérienne nord-américaine[4].

Après la fin de la guerre froide, les relations bilatérales de défense avec les Etats-Unis se sont maintenues, tout comme les accords de défense qui ont été renégociés et n'ont plus impliqué de contreparties financières. Les alliés du flanc Sud de l'OTAN ont posé la condition d'étudier au cas par cas les demandes américaines avant de donner leur permission pour l'utilisation de leurs bases dans le cadre d'opérations hors-zone.

Après l'adhésion du Portugal, de l'Espagne et de la Grèce à la Communauté européenne, une nouvelle Europe du Sud a émergé. Celle-ci n'a pas éclipsé la première, ni sa fonction stratégique particulière dans le contexte Nord-Sud, comme l'expérience de la guerre du Golfe l'a démontré. Des bases au Portugal, en Espagne, en Italie, en Grèce et en Turquie ont été utilisées par la force aérienne nord-américaine. Cette généralisation des réponses positives aux Etats-Unis n'a cependant été possible qu'en vertu du clair appui européen à la coalition internationale.[5]

Les doutes ou même l'opposition de certains pays européens du Sud, notamment de la France et de l'Italie, en relation au bien-fondé des représailles anglo-américaines contre l'Irak après la guerre du Golfe ont géré, en 1997 et 1998, une fracture dans l'Europe méditerranéenne quant à l'utilisation des bases européennes. Le gouvernement espagnol

---

[1] John Chipman (ed.), *Nato's Southern Allies: Internal and External Changes»,* London and New York, Routledge, 1988.

[2] Ester Barbé, «Spain: the uses of foreign policy cooperation» in Christopher Hill (ed.), *The Actors in Europe's Foreign Policy,* London and New York, Routledge, 1996.

[3] Theodore A. Couloumbis, «Turkish Challenge and European opportunity: Greek Foreign Policy Priorities in a Post-Cold War Setting», in *Mediterranean Security into the Coming Millenium,* Stephen Blank (dir.), Strategic Studies Institute, 1999, pp. 249-260.

[4] José Calvet de Magalhães, «Portugal e os Estados Unidos», in *Estratégia, Revista de Estudos Internacionais,* n° 3, Lisboa, IEEI, Primavera 1987, pp. 13-23.

[5] Voir Nicole Gnesotto et John Ropper (eds), *Western Europe and the Gulf Crisis,* Paris, ISS, 1992.

s'est quant à lui rangé sur la position américaine, Aznar ayant même déclaré que l'allié de l'Espagne dans cette crise était les Etats-Unis et non pas la France ou l'Italie. Celui-ci n'a pas seulement autorisé l'utilisation de ses bases, à l'instar du Portugal, comme il a été le seul à manifester sa «solidarité» envers l'alliance anglo-américaine.[6]

La réorganisation des relations dans le domaine de la défense entre l'Union européenne et les Etats-Unis, le développement d'une politique de défense commune, auront inévitablement un impact sur la politique méditerranéenne de l'Europe du Sud. En ce qui concerne les relations avec les Etats-Unis, peut-on affirmer que les pays de l'Europe du Sud tendent à se rapprocher, tout en faisant dépendre de plus en plus l'utilisation des bases par les Etats-Unis d'un consensus européen ? Les exemples sont trop peu nombreux et encore contradictoires et ne permettent donc pas de discerner une tendance générale.

Le développement de la politique méditerranéenne de l'Union européenne ne pourra cependant cesser de peser dans les relations des pays d'Europe du Sud avec les Etats-Unis. Il est évident que le fédérateur stratégique des pays de l'Europe du Sud ne sont désormais plus les Etats-Unis, l'Union européenne ayant pris leur place. Le futur des relations de l'Europe du Sud et des Etats-Unis et des accords qui n'ont pas pour autant cessé d'exister dépendront en conséquence davantage du degré de convergence entre la politique américaine et la politique européenne que des convergences bilatérales. C'est dans le contexte de recherche par l'Union d'une relation plus équilibrée avec les Etats-Unis que les pays méditerranéens de l'Union trouvent leur place dans les relations transatlantiques.

Malgré l'européanisation de la politique méditerranéenne de l'Europe du Sud et devant la faiblesse des institutions européennes dans le domaine de la défense, la plupart des pays d'Europe du Sud continuent à considérer les relations bilatérales de défense entretenues avec les Etats-Unis comme un atout jouant en faveur de leur poids dans l'Europe et dans la Méditerranée et comme un facteur de différenciation en ce qui concerne la France. La promotion du dialogue méditerranéen de l'Otan par l'Espagne et l'Italie, qui a bénéficié du soutien du Portugal mais a été accueillie avec réticence par la France, témoigne de cette relation particulière.

## L'européanisation de l'Europe du Sud

[6] Ester Barbé, *La política europea de España*, Barcelone, Ariel Practicum, novembre 1999.

Avec la démocratisation du Portugal, de l'Espagne et de la Grèce, dans les années 70, et leur adhésion à la Communauté européenne dans les années 80, le poids de l'Europe du Sud dans l'Union s'est accru. L'européanisation du Portugal, de l'Espagne, et celle, bien que plus lente, de la Grèce, a eu comme conséquence la «méditerranéisation» progressive de l'Union européenne.

Cette «méditerranéisation» s'est renforcée avec le succès économique et politique qu'ont représenté l'adhésion du Portugal et de l'Espagne (cette dernière se transformant progressivement en l'un des «grands» de l'Union) et leur poids croissant dans les structures communautaires. L'adhésion des pays du dénommé «Club Med» à l'euro dès le premier jour, à la seule exception de la Grèce, a été de ce point de vue décisive. Il convient de signaler que les pays qui ont adhéré à l'euro n'ont pas été ceux qui en avaient les moyens, mais ceux qui ont fait un choix clairement politique, à l'image de leur demande d'adhésion. Rappelons que ni l'Angleterre, ni le Danemark, ni la Suède n'ont adhéré à l'euro alors qu'ils répondaient aux critères de convergence établis par Maastricht.

Le poids de l'Europe du Sud serait encore plus grand et la dimension méditerranéenne de l'Union européenne plus importante si l'Italie parvenait à se doter d'une dimension politique comparable à son poids économique et si ses relations avec la France vinssent à gagner plus de substance.

La Grèce, qui n'a pas eu accès à l'euro dans la première phase, car elle ne répondait pas à tous les critères de convergence, est venue à défendre, avec le gouvernement de Kostas Simitis, une perspective moins nationaliste et plus européenne visant à son intégration dans l'Union Economique et Monétaire, dont la dernière phase de concrétisation s'est achevée en juin 2000. L'euro est un exemple de la volonté, maintes fois démontrée par les pays d'Europe du Sud, de se maintenir au centre du processus européen. Ils ont pour cela participé à toutes les coopérations renforcées, comme cela a été le cas avec les accords de Schengen.

L'Europe du Sud, qui s'est affirmée au sein de l'Union européenne avec une vision propre des relations euro-méditerranéennes, comprend la France, l'Italie, l'Espagne et le Portugal. Leur coopération se concentre avant tout dans la Méditerranée occidentale et leurs préoccupations concernent essentiellement le Maghreb. Ceci ne signifie pas pour autant que ces pays n'ont pas d'intérêts ou une présence au Moyen-Orient, mais leur convergence est ici moins manifeste. L'Italie, avec sa situation centrale en Méditerranée, a toujours préféré une vision plus large de la Méditerranée, englobant la Méditerranée orientale. La France le fait en conséquence de sa qualité de membre du Conseil de Sécurité et des liens culturels et historiques qui l'unissent au Liban. L'Espagne cherche à marquer sa présence au Moyen-Orient, de manière compatible avec ses ambitions méditerranéennes et dont elle considère la concrétisation comme fondamentale pour peser plus fortement au sein de l'Union. Pour le Portugal, c'est presque exclusivement sa dimension européenne qui le rapproche du Moyen-Orient. Le débat italien «Europe ou Méditerranée» n'a pas suscité autant d'intérêt dans les autres pays, en raison de leur conviction que l'option n'est pas dichotomique, mais qu'en revanche la dimension européenne est essentielle à la politique méditerranéenne. Cela est particulièrement vrai pour le Portugal et l'Espagne. La France, bien qu'attachée à la dimension méditerranéenne de la politique européenne inscrit ses relations avec le Maghreb dans une perspective avant tout nationale. Malte, malgré sa non appartenance à l'Union, défend une vision proche des quatre pays européens de la Méditerranée occidentale. La Grèce n'a pas placé les relations euro-méditerranéennes parmi ses priorités et ses intérêts continuent à se concentrer essentiellement sur ses relations avec les Balkans et la Turquie. L'européanisation de la politique étrangère grecque aurait probablement comme conséquence qu'une plus grande attention soit donnée aux questions touchant à l'Afrique du Nord.

L'élargissement au Sud de l'Union dans les années 80 a coïncidé avec l'augmentation des préoccupations, notamment en France, en raison de la crise politique, économique et sociale des pays du Maghreb, auxquels elle est unie par des intérêts et des liens culturels particuliers. Contrairement à ce que certains prévoyaient, cet élargissement n'a pas eu de conséquences négatives sur les relations euro-méditerranéennes, malgré l'impact des produits agricoles espagnols sur le commerce maghrébin, bien au contraire.

Les considérations d'ordre économique n'occupent pas une place centrale parmi les préoccupations européennes quant à l'évolution de l'Afrique du Nord. Cette attitude s'est maintenue malgré l'augmentation de la dépendance du gaz algérien pendant toute la décennie de 90, l'Italie important plus de 50% de son gaz d'Algérie et le Portugal et l'Espagne plus de 70%, d'autant plus si l'on considère que le libre accès au pétrole et au gaz ne dépend pas de la nature du régime.

Deux préoccupations étaient centrales dans les considérations des pays de l'Europe du Sud, au début des années 90, qui plaçaient le Maghreb parmi ses priorités : la maîtrise des flux migratoires et la contention de l'islamisme radical.

L'Europe du Sud était persuadée que les pays sud-méditerranéens traversaient une crise politique, économique et sociale qui, en raison de leur situation géographique en bordure de la frontière Sud de l'Europe et de leur interdépendance politique et sociale, se répercuterait forcément sur le nord-méditerranéen, y compris dans le domaine de la sécurité, surtout en ce qui concernait la dimension internationale de la sécurité interne (terrorisme, trafic de drogue, criminalité).

La France, qui connaissait alors un taux de chômage élevé, était particulièrement sensible à la pression migratoire. Dans la littérature d'alors, abondaient des visions apocalyptiques sur les effets de la croissance démographique dans le Sud. C'est le risque «d'invasion des pauvres» qui a mené l'émigration à être considérée comme un problème de sécurité. Cette crainte, que rien n'est venu justifier, persiste. Pendant les années 90, la France a contrôlé son flux migratoire tandis que l'Espagne et l'Italie ont vu l'immigration maghrébine augmenter sensiblement, en deçà toutefois de leurs besoins en termes de main-d'œuvre. La question migratoire est devenue un thème de politique intérieure devant l'inquiétante recrudescence de la xénophobie en Europe. La distance de 15 km du détroit de Gibraltar est le symbole de la proximité des deux rives, mais également d'une barrière toujours plus difficile à franchir.

On trouve de plus en plus des préoccupations convergentes entre l'Europe du Sud et le reste de l'Europe en ce qui concerne l'émigration en conséquence du processus d'intégration, notamment des accords de Schengen qui facilitent la libre circulation entre les Etats signataires. En raison de cela, l'Europe du Sud est aujourd'hui considérée par tous les Etats de l'Union comme leur frontière Sud[7], ce qui fait converger leur politique envers les questions de l'immigration.

La seconde préoccupation centrale des pays d'Europe du Sud résidait en la croissance de l'islamisme politique en tant qu'alternative crédible aux régimes en place en Afrique du Nord. Un ensemble d'initiatives ont émergé pour palier le risque de rebondissement de l'instabilité de la rive Sud sur la rive Nord qui ont abouti à l'établissement d'une coordination diplomatique intense entre la France, l'Italie, l'Espagne et le Portugal sur des thèmes méditerranéens. La première initiative, lancée en 1983, puis reprise en 1988, a été la proposition de François Mitterrand d'organiser à Marrakech une Conférence de la Méditerranée occidentale. Ce projet n'a finalement pas abouti mais a donné lieu, en 1990, au dialogue des quatre pays de l'Union européenne avec les cinq pays de l'Union du

Maghreb Arabe. Ce dialogue, auquel Malte se joindrait, deviendrait le Dialogue Cinq + Cinq. L'isolement international de la Libye, la crise algérienne et le gel des relations entre l'Algérie et le Maroc ont paralysé l'UMA et par la même le Dialogue Cinq + Cinq. Ce dernier a toutefois continué à se tenir au niveau des Ministres de l'Intérieur. En juin 2000, la réunion des Ministres de l'Intérieur, à laquelle la Libye a participé, s'est tenue à Lisbonne, où les thèmes du terrorisme et du fondamentalisme ont été au centre des débats.

Devant les difficultés du Dialogue 5 + 5, le Forum pour le dialogue et la coopération en Méditerranée a été lancé à Alexandrie en juillet 1994 à l'initiative de l'Egypte et de la France, auquel participent les pays d'Europe du Sud (y compris la Grèce), s'inscrivant dans un cadre de «think tanks» sur les questions politiques et de sécurité. La coopération entre les quatre pays de l'Europe du Sud s'étend également au domaine de la sécurité, avec leur participation conjointe à Eurofor et Euromarfor.

Indépendamment de l'enceinte dans laquelle elle se poursuit, la coopération des quatre pays du Sud de l'Union dans les questions méditerranéennes permet de définir non seulement un ensemble de préoccupations communes, mais aussi une certaine convergence dans l'approche des questions euro-méditerranéennes, qui peut se résumer comme suit :

a) augmentation de l'aide économique au Maghreb, de façon à permettre son développement et de fixer la population ;

b) libéralisation du commerce progressive et contrôlée, notamment en ce qui concerne la question agricole (particulièrement sensible pour la France et l'Espagne) ;

c) coopération étroite dans le domaine de la sécurité interne de manière à contrôler davantage l'émigration clandestine et à combattre le terrorisme, le trafic de drogue et la grande criminalité ;

d) mesures de confiance mutuelle visant à corriger les perceptions négatives sur les deux rives ;

e) prise de conscience que les problèmes dans le domaine de la sécurité sont avant tout de nature Sud-Sud et qu'ils demandent par conséquent des solutions sous-régionales.

[7] Volker Perthes, *Germany and the EuroMediterranean Partnership: gradually becoming a Mediterranean State,* EuroMeSCO Paper 1, Lisbonne, février 1998.

Le processus de Barcelone lancé en 1995 a intégré en grande mesure l'acquis du Dialogue 5 + 5, les préoccupations et les mesures politiques préconisées par l'Europe du Sud, bien que l'accent soit davantage mis sur le libre-échange. La nouveauté est qu'il ne s'est pas limité au Maghreb mais s'est étendu au Moyen-Orient, partant du principe que les problèmes politiques, économiques et sociaux (et non ceux de sécurité) étaient de même nature et demandaient des réponses similaires. La paralysie de l'Union du Maghreb Arabe et la nécessité d'impliquer tous les membres de l'Union ont justifié le caractère holistique de la politique méditerranéenne. Il est également vrai que deux pays de l'Europe du Sud, l'Italie et l'Espagne, avaient déjà préconisé sans succès, depuis le début des années 90, un projet de Conférence pour la sécurité et la coopération dans la Méditerranée (CSCM) avec un caractère encore plus élargi, s'étendant en effet aux pays du Golfe. L'Italie et l'Espagne voyaient dans le caractère global de cette initiative un moyen d'avoir une présence politique au Moyen-Orient.

Le dilemme des pays d'Europe du Sud avant tout préoccupés par la stabilité au Maghreb, est qu'ils se montrent craintifs envers le changement politique et tendent à développer une relation privilégiée avec les gouvernements en place. Cela a un impact particulier sur leur attitude timide par rapport aux Droits de l'Homme et à la démocratisation du Sud. Les critiques publiques à l'égard des violations des Droits de l'Homme restent en effet rares. L'attitude envers l'islamisme politique d'opposition et le silence sur les politiques répressives est l'expression de la préoccupation que suscitent les conséquences du changement.

La position en relation à l'islamisme politique a été traditionnellement un facteur de différenciation entre l'Europe du Nord et l'Europe du Sud. L'Europe du Nord assume une attitude plus tolérante et pratique par rapport aux dirigeants politiques des partis islamistes une politique active d'asile. Les pays d'Europe du Sud, à des degrés différents il est vrai, sont plus préoccupés par les effets de *spill-over* des crises au Sud, notamment de la crise algérienne, et mettent l'accent sur la coopération policière avec les pays de l'Afrique du Nord dans la lutte contre le terrorisme. Ils n'ont été capables de développer la coopération avec les pays d'Afrique du Nord et du Moyen-Orient qu'en passant sous silence la nécessité de réformes politiques profondes en Afrique du Nord et au Moyen-Orient.[8]

[8] Voir Caroline Ardouain, «L'attitude de la France à l'égard des mouvements islamistes au Maghreb» in *L'islamisme politique dans les rapports entre l'Europe et le Maghreb*, IEEI/FES, 1996, p. 63.

La France, en conséquence des considérations d'ordre sécuritaire avec les effets de «spill over» des crises du Sud, particulièrement en Algérie, s'est alignée pour l'essentiel sur la politique répressive suivie par les gouvernements du Maghreb, y compris celle des «éradicateurs» contraires à toute participation des courants islamistes dans le champ politique.[9]

Les «intégrationnistes» considèrent pour leur part qu'il est intenable et contre-productif de bannir de la vie politique les forces qui, en dehors de tout jugement de valeur, représentent une part importante de la population dès lors qu'elles renoncent à la violence. Les pays d'Europe du Nord acceptent généralement cette position. Les pays de l'Europe du Sud se sont situés à mi-chemin entre la position française et celle de l'Europe du Nord, l'Italie ayant soutenu le processus de Sant'Egidio de 1993 pour essayer de trouver une issue politique à la crise algérienne.

L'ensemble de l'Union a fini par se ranger derrière la position française à l'égard de l'Algérie et de l'islamisme radical en général, dans la mesure où ils considéraient qu'il s'agissait d'un problème qui la concernait en premier lieu, mais aussi parce que des préoccupations de même ordre pèsent toujours plus sur ces pays. Une attitude plus claire de l'Union européenne en faveur de la défense des droits de l'homme et des réformes politiques sur la rive Sud de la Méditerranée dépend donc largement de l'évolution de la position française. Celle-ci est à son tour conditionnée par l'évolution politique des Etats de la rive Sud de la Méditerranée, surtout au Maghreb, par rapport à l'islamisme politique. L'ouverture politique au Maroc et les nouvelles relations entre le pouvoir algérien et le FIS créent les conditions pour un changement dans la politique méditerranéenne de l'Union européenne.

Le processus de Barcelone a comme composant déterminant le projet de création d'une zone de libre-échange en 2010. En ce sens, un ensemble d'accords bi-multilatéraux d'association ont été signés, dans le domaine des produits industriels et des services. Les pays d'Europe du Sud, acceptant le projet de libre-échange ont mis l'accent sur l'aide financière et certains pays, notamment l'Italie et l'Espagne, ont montré une certaine préoccupation quant à l'impact économique de ces accords.

[9] Voir José Garçon. «L'Islam politique, l'Europe et les Etats-Unis», IEEI, 1999.

C'est ce qu'ont clairement illustré les retards de l'Espagne lors de la ratification de l'accord avec la Jordanie et le Maroc et de l'Italie avec le Maroc et la Tunisie, en raison respectivement de la question des agrumes et de l'huile d'olive[10].

## L'Europe du Sud vue d'Afrique du Nord

Les gouvernements et les opinions publiques au Maghreb identifient l'Europe du Sud à un groupe particulier dans le contexte européen. Pour les Maghrébins, la relation avec l'Europe est vue comme essentielle pour leur développement économique et social et comme leur porte d'accès au système économique international. L'Europe du Sud, à leurs yeux, doit jouer le rôle d'avocat de ce projet. Ils tendent à la percevoir comme un groupe favorable au renfort des relations euro-méditerranéennes et sont pour cela particulièrement sensibles aux positions qu'elle prend.

L'image qu'ils ont de ce groupe renvoie avant tout à la France, et dans une moindre mesure à l'Espagne, l'Italie et au Portugal, mais n'inclut pas la Grèce. Ceci a été particulièrement évident lors de la guerre du Golfe, lorsque la participation de la France, mais aussi d'autres pays, dans l'effort militaire allié contre l'invasion du Koweït par l'Irak, a été ressentie comme une trahison, à la différence de celle de l'Angleterre. Pour des raisons de même ordre, les manifestations xénophobes en Europe du Sud sont fortement ressenties au Maghreb.

## Relations bilatérales et multilatérales

Le développement du processus de Barcelone et les progrès de la PESC n'empêchent pas que l'essentiel des relations dans la Méditerranée soient bilatérales, sur le plan politique et de la sécurité. Les pays de l'Europe du Sud ont en effet un vaste réseau de relations bilatérales avec les pays de la rive Sud de la Méditerranée, notamment au Maghreb.

La France, principal partenaire des pays du Maghreb, a d'importantes relations économiques, politiques, militaires et culturelles avec ses anciennes colonies (Algérie, Maroc, Tunisie et Mauritanie) incluant des accords bilatéraux de défense et offrant des garanties de sécurité à la Tunisie et à la Mauritanie.

[10] George Joffé, *Progress in the Barcelona Process*, EMP Watch, IEEI, Lisbon, 2000.

L'Espagne et l'Italie, avec une présence culturelle moins importante et une relation historique plus restreinte (Maroc pour l'Espagne et Libye pour l'Italie), sont venues à intensifier leurs relations, ayant notamment signé des accords de coopération dans le domaine de la défense.

Le Portugal est le nouveau venu dans la région, ses relations avec le Maroc remontant loin dans le passé. Son rapprochement du Maghreb s'est fait par la voie de l'intégration européenne. Il a également établi des accords de coopération dans le domaine de la défense avec le Maroc et la Tunisie et a récemment investi dans ces deux pays.

Il n'y a pas eu jusqu'à présent de tentative de multilatéralisation des accords de sécurité entre les pays de l'Europe du Sud et leurs voisins d'Afrique du Nord.

Les pays directement intéressés continuent cependant à préférer le cadre bilatéral au cadre multilatéral quand il s'agit de résoudre des questions politiques délicates. Parmi celles-ci s'inscrit celle de la crise algérienne, que la France aborde avant tout comme un thème de politique intérieure demandant une réponse nationale. Aucune initiative européenne significative n'a été lancée face à cette crise qui a déjà coûté la vie à plus de 100 mille personnes. Il en est de même en relation au problème du Sahara occidental ou aux questions des Droits de l'Homme.

Ceci dit, les pays d'Europe du Sud cherchent à définir des politiques qui n'entrent pas en contradiction avec les politiques de l'Union. Ce souci est certainement à la source de l'orientation que l'Italie a donnée à ses relations avec la Libye.

Il est certains domaines où la dimension européenne tend à prévaloir, ne serait-ce qu'en observation d'impératifs communautaires, comme dans le cadre des relations commerciales. Les pays d'Europe du Sud ont été favorables à la progressive communautarisation des questions de sécurité interne et de la problématique de l'émigration. En ce qui concerne la communautarisation du troisième pilier, les pays d'Europe du Sud sont proches de l'Allemagne, des pays du Benelux et plus distants des pays nordiques, de l'Autriche et de l'Angleterre qui ont une vision plus nationale et moins communautaire, dans cette question comme dans d'autres.

## La Méditerranée en tant que facteur d'équilibre intra-européen

A partir de 1989, avec l'ouverture de l'Union à l'Europe du Nord, du Centre et de l'Est, une préoccupation a émané de l'Europe du Sud quant au fait que ce processus ne vienne à menacer l'équilibre intra-européen et que la problématique méditerranéenne ne soit mise en marge.

L'eurocentrisme affecterait non seulement l'équilibre interne de l'Union, mais aussi la notion même de communauté d'intérêts. Les pays de l'Europe du Sud, s'ils étaient amenés à considérer que leurs intérêts spécifiques (politiques et de sécurité), n'étaient pas pris en compte par l'Union pourraient se détourner de l'Europe centrale et orientale.

La France est particulièrement sensible à la question de l'équilibre intra-européen dont dépend la solidité de l'axe franco-allemand et l'avenir du projet communautaire lui-même. Dans les années ayant suivi la chute du mur de Berlin, les déclarations franco-allemandes sur la PESC, ont traduit l'importance de l'ouverture à l'Est (principale préoccupation allemande) et en même temps la nécessité de stabiliser le Sud.

Au Sommet de Lisbonne, en juin 1992, malgré le langage délibérément très vague des dispositions prises en matière de politique étrangère et de sécurité commune, le principe de l'équilibre entre l'Est et le Sud a cependant été repris dans la définition des régions prioritaires pour d'éventuelles actions communes qui comprenaient l'Europe centrale et orientale, le Maghreb et le Moyen-Orient.

Cette préoccupation d'équilibre a justifié, tout au moins en partie, le Processus de Barcelone aux yeux des Etats membres de l'Union de l'Europe centrale et du Nord.

Défini lors du Traité d'Amsterdam en 1996, le nouveau mécanisme des stratégies communes reflète la même préoccupation d'équilibre Est-Sud. Les stratégies communes concernant l'Ukraine et la Russie ont été approuvées (Cologne et Helsinki) et une stratégie commune en ce qui concerne la Méditerranée a été adoptée au Conseil européen de Feira, en juin 2000.

Les pays du Centre et du Nord de l'Europe reconnaissent que les pays méditerranéens ont des intérêts spécifiques qui doivent être pris en considération. Les Nordiques par exemple tendent à comparer leurs préoccupations envers le futur des Républiques baltes ou de la Russie avec celles de l'Europe du Sud envers la Méditerranée, considérant que «l'Europe du Nord ne peut pas ignorer l'Afrique du Nord et l'Europe du Sud ne peut pas ignorer la Russie»[11].

[11] Voir intervention de Sven-Eric Söder, Secrétaire d'Etat au Ministère des Affaires étrangères de Suède, «Trade and Economic Relation - the basis of prosperity and security», au cours du Séminaire *Subregional cooperation and Integration in Europe*, Lisbonne, IEEI, 27 et 28 avril 2000.

La préoccupation des pays de l'Europe du Sud quant à la mise en marge de la Méditerranée dans la politique extérieure de l'Union ne signifie pas pour autant que les pays latins ne considèrent pas la consolidation de la démocratie en Europe centrale et de l'Est et le futur de la Russie comme un sujet les concernant directement et qu'ils ne doivent pas être au centre des priorités de l'Union. Leur appui à l'élargissement à l'Europe centrale et orientale en témoigne.

## Conclusion

L'élargissement de l'Union en Europe et l'expansion du marché européen vers le Sud avec la création d'une zone de libre-échange en 2010 sont certes des programmes très différents, mais qui témoignent de la même volonté d' «inclusion». L'Europe du Sud, cependant, voit un lien entre les deux et une garantie que la Méditerranée ne sera pas négligée dans la construction européenne.

Si l'influence de l'Europe du Sud est évidente dans la politique méditerranéenne de l'Union, quelle est sa véritable portée ? Force est de constater que les pays méditerranéens de l'Union ont été trop sensibles aux préoccupations envers la stabilité des différents pays d'Afrique du Nord, en raison de leur attitude craintive par rapport au changement. En résultat, la politique de l'Union s'est vu limitée dans le domaine politique par le consensus qu'il est possible d'obtenir dans le cadre de Barcelone et ceci dans des domaines comme la démocratie et les droits de l'homme ; en d'autres termes, l'Union n'a pas assumé d'attitude compatible avec les principes énoncés et les régimes autoritaires se sont érigés en tant qu' «exemples à suivre». La politique de l'Union européenne est devenue otage du consensus possible dans le cadre de Barcelone qui englobe des pays défendant des positions radicalement différentes à l'égard des questions politiques et de sécurité. Par ailleurs, des progrès substantiels sur le plan économique et notamment la mise en place d'une zone de libre-échange dépendent en grande mesure de la coopération sous-régionale au Maghreb et au Moyen-Orient, dont les signes visibles sont encore rares. La zone de libre-échange ne pourra voir le jour qu'à condition d'une ouverture politique européenne dans le domaine agricole, que plusieurs pays d'Europe du Sud ne semblent pas disposés à accepter.

Si l'on peut affirmer que sans la pression de l'Europe du Sud, on aurait difficilement une politique méditerranéenne de l'Union, il n'en reste pas moins que cette politique a besoin d'être davantage communautaire et orientée d'une forme plus claire selon les valeurs que la politique extérieure de l'Union est censée promouvoir. L'Union a besoin de définir une politique par rapport au Maghreb et le processus de paix au Moyen-Orient. Cette politique autonome du processus de Barcelone sera un facteur important de consolidation du Partenariat euro-méditerranéen lui-même.

# EU SECURITY TOWARDS THE MEDITERRANEAN THE ROLE OF SOUTHERN EUROPE

*Roberto Aliboni, Istituto Affari Internazionali, Rome*

**contribution to the IEPM/IFRI Research Programme 1999-2000**

The crucial question this paper tries to tackle is whether Southern European interests with respect to the Mediterranean are helping or hindering the ongoing processes aimed at upgrading European Union's security role by strengthening the Common Foreign and Security Policy (CFSP) and promoting the Common European Security and Defence Policy (CESDP).

To respond to this question a set of security issues will be taken into consideration. Before examining these issues, however, the topic discussed by the paper must be put in its perspective. For this reason, we need to consider very briefly (a) the ongoing process by which the EU is strengthening its security and defence capabilities; (b) the relevance of these developments with respect to the Mediterranean and the perceived roles of Southern Europe with respect to this area; (c) the relevance of a broad notion of security for EU policies towards the Mediterranean; (d) a reminder of the factors which steer co-operation and competition between member states in intra-EU relations in trying to maximise national security objectives and security resources.

## Strengthening EU security and defence capabilities

In the last years the European Union (EU) has started a movement towards strengthening its CFSP. The Amsterdam Treaty has reinforced the Secretary-General of the EU Council of Ministers by establishing a Cell for Policy Planning and Early Warning under its direction. Further to its functional reinforcement, the Secretary General has been also given a political role as High Representative of the Union's CFSP. At the top of the Union, the *troika* has been basically transformed from a purely intergovernmental revolving body into an institution geared to co-ordinate the varying intergovernmental and communitarian branches of the Union. In fact, beside the usual revolving President, it includes the High Representative of the EU Council of Ministers and a representative from the Commission.

Besides, in the field of security and defence, the Union's Treaty has absorbed the Western European Union (WEU) in the EU and included the Petersberg tasks. The British-French initiative of St. Malo at the end of 1998 has brought about a number of steps to evolve what has then be named as CESDP in the framework of the CFSP; and set up a new structure of intergovernmental committees - the standing Political and Security Committee (PSC) and the Military Committee - with the task of exercising, under the authority of the Council, the political control and the strategic direction of whatever Petersberg-like crisis management operations is decided. In 1999 the European Council of Cologne and that of Helsinki have set out the foundations and the rationale of the process geared to provide the Union with a military and non-military crisis management capability.

The strengthening of the CFSP and the introduction of the CESDP are taking place in the framework of a renovated drive towards co-operation in the Atlantic circle. The CESDP initiative is primarily a response to the frustrating experience made by the EU in the Western Balkans and an attempt at providing the Union with the actual and effective military means to manage crises, when they need to be, by means of EU-led operations. At the same time, it is geared to pursue tasks of European interest the US may not be able or willing to pursue by its direct participation. In this perspective, the emergence of a European defence identity has been stressed with unusual conviction by the North Atlantic Council that took place in Washington D.C. in April 1999.

In sum, by reinvigorating its CFSP and starting the development of the CESDP, the EU has begun a process aimed at strengthening security and defence integration at both the European and Atlantic level.

As just pointed out, this process has been fostered by developments in Western Balkans. Still, it is not expressly directed to this area, where military arrangements have been already made by means of a Combined Joint Task Force and are now working more or less satisfactorily. Its purpose is very general, as the process is tasked to give the Union the broad capability of response to crises, wherever and whenever EU interest would require such response.

While, for good strategic reasons, EU's crisis management capability will retain a "tous azimuts" character, there is no doubt that EU policy towards the Mediterranean and, more in general, the areas immediately located beyond this water basin, i.e. the Middle East and North Africa (MENA), constitutes an important dimension of this process. This paper looks at this dimension.

## The Mediterranean and Southern Europe

With respect to the process aimed at strengthening EU security and defence capabilities and policies, in particular with respect to the Mediterranean/MENA dimension of this process, Southern Europe is certainly bound to play a role.

Southern Europe is an elusive geopolitical notion[1]. South European countries - Portugal, Spain, France, Italy and Greece - have some common interest (like protecting Mediterranean agricultural productions) or some common function (they were NATO's Southern Flank). It would be wrong to see them as a fully homogeneous political actor, however. In any case, there is no doubt that one such common interest regards the Mediterranean. All South European countries feels affected by regional or sub-regional factors emanating from the areas concerned and assign the countries beyond the Mediterranean a more or less prominent place in their foreign and security policies[2].

Nor is there any doubt that Southern Europe has always played a special role in fostering the idea of a common European interests towards the Mediterranean area and building up related policies. On the other hand, the Northern European members of the EU have always recognised this role as well as EU southern countries' specific interest towards this area.

These trends and perceptions have been confirmed at the occasion of the establishment of the EU initiative that at the end of 1995 has given way to the Barcelona Declaration and the (EMP)[3]. In fact, the drastic upgrading of the EU Mediterranean policy provided for by the establishment of the EMP has been fostered once again by the EU southern countries. Furthermore, the EMP has been

[1] See John W. Holmes (ed.), *Maelstrom. The United States, Southern Europe, and the Challenges of the Mediterranean*, The World Peace Foundation, Cambridge, Massachusetts, 1995; Roberto Aliboni (ed.), *Southern European Security in the 1990s*, London and New York, Pinter Publishers, 1992. In an earlier perspective, essentially linked to NATO, see Douglas T. Stuart (ed.), *Politics & Security in the Southern Region of the Atlantic Alliance*, Macmillan Press, 1988; John Chipman (ed.), *NATO's Southern Allies: Internal and External Challenges*, London, New York, Routledge with Atlantic Institute for International Affairs, 1988.

[2] See S. Stavridis, T. Couloumbis, T. Veremis, N. Waites (eds.), *The Foreign Policies of the European Union's Mediterranean States and Applicant Countries in the 1990s*, MacMillan Press, St. Martin's Press, for the Graduate School of European and International Studies, University of Reading, 1999, pp. 295-316.

[3] See Esther Barbé, "The Barcelona Conference: Launching Pad of a Process", *Mediterranean Politics*, Vol. 1, No 1, Summer 1996, pp. 25-42; Laura Guazzone, "Multilateral Cooperation in the Mediterranean: A Southern European Perspective on Current Initiatives", in John Van Oudenaren (ed.), *Employment, Economic Development and Migration in Southern Europe and the Maghreb*, Rand Co., Santa Monica (Ca), 1996, pp. 241-259.

construed as a balancing act with respect to the policy of EU enlargement towards Central-eastern Europe and the special Northern EU countries' interest reflected in it.

When looking more closely at the evolution of the EMP since its launching, it is clear that this new EU Mediterranean policy is regarded by the EU members as a more entrenched part of their *acquis* than it used to be in past experiences. This is the case in particular with Germany[4]. Still, Southern EU countries' special role towards the Mediterranean continues to mark the perception by Southern European countries themselves as well as their Northern fellows in the EU and NATO, and non-EU-countries beyond the Mediterranean Sea. When coming to the Mediterranean (not that much the Middle East), EU members as well as other countries refer quite naturally to South European countries or Southern Europe.

It must also be noted that this vision remains true despite the profound political and ideological changes which occurred in Southern Europe over time. While France as always been a Northern European country with a Mediterranean "façade"[5], the Southern EU countries proper, Greece, Italy, Portugal and Spain have been at different times profoundly "Europeanised". The end of the Cold War has deepened and completed this process, in particular in Italy. Thus, as of today the common European *acquis*, as limited and fragmented as it may be in terms of foreign and security policy, is not a rhetoric argument but a concrete guideline and a strongly shared feeling, in the sense that South European countries feels like European countries on the Mediterranean rather than Mediterranean countries in Europe. Nonetheless, the universal perception of a Southern European role towards the Mediterranean area holds up.

Albeit South European countries share an interest in the Mediterranean, their views may differ according to issues. As already pointed out, with respect to the Mediterranean as well as other issues, they cannot be regarded as a homogeneous actor. Still, the evolution of post-Cold War geopolitics suggests that in the present situation there is a specific Mediterranean issue that tends to characterise Southern Europe, i.e. the fact that it plays the function of southern boundary vis-à-vis the whole of the Union.

In fact, with the end of the Cold War, Europe has re-identified itself. EU boundaries have moved towards the East to include other countries or to give them a more or less distant perspective of inclusion. Towards the Mediterranean and the MENA, this inclusion has stopped at Cyprus, Malta and, perhaps, Turkey. With respect to the Arab countries and Israel there is a strong wish of co-operation and dialogue, still a stronger consciousness of diversity as well as complacency (on both sides) towards diversities. Thus, the Mediterranean, as co-operative and area as it may be bound to become, is a boundary towards countries beyond of it. Thus, a relevant character South European countries do share as of today is the fact of being the southern boundary of the Union. This common character has important implications that the paper will consider in the following.

In conclusion, South European countries are generally and normally regarded as actors with special interests and roles towards the Mediterranean and, to some extent, the MENA. In this sense, it can be assumed that they have a specific impact in shaping EU policies towards these areas. In exercising such impact they cannot be considered as a homogeneous actor, Still, thanks to post-Cold War geopolitics, it must be noted that Southern Europe is unified by working as the southern boundary of the Union.

## A concept of broad security for the Mediterranean

[4] See Volker Perthes, *Gradually Becoming a Mediterranean State: Germany and the EuroMediterranean Partnership*, EuroMeSCo Papers, No. 1, Lisbon, February 1998 (mimeo).
[5] See Christoph Carle, "France, the Mediterranean and Southern European Security", in R. Aliboni (ed.), *op. cit.*, pp. 40-51.

The strengthening of security capabilities with a view to manage crises is directed at completing already existing and well developed EU capabilities to intervene in crises with non military instruments and pursue conflict prevention policies. Such expanded EU capability would respond better than its traditional, only "civilian" capabilities to the broad concept of security which has prevailed in the post-Cold War era, in particular with reference to areas and countries like those included in the Mediterranean, and the tasks this concept brings about.

In the ten years that unfolded the end of the Cold War, the pattern of international relations has confirmed that the Western alliances have no significant military threats to face. With the (perhaps dwindling) exception of Greece and Turkey in their bilateral relations, no member of NATO or the EU envisages a full-scale military aggression. As of today, Western security is not concerned by the need of upholding national and allied capabilities to rebuff a military aggression but it is concerned by its ability to preserve peaceful international relations as the indispensable premise of Western domestic quality of life (order, prosperity, welfare, high technologies, sophisticated services, etc.). The most important security task the Western countries pursue is the political stability of the international environment so as to minimise or avoid economic disruptions and spill over effects, like terrorism, international crime, illegal immigration and other uncontrolled movements of people, etc.

In this perspective, as stressed by the strategic concept approved by Western countries within the framework of NATO in the 1991 Rome Atlantic Council, security is a broad, not necessarily military task determined by a large number of economic, cultural, political and social factors. To pursue security in this broad sense, two kinds of response are required: strategies of co-operation and dialogue predicated on the use of civilian factors and strategies of force projection to support varying kinds of peace operations. Actual responses are combinations of the two.

Capabilities to provide civilian responses have been developed by the EU since long time. What the EU has badly failed to develop is its capability of providing military responses. This is partly due to the intergovernmental and weak character of its CFSP. In 1992, by setting out the so called Petersberg tasks, the WEU envisaged the possibility of pursuing peace support operations (PSOs). As a matter of fact, in subsequent developments such policy has been pursued in a very weak and uneven way[6].

With its current attempts at upgrading its security role, the EU seems now willing to acquire the concrete capability of carrying out PSOs (in connection with NATO or not) by projecting multiplied and modernised joint forces abroad. In this way, it would couple this capability to its already-developed, complex (holistic) responses of political dialogue, economic aid, etc. as, for instance, the Euro-Med Partnership (EMP) and previous Mediterranean policies.

In sum, to the broad and more multidimensional concept of security that has emerged in the post-Cold War era the Union is preparing itself to respond by adding the use of military instruments and the management of crises to its more traditional use if non-military instruments and conflict prevention. In dealing with the complex issues of the Mediterranean this addition is important. At the same time, the basic non-military character of its challenges and the peculiar security situation prevailing in the area should not be overlooked or forgotten. This paper pays attention to the necessity of understanding the relative weight of new additions and old ingredients in the EU policy towards the Mediterranean.

## Competition and co-operation in intra-EU relations with respect to the Mediterranean

[6] WEU pursued in the framework of Balkans crises so called police-tasks, as e.g. in Mostar; somewhat ironically these tasks, while inherently belonging to the Petersberg tasks discourse, are not included in the latter.

It must be pointed out that, in pursuing common security agendas, like that concerning the Mediterranean, the EU members are affected nationally by different challenges and risks or undergo different impacts from such risks and challenges. These differences stir an intra-alliance competition to take advantage from co-operation, i.e. common resources contributed by allies, and possibly obtain a net surplus. Furthermore, in this competition governments may pursue linkages between different issues, for instance by providing security resources for common purposes in order to attain political advantages in national terms, as - for example - an increase in their international status. In fact, this kind of issue-linkage (security resources against political status) is the most commonly occurring one, though improvements in national military training or domestic political purposes are also important motives.

EU members compete in order to make common policies take care of their own challenges and risks or parts of them. They also contribute security resources for nationally distant challenges and risks or extra-resources to get a return in terms of accrued intra-European or international political status. The effort by the Italian government to obtain the establishment of a EU common policy to control boundaries belongs to the kind of typical efforts made by individual partners in an alliance to share security cost. The Italian effort to provide current PSOs in Western Balkans with more military resources than it could comfortably supply is an example of issue-linkage and is strictly related to the Italian aspiration at enhancing its international status so as to be member of existing "directoires" (lest being excluded from them). The Spanish participation to Western Balkans PSOs, i.e. an area where national security is not at all involved, is a straight example of issue-linkage directed at increasing status. Both Italy and Spain have been rewarded, the former by entering the Group of Contact and the latter by acquiring a set of important functions in the Union.

The task of this paper being that of evaluating Southern European contribution in terms of strengthening the CFSP and promoting the CESDP, this model may help such evaluation. Where appropriate it will referred to by this paper.

## Security challenges in the Mediterranean and Southern European responses

Let's sum up the varying remarks made so far. South European countries are contributing, with their Northern EU members fellows, to upgrading EU security role (in an upgraded connection with NATO). This contribution takes place in a process where the perceived nature of security requires multidimensional responses, entailing the use of more proven civilian instruments as well as new military instruments still to be established or made operational. It takes also place in a coalition framework characterised by competition and co-operation where quite legitimately they will try to obtain a net gain. It is in this perspective that the question whether South European countries are fostering or hindering this process will be taken into consideration by this paper.

To try to respond to this question, the paper considers four security issues: (a) immigration, as a security issue affecting civil societies; (b) Weapons of Mass Destruction (WMD) proliferation , as a military security issue; (c) co-operative security and broad security as processes that requires both military and non-military instruments; (d) PSOs and crisis management.

### *Immigration*

Immigration was an important security factor in making the EU put forward the EMP initiative. In this initiative South European countries were not alone. In the words of a distinguished German official of the EU Commission, who played a prominent role in bringing about the Barcelona Declaration: "Europe wishes to see as its southern rim a group of countries that will not: be at war with each other; be destabilised by socio-political conflicts; export terrorism or drugs to Europe;

threaten Europe's social stability by continued or even sharply increased flows of illegal immigration."[7]

Illegal as well as legal immigration is a concern for all the members of the EU since the end of the Cold War, when a wide arc of instability was envisaged, from Rabat to Vladivostok, that among other things was supposed to displace, for economic or political reasons, much more people than it actually happened to do in the end. To a less catastrophic extent, immigration has considerably increased, however, but the pattern of sending and receiving countries is perhaps somehow different from what it was expected. In particular, the place of the Mediterranean ad the Middle East as well as that of Southern Europe in this pattern has to be brought back to its right proportions and perspective.

The most important non-EU presence is in Germany (5.5 million units in 1997) followed by France (2.3), the United Kingdom (1.2), and Italy (1.1)[8]. Austria, the Netherlands, Belgium and Sweden, in the order, host between 600,000 and 350,000 foreigners. As for the other South European countries, in the same year non-EU immigrants were 325,000 in Spain, 222,000 in Greece and 129,000 in Portugal. If density is taken into consideration (i.e. non-EU residents per 100 inhabitants), Austria is on the top of the list (7.7%), followed by Germany (6.7%) and France (3.9%). In Northern Europe Sweden and Denmark show also a high density (3.9 and 3.5%). The United Kingdom; Greece and Italy have almost the same density (2; 2.1; and 1.9% respectively). Density in Portugal (1.3) and Spain (0.8%) is lower.

All in all, the most important absolute amounts and densities regard more Northern Europe and France than the extreme Southern European countries, with Italy somehow in between. Furthermore, it must be pointed out that, while Germany and France receive important groups from the Mediterranean (from Turkey and the Maghreb respectively) beside other non-Mediterranean groups of foreigners, in the other four South European countries the composition of Mediterranean and non-Mediterranean residents is more uneven (as in Spain and, more particularly, in Italy) or the Mediterranean presence negligible (as in Greece and Portugal).

Still, these figures have to be put in an adequate perspective if they have to provide some meaningful insights. In fact, two elements suggest that immigration, beyond its absolute amount and density, constitutes a relevant challenge to Southern Europe, in particular to Italy, Spain and Greece:

- in the last ten years immigration in lower Southern Europe has increased at a much more rapid pace than in Northern Europe and France, probably because it is pulled by economic factors, whereas in Northern Europe a considerable long-standing stock of immigrated people is increased by smaller inflows of family reunification, marriage migration and asylum seekers; Southern Europe has developed from a peripheral area to major centre for immigration[9], an immigration that comes from the Mediterranean as well as countries farther afield in Asia, Africa and Europe (like Russia for Greece);
- the geographic configuration of the Mediterranean basin, with choke points in the Aegean Sea, the Adriatic Sea, the Canal of Sicily and the Strait of Gibraltar exposes Greece, Italy and Spain (and to a lesser extent Portugal) both as target and transit countries and helps giving this part of Southern Europe the role of EU southern boundary. This notion of EU boundary has to be

[7] Eberhardt Rhein, "Europe and the Mediterranean: A Newly Emerging Geographic Area?", *European Foreign Affairs Review*, Vol. 1, No. 1, 1996, pp. 79-86.

[8] These figures are elaborated from G:C Blangiardo, *The Phases of European Immigration*, paper written within the research project promoted by International Affairs Institute-IAI and the Centro per gli Studi di Politica Internazionale-CeSPI on "Prevention, Control and Management of Migratory Flows in the Central Mediterranean", Rome, May 1999 (mimeo).

[9] J.J. Schoorl, B.J. de Bruijn, E.J. Kuiper, E.L. Heering, *Migration from African and eastern Mediterranean countries to western Europe*, Council of Europe CONFMED (96)4, Strasbourg, 1996.

understood in non metaphoric sense because of the parallel development of the common EU space of "freedom, security and justice" behind the boundary in question.

Policies towards immigrated people are to a large extent domestic policies, managed by the Ministries of Interior. They have, however, an important external interface, as so have all the questions related to "soft security". In this sense, though indirectly, they affect the building-up of the CFSP and regard the issue of the Southern European role with respect to the latter that we are considering in this paper. For example, the EU common strategy for the Mediterranean, which the Council is planning to approve, sooner or later, in the framework of the CFSP, will have to include, like the Barcelona Declaration, the issue of immigration. More in general, it must be reminded that a good part of EU security problems, in particular towards the Mediterranean and the Middle East, needs a policy response in terms of advancements in common internal policies rather than in terms of CFSP proper.

In this sense, the Treaty of Amsterdam, by communitarising a good deal of questions relating to immigration is one such advancements[10]. Still, the process of communitarising immigration-related issues in the EU proceeds slowly, particularly in terms of common action and resources. In front of these developments, the challenge facing the South European countries is that, while the southern boundary is more and more communitarised by the advancements and the integration of the common EU space behind it, control over such boundary remains essentially in the hands of the individual countries concerned, Italy, Greece and Spain (and if Western Balkans were taken into consideration in this paper, Austria and Germany would also have to be included in the list).

Italy has been particularly active in putting forward the question in the EU circles. In the intergovernmental Conference of 1997, it insisted on the necessity to shorten the transition to the communitarisation of matters relating to the creation of a common European space and its external implications. As we have just pointed out, such communitarisation has then proceeded. The specific question of boundaries control is lagging behind, however. The "action plan on how best to implement the provisions of the Treaty of Amsterdam on an area of freedom, security and justice", set out jointly by the Council and the Commission and approved at the Vienna European Council in December 1998, did not lend the question of boundaries control the urgency it deserves in the eyes of Italy and other South European countries. For this reason, at the European Council of Tampere (October 1999), especially devoted to the creation of the EU common space of freedom, security and justice, beside the important joint paper presented by France, Germany and the United Kingdom (UK) on access to citizenship by immigrated people, their social integration, the struggle to xenophobia and racism, Italy presented a non-paper insisting on the necessity to share costs related to the control of boundaries. At the EMP Ministerial Conference of Stuttgart on April 1999, the Italian government tried to introduce the idea of co-operating within the Barcelona process to develop collective agreements of readmission, but to no avail.

While lobbying in the EU for boundary control costs to be shared, Italy and Greece, sometime co-operating with one another, are making progresses of their own in actually controlling the boundary with respect to EU-directed immigration. In 1998, Italy[11] has approved a more modern, complete and effective legislation on immigration and related matters (Law 40/1998 ruling on immigration and the status of foreigners). Thanks also to the experience made primarily with Albania, in

[10] See Bruno Nascimbene, *Immigrazione e asilo nel diritto dell'Unione Europea*, paper written for the research project organised by the International Affairs Institute-IAI on "Immigrazione e asilo nel quadro della politica italiana e nel contesto dell'Unione Europea", Rome, April 2000 (mimeo); P. Magrini, G. Sacerdoti, "L'evoluzione delle politiche europee nel settore della giustizia e degli affari interni", in R. Aliboni, F. Bruni, A. Colombo, E. Greco (a cura di), *L'Italia e la politica internazionale, Edizione 2000*, Istituto Affari Internazionali e Istituto per gli Studi di Politica Internazionale, Bologna, Il Mulino, 2000, pp. 83-100.

[11] On Italy see Ferruccio Pastore, "La politica migratoria", in R. Aliboni, F. Bruni, A. Colombo, E. Greco (a cura di), *op. cit.*, pp. 319-330.

particular when it led the "Operation Alba" and the UN Protection Force after the 1996-97 crisis of Albania[12], Italy has developed a set of instruments and mechanisms of control in bilateral relations, in particular by means of agreements of readmission and the assignment of preferential quotas contingent to readmission. At the end of 1998, there were 16 such agreements with Eastern European and Mediterranean countries. Further to national policies, Italy and Greece have co-operated in many occasions and recently have signed a memorandum of understanding to combat together in the Adriatic and Ionic Seas against organised international crime, smuggling and trafficking of human beings. These themes have been elaborated in a European conference on security in the Adriatic-Ionic area organised by the Italian government in Ancona in May 2000.

By becoming the new EU centre for immigration, Southern Europe is contributing to the complex receiving effort of the whole of the EU with respect to legal immigration. By gradually becoming the southern boundary of the Union - so long as as the EU common space is advanced and established - Southern Europe is contributing to common security with respect to illegal immigration and the multifarious criminal activities coming in from southern and south-eastern regions adjoining Europe. To the extent this contribution remains mostly trusted to national efforts, as it is the case today, Southern Europe is actually exporting security to Northern Europe. At the same time, with its efforts and experience is fostering the advent of a more articulated CFSP.

The first case examined in this paper is thus suggesting a positive role of Southern Europe in the ongoing EU effort to develop a common security policy towards the Mediterranean. It should also be stressed that in this connection, Southern Europe appears substantially solid, though with respect to immigration France is confronted by other kinds of challenge than Greece, Italy, Portugal and Spain. This solidarity, as poorly structured as it may be in terms of actual policies, gives Southern Europe a "Mediterranean" role in intra-European politics.

### *Proliferation, co-operative security, stability*

The basic perspective of this paper is predicated on Southern Europe's role in the European Union. In this perspectives, as already pointed out, South European countries share the EU concept of security and are thus contributing to set up a Union's military and non-military crisis management capability with the limits and purposes the EU members will establish. Such capability will be confined to the PSOs, known as Petersberg tasks, referred to in Art. 17 of the Union's Treaty (while defence proper remains trusted to the Atlantic Alliance on the basis of Art. 5 of the Washington Treaty - and Art. 5 of the Brussels Treaty). It also looks like a subsidiary capability. In fact, the Helsinki's Conclusions say that the EU is determined to develop an autonomous capacity to take decisions to launch and conduct EU-led military operations in response to international crises "where NATO as a whole is not engaged", a clause that suggests a previous (and obvious) political understanding between NATO and the EU (by means of the common political institution that the Western allies have begun to seek for).

This being the EU perspective, it must be pointed out that it is not the only security perspective available to South European countries as well as the other members of the Union. In fact, the security perspective of the CFSP/ CESDP and the policy responses that the EU is going to provide in this perspective

[12] On the 1997 crisis and "Operation Alba" see A. De Guttry, F. Pagani (a cura di), *La crisi albansese del 1997. L'azione dell'Italia e delle organizzazioni internazionali: verso un nuovo modello di gestione delle crisi?*, Milano, Angeli, 1999; Ettore Greco, *Delegating Peace Operations. Improvisation and Innovation in Georgia and Albania*, United Nations Association of the United States of America, New York, 1998; s.a., "New Trends in Pace-keeping: The Experience of Operation Alba", *Security Dialogue*, V. 28, No. 2, 1998, pp. 201-212.

(a) do not concern national security in a broad sense and military threats to or risks for national security, as in the case of proliferation; in the event, perspectives and responses are bilateral or Atlantic;

(b) do not concern the Mediterranean in particular, where a particular perspective and related policy responses are provided by the Barcelona Declaration and are expected to be specified by an *ad hoc* common strategy (that hesitates to get out): to what extent the general EU security perspective fits with or is applicable to the Mediterranean remains to be seen.

What is the position of the South European countries on these further perspectives? Are their positions helpful or not with respect to the aim of strengthening the CFSP and, more in general, the EU security role? To respond to these questions we consider in the following Southern European positions on (a) WMD proliferation; (b) the establishment of a Mediterranean scheme of co-operative security (as the one put forward by the first chapter of the Barcelona Declaration); (c) the achievement of a "broad stability" (not security) agreement, like the one envisaged by the project of the Euro-Med Charter for Peace and Stability.

*WMD Proliferation* - Lesser and Tellis[13] have concluded that "Within ten years, it is possible that every southern European capital will be within the range of ballistic missiles based in North Africa or the Levant". At the same time they have very aptly pointed out that this development (a) is going to have less a military than a political impact and (b) that it is fuelled by systemic, regional and domestic motives that requires less a military than a political response.

In fact, even in a distant term, the threat posed by countries on the other side of the Mediterranean to Southern Europe would amount to their ability to inflict damages rather than conduct a full military attack. Still, such more or less damaging ability will generate a very likely effect of interdiction on Southern European countries and limit the Alliance's cohesion and its political and military freedom of manoeuvring and intervening.

On the other hand, there is a fairly wide convergence among analysts[14] on the composite and regionally limited nature of proliferation's motives and, for this reasons, on its reduced military weight in the North-South context. As just said, this is due to a number of systemic, regional and domestic factors:

- the pulling force towards proliferation, irrespective of its actual military effectiveness, is the political necessity to earn some strategic "weight" and status from the possession of WMD and missiles. During the Cold War, Third World and Mediterranean states could obtain strategic weight internationally by aligning or not aligning themselves in the framework of the global East-West confrontation. In a sense, WMD and missiles are a substitute for alignment in the post-Cold War world;
- on the other hand, there is no doubt that many MENA states feel insecure with respect to both regional enemies and the West and for good. In this sense, WMD must be regarded as a form of military and political deterrence or as an instrument of interdiction and coercive diplomacy;
- MENA countries' WMD and missiles are essentially targeted on their southern neighbours. As a matter of fact, it is in the South-South context that MENA states face real military threats and more often than not have proven to be willing or able to resort to military instruments to solve their disputes, by diplomatic coercion as well as other forms of conflict. The North is not a primary target of Southern WMD and missiles, at least from a narrower military point of view;

[13] Ian O. Lesser, Ashley J. Tellis, *Strategic Exposure. Proliferation around the Mediterranean*, RAND, Santa Monica (Ca), 1996.
[14] See recently: Anthony H. Cordesman, *Transnational Threats from the Middle East: Crying Wolf or Crying Havoc?*, Strategic Studies Institute, U.S. Army War College, Carlisle (Pa), May 31, 1999, cap. 6.

These views are shared by the Southern European members of the EU as well as by the EU countries in general. At the same time, there are differences in interests and perceptions between the two sides of the Atlantic which generate different attitudes towards proliferation. Eventual effects of interdiction and the regional impact of proliferation weight more in the U.S. global perspective than in the non-global European perspective. Furthermore, the EU countries continue to regard NATO as a defensive alliance and are less concerned than the U.S. about limitations that may be posed by proliferation to the Alliance's freedom of intervention. For sure, this European attitude may be in contradiction with the EU's PSOs agenda, which by the way includes peace enforcement beside peacekeeping and humanitarian intervention. It may also be in contradiction with out-of-area missions envisaged by NATO's New Strategic Concept approved in 1999 in Washington D.C.

Maybe, there will be a European evolution or some Euro-American adjustments to solve these contradictions. For the time being, it seems that the EU states believe that the systemic, regional and domestic character of factors pulling proliferation may be countered more successfully and less expensively by long-term diplomacy and co-operation than by military and other coercive measures.

In Southern Europe, a debate on military counter-measures took place only in France at the beginning of the 1990s. According to Pascal Boniface[15], it was a :

> mixture of fear regarding nuclear weapons proliferation, combined with the perception of a threat from the South which launched a debate in France on the possibility of changing the strategic nuclear doctrine.
>
> Some people in France argued in favour of a switch from a so-called "weak to the strong" doctrine to one of the "strong to the weak", or even the "strong to the crazy". According to this theory, France's dissuasion doctrine, suitable for the East vs. West context, is no longer suitable in a more dynamic strategic environment where the threats take many different forms and are more radical.
>
> After the fall of the Berlin wall, and the Gulf War, the option of using tactical nuclear weapons to restore a purely military function to nuclear weapons was abandoned in favour of miniaturised weapons for surgical strikes. This involved the ability to perform accurate strikes of limited effects on the chosen target without causing environmental damage. The argument was that it was impossible to deter the countries of the South with the same type of threat (heavy strikes on towns) which were used by the former Soviet Union.

With the publication of the 1994 *White Paper on Defence* it became clear, though, that the French government rejected both the new conventional (pre-strategic) and nuclear (tactical) weapons because they would entail an undesired change in the purely deterring doctrine of France and because the development of such weapons would not be worth the risks coming from the South. On the contrary, it would help increasing such risks.

The only South Mediterranean country participating into a programme to develop an anti-missile capability is Italy. The programme is the Medium Extended Air Defense System (MEADS), a U.S.-German-Italian programme to build a mobile, ground-based ballistic missile defence system intended to destroy short-range ballistic missiles and cruise missiles. MEADS is based on the fielding of Patriot Advanced Capability-3. It would protect standing objectives (like towns or military facilities) and troops at the corps level. It must be noted that its mobility would allow its use

[15] *Arms control in the Mediterranean Area: A European Perspective* (mimeo), to be published shortly in a collective book on the Euro-Mediterranean Partnership edited by R. Aliboni, G. Joffé, A.M. Said Aly, A. Vasconcelos and published by Frank Cass in London.

also in case a force is projected for interventions abroad and the need to protect it against missiles arises.

The development of MEADS is largely lagging behind, essentially because the U.S. wants to sell the system without transferring technology[16]. Also, it is very likely that the European partners are not driven by a sense of urgency in implementing the programme. The lack of this sense of urgency would fit with EU and Southern European poor perceptions with respect to risks coming from the South and strategic projection. From the point of view of Italy there is no doubt that this long-term investment in an anti-missile capability within in alliance with the U.S. belongs to the kind of status-accruing strategies we talked about in the above.

With the explained or unexplained exception of MEADS and Italy's participation in it, it can be concluded that South European countries do not believe it necessary or urgent to react with specific military strategies to WMD and missile proliferation in the MENA areas. On the other hand, do EU and its Southern members believe that coercion has to be used against proliferators? They do but to a very different extent than the U.S. They do because they have supported UNSCOM in Iraq and support now UNMOVIC. There are differences between the U.S. and the EU on whether it makes sense to protract sanctions on Iraq. Not on whether continuing control of arms in the country. France, with Russia and China, have voted against Resolution 1284 but have not put their veto on it and have promised to support its implementation. On the other hand, the Europeans - including the UK - have consistently proved unwilling to use coercion with respect to Iran and, with the decision made at the European Council of Edinburgh in 1992, have started with Teheran a "critical dialogue", thus providing to this alleged proliferator a political response.

All in all, WMD proliferation is perceived by the Southern as well as Northern members of the EU less as a military than a political challenge. There are no substantive differences on this security issue between North and South in the EU. There is agreement on the necessity of long-term co-operative responses of political, economic, social character which fit well with EU's capabilities. On the other hand, possible military responses to proliferation remain for the time being in the realm of national security and are not included in the CFSP/CESDP perspective. Over time, however, this perspective, based as it is on developing a crisis management capability, may be hindered by the interdiction effects emanating from proliferation and put problems to Atlantic cohesion.

This problem is not for today. However, it is bound to emerge. Presently, Southern Europe's position on proliferation is neither hindering nor helping the strengthening of the CFSP in relation to proliferation. It should take advantage of its exposure, however, to convince Northern European partners that interdiction effects deriving from proliferation will not be neutral with respect to European security, as it is being developed within the CESDP, and that consequently some military measures to counter such effects may fit to be taken. In this perspective, MEADS may be a good indication.

*Co-operative security and "broad stability" in the EMP* - With respect to the Mediterranean, the ongoing debate on strengthening EU security has been preceded by the four-year debate on security in the EMP framework. From the EU point of view, the EMP debate on security has two faces: on one hand, there is a debate on security co-operation between the EU and the Southern Mediterranean countries; on the other hand, the outcome of this debate shows opportunities for and limits to EU security policies which cannot help reflecting on the debate on strengthening EU's CFSP/CESDP. Which is the outcome of this EMP debate on security as of today, and what has been Southern European role in it?

[16] See the correspondence by Colin Clark, "Germany, U.S. Resolve MEADS Tech Dispute", in *Defense News*, Vol. 51, No. 21, May 29, 2000, p. 1.

In a sense, the EMP has anticipated the present debate in the EU, for it puts forward a multidimensional policy whereby military and non-military instruments are expected to be used in a crisis management as well as conflict prevention perspective. It must be noted that EU security perspective in the EMP is wider than in the ongoing debate on CESDP for, as just pointed out, it envisages the use of military and non-military instruments not only in a crisis management perspective but also, and maybe mostly, in a perspective of conflict prevention.

The long-term security vision of the EMP is based on a double agenda. First, a long-term agenda of systemic and structural prevention aimed at stabilising the region with political and economic reforms in the Southern Mediterranean countries that would be made possible or eased by the organic and protracted support provided by the Union within the EMP. The essence of this agenda is that of a pact of stability. Second, an agenda of co-operative security regarding military relations and armaments, in the CSCE/OSCE's or ACRS' steps. This agenda is described in detail in the first chapter of the Barcelona Declaration on "establishing a common area of peace and stability".

Is the co-operative security agenda to be achieved in the short or the long-run? Is it more or as important as the first one or is it a secondary priority with respect to the stability agenda? In the first semester of 1996, immediately after the inception of the EMP at the Barcelona conference, the EU under a Southern European Presidency (Italy) assigned a strong priority to the second agenda by putting forward an Action Plan and initiating resolutely to work on its implementation. At the end of the semester, the Southern Mediterranean partners made it clear that they were not prepared to implement the Action Plan and its agenda of security co-operation for the simple reason that in their view the very principles of security co-operation in Euro-Mediterranean relations needed to be carefully checked and debated. For this reason, the Euro-Med partners decided to start talks to generate a Euro-Mediterranean Charter on Peace and Stability aimed at establishing an acceptable common concept of security and related policies to take eventually common action. These talks have been going on for four years now but to no avail. The 2000 second semester French Presidency hopes to come to signing the Charter in November, but this is not that certain. The most likely outcome will be a document that in practice will require further talks without really committing the partners.

What has caused the North-South split in the Euro-Med Partnership, and seriously slowed down its advancement, has been the perspective of an implementation of the ideas of military-related security co-operation and co-operative security included in the Barcelona Declaration. Such implementation is not desired or is considered premature. It must be added that a less visible split has also arisen within the EU members. Positions vary considerably, still it can be said that there are two schools of thought, cutting across the EMP as well as the EU members, with respect to what concept should steer Euro-Mediterranean security relations. One school maintains that Euro-Med security is the outcome of long-term policies aiming at preventing conflict by securing conditions of "broad stability", i.e. socio-economic development, the rule of law and human rights. In this vision, there is no place for crisis management and military-related co-operation and a very reduced place for the use of military instruments in a civilian perspective. The other school maintains that military co-operation and crisis management should have a place beside "broad security".

This is the present outcome of the EMP debate on security. For the EU, it has been to a large extent a frustrating experience. The outcome suggests the kind of limits and obstacles EU security policy and current attempts at its strengthening may meet with.

What is the role of Southern Europe in this debate? As we said, there are divisions in the EU. A first division is between those EU members which care about developing a European defence identity and EU military capabilities and those which don't care or are suspicious about this kind of developments, either because the latter may affect the primary role of NATO in Western security (as the UK or the Netherlands) or because these developments may bring about an undesired emphasis on military factors in the co-operative concept of security the EU is expected to uphold (as Austria, Sweden, Denmark, etc.). A second division is about the extension of military tasks to be devolved to the EU and the way decision have to be made, i.e. institutions.

In principle Southern Europe with other Northern European countries have supported the idea that the EMP should include some military-related security co-operation. This support is generally predicated on the early interest of most South European countries in developing and strengthening a security and military component in the EU as a factor conducive to a more independent and integrated Union. This common trend has suffered exceptions and disruptions because of tactical divisions about the role of the WEU with respect to NATO and, more broadly speaking, differences about the extent and purposes of the European identity of defence. With the Treaty of Amsterdam, the inclusion of the WEU in the EU should have put an end or greatly attenuated these tactical oppositions. Today, it seems that the agenda to strengthen the CFSP by providing the Union with a crisis management military capability in tune with NATO brings together the South European countries and most EU Northern countries, including the UK and Germany. Still, while there is agreement on this EU agenda, differences on the security concept to be applied to the Mediterranean within the EMP persist, with possible implication on the implementation of the EU agenda itself.

In this perspective, Spain, Greece and Italy, with a more or less convinced support from France and Portugal have regularly tried to foster military-related factors and co-operation in the EMP and tried to promote a WEU role in the EMP. The French position is more diversified and flexible than other South European countries', however, and its core is definitely prone towards a stability rather than security model. While not explicitly excluding military-related security co-operation in Euro-Mediterranean relations, since the first talks in preparation of the Barcelona Declaration, French diplomacy has stressed the need of a primarily political and diplomatic approach, based on the experience of the EU Pact of Stability with the Central-eastern European countries. This approach was rejected by the Arab Euro-Med partners, which interpreted the Pact as political commitment more stringent than what was suggested by their interests[17]. As a matter of fact, after the early attempts at implementing the Action Plan, the Partners reverted to the idea of the Charter that is very close to that of the pact of stability as, like the latter, it is intended to attain security by establishing conditions of political, economic and social stability in the context of a diplomatic-political process..

As the EMP reverted to its early suggestions, in the talks on the Charter France has been able to develop its position in more detail by putting forward a set of ideas and proposals consistent with the model of the stability pact. These ideas are revolving around three main concepts and a common methodology of gradual implementation[18]:

- the indivisibility of security, which would direct the EMP to take care in the international context of security interests and purposes of both Northern and Southern countries (and would make up for the unilateral consideration of EU security concerns that permeates the Barcelona Declaration);
- the globality of security, which would direct the EMP to take into consideration EU concerns for spillovers from the South (e.g. immigration, human rights) along with Southern Mediterranean concerns for domestic stability (pace of reforms; terrorism and violent political oppositions);

[17] The Barcelona Declaration talks only of "the long-term possibility of establishing a Euro-Mditerranean pact". See Fred Tanner, "The Mediterranean Pact: A Framework for Soft Security Cooperation", *Perceptions* (Ankara), Vol. 1, No. 4, December-February 1996/97, pp. 56-67.

[18] See *Elements de l'intervention de J.-P. Courtois sur le projet de la Charte de Paix et de Stabilité*, Séminaire de Wilton Park sur le Dialogue Euro-Méditerranéen, 19-22 Octobre 1998 (mimeo), Ambassador J.-P. Courtois is the French Senior Official in the EMP.

- non-interference, that is the need of reassurances on existing jurisdictions, respect of international legitimacy and the use of forms of coercive diplomacy (a Southern Mediterranean concern that has been reinforced by 1999 developments in Kosovo);
- finally, the use of procedures of gradual implementation ("mécanismes evolutifs") in achieving the implementation of common goals, instruments and institutions.

By unveiling and accepting inherent limits to security co-operation in the Mediterranean, this agenda has the merit of being very close to Southern Mediterranean ideas of stability and "broad security" and to what these countries are able to accept. In this sense, it may facilitate the agreement that has failed to emerge in the past four years of negotiations.

The agenda can be criticised on two grounds, however. First, because it may undermine fundamental European interests in realms not directly linked to security. For example, the indivisibility of security may prevent the partners from taking badly needed action towards sub-regional contexts. Most important, the principle of security globality may frustrate EU interest in the respect of human rights (under the covert of a relativist concept) and political reform (by confusing terrorism and legitimate political opposition). Second, because it disregards EU interest in developing security policies and co-operation towards the Mediterranean with a view of contributing to strengthening its security role in the CFSP/CESDP context[19].

For sure, the French position we have tried to figure out in the above reflects is a broad orientation. Any "real" Charter would be a compromise and thus would reflect different requirements. It would be closer to the "Guidelines" laid out by the German Presidency and presented to the 1999 Stuttgart Conference. However, the broad orientation accepted by the parties would determine emphases and priorities. It would not be neutral with respect to the substance of the compromise.

The French orientation lends itself to different interpretations. A first interpretation is that, as in many past occasions, France would aim at mobilising European resources to support Mediterranean societies and help them stabilising but would retain the conditions for exercising its national role in foreign and military policy. There is no doubt that many French look at the Mediterranean and the MENA as a privileged field of the Republic's international role and status. In this case, it can be argued that France is not contributing to reinforcing the CFSP and the prospects of the new CESDP.

Another, more benevolent interpretation, however, is that France is right, as its position simply reflects the security agreement that objective Mediterranean conditions do warrant and makes it feasible. In this case, it is up to the EU to decide whether the reduced agreement warranted by objective conditions in the Mediterranean is in its own interest or not. If it is, France would have made a good contribution to the CFSP.

In this sense, the real problem is the EU trade-off between achieving what is possible or trying to get more (with the risk of getting nothing). An agreement as the one warranted by objective conditions in the Mediterranean would be consistent with the diffuse European aspirations to a stability model predicated on non-military factors and conflict prevention. On the other hand, the kind of agreement that the strengthening of the CFSP requires should make some place to security co-operation, the use of military factors for civilian and humanitarian purposes and crisis management. In front of this alternative there might be a division between Southern as well as Northern EU members. The most important issue is what to do with PSOs.

***Peace support operations in the Mediterranean and beyond***

[19] The case has been well done by Martín Ortega, "Military Dialogue in the Euro-Mediterranean Charter: An Unjustified Absence", *The International Spectator*, Vol. XXXV, No. 1, January-March 2000, pp. 115-125.

The French idea of limiting the EMP to stability, economic co-operation, partnership-building measures and "soft security" is similar to ideas being now floated in the U.S.[20] and is consistent with the new security co-operation that is going to be established between the EU and NATO. The problem some Europeans may have with this security co-operation with the U.S. in NATO and the kind of non-military specialisation suggested by both co-operation in NATO and the objective political conditions prevailing in the Mediterranean is that, at the end of the day, the European defence identity and the EU security role may boil down to a little bit more than nothing. In fact, one has to look at this question from an appropriate perspective, in particular it is important to separate the functional development of a EU crisis management capability from its application to different geopolitical theatres. The real issue is that the EU acquires its new functional capabilities. The different ways this capability will be used according to events and theatres is a contingent and secondary question.

The South European countries have set up and made answerable to Western alliances and international organisations Eurofor and Euromarfor. The latter have the task of projecting force beyond the sea. The Southern Mediterranean countries perceive them as a threat directed at themselves. As a matter of fact, Eurofor and Euromarfor are geared to project force on the southern side of the Mediterranean as well as to Indian Ocean or the Persian Gulf. The force of 50,000-60,000 the EU wants to make answerable to its Council - in which Euromarfor and Eurofor will be comprised - will be "tous azimuts". Where this forces have to be applied is a decision which pertains to the Council only and depends on contingencies and developments

If contingencies will suggest a PSO in a Southern Mediterranean country and the UN will ask the EU to intervene with the consensus of the country concerned, this process can well take place outside the EMP. If contingencies will suggest a peace enforcement mission in a EMP partner country, similar to that conducted by NATO in Kosovo in 1999, and the UN will ask the EU to intervene, the EU will do it without the consensus of the country concerned. Given the UN legitimisation (expressly mentioned by the EU documents on CESDP), the EU decision can be made even if the PSOs are not contemplated by the Charter or whichever pact underlying the EMP.

If this is true, it is then clear that the French and American suggestions to exclude military issues from the EMP would not curtail or weaken the strengthening of CFSP/CESDP. On the contrary, it would reinforce the as much important non-military capabilities to manage crisis and prevent conflict the EU and, more in general, the Western countries are also interested in developing.

The Stuttgart "Guidelines" mention the "establishment of Euro-Mediterranean mechanisms for preventive diplomacy and crisis management", both of which may entail PSOs. Further, they mention "Euro-Mediterranean co-operation in peace-keeping". In addition, the "Guidelines" refer to "post-conflict rehabilitation", a field which may overlap with PSOs. In fact, as it is well known, the inclusion of PSOs in the Charter is very controversial. In the light of what has been just said, it seems that they could be excluded from the scope of EMP co-operation without problems: PSOs may be or not be included in regional or inter-regional security agreements without prejudice of their implementation on other frameworks, if they need to be.

This is not to say that other aspects of security co-operation cannot be included in the EMP Charter or pursued in other fora. The EMP has accepted to institute a limited joint action, where military factors are used to civilian purposes, namely the possibility joint interventions in case of man-made or natural disasters. It must be admitted, however, that the scope for further progress is extremely limited. Because of its comprehensive membership, the EMP doesn't lend itself to military-related co-operation until the bilateral tracks of the Middle East will not be completed. Meanwhile, forms

[20] Ian O. Lesser, "The Changing Mediterranean Security Environment. A Transatlantic Perspective", in George Joffé (ed.), *Perspectives on Development. The Euro-Mediterranean Partnership*, Frank Cass, London, 1999, ppp. 212-228.

of military-related co-operation can be pursued by EU members, particularly by the South European states on bilateral bases. Southern Europe has already an excellent network of such bilateral relations and can easily take advantage of them. Limited forms of co-operation, like seminars between members of chiefs of staff or workshops on military doctrine, training to PSOs etc., could be perhaps introduced in the Mediterranean Forum for Dialogue and Co-operation, where the membership combination may prove conducive to such co-operation (Algeria, Egypt, France, Greece, Italy, Malta, Morocco, Portugal, Spain, Tunisia and Turkey). In time, these initiatives could help reinforcing the CFSP/CESDP and allow Southern Europe to play a constructive role.

**Conclusions**

On the last two years, by reinvigorating its CFSP and starting the development of the CESDP, the EU has begun a process aimed at strengthening security and defence integration with a view to acquire new capabilities of crisis management at both the European and Atlantic level.

The strengthening of crisis management capabilities is directed at completing already existing and well developed EU capabilities to intervene in crises with non-military instruments and pursue conflict prevention policies. Such expanded EU capability responds better than its traditional and only “civilian” capabilities to the broad concept of security which has prevailed in the post-Cold War era, in particular with reference to areas and countries like those included in the Mediterranean, and the tasks this concept brings about.

The EU policy towards the Mediterranean and, more in general, the areas immediately located beyond the water basin, i.e. the Middle East and North Africa, is going to constitute an important dimension of this process geared to enhance crisis and conflict management capabilities.

Besides, with respect to this process, Southern Europe is certainly bound to play a role. South European countries are generally and normally regarded as actors with special interests and roles towards the Mediterranean. and, to some extent, the MENA countries. On the other hand, so they perceive themselves in the framework of the complex model of competition and co-operation which bring together EU countries.

In view of these developments, the question the paper has tried to tackle is whether Southern European interests with respect to the Mediterranean are helping or hindering the ongoing processes aimed at upgrading EU’s security role by strengthening the CFSP and promoting the CESDP. To conduct its analysis, it took into consideration four security issues. (a) immigration, as a security issue affecting civil societies; (b) WMD and missiles proliferation , as a military security issue; (c) co-operative security and broad security as processes that requires both military and non-military instruments; (d) PSOs and crisis management.

As far as immigration is concerned, the challenge facing South European countries is that, while the southern boundary is more and more communitarised by the advancements and the integration of the common EU space behind it, control over such boundary remains essentially in the hands of the individual countries concerned, i.e. Italy, Greece and Spain.

By becoming the new EU centre for immigration, Southern Europe is contributing to the complex receiving effort of the whole of the EU with respect to legal immigration. By gradually becoming the southern boundary of the Union - so long as the EU common space is advanced and established - Southern Europe is contributing to common security with respect to illegal immigration and the multifarious criminal activities coming in from southern and south-eastern regions adjoining Europe. To the extent this contribution remains mostly trusted to national efforts, as it is the case today, Southern Europe is actually exporting security to Northern Europe. At the same time, with its efforts and experience is fostering the advent of a more articulated CFSP.

The case of immigration, examined by the paper, is thus suggesting a positive role of Southern Europe in the ongoing EU effort to develop a common security policy towards the Mediterranean. It should also be stressed that, in this connection, Southern Europe appears substantially solid, though France is confronted by other kinds of challenge than Greece, Italy, Portugal and Spain with respect to immigration.

As for WMD and missiles proliferation, it is perceived by the Southern as well as Northern members of the EU less as a military than a political challenge. In the whole of the EU, there is agreement on the necessity of long-term co-operative responses of political, economic, social character which fit well with EU's capabilities. On the other hand, possible military responses to proliferation remain for the time being in the realm of national security and are not included in the CFSP/CESDP perspective. Over time, however, this perspective, based as it is on developing a crisis management capability, may be hindered by the interdiction effects emanating from proliferation and put problems to Atlantic cohesion.

Presently, Southern Europe's positions are neither hindering nor helping the strengthening of the CFSP in relation to proliferation. Southern Europe should take advantage of its exposure, however, to convince Northern European partners that interdiction effects deriving from proliferation will not be neutral with respect to European security, as it is being developed within the CESDP, and that consequently some military measures to counter such effects may fit to be taken. In this perspective, the MEADS agenda, that Italy and Germany are sharing with the U.S., may be a good indication for future common action in promoting the CESDP.

The questions of the achievement in the EMP of a model of military security co-operation is interrelated with that of achieving a model of broad stability. Thus, the two questions have to be discussed together. In the EU, there are Northern countries with a strong preference for a model of broad stability and some doubts about the extent to which a CESDP has to be actually developed. Another group of EU countries, including both Southern Europe and a number of Northern countries, would like to see some security co-operation implemented in the EMP, though four-year talks on the issue made it clear that there are strong limits to such co-operation, let alone the implementation of some forms of co-operative security.

Among South European countries, France, while prepared to support security co-operation whenever feasible, is basically proposing a scheme emphasising broad stability. This scheme would put off to indefinite time any significant agenda of security co-operation, but would have the merit of making an agreement based on broad Mediterranean stability possible, an agreement that would be in any case a relevant contribution to EU security, though it would reinforce its traditional non-military component only rather than promoting the new military one, i.e. the CESDP.

French proposal would help separating, in the Mediterranean area, stability and soft security, on one hand, from hard security, on the other, a separation that is also suggested by American analysts. Following this logic, in relation to the last issue taken into consideration, that is that of PSOs, the paper suggests to avoid any idea of including PSOs in the EMP Charter of Peace and Stability - the document that is expected to point out the scope and purposes of EMP co-operation. If it is true that prevailing political conditions in the Mediterranean do not allow for any Euro-Med security co-operation, let alone the development of PSOs as an element of co-operative security, the idea of trying to introduce them in the Charter would hinder rather than foster any Euro-Med agreement. On the other hand, from the point of view of strengthening the CESDP, PSOs do not need to be included in the agreement to be feasible. EU can develop its capabilities and conduct PSOs, if they need to be, even outside a regional security co-operation scheme. For sure, the inclusion of a consensus on the principle of PSOs, similar to what it happens in the OSCE, would help both secutity and stability to be fostered in Euro-Med circle. But this seems out of what can be pursued in the real political conditions of the area.

Confining the EMP and its Charter to the implementation of a broad stability agenda, while being a positive contribution to Euro-Med and EU security policies in any case, would not hinder the strengthening of the CESDP and the acquisition by the EU of its new capabilities of conducting PSOs. All in all, coupled or not with the idea of excluding PSOs from the Charter, the French proposal looks thus as a step that would foster both Euro-Med and EU consensus. It would also help fostering adjustments in the current re-orga nisation of the Atlantic-European secutity relationship.

The paper suggests conducting security co-operation in other fora than the multilateral and comprehensive EMP. In this sense, South European countries could bring about a positive contribution by fostering security co-operation in their good network of bilateral agreements and in the Mediterranean Forum of Dialogue and Co-operation, paving the way to possible, future developments in the wider. multilateral circle.

In conclusion, Southern Europe, despite some differences between its component countries, is conducting policies that seem conducive to foster EU cohesion, strengthen the CFSP and help promoting the CESDP. While the French proposal on emphasising broad stability towards the EMP has many chances of rallying South European countries and all-EU consensus, proliferation and the control of boundaries may obtain less success or only a belated consensus and thus demand for intra-EU agreements predicated on the achievement of a minimum common denominator.

(5)

# Getting Closer: Germany Approaches the Mediterranean

## Paper Presented to the IEPM workshop, Monaco, 16/17 July 2000 (Draft)

*Volker Perthes*[1]

The case of Germany and its approach to the Euro-Mediterranean Partnership (EMP) may underline that the differences between the Mediterranean policies of particular EU members cannot simply be explained in the categories of "northern" or "southern" states of the Union. Certainly, Germany often finds itself in agreement with other non-southern EU states, such as Britain, the Netherlands, or the Scandinavian countries when it comes to details and tactics in regard to the EMP. Geography is an important factor, but the main question seems to be how geography or, more precisely, the political chances and constraints of geography are shaped by political-structural developments on the one hand, and by history and special country-to-country relations on the other: Comparing Britain and Germany, for instance, we find that Germany is a member of both the Euro- and the Schengen-Zone (whereas Britain is not), and that Germany did not have any colonies in the region (whereas Britain had). And Germany, of course, has a very special relationship to Israel. All this may reflect more strongly on their policies towards the region than their geographical position in, more or less, Europe's North.

Regarding Germany *per se*, we can see an increasing interest of its foreign-policy makers with Europe's Mediterranean neighbourhood since the Barcelona Conference of November 1995. While still more concerned with developments in Eastern and south-eastern Europe than with those in the South, Germany's political elite gives clear support to the Barcelona process, and it considers the Mediterranean and the Middle East important fields of the EU's Common Foreign and Security Policy (CFSP). It is interesting to note that Germany's approach to the region is largely political: Economic interests are undeniable, but they have not played a major role in shaping or reshaping German support for Europe's Mediterranean policy. In a way, as will be explained below, Germany has approached the region trough Amsterdam and Schengen: as a result, that is, of the progressive communitisation of foreign and security policies, and of the changing geopolitics of a European Union

[1] Volker Perthes is in charge of the Middle East/Mediterranean Programme at *Stiftung Wissenschaft und Politik*, Research Institute for International Affairs, Berlin, Germany.

whose "domestic" borders have all but disappeared. Besides, it is still easier for Germany to leave to European bodies some of the more touchy policy questions that pertain to the Arab-Israeli conflict.

### *The implications of CFSP*

The "Amsterdam" dimension, i.e., the institutional development of the EU and its implications,[2] is central to understand why Germany does shows a greater interest and concern for Mediterranean issues today than it did in the early 1990s, when preparations for Europe's New Mediterranean policy were still underway. As a key member of the European Union, Germany also has been an outspoken supporter of a common foreign and security policy that deserves its name. Among other things, therefore, Bonn and Berlin have been in favour of endowing the office of the Secretary General/High Representative of the CFSP with credible competence, of allowing majority decisions on foreign-policy issues, and also of developing common defence-policy structures under the CFSP. With no difference between the former centre-right and the present centre-left coalition governments, Germany has made multilateralism its favoured approach in dealing with international affairs. This may have been easier for Germany than for several of its European partners: Historically, for (Western) Germany, European integration was never a trade-off whereby sovereign power would be relinquished for the chances of multilateral co-operation. Rather, inasmuch as Germany wasn't sovereign at that time, integration and the establishment of viable and effective European institutions was Germany's chance of (re)gaining sovereignty and international influence.[3] Today, in contrast to P-5 members Britain and France, Germany does not have to defend any special nation-state privilege in international bodies, and there is little reason, from a German perspective, to exempt particular international-policy issues – namely those that are dealt with in the Security Council – from the CFSP context.

General commitment to a common EU foreign and security policy does not imply, however, that Germany or any other EU member state would simply deliver certain files to the SG/HR or other EU bodies. What it entails, rather, is the need to deal more intensively with and develop a sense of responsibility for issues that might have been seen as special interests of other countries before – such as the Mediterranean or the Middle East. Germany, according to Foreign Minister Fischer, would not, or not any longer, endorse *geo-*

---

[2] Reference is to the Treaty of Amsterdam (Treaty on European Union) of 1997.

[3] Eckhard Lübkemeier, Germany's Post-Wall and Post-Kohl Foreign and Security Policy, unpublished manuscript.

*clientalism*, i.e., an approach whereby Germany would deal with Eastern Europe, and France or other Southern European countries would be in charge of the EU's Southern or, for that matter, Mediterranean policies.[4] This does not mean that Germany would regard the Mediterranean a priority in its own foreign policy. It simply means that it takes European commitments seriously and wants to prove itself a reliable partner in all matters that concern the Union.

German policy-makers leave no doubt that they favour strong co-ordination with France, in particular, when it comes to Mediterranean issues. At the same time, on a practical, working level, such as the meetings of the Euro-Mediterranean Group of Senior Officials or the Euro-Med Committee, it so happens that German officials often find the greatest degree of agreement with their colleagues from Britain, the Netherlands and the Scandinavian states. Berlin does not, for instance, give much importance to acts of symbolism such as the Euro-Mediterranean summit of heads of state and governments that Paris wants to hold under the French EU presidency. For the German government, the wish to co-ordinate with France is politically motivated: mainly so because of the strong conviction of most German policy-makers that the European train needs to be powered by a strong Franco-German engine; partly also – specially in regard to the Mediterranean and the Middle East – in order to tie the French into a European consensus and prevent *la grande nation* from confusing its nation-state interests with the overall interests of the EU.

German commitment to the EU's Mediterranean policies also entails the need to develop a deeper interest and concern for problems and developments in areas where joint European action may take place at some point, including Petersberg missions (humanitarian and rescue tasks, peace-keeping, tasks of combat forces in crisis management and peace-making) that would involve German personnel and resources. For Germany, of course, such considerations became only possible in a post-Cold War environment in which both the old geo-political definition of Germany (or Western Germany, to be precise) and the security implications of that definition had vanished: Germany is no longer the state on the confrontation line between East and West where a security threat was identical with a threat to territorial integrity.

[4] See Fischer's speech in the French National Assembly, 20 January 1999. In the original text, it goes as follows: "Es gibt deshalb zur Erweiterung der EU keine Alternative. Sie muß allerdings durch eine engagierte Mittelmeerpolitik ergänzt werden. Dabei dürfen wir keinen 'Geo-Klientelismus' in der EU – Deutschland 'bedient' den Osten, Frankreich den Süden – zulassen. Die Stabilisierung unseres östlichen wie unseres südlichen Umfeldes liegt in unser beider und im gesamteuropäischen Interesse."

Today, as Germany finds itself surrounded by friends, and territorial defence is no longer the major pre-occupation of its security policies,[5] a greater preparedness has come about, quite naturally, both to consider those "softer" security risks that other, particular the southern EU states have long perceived in Europe's Mediterranean neighbourhood, and to engage in common European or multilateral policies and actions aimed at confronting such challenges or other threats to wider European stability.

For some representatives of what might be dubbed an neo-Atlanticist orientation, with little interest in the Barcelona process, there is still a different rationale for having an eye on the Mediterranean, namely Germany's position in NATO. Given NATO's increasing concern with Mediterranean developments, they argue, Germany would better actively contribute to developing a NATO military and political strategy for the region – or run the risk of losing influence within the alliance.[6] This position is somewhat off the political mainstream which tends to show little enthusiasm for a southward extension of the NATO. Possible contingencies aside that might necessitate the intervention of NATO forces, most policy-makers and officials see the risks and challenges that Europe will have to encounter in the Mediterranean as structural problems – and the Barcelona initiative with its focus on soft security, economic stabilisation, and political change as the proper framework to address them.

### *The Schengen Dimension: Germany as a Mediterranean State*[7]

A second dimension of European integration that impacts on Germany's approach to the South, and the Mediterranean in particular, is the gradual emergence of a European space of freedom of movement and security: the Schengen dimension, as it were.[8] Fact is that integration, and more particularly the disappearance of intra-European borders in "Schengenland", have also brought Germany and the other northern EU states closer to Mediterranean problems and developments. Geo-politically – at least in terms of its external border – Germany has already become a Mediterranean state. This is not to say that the German political elite would totally share their French, Italian or Spanish counterparts' perceptions of the Mediterranean

[5] See Lübkemeier, op. cit.

[6] See Andreas Jacobs and Carlo Masala, "Germany's Mediterranean Challenge," in: *Contemporary Security Policy*, Vol. 20, No. 2 (August 1999), pp- 109-115.

[7] This chapter draws partly on my "Germany and the Euro-Med Partnership: Gradually Becoming a Mediterranean State", Lisbon (EuroMeSCo Papers, No. 1) 1998.

[8] Reference here is to the Schengen agreement of 1985 which entered into force in 1995 and has been superseded by the implementation of the Treaty of Amsterdam in 1999.

and Euro-Med relations. Germans definitely do not regard themselves as part of a common Mediterranean culture, nor are Germany's relations with individual countries of the region marked by the type of postcolonial-emotional ties that impact on, among others, France's relations with Algeria and Lebanon, or Italy's relations with Libya. What has become more congruent over the last couple of years, however, are Germany's and the Southern EU states' perceptions of risks and security challenges from the Mediterranean and, thus, of the need to develop a common policy towards the area.

Despite concerns about the proliferation of weapons of mass destruction and long-range missiles in the Middle East, European policy-makers and pundits largely agree that there exists no military security threat from the Mediterranean to the EU at large or, for that matter, to Germany. Weapons proliferation in the region is disturbing inasmuch as it threatens regional stability; it is not, however, an expression of conflicts or conflict dynamics between the EU and its southern neighbours. The principal security challenges which Europe faces with respect to the region are of a "soft", non-military nature. The main issues in this respect are uncontrolled migration, organised crime such as drugs trade or trafficking in human beings, and terrorism, as well as what could be called the export of conflicts. Direct environmental risks from the Mediterranean figure prominently in the security debate of some European countries, but less so in Germany – mainly for reasons of geographic distance.

It is not the place here to assess these challenges or make a critical evaluation of their assessment by policymakers in Germany and the EU. More important, in this context, is the fact that the growing concern in Germany with what is perceived as challenges from the Mediterranean is largely a result of European integration. Thus, with the implementation of the Schengen agreement, migration has ceased to be a national problem of individual EU states and has become a European issue. Once a migrant has entered Italy or Spain, there are no more borders left if he wants to reach Germany. Moreover, there is a common fear among policy-makers in Germany and other EU-states that right-wing groups in their respective countries would exploit the issue of migration in order to re-nationalise political discourses, spread anti-EU feelings, and change majorities. It is no secret that the active participation of Germany and other EU states in the Kosovo war, or in political and military efforts that aim at the stabilisation of Bosnia, Albania or Macedonia, have been related, aside from other things, to the expected direct effects on EU-Europe, not least in terms of uncontrolled migration, if the ethno-political conflicts of these countries were not settled or at least contained.

The disappearance of border controls between EU states is also a critical issue with regard to the problem of illicit drugs and drug trafficking. Today, surface trade between Morocco and Germany, for example, has to pass only one international border. From the perspective of a German security official, therefore, Morocco, as a main drug producer, has become a direct neighbour of Germany, with the one border left, namely the Moroccan-Spanish one, not even under the control of German police.

Overall, and most importantly, German policymakers have accepted that the security of Southern Europe and of the entire EU is closely linked to the stability of the Southern and Eastern Mediterranean. This includes such issues as terrorism or the export to Europe of regional civil wars or inter-state conflicts. Consider, for instance, the not-so-unrealistic scenario of Turkish-Kurdish or inner-Algerian conflicts being transported to Germany or France via the respective migrant communities.

German policy-makers are also aware that such risks, as well as migratory pressures, have to be seen against the background of regional instabilities or, more precisely, of ongoing territorial conflicts in the region, particularly the Arab-Israeli one, of violent domestic power conflicts and of socio-economic imbalances. The threat of instability among its Mediterranean neighbours was not only the main reason for the EU to launch its Euro-Mediterranean Partnership (EMP) initiative, but also the main reason for Germany to support it.

### *Politics rather than the Economy*

The European approach, as demonstrated by and embodied in the Barcelona initiative, is to project stability, as it were, into the Southern neighbourhood, or at least try to do so, both multilaterally and bilaterally. The multilateral dimension includes primarily the attempt to set up common Euro-Mediterranean institutions and structures that further dialogue, the establishment of common norms and principles, and multilateral co-operation in various fields, not least that of regional security. On the bilateral (EU - partner state) level, the EU tries, by means of political dialogue and financial and technical aid, to support the integration of its Mediterranean partner states into a Euro-Mediterranean Free Trade Zone, envisaged for 2010, and to encourage economic as well as political liberalisation measures (i.e., market opening, privatisation, tax reforms, judicial reform, measures to enhance good governance).

It is worth noting that Germany's economic interests in the Mediterranean have remained relatively limited. Exports to the EMP partner states (approximately USD 16,000 million in 1997) represent only some 3 per cent of Germany's total exports. More than 45 per cent of those Mediterranean exports go to Turkey, some 15 per cent to Israel, and around one third to the Arab countries on the Mediterranean. German investments in all the countries but Turkey are negligible: The sum total of German foreign direct investment (FDI) in Mediterranean partner states does not exceed 2.800 million DEM, more than half of it in Turkey, which is less than 1,5 per cent of all German FDI, globally. There is a feeling that the entire Mediterranean market can be expanded, and that German business has not yet fully exploited its opportunities in these countries except, perhaps, in Israel.[9] It is also true that some larger infrastructure projects that are likely to be brought on the way in the coming decade, particularly in the fields of regional water management and energy distribution, offer good chances for German firms to become involved. Other than had been the case with regard to the more important markets of Eastern Europe, however, German industry never lobbied the government for an active policy towards the Mediterranean. Actually, Germany's relations with Libya and Algeria – Germany's OPEC oil suppliers number one and three – seem to prove that longstanding economic relations do not necessarily need a particularly warm political relationship. As Germany receives most of its oil and gas imports from non-OPEC producers, there has been little fear of dependence from any of the Mediterranean or Middle Eastern producers. Rather, Germany sees these countries as good customers. As Germany's trade balance with OPEC states is positive, German government and business have no problem in acknowledging the legitimacy of these countries' interest in reasonable and stable oil prices.

Over the last couple of years, German business has demonstrated increasing interest for the Mediterranean. This was largely due to the Middle East peace process and the Euro-Mediterranean initiative which seemed to promise both a more peaceful and stable region, and easier access for European and German industrial products and investments. There were, in other words, opportunities that German business could not afford to miss. But it did little to actively create or lobby the government for a policy that would help to creating such opportunities.[10] And it is difficult to imagine that

[9] See Eberhard von Koerber, "Germany in the Middle East – The Economic Dimension," Paper presented to the Conference on Germany in the Middle East, Hebrew University Jerusalem, 19-20 March 2000.

[10] It is noteworthy that the "Nordafrika Mittelost Initiative der Deutschen Wirtschaft" (North Africa and Middle East Initiative of German Business), a grouping sponsored and organised

German business interest in the Southern and Eastern Mediterranean could ever match that in Central and Eastern Europe.

At the same time, inasmuch as Germany produces neither oranges nor olive, it also has less problems in accepting that European markets be opened for the agricultural products of Arab and other Mediterranean partner states – less problems, that is, than others, notably those Southern EU states that have been the main political backers of the Barcelona process and of an active European role in the Middle East. Big business, as represented by the Federation of German Industry (BDI), is in full support of making Euro-Mediterranean free trade a two-way street; and foreign-policy officials and policy-makers alike do consider those smaller agricultural lobby groups – potato-growers and cut-flower producers – that have raised concerns about allowing unrestricted access to the EU market for agricultural products from Mediterranean partner state a nuisance: This does not mean, however, that active lobbying by such groups would not have an impact: It is noteworthy, at least, that German policy-makers have not made any real effort to convince their Southern EU partners of the need, which they acknowledge, to become more liberal on agricultural imports.

In sum, Germany's policy towards the Mediterranean will most likely continue to be driven primarily by overall political as well as domestic security considerations. From this vantage point, the German government as well as the political spectrum represented in parliament regard the EMP process as a so far largely positive experiment that should be developed and enhanced. One qualification has to be made here, however, namely that the overall interest in foreign policy seems to have decreased among policy-makers, most notably in the federal parliament, the Bundestag: While the external relations committee used to be one of the most prestigious parliamentary committees in the past, and a place all but restricted to senior politicians, there was hardly any competition for that body when parliament was reconstituted after the 1998 elections; and even first-time deputies had a chance to become members.

Among the circles, however, that continue to be interested in foreign policies and international affairs, concern for what happens in the southern neighbourhood of Europe has grown, and there is wide agreement that Germany should constructively contribute to the development of EU Mediterranean and Middle East policies. It is noteworthy that before the last federal elections of 1998, Germany's two main parties, the Social Democrats

---

by the Federation of German Industries (BDI), was launched in 1996, i.e. after the Casablanca MENA Summit and the Barcelona Conference.

and the Christian Democrats, came up with "guidelines" or "principles" for a Mediterranean and Middle East policy that claimed increased importance of the region for Germany.[11] Officially, German interest was demonstrated at the Third Euro-Mediterranean Conference of Foreign Ministers, held in Stuttgart under the German EU presidency in April 1999: Not only was Germany actively engaged in preparing the Guidelines for a Euro-Mediterranean Charter for Peace and Security that were adopted as a working document at the Stuttgart conference. Also, in contrast to earlier reservations, Germany now declared its support for maintaining or even increasing, rather than freezing or reducing, the EU's financial commitments for the Barcelona process.

Germany also treats the Mediterranean states quite favourably in terms of bilateral development aid and co-operation. As this paper is written, the German government is about to re-orient its policies of development co-operation from a broad, indiscriminate distribution (referred to as *Giesskannenprinzip*, i.e. the watering-can principle) to a more focused approach that would gradually reduce the number of recipient countries, globally, from almost 120 to around 70 to 80. Given that development aid largely reflects what donors' perceive as their political interest (rather than reflecting the relative need of recipients), it is notable that basically all the Mediterranean partner states that participate in the Barcelona process and qualify as developing nations are listed among the states that would, immediately or under certain conditions, be seen as privileged partners of German oversees development policies. There is little disagreement among the political elite that German aid should help to stabilise the region, and further economic and political reforms in the "Barcelona countries". Above that, given that development policy is increasingly seen as part of international conflict prevention or "preventive peace policy",[12] it should aim at supporting peace in the Middle East.

[11] SPD-Bundestagsfraktion, Europe and the Middle East. Principles of Social-Democratic Policy on the Middle East, Bonn 1997; CDU Bundesfachausschuß Außen- und Sicherheitspolitik, "Die Trennung überwinden – Leitlinien einer Mittelmeerpolitik" (Overcoming separation: Guidelines of a Mediterranean Policy), Bonn 1998. It is also noteworthy, however, that neither the Green Party nor the liberal FDP, i.e. the parties of the current and the former foreign ministers (Joschka Fischer and Klaus Kinkel), have established a programme or guidelines for Mediterranean or Middle East policies.

[12] See Heidemarie Wieczorek-Zeul, "Regional Co-operation – Conflict Resolution through Development", Lecture given at a meeting of the Friedrich Ebert Foundation, Jerusalem, September 1, 1999 (Herzliya: Friederich Ebert Foundation, 2000).

### *The Middle East peace process and Germany's relations with Israel*

The Euro-Mediterranean Partnership is no substitute for a European policy on Arab-Israeli issues, but there is a strong relation, not least because of the participation of all core countries of the peace process in the Barcelona framework. The EU also has a long record of common positions on the Middle East and the peace process whose progress and problems have figured prominently at basically every Summit or Council meeting. One of the advantages for Germany of the progressive emergence of a CFSP and of the chance to act as part of the Union rather than as a nation-state towards the region is that it helps to overcome – or, rather, skirt – particular political constraints in dealing with Arab-Israeli issues. Not only has the European umbrella made it possible for Germany to keep a relatively low profile in questions regarding the Arab-Israeli conflict; it has also been, and it still is easier for any German government to commit itself to following a common European line than to develop a political stance of its own in regard to such questions. Notably, Germany has not, so far, developed a defined Middle East policy.

Germany, to give but one example, fully supports EU initiatives on the ground that aim at strengthening the Palestinian entity and supporting its state-building efforts, it has continuously been in support of the Palestinian right to self-determination, and there exists a consensus of sorts that solidarity with Israel is best expressed by clear support for the peace process and acknowledgement of Palestinian rights.[13] Germany is in fact, and it is proud of being, the largest single contributor of EU aid to the Palestinians. At the same time, it has cautiously sought to avoid taking sides for the Palestinians or openly criticising, let alone condemning, Israeli policies or conduct perceived to be detrimental to the peace process or to undermine international and European efforts at stabilising the Palestinian entity. And Germany would certainly not develop any initiatives that would arouse disagreement between Europe and Israel.

The German approach is not stagnant, though, and developments are most likely to take place in the context of EU policies. In general (to the extent that a generalisation is possible at all), younger German policy-makers – Schröder, Fischer and below – are less emotionally attached to Israel than

[13] Note that Germany's acknowledgement of the Palestinian right of self-determination is not new. In divided Germany, Bonn carried the banner of self-determination, and it could hardly deny to other peoples what it demanded for the Germans.

many of Germany's political old guard – for which Johannes Rau may serve as a prime example. This is not an abrupt break, but rather a process, whereby younger politicians and officials increasingly share the more balanced, or equi-distanced approach towards Arab-Israeli issues that prevails in other European capitals. Consequently, they do not in principle find any wrong in judging Israel on its deeds, or criticising it where its policies seem inappropriate. Something like *raison d'état* or political calculation, rather than emotion and moral obligations, may still make it expedient for German policymakers to refrain from open conflicts with Israel and leave overtly critical assessments of Israeli policies to the EU and other European states. This is so for Israeli as well as German idiosyncrasies, so to speak: Israel would, if it was to take anybody's criticism or advice, rather take it from the US, from Britain or even from France than from Germany; and Germany is the weakest point in any conflict that might arise between the EU and Israel, i.e., the EU-country most susceptible to Israeli pressure and (counter)criticism. German policy-makers, from whatever generation, certainly don't want to appear as someone who tries to teach Israel a lesson; and they do not want to risk an argument with Israelis in which they could be accused of implicating the security of Israel or the Jewish people. At the same time, there is little disagreement today that Germany, in respect to the Middle East, acts – and ought to act, in the framework of the EU consensus. EU relations are far more important than Germany's relation to any friendly country outside the Union.

There is a self-serving dimension to Germany's interest in Middle East peace too, insofar as an end to the confrontation between Arabs and Israelis would likely also end, or at least soften, Germany's recurrent dilemma of partisanship: As long as the conflict continues, Germany often feels that it has to be partisan – taking the side of Israel – against its own better judgement. Peace would allow to focus on the common interests of Arabs and Israelis, rather than being subjected to the zero-sum logic of the conflict, where friendship or support to one side is automatically seen as an unfriendly act by the other.

And while a special relationship with Israel is acknowledged and even appreciated by almost the entire political spectrum, this younger generation is not prepared to normatively accept special rights, or special criteria for Israel in its dealings with other nations. Moreover, the understanding of what this "special relationship" actually is about, is gradually changing. German-Israeli relations are and will remain special because of the German crimes against the Jewish people (the Holocaust which remains, as Israel's former ambassador to Germany, Avi Primor, put it, a "closed scar"). But they are also special relations – and this dimension is of increasing importance – because Germany and Israel are bound together by a particularly dense web of inter-societal relations.

It is quite natural that this second dimension is gaining importance, whereas the relevance of the historical dimension its gradually losing its relevance for an increasing part of society. Demography plays a role – in a double sense. Fact is, first, that Germany's teens and twens of today do not, in general, feel responsible for a past which was not even their fathers', but their grandfathers and grand-grand-fathers' making. And second, one must not ignore that this generation is more multi-ethnic than any of its predecessors. This means that a substantial percentage of the younger generation in Germany have no reason at all to feel responsible for a *German* past. Many of them are Muslims, even more of Mediterranean origin.

As regards German policymakers and the politically interested parts of society, the trend is, moreover, to see the special relationship with Israel as a tool and an asset (rather than a historical liability) which can and should be invested into the peace process, thereby contributing to the European role in the region. In other words: Germany should use its strong relations with Israel to foster co-operative projects in the region that aim at building peace between Arabs and Israelis. Mostly, such projects are in the economic realm, others aim at removing barriers of misunderstanding.[14] Economic co-operation projects, in particular, reflect the largely functionalist approach of German policies, and they may occasionally involve an element of functionalist illusions in that they assume that politics, or harder political issues, can be bypassed or even removed if co-operation takes off. They certainly are in the economic interest of the regional participants, though, and in Germany's interest of maintaining good relations with Israel's Arab neighbours along with its privileged relations with Israel. Little wonder also that Palestine and Jordan are the largest per-capita recipients of German development aid.

Germany is, and will likely remain, one main link between Israel and the EU – much as is the case for France in the case of Lebanon or Algeria or, to some extent at least, for Italy in the case of Libya. However, the times were Germany was seen, or even viewed itself, as the representative of Israel inside

[14] The first category includes the joint Jordanian-Israeli River-Jordan project that was inaugurated by ex-Chancellor Helmut Kohl, or efforts at developing Israeli-Palestinian cross-border co-operation in the Jenin-Haifa region, a project sponsored by the social-democratic Friedrich-Ebert Stiftung. Among the second category there is, e.g., a programme of visits to Yad Vashem for Palestinian students and journalists organised by the conservative Konrad-Adenauer Foundation.

the EU may come to an end. Israel's relations to the EU are privileged anyhow – certainly in comparison to other Middle Eastern or Mediterranean states. Israel has earned, and it will be able to maintain such a privileged status on the basis of its economic and technological performance (which has made it possible for Israel to become a full participant in the EU's research framework programme) and of the democratic nature of its political system (which also involves, of course, that Israel's conduct is measured by standards that apply to other democratic states, not those that would be applied to some of its less democratic neighbours). One should not expect Germany to take Israel's side in disagreements or conflicts that have come or may come up with the EU: be that over peace process issues, Israel's obstruction of the EU-Palestinian trade relations, or breaches (by means of false declarations of origin) of rules of the EU-Israel association agreement. The commitment to a European consensus is indeed an opportunity for Germany (and maybe for other EU countries too) to abandon clientelistic approaches and to fully participate in the development of genuine EU policies towards the region.

To sum up, Germany is today a full participant in the Barcelona process, and it wants to be seen as such. It has a genuine interest in the Euro-Mediterranean Partnership, albeit for reasons that may have more to do with European integration and with its own constraints to develop a Middle East policy than with Mediterranean developments *per se*. The Mediterranean is not a priority area for Germany, but German policy-makers accept that it is a common European priority, and they fully support European policies towards the region. Would Germany, if asked to, devote more energy and attention to the Mediterranean and the Barcelona process than it currently does? The short answer is that it probably would, if need be – as it did under the German presidency in 1999 –, but that it wouldn't be enthusiastic about such a situation. The Barcelona process, one official told this author, is like a good car that runs. It can be dealt with on the working level; and there is no need for the political leadership level to get involved. If there were a crisis, and only then, the leadership would get concerned.

6

**REGIONALISED GLOBALISM:**
**British policy towards the Mediterranean**

*George Joffé*[1]

Historically, Britain has had major interests in the Mediterranean from the eighteenth century onwards. In strategic terms, the Mediterranean was the gateway to its Indian empire, particularly after the Suez Canal was opened in the second half of the nineteenth century. This strategic concern was exemplified by British control of Gibraltar, Malta, Cyprus and Egypt during the colonial period and by Britain's presence in Mandate Palestine. Economically, British traders exploited their Mediterranean presence to break down the Continental System during the Napoleonic wars and, in the twentieth century, it was British enterprise, initially at least, that sparked off the creation of the oil industries of the Middle East and developed the role of the Mediterranean as a vital trade route.

With the loss of empire, however, British interest in the Mediterranean radically declined and, after Britain's withdrawal East-of-Suez in 1971, it virtually disappeared. A British military presence was (and is still) maintained in Cyprus and Gibraltar remains as an irritating colonial hangover that, today, hardly has any strategic significance but continues to bedevil Britain's relations with Spain. For much of the latter part of the twentieth century, the Mediterranean was perceived in popular eyes only as a holiday destination and British strategic and economic concerns were focussed primarily on the Middle East. Indeed, even here, the Mediterranean had no autonomous existence in policy terms, for its relevance, in large measure, reflected the "special relationship" with the United States, which, after the Suez debacle in 1956, was to become the *leit motif* of British Cold War foreign policy.

Yet, as a member of the European Union with aspirations to a dominant position within its counsels, contemporary Britain has had to revive an interest in Mediterranean affairs, even though its natural predisposition continues to focus on the Middle East and the Gulf, whilst seeking to promote democratic change and economic development within the former command economies of Eastern and Central Europe. Even the renewed trans-Atlantic concerns of the Labour government, ironically enough, have encouraged this re-orientation of British strategic and foreign policy interests since the advent of the Barcelona Process at the end of 1995. The question remains, however, as to what extent this renewal of interest in Mediterranean affairs reflects a genuine commitment to Mediterranean issues in the context of European policy, as opposed to the extent to which it is a consequence of wider goals and policy ambitions inherent in the New Labour project, in diplomatic terms, at least. In short, it is not self-evident which particular national interest is best served by such a policy and to what extent Britain has abandoned national concerns for a genuinely *communautaire* approach, as far as the Mediterranean is concerned

[1] George Joffé is the senior research associate responsible for Mediterranean studies at the Instituto de Estudos Estratégicos e Internacionais (IEEI) in Lisbon. The IEEI administers the EuroMeSCo network of foreign policy and security studies institutes within the Euro-Mediterranean Partnership member-states.

**British interests in the Mediterranean**

Many of the anxieties and interests that conventionally concern European states about the Mediterranean region do not apply directly to Britain, although some of them may do so in the near future. In economic terms, one obvious linkage responds to former colonial ties, for example, but these have increasingly been supplanted by a more global search for markets and opportunities. Security concerns, however, tend to reflect wider issues of foreign policy, whether European or trans-Atlantic.

Britain is not a major consumer of Mediterranean energy, for example, since its gas supplies come largely from Russia and Norway, with a minor component from the Netherlands, whilst it largely satisfies its own oil needs, engaging in swap deals to ensure that the crude mix entering its refineries corresponds to their design requirements. Britain is, however, a major supplier of oil and gas technology to the Mediterranean basin. Shell – a British-Dutch oil major – operates in Syria and Egypt, whilst several British independents – chief amongst them Lasmo – have interests in Libya, British Gas is active in Tunisia and BP-Amoco has a massive $3.5 billion gas project in Algeria.

**BRITISH TRADE PATTERNS 1997-1998**

| **£ million** | **Imports** | | **Exports** | |
|---|---|---|---|---|
| | **1998** | **1997** | **1998** | **1997** |
| **European Union** | 102,337 | 100,105 | 95,087 | 95,372 |
| **Oil exporters** | 3,603 | 3,972 | 7,524 | 9,811 |
| **Mena trade*** | 4,002 | 3,992 | 8,876 | 10,692 |
| **Total UK trade** | **190,755** | **188,171** | **164,845** | **172,331** |

**Source:** UK Tariff and Statistical Office, *Overseas trade statistics 1998: UK trade with the European Community and the world,* HM Customs and Excise (London)

***Note:** "Mena" - the Middle East and North Africa – comprises the Arab world, Iran and Cyprus but excludes Turkey, Mauritania and Somalia.

As far as trade patterns are concerned, the Middle East and North Africa is a region of marginal importance. In 1998, for example, it generated only 2.09 per cent of Britain's total imports and absorbed only 5.38 per cent of its exports. Even if trade with the European Union is excluded from the figures, to reveal British extra-EU trade, the South Mediterranean region still only generates 4.53 per cent of British imports and absorbs 10.79 per cent of its exports. Some countries, of course, are more important than others. Saudi Arabia is by the most important importer of British goods, absorbing £3,800 million-worth of such products in 1997 – 35.5 per cent of Britain's total exports to the MENA region – and £2,691 million-worth in 1998. Turkey is second in importance (£1,633 million-worth of British exports in 1998), followed by Israel (£1,089 million), Egypt (£510 million), Morocco (£354 million) and Iran (£331 million). Interestingly enough, Britain has a significant trade surplus with the MENA region – as with oil-exporting states – although its visible trade is in overall deficit, as has traditionally been the case, largely because the call on Middle East energy is so small.

British direct investment flows show a similar marginal pattern as far as the Middle Eastern and North African region is concerned. British global direct investment stock rose from £102 billion in 1988 to £224 billion in 1997, but British investment holdings in the Near and Middle East only rose from £345 million to £923 million over the same period, with the Arab states of the Gulf absorbing £315 million of this in 1988 and £664 million in 1997. Investment in North Africa was of a similar order of magnitude, despite British interest in Libya and, latterly, in Algerian gas and despite British involvement in planning privatisation programmes in the region. In contrast, British investment stocks in Europe reached £103 billion in 1997 – 46 per cent of the total – and £83 billion in the United States – 37 per cent of the total. Net investment flows show a similar trend, with active disinvestments being practiced by British companies in the Gulf on occasion.

**BRITISH INVESTMENT FLOWS: 1988-1997**

| £ mn | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| **EU** | 5,773 | 5,620 | 5,844 | 3,978 | 4,911 | 6,171 | 9,241 | 9,184 | 13,321 | 19,735 |
| **Asia** | 578 | 798 | 888 | 853 | 959 | 1,596 | 2,049 | 1,657 | 2,823 | 2,490 |
| **NME** | -81 | -7 | 244 | 489 | 44 | -239 | 253 | 154 | 28 | 373 |
| **GCC** | -71 | -47 | 239 | 476 | 27 | -236 | 250 | 116 | 30 | 280 |
| **Africa** | 74 | 1,290 | 196 | 606 | 300 | 262 | 327 | 707 | 561 | 684 |
| **World** | **20,916** | **21,491** | **10,108** | **9,304** | **10,107** | **17,358** | **21,040** | **27,604** | **21,823** | **38,957** |

**Source:** Office for National Statistics (1997), *Economy: overseas direct investment*, Government Statistical Service (London)

The fact that economic interest cannot be a major driver of British concerns about the Mediterranean supplements the lack of concern about national interest there that has arisen for the historical reasons given above. British involvement in Mediterranean affairs must, therefore, arise for other, less direct reasons related to wider aspects of its foreign policy. The most obvious of these reflects its obligations as a member of the European Union and it is indeed through this connection that British interest in Mediterranean affairs has been articulated in recent years, particularly in the context of the Barcelona Process. At the same time, there have been two other drivers which should not be ignored. Growing public concerns over human rights issues since the end of the Cold war have meant that specific Mediterranean issues have attracted popular attention and thus government concern. This has been particularly true of the situation in Turkey and of aspects of the Middle East peace process. More important in establishing government attention, however, has been the renewed special relationship with the United States.

### The role of the special relationship

British foreign policy during the Cold War, of course, was profoundly conditioned on the tradition of the "Special Relationship", particularly after the Iranian crisis in 1951-to-1953 and the Suez debacle in 1956. British dependence on America for a continued role in the Middle East, at least, became very clear after the collapse of the Baghdad Pact initiative in 1957 and the consequent revolution in Iraq, in which British protégés were removed from power. The Special Relationship itself depended on the supposed communality of interest and culture between the two Anglo-Saxon powers and, for Britain, it was also a mechanism to circumvent the growing power of France in Europe and the Franco-German alliance there as the European Economic Community began to take shape without British participation. Even after Britain eventually joined the Community in 1971, the Special Relationship, with the implied priority given to the trans-Atlantic link, continued to dominate British foreign policy.

The Special Relationship also served American interests, although Washington never allowed itself to be hampered by the implied constraint and it never played such a central role in policy formulation and execution as it did in London. In the Mediterranean context, Britain was able to play a moderating role on behalf of the United States, as occurred in 1967 with the formulation of the Security Council resolutions that brought the 1967 Arab-Israeli conflict to an end – although the linguistic ambiguity it successfully introduced into Resolution 242 now seems likely to become another stumbling-block in the Middle East peace process! Britain was also – particularly during the Reagan era – the one European power that was prepared to actively support American policy in the Gulf, towards Libya and over the Arab-Israeli dispute, despite Arab disapproval.

By the end of the 1980s, however, it was becoming increasingly clear that the Special Relationship was coming to the end of its usefulness as the Cold War itself came to an end. The United States was reassessing its potential European partners in the light of West Germany's future role in the eastern European periphery and Britain itself was beginning to lack an international credibility outside its role inside Europe as the Thatcher premiership came to an end. Tensions also arose over the situation in the Middle East, where Britain favoured a more balanced policy, in line with the European Community's 1980 Venice Declaration – something rejected by Israel, with American support. Britain's role in the Multinational Coalition against the Iraqi invasion of Kuwait was both to be the apogee and the swansong of the old privileged linkage between itself and the United States.

*The new Special Relationship*

The Relationship itself was destroyed by a miscalculation of the Conservative Major government when it sought to support the re-election campaign of President Bush and thus declared its enmity to a Clinton presidency. The relationship between the Major government and the new Clinton administration was, to say the least, cool and Britain had to adjust to the fact that it no longer enjoyed the privileged access of the past in Washington. Not only had it misjudged the political mood in America but the profound geopolitical changes with the end of the Cold War meant that Germany, now reunited, was the obvious partner for American interests in the former Soviet Bloc and France, despite its tradition of isolationism from the United States, was increasingly a factor in American calculations over the Middle East and the Mediterranean.

In the early 1990s, Britain sought to assert itself in world affairs, to counter its apparent loss of influence. Thus, in the words of the then foreign secretary, Douglas Hurd, Britain had to "punch above its weight" – its diplomatic traditions entitled it to this position as did its adherence to the trans-Atlantic alliance ever since 1945. In other words, although the world might have moved on with the end of the Cold War, Britain still saw itself in an Anglo-American context, not a predominantly European one. It was an approach to foreign affairs that sat comfortably alongside British Euroscepticism – an increasingly strong tendency within the governing Conservative party. It also allowed Britain a degree of freedom of movement in its policy choices so that, in specific areas – such as "dual containment" in the Gulf and over the Middle East peace process – Britain could and did move closer to the positions of its European partners.

In mid-1995, Douglas Hurd stepped down and was replaced by Malcolm Rifkind who, in the light of the collapse of the old Special Relationship, was anxious to carve out an even more independent foreign policy for Britain whilst remaining close to the United States[2]. In the context of the Mediterranean and the Middle East, this led to British-American tensions over three specific issues; the sanctions policy towards Iraq, British involvement in Iran and the future of the Middle East peace process which was soon to run into crisis as a result of the assassination of the Israeli premier, Yitzhak Rabin, and the subsequent election of Binyamin Netanyahu as premier. With Iraq, Britain was to be instrumental in forcing through the first oil-for-food programme in April 1996, despite American reluctance. In Iran, British desire for improved relations and closer commercial contacts meant that London rejected Washington's pretensions to sanction trade and investment by its allies and in the Middle East, Britain was aware of the dangers of American closeness to the Israeli position and sought to moderate its consequences. Only over sanctions against Libya did Britain stand foursquare behind the United States – or so it seemed.

Mr Rifkind's own views were soon made explicit, even though they differed from those of the government as a whole. In mid-1996, just as Mr Netanyahu was coming to power, he made a speech to a Palestinian medical charity in London where he reiterated British policy over the peace-process, emphasising British support for United Nations resolutions on the subject and rejecting Israeli pretensions to Jerusalem. His speech was an implicit rejection of the supportive stands taken both by the British premier, John Major, and the defence minister, Michael Portillo, towards the Peres government in Israel after the grotesque Israeli misjudgement of bombarding Lebanon in the previous April. Some months later, Mr Rifkind took the even more explicit step of proposing a new regional security structure for the Middle East and, by extension, the Mediterranean which echoed

[2] Mr Rifkind had no problem in espousing Eurosceptic views and argued in the 1995 Conservative Party conference for a global trans-Atlantic free trade area between the European Union and the United States – a view which, today has transmuted into a Conservative suggestion that Britain should join NAFTA. At the same time, as a good Eurosceptic, he placed great emphasis on British sovereignty, even when it was the United States that threatened to infringe it, as was the case with the Iran-Libya Sanctions Act. This was in the Conservative tradition; Mrs Thatcher had led European opposition to attempts by the Reagan administration in 1982 to prevent the construction of a gas pipeline to Europe from the Soviet Union. On such occasions, European help was more than welcome! Day A.J. (1996)(ed), *The Annual Register 1995*, Cartermill (London); 27.

both the old 1990 de Michaelis vision of the Conference for Security and Cooperation in the Mediterranean (CSCM) and the sketchy security provisions in the Euro-Mediterranean Partnership (EMP) which had emerged during the Barcelona Conference a year before. In words that seem today to presage the Charter for Peace and Stability, which is currently in gestation within the EMP, Mr Rifkind pointed out

> What is lacking at present is an overall structure to encourage cooperation between all the countries of the region, with the help and participation of friends outside, like Britain, France, the US and others – a structure which is comprehensive in its membership and wide-ranging in its functions[3].

It seemed clear at the time that the end of the old Special Relationship was forcing Britain into closer alignment with European Union policy towards the Middle East and the Mediterranean, even though the old trans-Atlanticism of the Conservative Party continued to inform its preferences in foreign affairs. Ironically enough, within the year, a new Special Relationship was to be forged. In May 1997, the Labour Party came to power in Britain for the first time in eighteen years. It was, in virtually all respects, a new political party with little of its original ideological baggage still intact. Its new ideas drew heavily on the New Democrat experience in the United States and its leadership had very close and cordial personal contacts with the Clinton administration in Washington.

Even though Robin Cook, an individual who had been prominent in the old, unreconstructed Labour Party took over the foreign affairs portfolio[4], there was little doubt that the new Labour government intended to build upon the policy structures of the past. Britain was to be a major player in international affairs; it was to articulate "an ethnical dimension" in foreign policy (thus, presumably, abandoning the tradition of national interest as the guide to policy choice); with American encouragement, it was to be "at the heart of Europe"; and, quite clearly, it sought to strengthen the trans-Atlantic relationship. Indeed, from the beginning of the new government, it has been clear that, in foreign affairs at least, a renewed Anglo-American special relationship has been at the heart of policy. Interestingly enough, the importance of this relationship was made clear over aspects of Mediterranean policy, when, in late 1998, London was able to persuade Washington that policy towards Libya should be changed so that a third country trial for the Libyans accused of the Lockerbie bombing could be accepted.

[3] Speech to the Emirates Centre for Strategic Studies, Abu Dhabi, November 4, 1996.

[4] Even though this was a portfolio that Robin Cook did not originally want, since his expertise had been in the major domestic departments, such as Health, he quickly adjusted to it since he knew that his new Labour colleagues were not prepared to allow him into the key areas of domestic policy. It should also be borne in mind that the Foreign and Commonwealth office lost much of its autonomy during the Thatcher years, particularly after the Libyan embassy siege in 1984. Thus, although Malcolm Rifkind did seek to restore this autonomy under a weak premier, the Labour government has re-asserted the hegemonic role of the prime minister and his office over foreign affairs and any foreign secretary who does not have impeccable New Labour credentials must bow to that fact. It will be interesting to see what would happen if, as is suspected, a close colleague of the prime minister such as Peter Mandelson were to take the portfolio.

As far as the Middle East was concerned, Britain, virtually alone amongst European powers, supported American policy over the issue of sanctions against Iraq and was more enthusiastic over America's attitude towards the Middle East peace process than were its European partners. After the collapse of the United Nations Special Commission for Iraq in December 1998, only Britain participated in the punitive bombing of the country by the United States and only Britain took an active role in maintaining the two no-fly zones over Iraq – France had pulled out several months before – and in transforming these operations into a low intensity bombing campaign designed to sap at Iraqi military and administrative strength. At the same time, Britain sought to use its influence to persuade Washington to moderate its attitudes towards Iraqi sanctions still further, although it refused to join its European colleagues in a collective initiative towards this end. The result has been the virtually still-borne Resolution 1284 (1999) which Iraq refuses to accept. In essence, therefore, Britain's contemporary Mediterranean policy is still dominated by its trans-Atlantic concerns and on the reconstructed Special Relationship. This is particularly evident in its attitude towards the Barcelona Process, where it is precisely those elements over which Washington feels most sensitive that London expends its greatest attention.

**Britain and the Barcelona Process**

At the end of the Cold War, British interests mirrored those of Germany in seeking to engage in the profound changes taking place in Eastern Europe and in Russia. There was relatively little interest in London, outside the issue of Middle East peace and the Gulf crisis, in Mediterranean affairs. Until the advent of the Algerian crisis after January 1992, there was also little concern in London over questions of migration across the Mediterranean since the British migrant population is essentially of Caribbean and South Asian origin, although there were anxieties over drugs-related issues. Britain therefore took a relaxed attitude towards the construction of a new Mediterranean policy for the European Union by the Commission, both in terms of the "Renovated Mediterranean Policy" between 1989 and 1994 and the evolution of the EMP-Barcelona Process thereafter.

In any case, neither the Conservative government nor its Labour opposition had strong objections to the tenor of the new policies or the assumptions behind them. They were based on liberal free market reforms and restructuring and the overall policy placed great weight on the economic dimension. Beyond this, the requirements for good governance, respect for human rights and democratisation were to fit in very well with the priorities of the new Labour government, when it came to power and were formally accepted by their Conservative predecessors as well. In any case, the free trade provisions in the Barcelona package were of little relevance, given the very low levels of British trade with the Mediterranean partners – only Turkey and Israel are significant trade partners. Britain was concerned, however, over the level of funding proposed under the accompanying MEDA (Mésures d'ajustement) programme, which replaced the original five year bilateral financial protocols in the Barcelona Process.

**BRITISH TRADE WITH SOUTH MEDITERRANEAN EMP PARTNERS**

| **£ million** | **Imports** | | **Exports** | |
|---|---|---|---|---|
| | **1998** | **1997** | **1998** | **1997** |
| **Turkey** | 1,165 | 1,043 | 1,633 | 1,768 |
| **Morocco** | 367 | 347 | 354 | 357 |
| **Algeria** | 82 | 85 | 113 | 91 |
| **Tunisia** | 77 | 59 | 101 | 108 |
| **Libya** | 149 | 231 | 237 | 269 |
| **Egypt** | 291 | 270 | 510 | 499 |
| **Jordan** | 27 | 23 | 125 | 148 |
| **Israel** | 919 | 880 | 1,089 | 1,179 |
| **PNA** | - | - | - | - |
| **Syria** | 27 | 39 | 84 | 84 |
| **Lebanon** | 22 | 17 | 180 | 191 |
| **UK total** | **190,755** | **188,171** | **164,845** | **172,331** |

**Source:** UK Tariff and Statistical Office, *Overseas trade statistics 1998: UK trade with the European Community and the world*, HM Customs and Excise (London)

Britain approved of the new principle introduced into the MEDA programme whereby support was to come in part as "horizontal funding" designed to encourage inter-regional projects and to stimulate regional integration. However, since it was to pay 17 per cent of the MEDA programme costs, London was not happy with the proposed support level of €5.5 billion, with a similar amount in terms of soft loans from the European Investment Bank[5]. Instead, with German help, Britain brought this figure down, first to 5.16 billion and eventually, at the Cannes European Union summit in June 1995, to €4.685 billion – a level which, according to a British participant, provided "...satisfactory headroom within the Edinburgh Financial Perspectives," whereby Union expenditure is fixed at 1.72 per cent of total European GDP. The British government also insisted that the primary purpose of the MEDA aid programme was to stimulate private sector growth in the South Mediterranean partner-states and itself proposed encourage to foreign private direct investment in the region – an initiative which, so far, has had little noticeable effect.

With the advent of the EMP, Britain has also seen itself obliged to take a greater interest in Mediterranean affairs. Its senior officials sit on the two steering committees for the process and it has had to take responsibility for European Mediterranean policy when it held the European Union presidency in 1998. By all accounts, its presidency was successful, at least as far as the Barcelona Process was concerned, although it was marred by appalling incidents of violence in Algeria in January 1998 which necessitated a Troika visit to Algiers, led by Mr Cook, the British foreign secretary, despite stiff official Algerian resistance. Thus, at a mundane level, Britain is far more involved in Mediterranean affairs than it was before the Barcelona Process began.

[5] Marks J. (1996), "High hopes and low motives: the new Euro-Mediterranean Partnership Initiative", *Mediterranean Politics*, **1**, 1 (Summer 1996); 13-16

*Current attitudes*

Responsibility for the Barcelona Process is divided between two departments in the Foreign and Commonwealth Office. Political and security issues are handled by the Near East and North Africa Department (NENAD) which provides the senior official for discussion of Basket 1. Economic and socio-cultural aspects of the Process are the responsibility of the European Union Department-External (EUD-E), which also coordinates the British position on the Process and provides the senior official for Baskets 2 and 3. The two lead departments also liase over issues connected with the Union's common foreign and security policy and other departments, such as those dealing with the Eastern Adriatic, South-Eastern Europe, the OSCE and Council of Europe, and NATO security are also kept informed of matters pertaining to the Process.

Official attitudes towards the Barcelona Process today are broadly supportive, although there are reservations about its general effectiveness. Whilst, on the one hand, Britain supports its ambitious, inclusive and imaginative objectives, as well as its function as a forum for Mediterranean dialogue, there are reservations about its vagueness and the role of vested interest. There is a sense of frustration over the lack of progress in the EMP, outside the economic arena. This is attributed to the stagnation of the Middle East peace process which the British government considers to be a parallel initiative intimately connected with the EMP so that, until the issue of Middle East peace is resolved, there cannot be effective progress in the EMP itself. In essence, there is a feeling that the costs of the Barcelona Process have outweighed its benefits to date.

This sense of concern is exemplified by official British attitudes towards the investment climate in the Mediterranean area. Britain feels that South Mediterranean states have not yet created real investment opportunities, for the old problems of corruption, bureaucratic regulation, inadequate legal systems and financial regulation, together with poor communications and physical infrastructure have yet to be addressed. British interests are confined to major projects as they emerge and the only bright spots on the Mediterranean horizon are to be found in Egypt, Morocco and Turkey, although these are still minor markets for Britain. There is a similar sense of disappointment over issues of governance and human rights observance; the government is interested in pushing both objectives but feels that the existing vehicles are inadequate. As a result, such concerns are often discussed in forums other than the bilateral Association Councils or the six-monthly formal senior officials meetings.

The British government is generally supportive of the association agreements which form the core of the economic dimension of the Barcelona Process, provided that they are all similar in structure and content, are consistent with the principles of the European Union and contain provisions for political change. As a result, although the first four such agreements were ratified without difficulty, those currently under negotiation may run into problems. With Egypt, bureaucratic delays are expected and the British authorities anticipate that South European states may create difficulties because of agricultural issues. Britain will reject Algerian demands for political concessions and that Syria may find the political dimension of the association agreements difficult to accept, as will

Lebanon. British officials are also very dubious over Libya's willingness and ability to accept the *acquis communautaire* – which will be necessary if it wishes to become a full member of the EMP.

Outside the confines of government, there is little interest in Britain over the Barcelona Process or over the economic, political and security implications of the Mediterranean. Most British companies avoid the region in terms of trade and investment, either because of the lack of security and acceptable commercial environments there, or because they feel excluded by factors related to history and language. The British parliament has little interest in the region, although, in 1994, a House-of-Lords select committee did hold hearings into the Mediterranean region and British policy there. The only issues that are regularly aired are those connected with human rights observance, particularly in Turkey and in Algeria. The same has been true of public opinion at large and there appears little likelihood that this will change in the near-to-medium term.

Overall, Britain takes a somewhat detached, if sympathetic and pragmatic view of the Barcelona Process. It considers that the Process has extremely high ambitions and that progress towards them can only be very slow, even glacial at times. It accepts that the best way to achieve shared peace and prosperity is through economic change and that this is best driven through a free trade agenda, in which the South Mediterranean states must take the initiative in making economic development work. It is firmly convinced that, without effective peace in the Middle East, little can be done to advance the political and security agendas. Indeed, as far as the security agenda is concerned, there is, it feels, a danger of overlap with other existing initiatives, such as those of NATO. The British government is anxious to support NATO's role in the region because it is effective and, equally, it is not supportive of the proposed Charter for Peace and Stability unless it provides genuine added-value in the security field[6].

## The wider agenda

In fact, official British attitudes towards the Barcelona Process cannot be judged in isolation of other aspects of British foreign policy and the key to this wider issue is given by the British conviction that the EMP cannot effectively progress – outside the purely economic agenda – unless there has been a satisfactory resolution of the Arab-Israeli conflict. It is supported by British views over the Barcelona security agenda, where there is a clear preference for the maintenance of the role of NATO in the Mediterranean. Both these concerns seem to reflect the primacy of the role of the trans-Atlantic relationship within the policy formulation process in Britain for they coincide with the views in Washington over the key issues in Mediterranean security. There are, of course, some additional aspects to the American view of the Mediterranean, which is both holistic and particularistic. On the one hand, the Mediterranean is treated as a unit – a strategic line of communication, particularly for the passage of oil. On the other, American strategists

[6] Most of the comments on contemporary British attitudes towards the Barcelona Process have been culled from the preliminary work undertaken for the EMP Watch Report – an initiative of the Portuguese ministry of foreign affairs which seeks to establish contemporary attitudes amongst partner-states to the EMP.

also consider the region in discrete units – the western Mediterranean, the Levant and the Balkans – each of which has its potential sub-regional hegemon – Turkey and Egypt as major emerging markets and Algeria as a pivotal state in the future. The EMP, on the other hand, takes a holistic view of the region whilst Britain, whilst formally accepting the Union view, is pragmatically inclined to the American position.

The touchstone, perhaps, is the British attitude to NATO for the new NATO agenda seems to have taken over many elements that were first proposed in the EMP. Since the organisation's fiftieth anniversary in April 1999 and the concomitant NATO-led intervention in Kosovo, a clear agenda has been emerging which seems to consist of a tripartite approach comprising traditional Article 5 tasks, a new concern over humanitarian intervention and a raft of mixed hard and soft security concerns ranging from the prevention of the proliferation of weapons mass-destruction and missile technology to migration, alongside international terrorism, drugs and people smuggling, and international crime. Only the Petersberg tasks appear to have been implicitly left for the EMP to handle.

British desires to allow NATO to set the EMP security agenda must, therefore, reflect a preference for the primordial role of the United States inside regional security through NATO. Indeed, these objectives reach beyond the Mediterranean arena into issues of European security as well. Although the British government insists that the St Malo Accord in December 1998 was motivated solely by a desire to create a strong Franco-British axis in security terms which would improve security in Africa as well, it is difficult to believe that Britain will not try to drive those security agendas in ways that Washington would approve. In doing this, Britain would remain true to the underlying and traditional logic of its foreign policy which is enshrined in the Special Relationship. It remains to be seen, however, how well this will operate when there is a new incumbent in the White House!

7

Not to be circulated

*Institut des Etudes Politiques Méditerranéennes*
Policy paper draft

# Towards a New Definition of Mediterranean Identity

## with a case study on the *Status Quo* and the Holy Places of Jerusalem

by Manuela Giordano and Enrico Molinaro

Contents:

## Introduction

Among the many societies of the Eastern Mediterranean and the Near East a continuous productive exchange has been found since the second millennium BCE. This contact led to the development of a Mediterranean civilization, a common cultural heritage of values and world-views shared by the peoples of the area whose legacy continues to the present. In speaking of a civilization, we need to employ a long-term perspective, since the realities and structures of thought and values that made up civilizations are ancient and long-lived. As Fernand Braudel once remarked, "To perceive and trace underlying structures one has to cover, spendthrift fashion, immense stretches of time." Therefore, we will provide a critical outline of the means and content of cultural exchange in the Mediterranean area for two defining periods: from the beginning of the second millennium to the the Persian Wars and the conquests of Alexander the Great (fifth and fourth centuries BCE), and from that period to the turn of the millennium.

After exploring the shared modes of communication and world-views that make up this Mediterranean civilization, we will turn to the present-day situation of the Holy Places of Jerusalem. By the expression *Holy Places* we mean certain main shrines and places of worship where the members of various communities have engaged in traditional rituals over the centuries. By understanding the significance of the central role of the community in the Mediterranean, we will be able to approach possibilities for managing the settlement of conflicts over such Holy Places from a culturally aware and thus more productive perspective.

It is one of the ambitions of this policy paper, therefore, to make use of these findings in order to draw general conclusions that may be useful for the current negotiations on the sensitive issue of Jerusalem.

Accordingly, the final draft of this paper will embody, as an Annex, a "Statement of Policy on the Principles Governing the International Dimension of Jerusalem." This Statement of Policy will include the main principles that, as a result of our investigation both on a political-diplomatic and historical-cultural level, may constitute a definition of the established *status quo*. In the Statement of Policy, the meaning of this Latin expression in Jerusalem will refer, in its broad sense, to the relationship between the communities and the territorial authority. Nevertheless, the Statement will refer also to the meaning of the expression in its narrow, "technical", sense (the *Status Quo par excellence*, as will be described), through the formula, found in the relevant documents, of the "existing rights" in the Holy Places. It is our ambition that this Statement of Policy may constitute a practical tool, a draft arrangement that aims to be dynamic yet built on stable basic assumptions.

# Section One: A Survey of Historical Developments in the Mediterranean from the Second Millennium BCE to the Beginning of the Common Era

In its first definitive period, from the beginning of the second millennium to the fifth and fourth centuries BCE, we can see the beginnings of the Mediterranean as a cultural area marked by the dominant presence of certain cultural characteristics. By looking at these shared characteristics and the depth of exchange that took place, we can follow their cultural trajectory into later periods. In this part of our inquiry we will take into account Egypt from the Middle Kingdom, Mesopotamia from the time of Sargon (i.e. Akkadians, Babylonians and Assyrians), the Hittite Kingdom, the Minoans, Ancient Greece, Ancient Israel, Phoenicia, Ancient Persia, and Rome. Although Mesopotamian (to a certain extent), Hittite and Persian cultures were not, strictly speaking, Mediterranean cultures, they belong to Mediterranean culture (in this period) insofar as they had continual and influential contacts with Mediterranean societies - especially in terms of cultural and religious models.

**1. A Brief History of Studies**

Despite an integrated original approach, the study of the societies that made up the Mediterranean world has often been carried out in separate disciplinary departments, obscuring the historical unity beyond them. Still today, scholars of ancient Greece and Rome and experts of Near Eastern societies are by and large strangers to each other.

The humanistic tradition saw a flourishing of joint Greek and Biblical studies from the early sixteenth century. This direction of research produced valuable and interesting contributions until the beginning of the nineteenth century - the Napoleonic wars brought about dramatic changes including the spread of nationalism and the notion of a "secular" identity as opposed to a religious one.

The rise of the new ideology of nation entered intellectual and literary circles and became intertwined with the new cultural direction of Romanticism, producing a different approach to the past. The search for origins and the "original" haunted historical research, bringing many scholars to ignore cultural exchange and inter-societal contact and influence. The first inclusive approach to be broken was the simultaneous study of Greek and Biblical texts. From then on, the study of the Bible was an exclusive affair of the *homo religiosus*, whereas Greek studies gave rise to the idea that protestant Germany mirrored the cultural models of Classical Greece, an idea that found its fullest expression in the *Humanistiches Gymnasium*.

These and other approaches to understanding the peoples of this area have supported ideological models at the expense of obscuring the anthropological and sociological evidence. For example, in constructing the idea of the Western world, many scholars have represented European and/or Western culture as a bi-rooted identity composed of Athens and Jerusalem mediated by Rome. According to this view the civilization of Ancient Greece provided Western culture with the intellectual tools of science, philosophy, Aristotelian logic and political thought, and the Jewish civilization produced the Bible and monotheism, transmitted to the West through the medium of Christianity. However, in appropriating and recreating these cultures, previous thinkers were forced to detach ancient Mediterranean societies from their historical and social context. Greece became the "cradle of Western civilization" only after its cultural products were seen as unique results of an isolated and splendid miracle, nearly without connection to Persia, Mesopotamia or Egypt. Migrations and cultural exchanges throughout the Mediterranean and the Near East were also overlooked in order to present Judea and Judaism as a unique event, isolated from contact and exchange with Babylonia and Persia, "destined" as a precursor to the West. This process worked for exclusion as well - by isolating and appropriating aspects of certain ancient societies (Greece and Judea for example), others such as Egypt and Persia could be safely branded as "other", unrelated to the Western Tradition and therefore subject to a different type of political and cultural behavior. As we will see, these immense cultural treasures were by no means created in isolation but in a mutual and continual dialogue with other Mediterranean societies. Today we are able to reconnect the Mediterranean network and show that the idea of "Mediterranean" is not a rhetorical term, a new invention based on loose resemblances and superficial similarities, but an interconnected social and cultural world.

With our new historical and anthropological sensitivity we can symbolically rejoin the humanistic tradition by supplementing pivotal archaeological and linguistic discoveries of the nineteenth and twentieth centuries. The nineteenth century saw the discovery of Indo-European, the original "mother language" of most European and Indo-Iranian languages, to a certain extent connected culturally to Greek, Latin, Sanskrit, and Germanic. Not long after, Egyptian hieroglyphics and Mesopotamian cuneiform were deciphered, and the following archaeological campaigns in Iraq and Egypt (1845-52) suddenly added two thousand years to the documented history of the Mediterranean world. The twentieth century added other fundamental elements to the Mediterranean picture with the deciphering of Hittite, the language of the Indo-European kingdom that reigned in a vast part of the Asia Minor (1915), Ugaritic (1930-1) a Semitic language spoken in Syria, and Mycenaean Linear B (1952), the language of the first known Greek kingdom.

**2. From East to West: An Outline of the Major Exchanges**

The idea of borders as precise lines separating two people or two countries in a clear-cut way is a very modern idea, and however powerful, is very young in the history of humankind. The world around the Ancient Mediterranean was characterized by substantial fluidity in terms of territorial mobility and ability to cross-communal boundaries. To think in "Mediterranean" terms is to drop the vision of a world separated by locked compartments, of modern nation-states separated by checkpoints and borders, passports and customs. While not dissolving communal distinctions and identities, this fluidity supported the permeability of ideas and cultural discoveries between communities. It was in many respects a world of "intimate cultural contacts."

The size and the relevance of exchanges can be stated both on macroscopic levels and on less visible, but still influential, dimensions. As we recall, a civilization can be defined in terms of common cultural characteristics. One definite event shaping the Ancient Mediterranean was the Neolithic Revolution that began in the seventh and sixth millennia in southwest Asia and spread westwards to the shores of the Eastern Mediterranean as far as Greece and then Rome, creating in this vast area the indispensable conditions for the development of the typical features of Mediterranean civilization. This revolution involved mainly the cultivation of cereals, olive and vine. At the time of the Neolithic revolution this constituted the basis for creating the first settlements and towns, where what we define as literate culture could grow. The other fundamental element of this material culture was the working of metals, copper, bronze and eventually iron and pottery, first made by hand and then with the use of the wheel.

Following the establishment of this common technological and agricultural base, the following distinct cultural characteristics were able to develop among the societies of the Ancient Mediterranean.

1) Similar natural conditions including climate, main agricultural products and common needs in clothing and shelter created important similarities at two levels. First, if it is true that, in terms of Arnold Toynbee, all human achievement involves challenge and response - and the environment is the first source of challenge - it follows that the Mediterranean Sea itself constituted a similar challenge to the people living on its shores. Second, the presence of similar physical conditions allowed and facilitated, then as still today, the mobility of individuals or as groups who would feel "at home" even when migrating from one shore to another.
2) The early presence of cities, from which there developed a particular form of urban culture.
3) The presence of writing systems, namely hieroglyphs, cuneiform, Linear A, Linear B, and the alphabet. This unique medium of communication constituted, although in very different ways, a peculiar intellectual tool that allowed communication both within and between societies.
4) The shared use of writing systems among different countries, and the use of a language as a *lingua franca* (Sumero-Akkadian, Aramaic, Greek, and later Latin).
5) Common views of the world. This cultural characteristic involves cosmogonies, cosmologies, the idea of Justice and Measure, common divinities, cults and other political, social and religious ideas.

Now that we have a general understanding of the nature of communal exchange in the Mediterranean civilization, we can continue with a more sophisticated and in-depth description of the cultural trade among the societies of the Mediterranean. Elements of this include literature, inter-communal relations, and cosmological notions.

### 3. Literary and Archaeological Evidence

The continual exchange along the Mediterranean shores is proven by archeological and literary sources. The routes of trade and exchange hinged particularly on Crete, Cyprus, and Syria. At the turn of the thirteenth century BCE the volume of exchanges dramatically decreased because of the invasions of the Sea People as it is recorded on Egyptian documents, flourishing again in the tenth century. During these centuries of relative silence the earliest books of the Bible and the works of Homer were produced. These two works share many common features: they are the first literary works not conceived and produced by palace bureaucracies, they are the only known "culture books": multi-authored compilations of a group's integral and vital knowledge over time, and both show a substantial presence of near eastern influences. These commonalities prove the continuity of cultural exchange even in a time of poorly documented contacts.

The treasures in the Shaft Graves of Mycenae are telling examples of the cultural exchange that occurred in the second millennium BCE. The Mycenaeans, who lived in a few major settlements in Greece and in Crete from the fifteenth to the twelfth centuries, were the first Greek people who left written documents (in a script called Linear B). In the ancient world the grave of a king or influential person, and the objects placed in them, were very symbolic and served a fundamental function of mirroring the status of the dead. The list of objects found in the treasures of the Shaft Graves recreates the amazing mosaic of the Mediterranean world and beyond: Mesopotamian glass beads, elephant tusks from Syria, an Egyptian jug and vases, two drinking vessels from Nubian ostrich eggs of Egyptian or Syro-Palestinian manufacture, a gold pin and silver rhyton from Anatolia, amber from northern Europe and lapis lazuli originally quarried in Afghanistan!

Another example is the founding of tablets on the site of ancient Ugarit, one of the most cosmopolitan cities of the ancient Mediterranean. Several thousands of clay tablets ranging from literary works to lists of deities to economic and administrative documents were composed in three different scripts and six different languages.

### 4. International Relations

Diplomacy, or international relations as a process conducted by pacts and other written documents, is an Egyptian-West Asian creation. Asian "International Law" provided the archetypes for agreements used by the Greeks and later the Romans. From a very ancient time we can document the presence of interpreters and bilingual scribes and multilingual dictionaries from Ugarit to Egypt. The use of languages used as *linguae francae* is a proof of the volume and the importance of written exchanges and transactions. Just as Italian, French and later English were the languages of diplomacy in Europe from the time of the Renaissance until after the Second World War, in the

Eastern Mediterranean and West Asia until the twelfth century, the lingua franca was Akkadian with its corresponding writing system of cuneiform. Aramaic slowly replaced Akkadian in the tenth and ninth centuries, followed by Greek in the Hellenistic times and eventually Latin.

The tradition of written laws came also from the East. The Greeks' long-lasting custom of oral laws was supplemented with a written tradition influenced by their Mediterranean neighbors (probably through Anatolia). While the Jews elaborated the idea of covenant to the highest degree in their world-view, that concept has definite counterparts around the Mediterranean. The understanding behind such an agreement was consistent: an efficacious statement was reinforced by writing and consisted of an oath taken in the name and with the witness of the gods, sometimes accompanied by a ritual and concluded with a curse. The values and symbols used in the language of agreements were also amazingly homogeneous.

**5. The Legacy of Religious Ideas**

Judaism, Christianity and subsequently Islam are the result of the rich, open, anti-orthodox, and non-exclusivist dynamics of the Eastern Mediterranean. A few examples taken from the domains of ritual and cultic realities show an unexpected continuity and mutual influence among them.

i) Sacred places. Synagogues, churches and mosques are all contemporary examples of sacred places that share at least two elements connecting to the divine presence and the functioning as a place of communal congregation. The very idea of a place cut out from the rest and considered a house of god(s) and as a place of cult is first found in Mesopotamia, where it is clearly linked to the presence of urban, fixed settlements. The ways and the presence of transmission cannot be proven, but we can highlight some cases of convergence.

   The altar constitutes the focus of a Christian church, but long before the rise of Christianity we find altars from Persia, Ancient Israel and Ancient Greece. The altar was connected to sacrifice, the central act of cult particularly in Ancient Judaism, Ancient Greece and Rome. Christians have taken up the metaphor of sacrifice in speaking of Jesus as the "sacrificial lamb."

   Upon entering in the Church of the Holy Sepulchre in Jerusalem, a familiar scene is the gathering of pilgrims around a sacred stone upon which is poured a libation of oil, successively gathered by the faithful in different ways. The tradition of venerating sacred stones has deep roots in the area of the Near East. We find the practice of anointing sacred stones with oil first in ancient Syria and in Hatti. From the biblical story of Jacob we learn of the setting up of a stone on which oil was poured, and still in the fourth century BCE we hear of a holy stone in Jerusalem anointed by Jewish pilgrims.

ii) Attitudes of prayer. The common gesture of the priest of lifting up the hands towards the sky also has a very long tradition. In Greek and in Semitic languages to "pray" is often expressed with "lifting up the hands to the sky or the gods." A brief survey will show the similarity: Akkadian: "he raises his hands to the gods," Aramaic: "I lifted up my hands to *Ba'alshamayin*," Greek: "he prayed aloud, holding up his hands," Hebrew: "and he spread out his palms to Yahweh".

iii) Liturgy. We can identify another element of continuity in the responsorial form of liturgy. The practice of alternation between a soloist (often the priest) and the congregation, a typical element of Jewish and Christian liturgy, comes from Near Eastern musical and ritual practice.

## 6. Communal and Intercommunal Identity in the Ancient Mediterranean: The Case of Ancient Greece

In Ancient Greece the identity of an individual was understood as a communal and public identity. In fact, Greeks at that time did not conceive of a political and social body called "Greece," but rather thought in terms of a *polis* (Greek city-state) of Greek individuals. They defined Greek identity in terms of a common language, ethnic group and cults. Ancient Greece was communalistic and polis-oriented, and the source of social life was the polis to which one belonged. Thus in Greek, Athens is not "the city of Athens" but "the city of the Athenians," that is, it is the human, social group that gives existence to the city in an interactive relationship (between the individual and the community). The territory is given meaning by virtue of relationship with the community, and in the shaping of communal identity the role of civic gods has a fundamental symbolic function. The civic gods, although sharing many features with the Panhellenic (common to all Greeks) elements, represent the city itself as linked to a particular territory and distinct from any other polis.

In this respect it is extremely revealing that foreign affairs included at the same level the relationships with other Greek poleis as well as with other non-Greek societies, kingdoms and the like. In fact, beyond the limits of the community, all others were seen as a *xeinos*, or stranger. The very word *xeinos* on the other hand reveals the ambiguity of the notion of stranger because it means at the same time stranger, enemy and guest: the stranger to the community can be a potential enemy but a potential partner as well. Non-Greek speaking Mediterranean neighbors were not regarded as absolutely "other," no more than a Greek-speaking member of another polis. The practice of Greek colonization clearly demonstrates how ancient Greeks approached neighboring traditions. Settlers, upon arriving on foreign territory to found a colony, brought with them the sacred flame taken from the hearth of the motherland and its cults, but also offered sacrifices to local gods. This is an example of the appropriation of other cultures by transforming and translating it into Greek categories. This phenomenon highlights a double attitude of openness and appropriation.

**7. Hellenism and the Roman Republic**

The Persian Wars and the conquests of Alexander the Great in the fifth and fourth centuries BCE brought about crucial changes in the scale of political and social mobilization in the Mediterranean world. Greek contact with and conquest over the Persian Empire resulted in a more rapid pace of cultural influence and exchange, creating a more encompassing culture within the Mediterranean civilization and an expanded connection and influence of the Greek world alongside others from the Mediterranean and the Near East. Thus in the following centuries we find new and larger socio-political formations such as the Seleucid and Ptolemaic kingdoms, the further development and spread of Greek Panhellenic festivals, athletic competitions and theater, and the construction of urban, cosmopolitan centers such as Alexandria. In this world of a new socio-political scale, it is tempting to focus on the dramatic changes that took place in this period and overlook the cultural and civilizational continuities. However, after discussing some relevant aspects of the Mediterranean world at this time, it will be clear that there exist important cultural traits common to the previous era.

In both the Hellenistic East Mediterranean and the Roman West Mediterranean we can find important similarities in the structure of political and social relations, namely communalism. While relations based on Hellenistic models may have translated into greater respect and autonomy for communities than relations based on Roman models, the structures of both share a noteworthy emphasis on "the community" as the focus of relations between cities, individuals, ethnic groups and kingdoms. Following a description of selected aspects of intra-communal and inter-communal relations in the Hellenistic and Republican Roman Mediterranean, we will sketch some possible historical continuity between communalism and other characteristics of the Mediterranean civilization described in the previous section.

**8. Communalism in Hellenistic Mediterranean**

The Hellenistic era witnessed a dramatic increase in transportation and communication, fostering an unprecedented phenomenon of communal diversity around the Mediterranean. The continued presence and persistence of distinguished communities within larger political entities was supported by these technological changes – increased transportation facilitated migrations, and improved communication fostered the ability of diasporas to maintain contact over large distances. As will be described, amidst these groups - the Helleno-Greek, Egyptian and Jewish populations, for example - the dominant sociopolitical agent was community.

1) The Helleno-Greek communities. Within the Helleno-Greek populations, one of the key ideological and symbolic struggles of the Hellenistic era was between the use of the civic society (polis) and kingship as the dominant metaphor and source of loyalty. It is clear from both the successes of those promoting the authority of civic society and from the failures of royal attempts to make authoritative their symbolic power that in the vast majority of cases individuals continued to perceive their identity as a member of a polis.

   The Hellenistic polis was like the cities of other civilizations in that it included cults, temples and decision-making assemblies, but unique in the existence and importance of its social institutions such as the gymnasium and the theater. A polis was not seen as an independent political body (one of the chief metaphors of Classical Greece), but a social body, in the words of Aristotle "a partnership of families and clans in living well." On inter-polis occasions such as Panhellenic festivals and annual proclamation of honors, individuals met as members of their respective polis, affirming a wider Hellenic identity *through and within* the primary identity of belonging to a polis.

   The Panhellenic festivals also demonstrate the central role of the polis as a communalistic model for interpolis relations. One scholar called these festivals "the agora of the Greek world" to stress that relations between separate poleis were not understood simply as an exchange between two distinct and integral bodies, but as two related agents or "individuals" within the larger polis of the Hellenistic world. More examples include poleis supporting each other according to kinship obligations based upon real or fabricated common ancestry. Thus on both individual and communal levels, the metaphor of "community" was dominant in governing relations of all kinds.

2) Egyptian Hellenistic and native communities. This last point can be underscored by a look at the attempts made by royal institutions to strengthen the symbolic authority vis-à-vis that of the poleis. When Ptolemy I attempted to institute a common cult among the Greek and native communities within his kingdom, these cults failed without exception because members of the multiple communities preferred to engage in the cult to their communal deities, nevertheless continuing the practice of offering *in support* of the monarch, rather than accept the introduction of a new cult that focuses on the monarchy as the primary symbolic object of loyalty.

3) Hellenistic Monarchs. Despite rare attempts such as these, Hellenistic monarchies on the whole functioned by recognizing the cults, legal systems and customs of the various communities within their domain. Included among these communities are the Hellenic poleis as well as native communities and diaspora groups from across the Mediterranean and the Near East. In the case of Egypt under the Ptolemaic monarchy, there existed simultaneously a number of legal systems recognized by the court, and different legal systems functioned for the Hellenic and the Egyptian populations, each using its own customs, values and authoritative rhetoric. Generally, the various communities often lived in separate neighborhoods for religious and economic support and security, giving further strength to communal autonomy and identity.

4) Jewish communities. John Barclay's work detailing the autonomous nature of the Jewish community centered in Alexandria adds a level of complexity to our picture. Not only did the monarch respect the Egyptian Jewish community's right to self-government according to its "ancestral tradition," but it also recognized and supported the rule of a Jewish ethnarch holding important duties. While the extent of the Alexandrian Jewish community's autonomy functioned in a degree higher than neighboring communities, the common element throughout the Ptolemaic

kingdom remained the existence of multiple communities each with its own authority in cultic, legal and other spheres.

It is important to recognize the simultaneous existence of communal boundaries and cultural permeability. Members of different communities were far from culturally, socially and politically isolated. In fact, the opposite seems more to the truth: in addition to cross-influence in religious, artistic and other spheres, a minority of native Egyptians succeeded in gaining entry to Greek institutions such as the royal court and the gymnasium by intermarriage or military service, and some of this group continued to function in both communities. Much of Hellenistic literature from this period shows distinct influences from Egyptian mythology, and the popular Greek cult of Serapis was created from an Egyptian model. Similarly, the breadth and depth of Hellenistic literature from Alexandria's Jewish Diaspora attests to the Hellenization of that community's enfranchised members.

Within this cross-cultural influence and mobility, individuals in Ptolemaic Egypt were nevertheless continually conscious of communal boundaries. Native Egyptian social climbers were not accepted into the court or the gymnasium without adopting a Greek name and total external assimilation, Egyptian influence on Hellenistic culture did not bring an end to feelings of cultural distinctness, conversion to Judaism involved termination of many social ties and a meaningful change of identity, and while some philosophical works of Jewish Diaspora literature (Philo, for example) search for a common ground for Greek and Jewish philosophical traditions, the existence of separate communities and the importance separate cult practices is always stressed. Perhaps the most telling example of the communal orientation held by the Greek monarchy and Egypt's Greek citizens was Alexandria's full Greek title: "Alexandria *by* Egypt."

**9. Communalism in Mediterranean Rome**

At first glance the west Mediterranean area controlled by Rome, and the east Mediterranean after the spread of Roman rule in the first century BCE, seems to be governed by universalist and/or imperialist models functioning to incorporate other communities into a central system. Indeed, this is true to a great extent, and some scholars have theorized that it was this ability to incorporate new elements into the citizen body (as opposed to Classical Greece) that allowed it to be productive enough to succeed in an era of greater mobility, productivity and scale. On the other hand, it can be argued that the primary difference here is one of scale – citizen bodies under the Roman system were larger and often incorporated whole communities, but the notion of distinct communities as the model for social and political relations remained dominant. Perhaps this transition can be best illustrated by Aelius Aristides' famous propaganda for the Roman Empire for turning the whole civilized world into one city.

Communalistic models are also found in the modes of communication between Rome and those over whom she was victorious. It is possible to point out clear distinctions among the center-periphery relations between Rome and 1) Sicily, Sardinia, and Spain, which were taken from the Phoenician state of Carthage in 242 BCE and ruled more directly over time; 2) Italy, involving a complex history of incorporating various communities as Roman citizens, some as Latins with special rights and privileges, and non-citizen Italians, and 3) the Greek East, involving savage conquest followed by granting of relative autonomy.

Following the imposition of Roman rule we can find evidence pointing towards the use of the communalist model. As one scholar has commented, "Rome's attitude towards law and Empire was marked by an initial imposition of regulations, but then by a subsequent unwillingness to develop a universal, legal system throughout her Empire." Examples in each of the three areas include different tax regulation of various communities and the upholding of communal "ancestral laws."

All in all, both the Hellenistic and Roman periods of Mediterranean area show a remarkable similarity in functioning according to communalist models for managing social and political relations. While both the Hellenistic and the Roman systems involved a degree of conflict, appropriation and imperialism, each according to different scales of mobilization; they nonetheless 1) recognize and respect the authority of communities within larger territorial units, and 2) reinforce the notion of separate communities even when dealing with cases of cultural transference or individual trans-communal mobility.

## Section Two: Common Anthropological Features of Mediterranean Societies

The previous historical survey has provided us with deep-rooted evidence of communalism, focusing on the issue of intercultural exchange and key cases of peaceful and fertile coexistence in the area. Contributing to our awareness of a Mediterranean civilization, this investigation will explore on synchronic and diachronic levels the functioning of group identity and the similarities in non-verbal communication between communities in the Mediterranean. In doing so we will make use of conceptual and operative tools provided by the relatively new disciplines such as ethology, proxemics, kinesics, and paralinguistic.

Despite recent political divisions in the Eastern Mediterranean, it can be shown that this area today forms a relatively homogenous cultural environment. As a matter of fact, people of the Eastern Mediterranean not only share a common mode of communicating, but also the common anthropological feature of living in small groups (and have done so for the greater part of their history), although sometimes within the framework of larger territorial and cultural units. The definition of individual identity was related to a group identity based on family ties, kin/clan and village attachments, and not on the abstract notion of "nation" similar to the anonymous societies of the contemporary Western world.

It is relevant to note that the idea of nationalism is a relatively recent phenomenon, especially in the East Mediterranean, that brought about a new model of identity based on the abstract notion of national belonging. The ideas of nation, national borders and nationalism are by and large products of western influence, and many of the cross-cultural problems that characterize the impersonal societies of the Western world developed in this area only after the end of the Ottoman Empire.

### 10. The Dynamics of Communal Identity

Ethnologists have demonstrated that humans develop "in-group feelings" and delineate themselves from others by emphasizing contrasts and by highlighting unique cultural characteristics.

In this case, those traits inciting individuals to maintain ethnic identity and territorial integrity are not only a disruptive, archaic heritage but are also positive mechanisms of cultural sustenance as long as they do not escalate to ethnocentric intolerance and domination of other groups. This is the situation of ethnic identity and cultural tolerance we encounter in the area of the Eastern Mediterranean before the introduction of the idea of "nation."

The more certain an individual feels in the stability of his own cultural values, the more open and tolerant will be toward his neighbor. This is the path that leads towards esteeming cultural diversity, by contributing to this pool with one's own heritage. The negative forms of ethnocentrism develop when groups feel threatened in their ethnicity, as happened in the previous century with the establishing of artificial national borders and the subsequent superimposition of a national identity.

It is as well the maintenance of group identity in this area that has, consistently with that stated above, fostered cultural exchange throughout the centuries, starting with the ancient societies. One key case is provided by the rich cultural exchange in the first and the second millennium BCE as described in chapter one. A typical instance in more recent times is the administrative solution of the *millet* formalized by the Ottoman rule allowing a relatively peaceful coexistence of different ethnic and religious communities in the vast area of the Ottoman Empire.

**11. Communalist Peacemaking Potential**

Anthropological and ethological research shows that "modern man" would recognize as correct the command to love as himself those with whom he is unacquainted but at the same time he can only love fully those with whom he has an acquaintance. Furthermore, only those who have developed basic trust in the individualized group through personal ties are capable of trusting others beyond their intimate circle, because our capacity to relate with and trust other people within he group enables us to bond emotionally to group members unknown to us by means of identification with them.

As a matter of fact, the ideological identification with one's community and one's ethnicity is a pivotal element in what ethologists define as agonal behaviors. Anonymous society tends to be a society without solidarity and tolerance because it negates individual relationships in favor of a non-discriminatory loyalty to the nation.

The centrality of communal identity as a social characteristic is not only a common but also a productive aspect of the Mediterranean civilization. Social processes incorporating this characteristic, functioning in ancient and in modern times, may provide for the fostering and maintaining of peaceful conditions. One ambition of the present work is to apply these processes to the vibrant case of the Holy Places of Jerusalem.

# A Case Study: the *Status Quo* and the Holy Places of Jerusalem

## 12. Historical-Legal Background

The presence of common distinctive features among the various Mediterranean communities described in the first two chapters may assume practical importance. A sophisticated awareness and sensitivity to Mediterranean culture is imperative for those wishing to forge lasting and effective agreements concerning religious and national controversies in this region. Settlements made without such awareness can become dangerous and unstable, and nowhere is the need for a Mediterranean consciousness more critical than in the discussion over the future of Jerusalem's Holy Places.

Two features in particular still characterize the legal frameworks surrounding the arrangements related to the Holy Places, indicating the historical and cultural continuity of the Mediterranean civilization described previously.

The first is the ancient principle of personal jurisdiction, applied extensively also in Western and Northern Europe until the Middle Ages. In applying the principle of personal jurisdiction the territorial ruler permits members of different local communities to be governed according to the law of their own group - defined according to religious or ethnical lines, and not by the law of the group controlling the area. The principle (as opposed to exclusive territorial jurisdiction, under which rules apply to all persons - whether or not citizens of that State - living within specified space boundaries), has been applied in Jerusalem over the centuries to the members of the various communities having a recognized interest in the Holy Places, mainly in relation to matters tied to their personal status.

Historical research has disclosed that elements of the principle of personal jurisdiction, which ripened after the dissolution of the Roman Empire, existed even previously to it, as described also *supra*, in Section One. In Ptolemaic Egypt, for instance, two legal systems, each based on the personal jurisdiction principle, applied separately to the *pariocci* (in this context, the descendants of the conquering *militiae* of Alexander) and to the *metoikoi* (the native Egyptians). In Rome, the *jus civile* (or *jus Quiritium*) held for Roman citizens, while a special set of laws held for foreigners (*peregrini*). This second code resulted from a mixture of Roman and provincial law tempered by considerations of equity (*jus gentium*).

The second feature indicating continuity within ancient civilizations in the Mediterranean region is the traditional importance of non-written (customary) sources of law in both national and international spheres. This type of law appears to have been well-suited to regulating the most sensitive issues concerning the recognized interests in the Holy Places in general, and in Jerusalem in particular. In fact, the general movement of codification, typical of modern European nation-states, started to affect this area only relatively recently, beginning with the adoption of the Ottoman civil code (1869-1876).

In order to understand the present legal situation of the Holy Places of Jerusalem, however, it is necessary to sketch a short summary of the relevant historical-legal events up to the present day.

Before the expansion of Western colonization and influence during the last two centuries, most Arab-Islamic rulers in the Mediterranean area generally did not subject religious and ethnic communities to forced conversion or assimilation. This attitude, though it did not eliminate social and political problems entirely, did demonstrate a relative tolerance (at least in comparison with that of the Western rulers of the same period), exercised particularly towards the other "peoples of the Book," known later also as *dhimmi* ("protected people"), literally "those on the conscience (*dhimma*) of the Islamic community."

As stated above, the existence of various communities in the Mediterranean area, each bringing its own cultural or religious traits, has been structured by original legal systems demonstrating continuity, though in a different social and political context, with some of the models described in the previous chapters. Examples include the endowment of communities with a significant amount of local administrative autonomy in communal affairs such as supervision of education, charitable institutions (*waqf*) and the maintenance of law courts following the principle of personal jurisdiction described above, particularly in relation to family law and succession. This system, developed mainly during the Ottoman Empire, was known as *millet*, a Turkish form of the Arabic word *milla* meaning "community," often mistranslated in European languages as "nation" or "religious community."

Also in view of the described institutional arrangements, the already-frequent pilgrimages of members of several communities to the main Holy Places in Jerusalem and Bethlehem and the accompanying traditional rituals involved increased significantly, in new forms, during Ottoman rule of the area (1517-1917). In this context, the diplomacy of the European powers witnessed an intense and escalating interest in the Holy Places and in the disputes between the recognized Christian communities. At the same time, however, Western European powers no longer saw direct territorial conquest as their objective (as in the Crusader period), but focused on the rights of pilgrims to visit the sanctuaries and practice their rituals freely, while still remaining under local Islamic rule. One early instance of this kind was the treaty between the Ottoman Empire and King Francis I of France, in 1535. This treaty, opening a new era in the relationship between Christian European powers and Islamic rulers in the Eastern Mediterranean, became the pattern for a long series of similar treaties called 'capitulations'.

Despite the fact that these treaties deal mainly with commerce and politics, they reveal a new attitude toward the Holy Places mentioned above. The treaty of 1535, for example, consists of seventeen articles, sixteen of which deal with commerce and business, while article 6 alone refers to religion, granting French subjects the right to practice their own religion and protecting them from forced conversion to Islam. Moreover, article 6 establishes for "all the subjects of the [French] King" immunity from ordinary local judicial jurisdiction.

It may be helpful to describe here the intellectual atmosphere in which this first treaty between a European Power and the Ottoman Empire was concluded. King Francis I signed the agreement at a time when he and members of his court, among them Benvenuto Cellini and Leonardo da Vinci, were attracted and fascinated by the intellectual rediscovery of the ancient world; this included a desire to proceed from the 'translation' to the 'original source', which led to a new understanding of biblical writings through the study of Hebrew and Greek, as described *supra*, at the beginning of Section One.

In 1518, under the influence of Erasmus, the first Trilingual College was established in Louvain for the study of Greek, Latin and Hebrew. In 1530 Francis I – five years prior to signing the treaty with the Ottoman Empire – appointed the first *Lecteurs Royaux* in the fields of Hebrew, Greek and Mathematics who, under the protection of the King himself, maintained that the knowledge of Greek and Hebrew was essential for the full understanding of the Holy Writ. This opinion raised a disagreement between the Scholastic and the Renaissance worlds, which came before the Court in one of the most extraordinary cases in legal history. Parliament was asked to decide whether or not the knowledge of Hebrew and Greek was essential to the understanding of the Bible, and the controversy became a *cause celèbre* of the time.

The new European approach resulting from the cultural atmosphere described above, therefore, excluded direct territorial conquest in that part of the Levant. European competition for political and commercial influence in the Mediterranean region, however, continued and even developed, often times exploiting again the traditional pretext of the protection of religious interests in the "Holy Land". The rulers of the Ottoman Empire tried to reduce these external pressures by imposing various practical arrangements on the Holy Places in order to regulate the claims and interests of the various communities regarding the most significant Christian sites. In 1852, one such arrangement (a Sultan's decree, or firman) froze the practice in the ways of worship and cult, whose usage was established, since 1757, through its daily repetition and confirmation, rather than through formal written documents. European diplomats, eventually deciding to make these arrangements with the Ottoman Sultans internationally binding, started to define them as the *Status Quo* solution. The expression here is capitalized to refer to this particular narrow, technical sense. It was originally adopted, in this context, by British diplomats, becoming gradually familiar as a point of reference for the described legal arrangements in the Holy Places.

In fact this Latin expression, whose complete original phrasing was *in statu quo ante*, "in the state (things were) before," literally means "the situation as it is," and denotes merely the preservation of the existing state of affairs as perceived by the conflicting parties. It gained popularity in diplomatic and political vernacular as well as in legal literature language especially since Victor Hugo employed it in the introduction of *Les Orientales* (1829): *Le statu quo européen, déjà vermoulu et lézardé, croque du côte de Costantinople.*

As for the narrow, technical sense of the expression mentioned above, the European powers of the time decided to adopt it in order to define the described Ottoman policy on the Christian Holy Places as a compromise arrangement between their parties. Article LXXII of the Berlin Treaty of 1878 therefore, embodied the expression for the first time in declaring that "no alterations can be made in the *status quo* of the Holy Places."

The last century of Ottoman rule, however, given the described rise of Western influence in the area, witnessed also the introduction and local development of nationalistic ideologies. As a result, during and following British Administration in Palestine (1917-1948), competing Arab and Jewish nationalist movements engaged in conflict over territorial control, often focusing particularly on the Holy Places of Jerusalem, endowed since then of a symbolic value for their respective national identities.

### 13. The Different Meanings of *Status Quo* in Jerusalem

When speaking of Jerusalem, the expression *Status Quo* (capitalized) defines a practical political and diplomatic arrangement, originally agreed upon between the European diplomats and the local territorial authority, reflecting a solution imposed upon the conflicting Christian communities in order to settle their respective claims and interests in the Holy Places. This set of arrangements, therefore, established a legal regime dividing space and time for the religious use and possession of the Holy Places among these communities.

According to these arrangements, the meticulous preservation of the established rights and privileges of the various communities in the exercise of minute acts of ownership and usage in the Holy Places - including public worship, decorations of altars and shrines, use of lamps, candelabra, tapestry and pictures - is considered of the utmost importance.

Following the end of the Ottoman rule over Jerusalem, moreover, the British administration in Palestine (1917-1948) began to extend the *Status Quo* principles, thus far applied exclusively to the Christian Holy Places, to the Jewish and Muslim ones as well. More recently, several international agreements stipulated in the last few years – such as the peace treaty between Israel and Jordan of 1994 and the agreements concluded by the Holy See with Israel and the PLO in 1993 and 2000 respectively – confirmed the international legal relevance of these special arrangements between the different communities in the Holy Places.

The expression *status quo*, however, when related to the international dimension of the Jerusalem question, has also referred to other, broader meanings. Among them, one may include the definition of the principles applying to the relationship between the communities and the territorial authority. In this respect the concept of *status quo* (usually, in this broader sense, not capitalized) relates to all aspects and established principles embodied in the regulations enacted since the Ottoman rule concerning the different communities of Jerusalem. These principles include the protection of the ways of worship, and access and pilgrimage to the main holy sites within Jerusalem or in its immediate proximity. Moreover, these traditional principles were extended to guarantee protection for the cultural, ethnic and religious identities of the different communities present in the city.

The recent Arab-Israeli conflict has witnessed temporary exceptions in the implementation of some of these principles. During the period following the first Israeli-Arab war, Jordanian rule over East Jerusalem (1948-1967) - which included the Old City and the main Holy Places - while respecting broadly the *Status Quo* concerning the relationship between the Christian communities in the Holy Places, did not allow Israelis access to this area. During Israeli rule over the same area (from 1967 to the present day), and especially since the beginning of the *intifada* (uprising) in December 1987, security concerns have resulted in temporary limitations of access for specific categories of Palestinians who have been considered potential threats to public order.

Despite these and other temporary exceptions, a close study of the long-term practice of the various territorial administrations succeeding in the area reveals a broad continuity in the regulation of special privileges, immunities, or exemptions granted to the recognized communities present in Jerusalem. This may explain the diplomatic and popular success of the expression *status quo* - originally adopted in Jerusalem to define the peculiar relationship between the recognized communities concerning the Holy Places – but also used in relation to other, broader meanings, in particular for the definition of the relationship between the recognized communities living in the area on one hand, and the territorial ruler on the other.

# A partial selected bibliography

## a. Sections One and Two


Benedict, R. *Patterns of Culture*, London, 1935
Bernal, M. *Black Athena. The Afroasiatic Roots of Classical Civilization*, New Brunswick, 1987
Burkert, W. *The Orientalizing Revolution. Near Eastern Influence on Greek Culture in the Early Archaic Age*, Cambridge Mass, 1992
Cohen R. and E. Service (eds), *Origins of the State. The Anthropology of Political Evolution*, Philadelphia, 1978
Colvinvaux, P. *The Fates of Nations. A Biological Theory of History*, New York, 1980
Coogan, M. *Stories from Ancient Canaan*, Philadelphia 1978
Dalley S., *Myths of Mesopotamia*, Oxford, 1989
Hall, E.T. *The Hidden Dimension*, New York 1954
Hoffner, H.A. and G.M. Beckman, *Hittite Myths*, Atlanta, 1990
Lichtheim, M. *Ancient Egyptian Literature*, Berkeley, 1973-1980
Masters, R.D. "The impact of ethology on political science", in A. Somit (ed.), *Biology and Politics*, The Hague, 1976, pp. 197-223
Momigliano, A. *Alien Wisdom. The Limits of Hellenization*, Cambridge, 1975
Murphy, R.F. "Intergroup hostility and social cohesion", *Amer. Anthropol.*, 59, 1957, pp. 1018-1035
Omark, D.R. *Dominance Relations: An Ethological View of Human Conflict and Social Interactions*, New York, 1980
Proshansky, H.M. *The Development of Intergroup Attitudes*, New York, 1966
Sherif, M. *Groups in Harmony and Tension*, New York, 1966
Tajifel H. (ed.), Differentiation *between Social Groups*, London, 1978
Tajifel H. (ed.), Social *Identity and Intergroup Relations*, Cambridge, 1982
Watts, M.W. (ed), *Biopolitics: Ethological and Physiological Approaches. New Directions for Methodology of Social and Behavioral Sciences*, San Francisco, 1981
West, M. *The East Face of the Helicon. West Asiatic Elements in Greek Poetry and Myth*, Oxford, 1997
Wright, M.R. *Cosmology in Antiquity*, London 1995

## b. A Case Study: The *Status Quo* and the Holy Places of Jerusalem


Abdul Habi, Mahdi ed., *Documents on Palestine, Volume I. From the Pre-Ottoman/Ottoman Period to the Prelude of the Madrid Middle East Peace Conference*, Jerusalem, 1997

Abdul Habi, Mahdi ed., *Documents on Palestine, Volume II. From the Negotiations in Madrid to the Post-Hebron Agreement Period*, Jerusalem, 1997

Ahimeir, O. ed., *Jerusalem - Aspects of Law*, Jerusalem, 1983

Al-Siryani, M. *The Status of Jerusalem: Heart of the Holy Land Dispute. A Survey of the Historical Background, the Actual Legal Framework; the Solutions Proposed for this Dilemma; and the Position of the Holy See,* Doctoral Thesis (unpublished) at the Pontificia Universitas Lateranensis, Roma, 1997

Colbi, S. *Christianity in the Holy Land, Past and Present*, Tel Aviv, 1969

Collin, B. *Le Problème Juridique des Lieux-Saints,* Le Caire, Paris, 1956

Cust, L.G.A. *The Status quo in the Holy Places*, 1930, printed for the Government of Palestine by His Majesty's Stationery Office, Jerusalem (reproduced in 1980 by Ariel Publishing House, Jerusalem)

Ferrari, S. "The Religious Significance of Jerusalem in the Middle East Peace Process: Some Legal Implications", *The Catholic University Law Review*, vol. 45, no.3, Spring 1996

Gosselin, N. fr. (transl.), *Firmans Ottomans émanés pour les Lieux-Saints de la Palestine, Tome Premier 1521-1644*, Jerusalem, 1934

Hirsch, M., Housen-Couriel D. and Lapidoth R. eds., *Whither Jerusalem? Proposals and Positions Concerning the Future of Jerusalem*, The Hague/London/Boston, 1995

Hurewitz, J.C. *Diplomacy in the Near and Middle East: A Documentary Record, 1535-1914*, Volume I, Princeton, 1956

Hurewitz, J.C. *Diplomacy in the Near and Middle East: A Documentary Record, 1914-1956*, Volume II, Princeton, 1956

Jordan Media Group, ed., *Defending the Faith: The Hashemites and Jerusalem*, Amman, 1994

Lapidoth R. and Hirsch M. eds., *The Jerusalem Question and its Resolution: Selected Documents*, Dordrecht/ Boston /London, 1994

Le Morzellec, J. *La Question de Jérusalem devant L'Organisation des Nations Unies*, Brussel, 1979

Moore, J.N. ed., *The Arab-Israeli Conflict. Volume III: Documents*, Princeton, New Jersey, 1974

Passia. Palestinian Academic Society for the Study of International Affairs ed., *Documents on Jerusalem*, Jerusalem, 1996

*Peace between The State of Israel and The Hashemite Kingdom of Jordan*, Ministry of Foreign Affairs, Jerusalem, 1994

Pieraccini, P. Gerusalemme, *Luoghi Santi e comunità religiose nella politica internazionale, Bologna*, 1996

Sayegh, S. *Le Statu Quo des Lieux-Saints. Nature juridique e porté internationale,* Roma, 1971

*Treaties between Turkey and Foreign Powers* 1535-1855, compiled by the Librarian and Keeper of the Papers, Foreign Office, London, 1855

Ye'or, B. *The Dhimmi. Jews and Christians under Islam*, London and Toronto, 1985

Young, *Corps de Droit Ottoman. Recueil des Codes, Lois, Règlements, Ordonnances et Actes les plus importants du Droit Intérieur, et d'Études sur le Droit Coutumier de l'Empire Ottoman*, Oxford, Vol. II, 1905

Zander, W. *Israel and the Holy Places of Christendom*, London, 1971

8

Not to be circulated

*Istituto per gli Studi di Politica Internazionale*
*Institut des Etudes Politiques Méditerranéennes*

# SMEs in the Mediterranean region: their role in sustaining development and regional integration

by Sergio Alessandrini

July 2000

# 1 THE SMEs IN THE MEDITERRANEAN REGION

## 1.1 Formal vs. informal private sector

The review of the SMEs contribution to the Mediterranean economy, by assessing the size of the sector in comparison to large or public enterprises, provides an indication of their contribution to the regional development. It is important to distinguish not only between public and private sector enterprises, but also, within the private sector, between formal and informal sector. The *formal* private sector includes the enterprises officially registered (trade register, revenue service) who declare their wages to the official institutions. The *informal* sector is not officially registered and does not declare wages. Usually it includes a large set of individual and micro enterprises involved in some form of merchant activities and those who work at home in order to avoid registration fees which are considered excessive, particularly for micro enterprises.

A comparison of the development process of SMEs in Europe and in the Mediterranean region, shows that this process has conducted to very different sectoral configurations. The model prevailing in Europe is characterised as long as with the development process, by large restructuring following a diffusive logic: vertical disintegration of the complete production process, specialisation on specific phases or components and concentration (in districts or system areas) of enterprises which constitute a complete and integrated network.

On the contrary the development of SMEs in the Mediterranean region has followed a horizontal model, through the promotion (with the dimensional increase) of the handcraft enterprises and through the start-up of new enterprises focalised on productive cycle similar to the ones of the enterprises already existing. With the exemption of some sectors, they are characterised by an excessive verticalisation of the production and transformation functions.

## 1.2 From inward-looking and protected economies to trade and market liberalisation.

In many Mediterranean countries Governments have pursued a centrally-planned economic strategy for a long time, favouring the public sector to the detriment of the private sector. This translated into massive investment in the public sector and extensive development of public enterprises, particularly in industry, construction, agribusiness, banking, infrastructure and foreign trade. At the same time, private enterprises suffered from discriminatory measures such as the adoption of a government monopoly of foreign trade and the nationalisation of credit sector and infrastructure.

During the period of central planning, the private sector managed to survive in the niches left free by public enterprises, particularly in the labour-intensive, high-profit sectors where demand was not being met. Thus, private small enterprises were able to dominate the sectors of retail commerce, services (restaurants, small hotels), land transportation, tailoring/hosiery, finishing work in construction, processing of plastics, printing, leather work, etc. They were able to provide job and livelihood for a large section of the population in traditional forms, often outside the area of law enforcement. In some countries, such as Algeria or Turkey, small enterprises supplied, retailed and did subcontracting work for public enterprises (which concentrated on heavy industry, rail, maritime and air transportation, and processing of raw materials).

The majority of independent entrepreneurs employed few or no staff. Much other private enterprises adopted a low profile based on family units headed by an owner/founder. These enterprises operated very flexibly to escape the constraints of the state and adapt themselves to an unfavourable business environment. Private sector production was directed almost exclusively to the domestic market. Enterprises often engaged in speculative and sometimes illegal behaviour - the latter particularly with regard to importing, filing financial statements, and reporting employment and profits. They made little use of the banking system. Entrepreneurs of this period learned to be wary of the state, public administration and the justice system. In industry, the dependence on protected domestic markets and on protection from international competition meant that enterprises had little incentive to innovate and invest in new technologies. The private sector emerged from this period in disarray, without its own supply and distribution network and with an insufficiently structured professional organisation.

The public monopoly on foreign trade and the inevitable decline in the domestic market also protected the private enterprises from foreign competitors. The importing and supply networks remained, on the whole, inefficient and trade was very fragmented. For example, the Algerian customs service carried out an inventory of 25,000 importers. However, the majority of them deal in small quantities, often in the form of merchandise brought from abroad in the luggage of individual buyers. This traffic was sufficient to supply micro-markets on a selective basis, but it is ill-suited to the needs of registered SMEs which can not themselves import. These enterprises must at times employ the services of a courier to buy spare parts on the other side of the Mediterranean for which they have urgent need. There are still few established markets. The ineffectiveness of public enterprises in supplying the country - particularly in imported products - provide private enterprises with opportunities to realise high margins and rapid returns on investment. The search for rapid returns on investment and maximisation of short-term profit margins still take precedence over the construction of adequate growth strategy. Monopolistic rents persist in some markets, inherited from the past. It also appears that a traditional approach to product distribution remains the most common practice. There is still little effort to innovate through new products or marketing approaches.

## 1.3 The enlargement of markets and the need for restructuring

This historical legacy has several consequences that are being felt strongly today. Private enterprises are generally family endeavours. They are small in size compared to international standards. They tend to be undercapitalised. Their management methods are obsolete. Dominated by family-based capital and management, they were reluctant to open themselves up to the outside. With the liberalisation of prices and trade, once high-profit markets became more competitive, drying up economic rents. Most were ill-equipped to deal with international competition (for example, in textiles, engineering and agribusiness). Movements to transfer, merge and consolidate enterprises are rare. Acquisitions of foreign equity holdings remain very limited.

Free access to the market is, at present, guaranteed *de jure*. In practice, private agents have not yet invested sufficiently in the opportunities that have been created by the macroeconomic stabilisation under the IMF structural programmes and by the partnership agreements with the European Union. The isolation of international markets over many years and the difficulty in obtaining information on new technologies have contributed to widening the gap between domestic and foreign producers. With the rising of international competition, and the perspective of a Free Trade Area with the European Union in 2010, the SMEs are now realising that they have to modernise their production facilities and adopt a more aggressive marketing approach, particularly with regard to exports.

Most of these private enterprises came up against problems of access to bank credit and to new technologies. In the absence of credit, SMEs experienced problems in bringing their equipment up to standard. Consequently, they are generally not very competitive. Their products are often obsolete and the quality mediocre.

In addition, firms' management methods are often ill-suited to the demands of a market economy, particularly in terms of financial management and marketing. A management culture has yet to emerge. For example, financial projections presented to the banks are often unreliable and poorly substantiated. The reluctance of bankers to grant loans and credits is often justified by the mediocrity of the investment projects presented, compounded by the fact that many entrepreneurs have no real guarantees to offer, or refuse to offer personal guarantees. While it is true that the banking system does not perform its role properly, the responsibility for their timidity in granting credit can be explained in part by the inability of enterprises to submit bankable projects.

In the area of human resources, the transition from entrepreneurs who created their own enterprises, to the new managers necessary in order to ensure their development in the framework of the market economy, remains to be achieved. However, hiring is generally done on the basis of family relationships or personal recommendations. There is a limited (but growing) market in the field of human resources. Nevertheless, managers do exist: to a great extent, they can be found in public enterprises.

The beginnings of an exodus of mid-level managers from public to private enterprises can be seen, which is a positive development. First, it is a strong signal that many managers from public enterprises believe that their future lies in the private sector. These managers could thus replace the generation of enterprise creators and facilitate the indispensable modernisation of their management. There is a strong demand for training, which indicates a healthy increase in awareness by enterprises of the value of training for raising employee productivity.

Many heads of enterprises retain an ambivalent attitude toward the state. While they frequently complain of the sluggishness of public administration and of the burden of taxes and payroll taxes, they also ask for state protection - for example, against foreign competition – or for public subsidies, such as credit on favourable terms and subsidised industrial land. Many owners seem to favour a mixed economic system (partnership between the state and private enterprises) more than a liberal open market system.

In short, the movement to a market economy and the liberalisation of trade represented at once a shock to many private enterprises and the opening up of extraordinary development opportunities.

Nevertheless, the transition is rough. Many enterprises wither in the face of anaemic demand and foreign competition, for which they are ill-prepared. Production capacity is underutilised. The absence of foreign investments does not allow them to modernise (not only in terms of equipment, but also with regard to management and marketing methods). The transformation and restructuring of the industrial sector have yet to be achieved, including the creation of a dynamic and efficient fabric of small and medium-sized enterprises (SMEs), the formalisation of individuals and enterprises in the informal sector, the formation of modern supply and distribution networks, and the development of large private industrial and commercial groups. In the absence of progress in privatisation, the imposing public sector is a significant obstacle to this transformation.

## 2 Defining SMEs

SMEs are becoming a major component of the dynamic private sector of the Mediterranean region. In this study the sector covers industry or manufacturing sectors, and therefore excludes agriculture, the informal and marginally employed sectors. In reviewing the situation in the Mediterranean region, there is no single definition of SME, neither from a legal standpoint, nor from a statistical one. In principle, SMEs should belong to the formal private sector which includes the enterprises officially registered (trade register or revenue register) and declaring the number of employees to Insurance or Social Securities institutions. However the situation varies widely in the Mediterranean region and comparison across countries should be carefully assessed. Mainly because of the wide diversity of businesses, the analysis should refer to a number of different criteria. Usually the number of employees and the amount of annual revenues are the two basic parameters for the statistical definition, but the cut-off points vary in accordance with the type of business, the availability of reliable statistical data and the country specific approach to SMEs support and development. It is recognised that size is relevant to sector – i.e a firm of a given size could be small in relation to one sector where the market is large and there are many competitors; whereas a firm of similar proportions could be considered large in another sector with fewer players and/or generally smaller firms within it. Similarly, it should be recognised that it may be more appropriate to define the size by the number of employees in some sectors but more appropriate to use revenues in others.

Across Statistical Agencies or Governmental Departments in the Mediterranean region, it is most usual to measure the size according to number of full-time employees or their equivalent. However, in practice, schemes which are normally targeted at SMEs adopt a variety of working definitions depending on their particular objectives and on the institutions who deal with the issue. Financial institutions, for instance, place more emphasis on fixed assets, trade unions and governments view the number of employees more important than financial aspects. Table 1 provides a comparison of the different definitions of micro, small and medium enterprises in the Mediterranean region. In Algeria, Turkey and Tunisia SMEs constitute the vast majority of the formal private sector and the definitions are comparable to the European standard. But, in general, there is a disagreement on the cut-off criterion for distinguishing micro enterprises from small enterprises.

Some countries define *micro enterprises* as those employing up to 4-5 persons (Lebanon, Egypt, Jordan) or up to 9-10 (Turkey, Algeria, Tunisia). Other countries avoid any definition of micro enterprises, such as Morocco. The definition of small enterprise varies from a low cut-off of 10-20 persons in Jordan and Lebanon to a high 50 in Morocco and Algeria. Syria is the only country adopting the criterion of 10 employees for defining SMEs.

Additional criteria are applied in specific programmes designed to support SMEs: the Jordan's Industrial Development Bank (IDB) defines SMEs as those with assets below 10.000 JDs (US$ 14.000); the Jordan Loan Guarantee Corporation (JLGC) and the Egyptian Alexandria Business Association (ABA) define SMEs (in industry) as those with less than 20 employees. Therefore, the variety of definitions should be considered in reviewing the Mediterranean SMEs

**Table 1 – Definition of SMEs in the Mediterranean region**

| Country | Definition of SMEs | Size |
|---|---|---|
| Morocco | Micro | |
| | Small | Up to 49 employees |
| | Medium | 50-199 employees |
| Tunisia | Micro | Up to 10 employees (5 for commerce) |
| | Small | 10 to 50 employees |
| | Medium | 51-100 employees |
| Algeria | Micro | Up to 9 employees |
| | Small | 10 to 49 employees |
| | Medium | 50-199 employees |

| | | |
|---|---|---|
| Egypt | Small (statistical definition)<br>Small (definition adopted by SDF<br><br>Micro enterprise (definition adopted by ABA)<br>Small enterprise (definition adopted by ABA) | 10-49 employees<br>Up to 20 workers; Capital investment not exceeding LE400.000<br>Up to 5 employees<br><br>6-15 employees |
| Jordan | Micro<br>Small<br>Medium | Up to 4 employees<br>5-9 employee<br>10-25 employees |
| Lebanon | Micro<br>Small<br>Medium | Up to 4 employees<br>5-19 employee<br>20-49 employees |
| Syria | Micro and small | 1-10 employees |
| Palestine | Micro and small<br>Medium | 1-10 employees<br>11-20 employees |
| Cyprus | | |
| Israel | | |
| Malta | | |
| Turkey | Micro<br>Small<br>Medium | Up to 9 employees<br>10-49 employee<br>50-199 employees |
| EU (Communication February 1996) | Micro<br>Small<br><br><br><br>Medium | Up to 10 employees<br>11-50 employees<br>Up to 7 Mecu annual turnover<br>Up to 5 Mecu annual balance sheet total<br>50-250 employees<br>Up to 40 Mecu annual turnover<br>Up to 27 Mecu annual balance sheet total |
| US | SMEs (standard definition of SBA) | Up to 500 employees and $5 million average annual turnover |
| *Source:* Elaboration of the Author, from national sources | | |

SMEs constitute the larger number of establishments in the Mediterranean region. Their contribution to the national economy is analysed in terms of employment or output. In this respect, it should be mentioned that the data presented in table 2 are based on national sources and comparison between countries is often not possible in view of the difference in the definitions used and the fact that some Mediterranean countries do not include in their statistics enterprises under 5 employees (such as Jordan). According to table 2, it is evident that *small and micro* businesses represent more than 95 percent of the total businesses in manufacturing, with the exception of Egypt, where the state owned companies still play an important role. Of course, the different statistical definition adopted by Egypt, which excludes the micro enterprises, diverges from the estimates of international institutions.

**Table 2 – The role of SMEs in the Mediterranean region**

| Country | Size | SMEs (number) | SMEs (%) | Employment in SMEs (%) | Output in SMEs (%) |
|---|---|---|---|---|---|
| Morocco | 1-49 employees<br>1-199 employees | 4.737 (1997)<br>5.932 (1997) | 74,0 industry<br>92,7 industry | | 17,0 (industry)<br>46,6 (industry) |
| Tunisia | 1-10 employees | 77.967 (1996) | 89,3 | | |
| | 1-50 employees | 84.689 (1996) | 97,0 | | |
| Algeria | 1-9 employees<br>1-199 | 139.576 (1998)<br>143.512 (1998) | 97,3 | 31,4 private sector | |

| | | | | | |
|---|---|---|---|---|---|
| Egypt | 10-49 employees | 6.400 (1992)<br>1.100.000 (WB 1994) | 76,0 manufacturing<br>99,0 (WB 1994) | 11,0 manufacturing | |
| Jordan | 5-24 employees<br>5-100 employees | 55.400 (1995)<br>62.750 (1995) | 84,6 manufacturing<br>95,8 manufacturing | 29,0 manufacturing<br>50,2 manufacturing | |
| Lebanon | 1-20 employees<br>1-49 employees | 15.100 (1994)<br>30.611 (1994) | 96,5 manufacturing<br>99,1 manufacturing | 67,5 manufacturing<br>78,5 manufacturing | 60,2<br>66,6 |
| Syria | 1-10 employees | 63.147 (1993) | 98,3 | 90,6 manufacturing | 84,2 private sector |
| Palestine | 1-10 employees<br>1-20 employees | 53.132 (1997)<br>54.057 (1997) | 97,0<br>98,5 | 65,7 private sector<br>79,0 private sector | |
| Cyprus | | | | | |
| Israel | | | | | |
| Malta | | | | | |
| Turkey | 1-9 employees<br>10-49 employees | 186.574 (1992)<br>194.546 (1992) | 94,4<br>98,4 | 35,6 manufacturing<br>47,1 manufacturing | 7,7 value added manufacturing<br>14,1 value added manufacturing |

| Table 3 – The activities of SMEs in the Mediterranean region | |
|---|---|
| Morocco | |
| Tunisia | |
| Algeria | The activities of small industrial enterprises are concentrated in transportation, commerce and services (41%). Construction is making up the third largest group, followed by metallurgic and engineering products. Textile, along with leather and shoemaking represent less than 3 percent of total sales of private enterprises. |
| Egypt | The activities of small industrial enterprises are concentrated in labour-intensive industries, particularly food processing, textiles and wearing apparel, wood products and furniture, and non-metallic mineral products. |
| Jordan | The small manufacturing enterprises are concentrated in food processing, garments, plastic products, furniture, metal working and construction materials. |
| Lebanon | The small manufacturing enterprises are concentrated in food processing, wearing apparel and leather products, non metallic mineral products and fabricated metal products. |
| Syria | The small manufacturing enterprises are concentrated in textiles, wearing apparel and leather products, and fabricated metal products. |
| Cyprus | |
| Israel | |
| Malta | |
| Turkey | |

Based on the awareness of the dynamism of SMEs and their contribution to economic growth, some Mediterranean countries, particularly Tunisia, Morocco, Algeria and Egypt, in the most recent years enacted laws and regulations for supporting the development of SMEs and launched ambitious programmes to alleviate the constraints faced by SMEs in accessing credit and markets. This policy shift was supported by the International Institutions and by bilateral donors, mainly the European Union in the Maghreb region and by the USAID in the Mashrek.

# 3 THE SME REALITY

## 3.1 Characteristics.

In Europe great emphasis has been placed on small and medium scale enterprises in view of the importance of this sector in terms of number of units and its contribution to total employment. This section offers a theoretical framework in which internal and network SME characteristics are examined[1]. In this framework, SME is assumed to be run by an economic agent who chooses the best strategy to maximise its own profits, subject to both technological and competition constraints as in the case of a market economy.

SMEs can adopt different strategies, show different level of business complexity and take a part more or less important in the country's economy. It is important to analyse their distinctive characteristics because they present some "relative uniformity", i.e. there are some characteristics which identify the small and medium enterprises.

*Typical SMEs characteristics* can be divided into internal and network characteristics:

### 3.1.1 Internal characteristics

Several characteristic can be grouped under this first criterion:

- Decisional concentration: the owner-manager has a predominant role in operative management with the risk of leaving out the strategic management for lack of time. Sometimes, as in the small family business, all people involved in the enterprise are member of the same family; in other cases, only one person does all relevant activities for company's life.
- The informal communication system: all decisions are rigorously controlled by the entrepreneur. It is possible to have immediate and tight interpersonal relationships, favouring the consolidation of a strong and unique culture.
- The SMEs are characterised by an extremely high flexibility. They can change with efficacy and in relatively short time the production quality and even the quantity, adapting easily to the market trends and to the changes of consumer needs (reconversion capacity). The potential for innovation is the consequence of their flexibility.
- The extension of the company's functions: SMEs concentrate all activities in a limited number of functions. The responsibility for production, procurement and R&D is concentrated on the same person. Often they externalise functions like administration or marketing, as they are too expensive.
- The horizontal extension (number and types of products and markets). Some small companies focus on product innovation, but they find major problems in the increasing complexity of this characteristic.
- The spatial extension (number of units, physically and spatially separated). Even medium enterprises tend to concentrate all activities in the same physical unit (offices, production and exposition are localised in the same place).
- The technical asset is configured by the physical structure and production process characteristics. It's also important to point out that even though there are few small enterprises with advanced automated equipment, the specialisation level and the competencies of the workers are comparable to those of large companies.

### 3.1.2 The network characteristics.

SMEs are price-takers and policy-takers, since their size inhibits any possibility to influence the market behaviour. Therefore they are responding and adapting their behaviour to the external environment changes and are strongly affected by externalities. On this basis, the following characteristics should be considered.

[1] See, among others, Becattini G. (1990), Belussi F. (1992), Depperu D. (1993).

- Small enterprises often present a limited vertical extension due to the limited number of SMEs able to move with autonomy on the market. Most SMEs normally accomplish only some phases of the production process; usually they act as subcontractors of large companies. Even when they present themselves on the market with an own offer, it is extremely rare a down-stream integration with the development of own selling network or with autonomous distributive system.
- The high flexibility of the financial structure, as long as with the self-financing capacity, represents another characteristic of the patrimony of small and medium enterprises. This element could be considered as a weakness or a strength depending on the situation: as a weakness due to the difficulties to access to institutional credit markets and a strength as they are able to produce profits to cover all their financial needs.
- Inter company's extension (the number of collaboration or partnership agreements with other companies, till the limit of being part of an enterprise network). Generally speaking, the small and medium enterprises are often opened to clients and their needs but they are relatively closed towards the competitors. The SMEs are not able to collaborate with enterprises of the same dimensions. More stable and frequent collaborations are with large companies, due to the power differences and competencies. In developing countries, networks and industrial districts, as defined by the literature in industrial countries, are still rare and fragile.
- Some small and medium enterprises show a high innovation capacity in connection with a business orientation. They are characterised by openness and aggressiveness towards the competitive environment as in the high tech start-ups. Some others suffer the consequence of the small dimension and, as a result, they are closed towards the consumers and in general towards the competitive system.
- The strong tie with the territory is typical of small and micro enterprises even for the more innovative ones. A demonstration is the strong relations with the local banks and the category associations and with the social counterparts.

SMEs are also characterised by some other *weakness*es, such as the inability of achieving economies of scale; the limited contractual power towards the clients; often the dependency from one or a limited number of clients; the incapacity of tuning up a complete products system; the low profitability; the limited turnover of stock; the low market share; and sometimes the lack of external information.

## 3.2 The variables affecting SMEs behavior

Small enterprises play a relevant role in many sectors. Therefore it is important to point out that inside the SMEs universe different strategies coexist with different behaviours. The variables useful for classifying the SMEs strategic behaviour have been explored by many economists and can be summarised as follows:

1. The ***activity field*** identifies the geographical horizon of the enterprise, not only based on the sale markets point of view, but also from the procurement, the production and the capital collection point of view. It is possible to distinguish between enterprises with local (regional or multi-regional), national or international activities. This variable is not a positive or negative indicator by itself, but only a signal of the complexity of the environment the enterprise has to face.
2. The ***dependence level***. This variable can be considered as an indicator of both entrepreneurial capacity and competence. It is calculated in comparison with other enterprises belonging to the same value chain. On the one hand there are enterprises with a *maximum dependence*, as in the case of sub-contracting; on the other extreme there are enterprises with a co-ordination position within a companies network.
3. The ***nature of competitive advantage*** can vary from *price* (when the enterprise offers prices more favourable than the competitors) to *product differentiation* (when the enterprise satisfies the clients needs in a distinctive way). This variable gives an idea of the potential risks for the enterprise and an indication of the potential competitiveness. When the

*competition* is based *on price*, the enterprise could run the risk of being challenged by local competitors which are more efficient and bigger, since they can develop economies of scale, or by foreign competitors which have tax advantages, lower production costs, or governmental subsidies or advantages of other nature. A different approach is when enterprises focus on a *product differentiation strategy*, that is more protected from the competitors because of the differentiation costs. Local SMEs are more subjects to the attacks of the industrialised countries. The nature of the competitive advantage could be different inside the same companies, depending on the business. But it's typical the focalisation on one competitive advantage, exploiting the abilities and know-how acquired to develop further the advantage to compete in other areas where it is possible to replicated the same strategy.

4. The ***relative dimension*** represents the dimension of the company compared to average dimension of the competitors in the sector. A relative dimension below the average could be a risk factor only if it is possible to achieve economies of scale in the sector, otherwise it could be considered as a strength point.
5. The ***articulation of the structure and the decisional centralisation.*** It is possible to distinguish from enterprises with basic structure, where all is concentrated in the hand of the entrepreneur, to enterprises with a significant articulation of the structure and with a management responsible for staff or management functions. Even in this case it is difficult to reach definitive conclusions; it is important to evaluate the congruity with all variables.
6. The ***innovation level*** represents a critical variable in the description of the strategic behaviour of the small and medium enterprises. Some of them are characterised by a high level of innovation. Others adopt a reactive approach, occupying the position left free by the competitors. The innovation capacity, especially when applied to the products and services tied up by the enterprise is a critical success factor for internationalisation as a source of competitive advantage. And it is a necessary condition to start collaboration processes with large or foreign companies.
7. At the end the ***diversification level*** gives an idea of the development strategy followed by the enterprise. Many small enterprises are monobusiness, but there are also cases where the imagination and the technical culture of the entrepreneurs has brought to operate in different businesses. The enterprises in the first situation consider the product specialisation as a potential risk; on the other hand, product differentiation could be a problem, since it increases the complexity of management.

## 3.3 Propensity for growth

Following the definitions of SMEs characteristics, it's possible to argue that the SMEs, due to the limited size and quality of resources, are obliged to have a secondary part on the market and to occupy the space freed by large companies. But, in reality the small enterprises have large spaces of strategic freedom; often they miss the chance because it would imply to grow and to risk of loosing the proprietary control and/or the ability to manage the complexity and their management philosophy.

For certain SMEs, even the environment where they operate could be a stimulus or a deterrent: for action in sectors where prevail concentration and economies of scale, it's not favourable to small dimensions, but in much more cases SMEs can prosper and grow.

It is important to understand the motivations under the small dimension. This comprehension could help in identifying the strengths and weaknesses of the enterprise and also of the alternative strategy. It is possible to identify different company profiles in relation to two variables: the willingness to grow (Is the actual dimension due to an election of the owner-manager?) and the possibility and convenience to internal grow (Is the dimension due to a possibility/impossibility or convenience/inconvenience to grow dimensionally?).

Crossing these two variables, it's possible to identify 4 different combinations:

Enterprises categorisation on the basis of the SMEs motivations

| | | Convenience/necessity to grow | |
|---|---|---|---|
| | | Yes | No |
| Enterprise will | es | I<br>Small dimension is OK | III<br>The enterprise did not succeed in growing. |
| | o | II<br>The enterprise is still not yet grown | IV<br>The enterprise do not want to grow. |

In the **first quadrant** there are the enterprises for which the small dimension is optimal with regards to their competitive environment.. The small dimension is a consequence of a precise will and of the convenience to maintain a flexible organisation. It is important for SMEs to monitor continually the environment to look for changes in the competitive logic of the sector or to look for the possibility to modify the rules of the game. These enterprises succeed in growing, even if not in an internal way. The typical growth pattern is by the constitution of new enterprises (they could create a group structure). In this case they take advantage of the small dimension, but at the same time they can rely on different strengths, like contractual power towards clients and suppliers and financial power.

In the **second quadrant** the small dimension is a consequence of the will, personal motivation and culture of the owner-entrepreneur. He does not want his enterprise to grow, even if the favourable internal conditions would suggest the contrary. The main risk for these enterprises is to operate with a logic that contrasts with the one prevailing in the sector, therefore loosing precious competitive opportunities. It represents a limit to the development and even to the survival of the enterprise.

In the **third quadrant**, the enterprises show a will to grow internally, but for the moment the entrepreneur decides to remain small because he is relatively new to the market, in the start-up or first development phases. These enterprises could follow all possible strategies, with the only limit of their internal potential. It is critical for them the evaluation of the resources needed by the chosen strategy.

In the **fourth quadrant**, the small dimension is due to a failure in a previous strategic growth plan. This enterprise did not succeed in growing because it did not meet the favour of the market or because it did not have a coherent strategic view or it did not manage the environmental complexity. In this case, the problem to be solved is "if and how" the previous negative experience could limit the future development too. The choice of the strategies needs an accurate evaluation of the past negative performance, in particular the enterprise's competencies and its weaknesses.

As a consequence, there are different strategic alternatives for an enterprise that aims to grow:

***The development in the same business area*** is characterised by a low risk level: the enterprise knows the competitive environment and can take advantage of the competence acquired; thus it is not necessary to work with an unknown competitive logic. However, it implies huge efforts except in the case the enterprise is operating in an emerging sector, with high grow rates. It could be extremely difficult to gain market shares on the competitors in mature or declining sector or in growing sector, but not at a very high rate and in sectors where there are specific well defined "rules of the game".

***The diversification*** (i.e. the full diversification undertaken trhrough the development of new products or the search for new markets), instead gives to the enterprise the possibility to enter directly in unknown markets, with wide operative spaces and good profit opportunities. With the increase in the difference between the new area and the traditional one's, new organisational competencies, and the predisposition of new structures (typical the commercial channel) must be developed or acquired from outside.

*The **internationalisation**,* depending on the development direction, presents partly the characteristics of the growth in the same business area (internationalisation of the production or searching of new suppliers) and in part the characteristics of the diversification (i.e. commercialisation of own products in different countries).

## 3.4 Types of SME.

It's possible to identify a type-profile for each small and medium enterprise using the variables above-described: craft enterprise; small subcontractor enterprise; small autonomous enterprise; the innovative and international SME; the leader of a network of companies; the diversified SME at national level.

- **The *micro enterprises*:** usually they are craft enterprises, targeted to the local markets and characterised by a strong decisional centralisation, low innovative level and high autonomy. They have chosen not to grow and have strong links with the local market. Their clients are localised near the production centre and they are also integrated with the territory for the procurement, financing sources and personnel research. The enterprise life is strictly connected with the life of the craftsman. With trade liberalisation, the risk for them is the competition from foreign companies with standard products and lower costs, but the strong relations with the territory and a management based more on personal relationships than on economic logic, represent a relevant entry barrier and only a change in the business rules could transform foreign competition in a real threat.
- **The *small enterprises*** (between 50-100 workers, according to the European standard) can be divided into two categories:
  - ***Subcontractors***, with a basic structure. They have their main competitive advantage in the efficiency and in the lower costs of production. Generally they are family business. Their reaction capacity is the critical success factor. They are efficient, quick and flexible, because all the workers are part of the same family, but typically they do not have a strong comprehension of the market behaviour after deep liberalisation. The risks they face are: to be suppressed by competitors, that, due to favourable external conditions, manage to offer lower prices and to loose their reaction capacity with the increasing of the dimensions. It is not rare that their products are sold to foreign clients, but the local distributor is the interpreter of the local needs. The risk for these enterprises, especially when they work for foreign manufacturing companies, is the substitution with more efficient competitors. It could be appropriate to develop an autonomous production along the subcontracting ones.
  - ***Autonomous enterprises***, producing for domestic markets, with a diversification strategy and targeted to a limited number of clients. Their main strength is the strict relationship with a specific niche of the market and the capacity to satisfy their needs in an original way. Generally the domestic market is enough for their entire life, since the internationalisation is a costly alternative growth strategy. They need information and they must adjust the organisation to the different characteristics of the foreign markets, but the domestic support on marketing is frequently absent and expensive. With the liberalisation and the openness of the domestic markets they should consider the alternative for product and market diversification, since in this way they can limit the risks of working in only one business and they can profitably respond to the offensive of aggressive competitors. The internationalisation could be with the procurement in foreign markets, with the decentralisation of parts of production in foreign countries, with the sale to foreign consumers or distributors. Alternative strategies are the diversification, with the extension of the range of products and/or the reach of new domestic markets.
- **The *medium enterprises*** (more than 100 workers) include three different types of firms:
  - ***Highly innovative enterprises***. They are autonomous, active on an international level, structured with a functional or divisional structure. For this type of SMEs the domestic market represents a limit to their survival and they have identified a niche with homogenous needs in several different geographical markets. Since they supply several foreign markets, the main problems they could face are the co-ordination of

activities and the implementation of efficient structures for assisting the clients. The latter is connected with the technical assistance that could require the availability, in a short time, of specialised technical staff near the customers.

- ***Enterprises co-ordinating a network of enterprises***, producing for domestic and foreign markets. They succeeded in being very flexible, in adapting promptly to the different demand trends and in changing rapidly their offer characteristics. The leader enterprise in the network should present a co-ordination ability, a comprehension of the market and negotiation skills. When the network includes foreign enterprises the leader enterprise should implement control mechanisms and management procedures which are similar to the ones adopted by large companies.
- ***The enterprises*** producing for domestic markets ***with a variety of products*** directed to several clients' segments. They are characterised by a high level of diversification, although targeted to the domestic, often protected, market. This strategy absorbs many resources. The internationalisation for these enterprises could be extremely costly in terms of financial, technical and organisational resources. If they want to access to the more competitive foreign markets, they have to reduce the product diversification, to exit from the less profitable business and focus the adjustment on the foreign markets. Due the relatively small dimension, compared to the foreign competitors, it is difficult to sustain simultaneously the efforts of entering the foreign market and restructuring the enterprise in strategic area like production.

# 4 THE INSTITUTIONAL AND REGULATORY FRAMEWORK

Generally speaking the regulatory framework for SMEs in the Mediterranean region is not easy manage, since it includes four requirements: registration, licensing, possessing a tax card and making social security payments for all the employees. In Egypt the process is even longer, since the establishment of a new activity is supposed to go through six layers of approval, which include licensing, incorporation, commercial registration, location registration, local-level licensing and tax application.

## 4.1 Registration and licencing

The size of the enterprise, measured by the number of employees, is a common cut-off for defining SMEs and the related obligations they have to observe in order to be registered. As regards registration and/or licensing, SMEs entrepreneurs complain about the lengthy procedure involving too many different administrative procedures and his cost in term of time and financial resources. All firms pay the same registration fees, regardless of the size. Egyptian establishments that do not use machines, though they produce manufactured goods, are not considered as part of the industry and therefore they need a commercial registration. When small firms need to import machinery they must register at the Ministry of Industry; many, therefore, buy second-hand machines on the local market to avoid the registration requirements.

According to several surveys carried out by International Institutions[2], there is a widespread recognition among small and medium entrepreneurs, that the regulatory and institutional framework lacks in transparency, consistency and efficiency; thus, it creates negative externalities since the bureaucratic costs inhibit further development instead of being a mechanism for sustaining SMEs growth. They complain about bureaucracy, according to which rules and procedures are objectives in themselves instead of bringing added value to the economic environment. Public employees do not have clearly-assigned tasks and responsibilities. They often cannot assist the entrepreneur because they lack specific guidelines on the documents and procedures required for obtaining them. Limited education and literacy rates among many SMEs owners make these problems especially difficult to overcome. Additionally, the regulatory framework sometimes implicitly discriminates against small and medium-sized companies where regulations exclude them from benefits granted to larger projects.

As a result of the inadequacy of the regulatory framework many SME managers choose not to comply. A lot of SMEs therefore operate partially or entirely in the informal economy. In Egypt, for instance, as much as 46 per cent of the employees in the services sector in 1986 worked in the informal sector (World Bank, 1994). So, entrepreneurs generally do not even try to get in any bidding process of Government contracts because they know in advance the many problems they are going to face because of Government routine and bureaucracy. The DEPRA project on Financial reforms for Small Business Development in Egypt reports that more than one third of Egyptian SMEs avoids registration of their business and complying with tax and social securities regulations, Not surprisingly, about half of the micro enterprises does not pay for social security for their workers because of the difficult and costly procedures.

Table 4: Formalisation of Businesses in Egypt in 1997

| | Micro | Small | Medium |
|---|---|---|---|
| Formal | 54% | 70% | 88% |
| Semi Formal | 14% | 23% | 8% |
| Informal | 32% | 7% | 4% |

[2] The results of several surveys in Egypt, Tunisia and Jordan are commented in S. Fawzy (1999), M. Lahouel (1999) and T.H. Kanaan (1999).

Source: DEPRA Project, Financial Reforms for Small Business Development in Egypt, Cairo, December 1997

However the informal sector has his own costs. SMEs lose the potential benefits of registration such as better access to credit or government support services. It also implied a very high exposure to risk. In case of business failure, liability is not limited to the corporate entity: entrepreneurs are held entirely and personally accountable and private assets may be seized.

## 4.2 Incentives

Investment laws in the region offer various incentives and exemption from income tax and custom duties for several years, but only to projects with a high level of capital investment. By defining a framework for large firms to function and providing them with incentives, the State is implicitly considering medium and large firms as the pillar of the economy, whereas micro and small firms are considered as marginal.

For example, in Jordan the Investment Promotion Law no.16 of 1995 provides several incentives to industrial projects when they are registered at the Ministry of Industry. To be registered as an industry, the project should have a registered capital exceeding JD30,000 (US$42.000). Any project with less than JD30,000 is considered handcraft. Projects with less than JD30,000 capital do not, therefore, benefit of the exemptions and the incentives granted to foreign enterprises and large domestic entrepreneurs. Fiscal incentives are insufficient for SMEs, is the awareness of the Jordan policy makers. So, with the aim to further intensify SMEs development, in particular the small enterprises with less than 10 employees, in 1997 an ad hoc task force led by Dr. Jamal Moh'd Salah, Director General of the JLGC was asked to assess the effectiveness of the ongoing policy and to prepare a set of policy recommendations. Support services to the small businesses should be adequate and coherent, so the report recommends the establishment of *Business Service Centers* (BSC) hosted by local structures[3]. These BSCs should disseminate information and provide clients with business advisory and extension services for a nominal fee which would constitute an income for the hosting institutions and contribute for providing incentives to the business officers.

Fiscal incentives are still popular in Egypt: the profits of an industrial company employing 50 or more persons and established after the enactment of Income Tax Law, are exempt from income tax for a period of five years from the start-up of the activities. A new investment law (law n. 8 of 1997) gives the projects financed by the Social Fund for Development the same incentives that are granted to large enterprises. Such a measure encourages many small firms to request financing from the Social Fund.

## 4.3 Application of rules

As long as entrepreneurs are not confident that contracts will be enforced, they will confine their activities to limited but well-known spheres. This limits entrepreneurial activities and curtails innovative initiatives. For instance, the commercial law in Lebanon do not regulate the methods of money collection or specify the period for payment. Some customers do not pay, but the enterprises cannot sue them because it will cost them a lot of money, so they accept the situation. In many Mediterranean countries the court system operates with enormous time delays. Small entrepreneurs often do not rely on the judiciary system as they find procedures too expensive, with little predictability of the possible outcome. For large corporations, the private sector has thus developed its own framework for settling disputes, such as the International Court of Arbitration, which is one of the services the International Chamber of Commerce provides.

[3] See Christin I. (1997), *Jordan. Small and Medium Enterprises's role and the Issies of quality of production within the framework of the export development project*, mineo, pag. 13-14

However businesses need an institutional and regulatory framework as a common base on which the economic activities can flourish. This require a shift in mentality: the State is no longer to be regarded as the guardian of particular interests but as a support mechanism for the security and prosperity of its entire community, with a civil service based on merit and characterised by competence and honesty.

All entrepreneurs complain about favouritism and corruption in every step of their administrative dealings with governmental authorities. A World Bank survey[4] reported that 35 percent of entrepreneurs in the MENA region pay bribes to get things done and 38 percent of managers in the region spend more than 15 percent of their time negotiating with government officials. This compares to high-income OECD countries where 15 percent of entrepreneurs reported paying bribes and only 10 percent of mangers devote more than 15 percent of their time negotiating with officials. Corruption is by nature discriminatory; it does not reward economic efficiency, but favour enterprises based on personal introductions. Moreover this perceived discrimination my in the long term endanger the existing social consensus. This would add risk to entrepreneurial initiative. Since it is an inherent force in the economic efficiency, equity should, therefore, be a mayor policy objective.

In Egypt, firms with 50 or more employees should establish internal labour relations and industrial safety committees, which penalises the enterprises with time consuming disputed with government officials. Moreover, employee dismissals are virtually impossible, thus hampering the development of many labour-intensive ventures. Other regulatory constraints include the large start-ups costs in order to comply with business registration laws. SMEs benefit from these legal obligations. In spite of this, SMEs are mostly sole proprietor-ships, owners typically manage their enterprises and hire workers for their operations. Entrepreneurs generally seem to have found alternative means of expansion and operating in the informal sector is a less expensive alternative for many micro scale enterprises. For small and medium enterprises the utilisation of apprentices who seek training offer an escape to avoid the registration with the Social Security System and pay monthly contributions. A survey on Moroccan SMEs carried out in 1998 (World Bank, 1999), identifies the behaviour of the public administration as the most severe constraint now faced by entrepreneurs. This behaviour includes tax administration, company incorporation, delayed payments by public entities and corruption, which is especially problematic for small enterprises.

[4] World Bank (1998), World Development Report, 1997, "The State in a Changing World", Washiungton, D.C.

# 5 CHARACTERISTICS OF SMES ENTREPRENEURS

This section deals primarily with a survey of the literature on entrepreneurship in Mediterranean countries. Although definitions of micro, small, medium and large enterprises vary widely among countries in the region, it is possible to consider SMEs as those that have some of the following criteria:

- Enterprises that employ between 5 and 25 employees;
- Labour-intensive industries;
- Low technology and low knowledge based
- Capital investment (or assets) not exceeding US$ 100,000
- Family-owned enterprises (owner-managers) and with little management structure;
- Owner-managers with limited educational background (usually high school level).

## 5.1 The owner-managers profile in the Mediterranean region

The majority of SMEs are proprietorships and a very small part is partnerships. Very few enterprises have other ownership structures, such de facto partnership, limited liability or joint stock. These patterns are consistent with the overall ownership structure for non-agricultural private establishments in countries where almost 90 percent of businesses are reported as proprietorships. The entrepreneur is the key and the distinguishing element, so in defining its characteristics, it's fundamental to identify the profile of the owner-managers and the factors affecting the entrepreneurial career.

Both of them are assessed according to the following criteria:

(a) Educational background
(b) Family background and support
(c) Experience and skills
(d) Trust and co-operation in the entrepreneurial career
(e) Personal savings and business creation
(f) Innovation and business acumen.

Entrepreneurs in the MED countries generally shared common characteristic, though some differences exist in terms of origin, education and relation with the others.

### 5.1.1 Educational background

SMEs frequently have been characterised as consisting of many otherwise unemployed workers who operate in the informal sector. The literature shows that this situation still prevails in micro enterprises, but not in the small and medium enterprises, where the entrepreneurs have completed at least high school level of education and register their businesses[5]. So, the educational background varies widely in the different Mediterranean countries: In some countries, especially the largest ones, (i.e. Egypt, Morocco, Turkey or Lebanon) SME entrepreneurs in the manufacturing sector are generally well-educated, frequently with a university degree, particularly within the new generation and the newly-established firms. The younger the entrepreneur, the higher his or her level of education. Others have attended either elementary or intermediate schools. In the old-established firms, a significant percentage of these businessmen has acquired a technical education. The educational background, however, varies wildly and still a large majority, in the service activities, are also illiterate.

Activities undertaken by entrepreneurs are not necessary related to their educational background. This is due to the fact that entrepreneurial people grasp business opportunities wherever they exist, even if they are unrelated to their specialisation.

---

[5] Information based on United Nations (1999), "Small and Medium Enterprises: Strategies, Policies and Support Institutions, ESCWA, United Nations, New York.

### 5.1.2 Family background and support.

The family business is a common profile for most small enterprises. Many of those who have started an entrepreneurial career come from a business family background, since business family relations are important for start-up business, particularly in countries which are characterised by a relative absence of institutional support for entrepreneurs.

In the relative absence of government support, the family itself is the place ( the "institution") where the entrepreneur identifies himself or herself and finds support and "protection". The family is considered the nucleus, where relations and networks substitute, to a certain extend, the absence of effective and adequate services from public or private support institutions. The family has a dominant role in the continuity and survival of the business, providing the financial (instead of banks), the moral support and the networks within the country and with the outside word.

In the MED countries, many entrepreneurs have inherited the business from close relatives. They learned the business on-the-job. This group of owner-managers has a strong entrepreneurial background and the business was a family tradition. This is very natural when it comes to the traditional family business or for entrepreneurs who start their business at a young age. Parents generally intervene in their son's decisions regarding the nature of the business to be developed. In Jordan, in particularly almost all entrepreneurs with long-established business had worked in the family business when they were young.

In the newly-established enterprises, the majority of the entrepreneurs have one or more family members that had a private business. In this connection, it is worth mentioning that those who had inherited the business from their parents or were from business families were generally encouraged to work in the same business or to start a new one. In generally, these families do not want their children to leave the family business.

There are many, however, who have started their business despite family opposition. Their insistence and determination to start their own business was driven by a number of personal factors: ` self-confidence, ambition, independence, personal experience ad skills and a knowledge of the market.

### 5.1.3 Experience and skills

Generally small entrepreneurs had learned the business from experience and practice. Those who were engaged in trade activities in the same business line, transferred this experience into manufacturing, considered to be of longer-term return. Migration and regional integration is another common feature of SMEs entreprenership. For instance, in Jordan or Egypt, some entrepreneurs gained their skills and experience while employed for several years in Gulf countries. The experience and the savings accumulated overseas enabled them to start a business in their home countries. The same feature has been found in Turkey from the immigrants repatriated from Germany.

Others learned their skills and from the experience they had gained, from previous employments in workshop or in manufacturing activities. They had acquired the know-how of their lines of business through on-the-job or hands-on-training. They had not attended technical centres before starting their jobs, but preferred to change to other jobs in similar industries in an attempt to acquire the needed expertise.

Macroeconomic factors, as the changing of import regulations or depreciation, also creates opportunities since the restrictions on imports might induce entrepreneurs to substitute imports by manufacturing the products, as in the case of Lebanon (United Nations, 1999). The depreciation of Lebanese pound during the civil war (1975-1990) and the consequent significant decline in labour costs, led several businesses, particularly in the garment industry, to produce for export. Another example is Syria, where the restrictions on imports induced entrepreneurs to substitute imports by manufacturing products.

### 5.1.4 Competition in the entrepreneurial career.

Small-sized enterprises are generally family-owned. It is common to find partnership among family members and relatives, as family members would trust each other more than they would trust those unrelated to them. Business partner within the same family honour promises, follow the norms, know each other's limits and protect each other's interests. The existence of such trust implies that family firms may enjoy a better competitive advantage.

Those who are outside the family are considered as competitors, so most entrepreneurs talked more about the prevailing spirit of competition between them rather than that of co-operation. The lack of co-operation, the mistrust and the lack of confidence between entrepreneurs belonging to different families are generally common to all the Mediterranean countries. The SMEs entrepreneurs consider themselves as individualistic trying to copy their peers. Entrepreneurs are reluctant to share information with their competitors, fearing that their "secrets" may be used by others in the same business. The tough competition among small industrialists and the small size of the market in these countries made co-operation a difficult option.

In view of the mistrust, entrepreneurs prefer to choose their business partners among family members, rather than outside the family. In some countries, one of the main reasons for the relative absence of trust could be the effect of the long civil war on social relations among people. Another reason, which is more common, is a socio-cultural one: the strong influence of the family on individual behaviour.

#### 5.1.5 Personal savings

The formal banking system plays a non significant role in the provision of financial support either to start-ups or to existing enterprises. Small entrepreneurs have to search for informal sources of finance. Several micro-finance schemes have recently been established in a number of countries. Micro-finance is becoming a source of credit for small enterprises. However, the ceiling on loans is generally limited to US$15,000. Consequently, few small-scale industries can benefit from such a financial scheme.

The capital needed to establish a business in these countries is raised in three different ways: the most common one is to use personal savings accumulated in previous jobs; the second, to borrow from family and relatives; the third a combination of personal savings and bank loans, but this is not very widespread.

Loan conditions are unaffordable to most small-scale industries, particularly in the countries where the banking system is not yet prepared to finance small business or where the interest rates are very high and collateral requirements are excessive.

#### 5.1.6 Innovation

Little innovation is shown by small-scale entrepreneurs. The newly established business are mostly a repetition of existing enterprises, which little or no innovation in business ideas, production processes or marketing. The same applies to established businesses.

The marketing constraints, which are considered the major problem by most of the entrepreneurs, are, in fact, related to the products themselves, which, in terms of quality, taste, design and price do not meet consumer demand.

It was also found (United Nations (1999)) that most entrepreneurs started their business without the preparation of a business plan or feasibility study. Only in a very few case did entrepreneurs undertake a full business study prior to the start-up of their company. Neither do existing enterprises keep records, prepare financial statements or carry out the preparation of business plan in case of the expansion of their enterprises.

### 5.2 SMEs strength and weakness in the MED region

It's important to explore in depth the strength and the weakness of the Mediterranean SMEs. An increasing number of countries in the region are committed to a private sector-led growth strategy. Morocco, Tunisia, Turkey, Jordan, Lebanon and Egypt are prime examples. Beyond reforms on the macroeconomic front, these countries are making the business environment more friendly, reducing direct government involvement in the economy through privatisation, encouraging private sector participation in infrastructure and reforming their institutions to make them more hospitable to private investment. Progress has been uneven, however, and the state of business environment in these economies is generally less attractive than in Latin America and Eastern Europe. SMEs in the region claim that several obstacles continue to hinder the efficient operation of firms, export and investments. But the problems are not related only to government macroeconomics policies. Several survey findings[6] show that tax administration, securing finance and support services are the primary constraints limiting the operation and growth of SMEs in Egypt[7], Tunisia[8] and Jordan[9]. On average, small enterprises suffer more than large ones from these institutional constraints. This is especially apparent in tax administration and dispute settlements, because small firms cannot afford accountants and lawyers; in addition their lack of collateral restricts their access to affordable credit. The only constraints that has proved to be less problematic for small enterprises is labour issues. This is mainly because most small enterprises are family business and the enforcement of labour regulations is weak in most countries of the region, particularly in Egypt.

### 5.2.1 Tax administration, accounting and budgetary procedures

Tax administration has been cited as a chronic constraint to SMEs development for years. Most countries of the region apply a wide range of taxes, such as sales taxes, corporate profit taxes, registration fees, social security dues, tax on vehicles. Taxation is not a problem in itself so long as the overall tax burden is proportionate to the profitability of the enterprise and the administrative cost of tax collection. Most often SMEs feel that taxes are not in proportion to their profits, that tax administration officials apply inconsistent criteria and that the contributions largely exceed any service they get from governmental institutions. For instance, Article 29 of the Jordan Income Tax Law states that the assessor has the discretion to make changes in what he or she believes to be the true amount of income and tax liabilities, and the right to make his or her own estimates about income and expenses. The burden of the proof that the assessed tax is excessive rests with the appellant. Some other tax systems also consider non-income criteria such as the value of equipment or the number of workers. These are productive assets and taxing their mere presence discourages investment and entrepreneurship. As for the social security taxes, employers themselves sometimes pay for health care for their employees which increase the burden on firms.

In particular small entrepreneurs complain about the complicated tax administration. SMEs, especially micro enterprises, do not usually keep accounts so tax collectors often impose unfair arbitrary taxes. Accounts are not kept as a result of the owners' limited educational background. Such pressure on small enterprises has the double effect of discouraging people from starting their business and of encouraging existing formal activities to practise informal operations or underground activities in order to evade taxes. In addition, trust is lacking between tax collectors and taxpayers and disputes are settled inefficiently since estimation of taxable income is arbitrary. Since they do not keep accounts, entrepreneurs also lose control of their estimation of costs and profits. Necessary details such a depreciation of machinery or other indirect costs may be excluded from margin calculations. This may ultimately affect their profits and impede further growth. Finally, SMEs entrepreneurs complain that the tax assessment is ambigous and tax collectors have significant discretionary power.

---

[6] Institute d'Economie Quantitative (1996), "Competitivité, restructuration, diversification et ouverture sur l'éxterieur des industries manufacturiéres et des services", Rapport no. 11, Tunis; J. Page, J. Underwood (1997), "Growth, the Maghreb and Free Trade with the European Union", in A. Galal, B. Hoekman (Eds.), *Regional Partners in Global Markets: Limits and Possibilities of the Euro-Med Agreements*, CEPR, London/ECES, Cairo; Stanford Research Institute International (1988), "Comparative Assessment of Investment Incentives in Jordan", The Ministry of Planning and USAUD/Jordan, Amman; A. A.J. Al-Jomard (1996), *Variables Affecting Private Investment in Jordan*, Amman, Institute of Strategic Studies, Jordan University.

[7] For more details see Samiha Fawzy (1999), "The Business Environment in Egypt", in Samiha Fawzy, Ahmed Galal (Eds.), *Partner for Development. New Roles for Government and Private Sector in the Middle East and North Africa*, World Bank Institute-ECES, Washington, pp. 23-32.

[8] For more details see M. Lahouel (1999), "The Business Environment in Tunisia", in Samiha Fawzy, Ahmed Galal (Eds.), *Partner for Development. New Roles for Government and Private Sector in the Middle East and North Africa*, World Bank Institute-ECES, Washington, pp. 45-53.

[9] For more details see T. H. Kanaan (1999), "The Business Environment in Jordan", in Samiha Fawzy, Ahmed Galal (Eds.), *Partner for Development. New Roles for Government and Private Sector in the Middle East and North Africa*, World Bank Institute-ECES, Washington, pp. 69-80.

### 5.2.2 Insufficient local demand

Local demand is not a serious obstacle to SMEs. The substantial informal sector suggests a potentially large home-demand base. Moreover, the local demand rate of growth, which is more important that its absolute size, indicate an upward trend in demand in the recent years, which is likely to continue with the expected acceleration of private sector participation in economic activities. The local demand is highly concentrated in basic traditional goods, and this explains the low level of home-demand sophistication and the extremely competitive environment. Unemployment and population growth force SMEs to engage in informal activities at any cost and sometimes with very low profit margins. The main concern of the entrepreneurs is often one of simple day-to-day survival, leaving little for more elaborate strategies. As a consequence enterprises are not strict about quality.

Interviews with small entrepreneurs, however, indicated that the most binding problems were related to the complexity of government procurement regulations and the inefficiency of marketing and distribution channels.

### 5.2.3 Marketing approach

SMEs experience difficulties in dealing with wholesalers and big producers. They have insufficient bargaining power and feel powerless about terms and conditions set by others. Established distributors impose fixed price mechanisms on small retailers and block the entry of potential competitors. The wholesalers govern producers by controlling prices. So, the wholesalers sell the first part of their materials at high prices, but when the demand for these materials diminishes, they decreased their prices.

Consumer preferences are highly selective and SMEs cannot always follow up on rapidly changing consumer taste. These enterprises face competition from large producers who have the financial and technical capabilities to adapt rapidly to consumer demand. SMEs must increase the quality of their products and at the same time reduce costs. This implies a need for specialisation: SMEs must concentrate on niche markets where they can exploit their comparative advantages such as low overhead costs and greater flexibility.

Furthermore, SME entrepreneurs experience many difficulties with the lack of technical, financial and trade information. No structured information flows exist in the region, as information is passed from one individual to another through informal networks. In general entrepreneurs do not know where to find information since support institutions do not promote enough of their available information. Most small entrepreneurs are not well informed about the applicability of laws and regulations in view of their limited educational background. Public tenders are not well advertised and SMEs lose opportunities to compete. Advantages of different, alternative corporate structures are not well known among the entrepreneurs. Market-related information is also not easily available. A few public trade databases exist in the region, and entrepreneurs are not very familiar with the preparation of market survey. In fact, brochures and catalogues produced by foreign suppliers seem to be an important source of information for local entrepreneurs to keep up-to-date with new trends and technologies.

On the other hand, entrepreneurs have difficulties in developing an adequate marketing strategy. They lack experience; for most of them, trade fairs are an important forum for the exchange of information and the marketing of products. However, setting up a stand is often too expensive and their participation at such fairs is therefore limited to attendance only.

One main opportunity to improve communication and information flows is the use of Internet. Internet offers the opportunity to make information of relevance to SMEs easily accessible. It also offers new marketing and networking opportunities. Many SMEs managers have expressed the desire to know more about the relevance of the Internet applications in business.

### 5.2.4 Education and professional skills

In spite of the progress made, the Mediterranean labour force is still falling behind in term of education and skills. The gap is considerable both in the demand and the supply side. In the manufacturing sector, in particular, the ratio of skilled staff on total labour employed is stubbornly low. The absorption of high skills and staff has been handicapped so far in the SMEs, because of their family business structure and the cost of highly qualified personnel.

Nevertheless, despite the huge unemployment, SMEs have difficulties in recruiting skilled workers. The lack of skilled and semi-skilled labour and qualified local managerial staff are ranked as one of the most binding constraints, since educational and vocational training do not produce the skills demanded in the local labour market. Education policies are biased in favour of general courses to prepare for "white collar jobs" rather than for technical proficiency. Additionally, the huge increase in the student population puts excessive pressure on school facilities and causes an inevitable lowering of the quality of the education. Technical schools do not seem to offer sufficient relevant practical courses that match labour market requirements; they deliver a workforce that needs to be retrained on the job. Their training is not directly related to the manufacturing process. The institutes give them theoretical knowledge and little relevant practical training.

### 5.2.5 Supporting services

Interviews with private enterprises suggest that the high cost and poor quality of support services are important impediments to productivity growth. Physical infrastructure is often inadequate and causes additional expenses to the SMEs, who have to ensure proper alternatives to an unreliable infrastructure. In Egypt, Morocco and Tunisia entrepreneurs claim that the high cost, low quality and complicated procedure of port services are among the major factors hampering their productivity growth[10]. Transportation services, poor maintenance of transport vehicles, inefficient handling and loading services are additional costs pointed out by entrepreneurs. In Lebanon, entrepreneurs are still experiencing power cuts – they have to depend on electricity generators-, unreliable water supplies, broken sewerage system etc. Postal services are sometimes inadequate.

### 5.2.6 Land ownership and industrial zones

SMEs tend also to face difficulties in getting access to industrial or commercial land. In Tunisia, until recently, the ALI – Industrial Land Agency held the monopoly as industrial land developers, but it has been incapable of following the pace of the demand. According to estimates, about 1000 applications remained unsatisfied by the end of 1996[11]. Lease of land in most existing industrial zones in the region appears to be expensive. Moreover, in some countries, there are strict restrictions on renting, buying and selling estates. SME entrepreneurs therefore often develop their activities at their place of residence without much consideration of locations that could be economically more adequate. At the same time, urban environmental policies require some SMEs to relocate their activities. SMEs consider relocation as an obstacle since no compensation is offered for their relocation.

### 5.2.7 Access to credit and finance

SMEs complain that the cost of credit is their leading financial constraint. The second constraint is collateral requirements, followed by excessive time needed to obtain approvals and the lack of available and accessible finance. Availability of finance is the least reported problem in several surveys, perhaps because the high cost of capital and the complicate collateral requirements deter small entrepreneurs from seeking formal credit. Commercial banks concentrate on short-term commercial lending, mainly to medium-sized and large companies[12]. No specialised SME counters are available at bank outlets. Then, commercial banks do not easily give services such as support in drawing up a business plan, the provision of preliminary market research or initial equity participation. The result is a reliance on personal savings or through loans from informal networks (relative and friends), which are more costly and hence negatively affect enterprises' profitability.

---

[10] A recent study of the World Bank indicates that Egypt's seaport charges for import are triple those of competing countries, which raises the cost of insurance and Freight (CIF) for import to Egypt by over 10 percent (World Bank 1997).

[11] See Lahouel (1999), pag. 50.

[12] A survey on the Egyptian commercial banks show that roughly 83 percent was short-tem lending for working capital purposes. Approximately 60 percent of lending was to the private sector and approximately 6,4 percent of their collective portfolio has been allocated to the SME segment. Four fifth of the loans were extended by public commercial banks (DEPRA, 1997, pag. 10).

In general, access to banking and credit facilities is limited and expensive. Administrative fees are sometimes excessive (for example one bank in Lebanon started charging a US$200 annual administration fee in 1999 without prior notice to its SME clients). In Egypt and Jordan there are guarantee companies that provide up to 50 per cent of the collateral for a bank loan. In Lebanon, the government is planning a credit guarantee scheme for SMEs. Several credit schemes have been put in place in the region but most of them are serving mainly micro enterprises.

### 5.2.8 Quality

The establishment and enforcement of technical specifications and standards is another area of concern to SMEs. Inadequate enforcement of quality management standard (ISO 9000) and of technical specifications increase transaction costs as products are sometimes unreliable and businessmen have to spent more time verifying their inputs. Controlled standards mean that producers do not have to foresee additional contractual clauses in their dealing with suppliers.

Sometimes there are difficulties in dealing with wholesalers who cheat with the quality of raw materials by selling it as top quality when really it is second quality; they put labels on it that do not match the real specifications. Importation of raw materials, needed for manufacturing such as iron and aluminium are often irregular materials which enter the country illegally. Either these products have defects or their quality is below average. Such practices increase the problem of whom needed to test the materials before using them.

In some countries, such as Jordan, the Government assists enterprises in obtaining ISO 9000 certification. Health and safety standards are also necessary to gain consumer confidence in assured domestic quality and thus to effectively compete with substitute import products. The ISO 14000 standards ensure that economic activity is undertaken with adequate environmental management. Adherence to international standards has also become a prerequisite for access to foreign markets.

## 5.3 The business environment for SMEs in the Mediterranean area.

It is important to examine the business environment in which entrepreneurs operate and the obstacles encountered. In fact a favourable economic and institutional setting is fundamental to the success of SMEs; but most often it cannot be influenced by these enterprises. The above review of several studies has shown that SMEs face considerable obstacles brought about by this business environment. While large corporations can remove them by producing needed services internally, SMEs do not have the organisational capacity or the resources to cope with such problems.

In some countries, such as Egypt, Algeria, Syria, there is a high concentration in the **distributive sectors,** where the government maintains monopolies in specific areas it considers important to the welfare of the population and to national security. Very large state-owned sectors drain financial and human resources, hinder competition and have a direct negative impact on SMEs. In some countries SMEs are not provided with basic utilities such as water, electricity at a competitive prices. However important privatisation schemes are under way in almost MED countries. Monopolies also exists in the private sector and the lack or absence of enforcement of anti-trust legislation places the SMEs in a less competitive position.

**Poverty and unemployment** in the region as a whole are widespread and increasing. The second half of 1980s trough the 1990s has been a period of economic recession for the region. GNP per capita rose by a rate which is only marginally higher than the population growth rate (World Bank, 1999). However some countries are better endowed, large disparities in per capita income exist between countries especially the more diversified economies. But the largest population group in the region has a limited spending potential. If the general economic situation in a country is not healthy, enterprises should find alternative markets for their products. Where people can barely pay for their necessities, they stopped buying products considered as a luxury (i.e. a bed or a pillow).

In addition to a low GNP per capita, the available national income is distributed unevenly. Purchasing power in many countries is concentrated within a limited social elite; thus because the middle class is very small, there is no broad basis for economic activity. For instance 1991 figures for Egypt show that the top 20 per cent of the population had access to 41 per cent of the national income; for the same year in Jordan, one fifth of the population had 50 per cent of the national income. Nationals from the more diversified economics, working in the oil-producing countries, send their savings home, providing their local economy with additional purchasing power and savings. These transfers diminished, however when the oil-producers countries experienced rising unemployment, driving governments to reduce the number of work permits issued to foreign nationals.

With the exception of some countries, the **size of local markets** in the region is relatively small. In Lebanon, for example, there are approximately 660.000 household and 220.000 enterprises, almost all of which are micro, small and medium sized. This means there are about three households per business enterprises. Although domestic markets are limited, some of these countries traditionally applied restrictive, inward-oriented, import-substituting trade strategies. Opening borders to trade has a direct effect as it expands markets. It is also a precondition for attracting foreign direct investment: available figures demonstrate the limited foreign attention to investment initiatives in the region. The region exports have been affected on world markets by increased competition from new players such as the Asian tigers in the Far East and other low-wage areas.

**Government policy** can act as a trigger to economic growth in periods of low economic activity. However, increased budget deficits means that governments have limited room for action. Massive investment in public infrastructure and state-owned enterprises have been reduced as governments have attempted to prevent excessive budget deficits. In Lebanon the government temporarily delayed payments to private contractors in order to redefine budgetary priorities for 1999. This had a cascade effect on the private sector, the non-payment of large contractors negatively affecting subcontractors. Small and medium-sized enterprises were thus indirectly affected by that decision. Delayed payments by both private clients and public agencies are also considered as the third most severe problem by Moroccan SMEs as a consequence of the slowdown of economic activities.

The **labour market** and the availability of human resources. The second most severe constraint is related to human resources. The lack of qualified workers is none of the problems most often mentioned by large Moroccan entrepreneurs, but even the small ones complain about the high turnover of unskilled workers. The scarcity is not limited to the technical fields; there also appears to be a scarcity of managerial skills, with enterprises complaining about insufficient internal capacity to adapt to the changing external environment. To a large extent, poor managerial skills are rooted in an organisational structure with little staff mobility, which characterises family-run enterprises in Morocco. These conclusions can be easily extended to other North African and Middle Eastern countries.

# 6 REVIEW OF SME SECTOR: A QUANTITATIVE ASSESSMENT

## 6.1 The formal sector

The qualitative analysis of the private sector provided above is validated by available quantitative data. It should be noted that the quantitative data has been difficult to obtain and has not been possible to validate satisfactorily, since there is no reference data base or record on enterprises. It is also impossible to clearly establish the distinction between corporate enterprises which have few or no employees and individual entrepreneurs with the same characteristics. The importance of the informal sector makes this distinction even more unclear. All of the quantitative data cited hereafter should, therefore, be considered as estimates[13].

Small enterprises constitute the larger number of establishments in the Mediterranean region. Their contribution to the national economy is analysed in terms of employment, output or value added. It varies between the countries; SMEs contribute significantly to total manufacturing employment and output or value added in a number of the countries. In this respect, it should be mentioned that the data presented are based on different national sources. Comparison between countries is often not possible due to the difference in the definitions used, but they provide a significant source of information.

### 6.1.1 Egypt.

In the early 1990s, the government of Egypt introduced more liberal policies to boost the private sector. The positive and stable economic conditions of the post Economic Recovery and Structural Adjustment Programme (ERSAP) period have generated a favourable environment and many business incentives were granted to local entrepreneurs, as well as to foreign investors. Trade liberalisation policies have had a positive effect on SMEs because of the abundance of imported raw materials and the competitive environment among some of their suppliers. In addition to liberalised trade policies, other factors affecting the economic environment at the micro level were the regulatory framework, tax policies and the role of support institutions. The private sector contribution to GDP increased from 61 percent during 1991-92 to 66 percent during 1996-97, but has neither regained the pre-1952 Revolution level of 85 percent.

Three salient features characterise the private sector in Egypt and are likely to influence its impact on the economy: the dominance of small and micro enterprises (Small enterprises employ 10-50 workers, whereas micro enterprises employ fewer than 10), the prevalence of the legal partnership form and the presence of a large informal sector[14]. The structure of the private sector in Egypt has a dual nature in term of size of firms: a large number of small and micro enterprises coexists with a limited number of large enterprises. Small and micro enterprises represent nearly 98 percent of private economic units, creating nearly three-quarters of all private jobs and producing an estimated 80 percent of the country's private value added[15].

The spread of small enterprises probably exceeds official figures. Employment figures in Egypt indicate that there exists some 2 million micro and small scale enterprises representing 99 percent of private non-agricultural economic units (World Bank, 1994). Field assessments of the rural small scale enterprises conducted in 1990 conservatively estimated that there are about 906.000 small scale enterprises in the secondary and rural towns (DEPRA Project, 1997; Gardner and Proctor, 1990). Moreover, a study on craft enterprises suggests that there are 150.000 craftsmen employing about 300.000 individuals in the non-service informal sector

---

[13] The figures should be treated with caution since they represent, essentially, a trend. It is difficult to verify the validity of this figure. The real number of employees of SMEs is probably underestimated, due to a strong tendency to underdeclare in order to avoid paying employee payroll taxes.

[14] For more details see Samiha Fawzy (1999), "The Business Environment in Egypt", in Samiha Fawzy, Ahmed Galal (Eds.), *Partner for Development. New Roles for Government and Private Sector in the Middle East and North Africa*, World Bank Institute-ECES, Washington.

[15] See Guigale Marcello, Hamed Mobarak (1996), "The Rationale for Private Sector Development in Egypt", in Guigale Marcello, Hamed Mobarak (eds.), *Private Sector Development in Egypt*, Cairo, The American University Press.

(Jones, 1988). Although small enterprises are reported to operate in different sectors, including commerce, restaurants, hotels, personal services, manufacturing, transportation, mining, construction and repairs, there is a continued ignorance about the size of the various sub-sectors of the enterprise sector.

The last figures available on the contribution of small-sized enterprises to total manufacturing employment and value added are for 1992-93. During that period there were about 6,400 small firms (of which 90 percent was in the private sector) employing between 10 and 49 workers. Two thirds of these firms employed less than 20 employees. Small enterprises employing between 10 and 49 employees constituted, in 1992-1993, about 76 percent of the total number of firms, while contributing only 11 percent of the total number in manufacturing employment, 9 percent of the total manufacturing value added and a mere 0,35 per cent of total manufacturing exports. As for the legal status of private enterprises, in 1992, most private establishments in non-agricultural activities were incorporated either in the form of individual proprietorship (47 percent) or partnership (48 percent), while private joint-stock enterprises represented only 4,4 percent of all private enterprises (World Bank 1994). This indicates that more than 90 percent of private firms took the form of a partnership and were run on a family basis.

The activities of small industrial firms were concentrated in labour-intensive industries, particularly in food processing, textiles and wearing apparel, wood products and furniture and non-metallic mineral products. Egypt is well-advanced in the promotion of SMEs, compared to other countries in the region.

Another important characteristic of Egypt is its large informal sector. Despite the lack of accurate figures on the size of the informal sector, the majority of small and micro enterprises are informal. For example, in 1991, there were estimates to be 2.28 million informal enterprises (Alexandria Businessmen's Association 1996)[16]. Egyptian Financial Group (EGF)-Hermes estimates that the informal sector represents nearly 40 percent of the total Egyptian economy (EGF-Hermes 1997). The large share of the informal private sector may be attributed to the legacy of socialist policies, cumbersome regulatory regimes, and high transaction costs.

### 6.1.2 Jordan.

The manufacturing sector comprises more than 65,500 enterprises of which 85 percent are of small size (between 5 and 24 workers), employing less than a third of total employment in manufacturing. Large enterprises (more than 100 workers for enterprise) constitute only 4,2 percent of the total number of enterprises in manufacturing, but contribute approximately half the total manufacturing employment (table 5).

Table 5: enterprises in the manufacturing sector by size group of employment (percentage).

| Size according to employment | Percentage of enterprise by size | Employment by group size |
|---|---|---|
| 5-9 | 66,2 | 17,1 |
| 10-24 | 18,4 | 11,9 |
| 25-49 | 7,9 | 11,8 |
| 50-99 | 3,3 | 9,4 |
| >100 | 4,2 | 49,8 |
| Total | 100 | 100 |

Source: The Hashemite Kingdom of Jordan, Department of Statistic, *Employment surveys for establishment engaging five persons or more, 1995* Number 49, 1997 .

[16] See Alexandria Businessmen's Association (1996), "Small and Micro Enterprises in Egypt", in Guigale Marcello, Hamed Mobarak (eds.), *Private Sector Development in Egypt*, Cairo, The American University Press.

The SMEs segment is heterogeneous and the bulk of employment is concentrated in manufacturing (where enterprises that have between 5 to 9 workers represent 23,3 percent of total number of enterprises), in wholesale and retail trade, repair of vehicles and personal goods (with enterprises having between 5 to 9 workers representing 19,1 percent). Considering the distribution of enterprises by legal status, most enterprises are owned by a sole proprietor (43,3 percent) or operate as a general partnership (35,6 percent). Altogether, these enterprises represent near three quarters of all enterprises. Other criteria can be used to define the size of enterprises. The Jordan Directorate of Statistics produces statistics on the distribution of industrial enterprises according to the fixed assets and turnover. Near 50 percent of the total number of enterprises has fixed assets below 20.000 JDs, while 98,1 percent of enterprises has a turnover smaller than 40.000 JDs. A similar distribution characterises the industrial enterprises when they are ranked in accordance with the value of their export sales: 98,2 percent of them export for a value less than 10.000 JDs. The small manufacturing sector is concentrated in food processing, garments, plastic products, furniture, metal working and construction materials.

### 6.1.3 Palestine (West Bank and Gaza)

The Palestinian private sector has been the dominant economic force in the Palestinian territories accounting for approximately 85 percent of the GDP. However this figure is due to the absence of the Palestinian public sector during the occupation decades, rather than to the strength of the private sector. SMEs form the backbone of the economy; they are viewed as a vital mean to expand the market and to create healthy employment opportunities. The Palestinian SMEs have been playing an important role in every area of the national economy. 1995 statistics revealed that out of 54.832 businesses, 53.130 or 97 percent are small businesses with less than 10 employees as shown in table 6. These SMEs employ 91.404 persons, 65,7 percent of the total employment in the private sector excluding health and education.

Table 6: Distribution of enterprises by size and contribution to total employment

| Number of employees | No of enterprises | No of enterprises with less than 10 employees | % | Employ ment of enterprises with less than 10 employees | % |
|---|---|---|---|---|---|
| Industry | 11.971 | 10.846 | 90,6 | 31.042 | 57,0 |
| Wholesale trade | 3.172 | 3.056 | 96,3 | 7.681 | 79,0 |
| Retail Trade | 25.312 | 25.257 | 99,8 | 24.608 | 98,0 |
| Trade | 28.484 | 28.313 | 99,4 | 32.289 | |
| Services | 14.013 | 13.742 | 98,1 | 26.183 | |
| Construction | 364 | 229 | 62,9 | 1.890 | 65 |
| Total | 54.832 | 53.132 | 96,9 | 91.404 | |

Source:.

The industrial sector in Palestine is predominantly a private sector activity. It is a relatively small sector compared with the size of the economic activity in the Palestinian areas .The long period of the Israeli occupation caused the dumping of the local market by Israeli industrial products and cut Palestinian industries from its foreign raw material supplies. Textiles, pharmaceutical products, vegetable oil, footwear, leather products and building stone are some of the most important Palestinian products, besides a number of other products of the food processing and beverage industry, household articles, metallic and plastic products.

Because of the absence of government services, private sector services constitute the largest economic sector in Palestine their share in the GDP is around 40 percent. During the occupation, there were for example, no government services for transportation. Tourist services are among the most important income generating activities in Palestine, especially in

Jerusalem. In general, Palestinian tourism faced many obstacles during the occupation, starting by the fact that the Palestinians were not able to increase the number of hotels in East Jerusalem. As a result of the prevailing political constraints, Moslem and Christian visitors to Jerusalem from Arab and Moslems countries were limited.

### 6.1.4 Lebanon.

The 1994s Industrial Census in Lebanon indicated that most industrial firms were of micro and small size. There were approximately 20,800 industrial firms, of which 72,6 percent were micro-enterprises employing less than 4 workers; and around 24 percent were small enterprises with between 5 and 19 employees. Medium and large firms accounted for only 3,5 percent of total industrial establishments.

Micro and small firms together employed more than two third of the total workforce in the manufacturing sector, while contributing 53,7 per cent of total manufacturing value added. Small firms alone employed more than a quarter of the total workforce and contributed a quarter of the total value added in manufacturing (table 7)

Table 7: Distribution of industrial establishments by size and contribution to total manufacturing employment, output and value added (percentage).

| Number of employees | Units | Employment | Output | Value added |
|---|---|---|---|---|
| 1-4 | 72,6 | 39,8 | 23,5 | 27,8 |
| 5-19 | 23,9 | 27,7 | 26,7 | 25,9 |
| 20-49 | 2,6 | 11,0 | 16,4 | 14,4 |
| > 50 | 0,9 | 21,5 | 33,4 | 31,9 |
| Total | 100 | 100 | 100 | 100 |

Source: Lebanese Republic, Ministry of Industry and Petroleum, Directorate of Industry *Report on Industrial census- final results,* December 1995.

Small-scale enterprises were concentrated in light industries; the range of activities varied from garments to food processing, furniture and aluminium materials. However, very few were in such sectors as the chemical industry, machinery and equipment or, particularly, transport equipment. Clothing showed impressive growth during the civil war, for the reasons indicated above.

The small establishments employing between 5 and 19 workers were concentrated in three main branches of manufacturing: food and beverages, wearing apparel and leather products, non-metallic mineral products and fabricated metal products (except machinery). As a whole these branches accounted for around two thirds of the total small establishments, contributing for two thirds of employment and two thirds of total value added (table 8). Food products and beverages account for 21,6 percent of total small establishments and contribute to around 29 percent of total value added.

Table 8: Distribution establishments employing between 5 and 19 workers according to main manufacturing branches (percentage).

| | Establishments | Workers | Value added |
|---|---|---|---|
| Food products and beverages | 21,6 | 22,2 | 28,8 |
| Wearing apparel and furs | 12,2 | 13,4 | 9,1 |
| Leather and no leather products | 7,1 | 7,9 | 5,8 |
| Non-metallic mineral products | 13,1 | 13,0 | 16,1 |
| Fabricated metal products, excepts machinery | 9,7 | 8,3 | 5,9 |
| Furniture and manufactured good N.E.C. | 15,1 | 13,8 | 10,2 |

| | | | |
|---|---|---|---|
| Other manufacturing branches | 21,3 | 21,2 | 24,0 |
| Total | 100 | 100 | 100 |

Source: Lebanese Republic, Ministry of Industry and Petroleum, Directorate of Industry *Report on Industrial census- final results,* December 1995 .

### 6.1.5 Tunisia

Tunisian state policy towards the private sector has improved over time. The socialist strategy was abandoned at the end of the 1960s when the authorities realised that the overall strategy was discouraging private initiatives in almost all economic activities. Beginning in the 1970s, a new economic policy was implemented, consisting in the promotion of the private sector while continuing to support an expanding public sector. The share of the private sector in GDP has steadily increased to about 64,6 percent in 1996. The private sector comprises more than 87.326 enterprises, of which 89,3 percent are micro sized enterprises (between 1 and 10 workers). Large enterprises (more than 100 workers for enterprise) constitute only 1,6 percent of the total number of enterprises in Tunisia. Apart from a dozen that can be considered as large enterprises employing more than 500 persons and belonging mostly to the public sector and the financial sector, the majority of Tunisian enterprises are thus very small units.

Table 9: Distribution of Tunisian enterprises by size in 1996.

| Size according to employment | Number of enterprises | Percentage of total |
|---|---|---|
| 1-5 | 71.984 | 82,4 |
| 6-10 | 5.983 | 6,9 |
| 11-20 | 3.892 | 4,5 |
| 21-50 | 2.830 | 3,2 |
| 51-100 | 1.217 | 1,4 |
| >100 | 1.420 | 1,6 |
| Total | 87.326 | 100 |

Source: Caisse Nationale de Sécurité Sociale.

Micro enterprises have held the largest share of output throughout the whole period, but the bulk of the increase in the share of the private sector is attributable to the expansion of organised firms, defined in the National Accounts as those firms with more than 10 employees (5 for commerce), which raised their GDP share from about 19 percent in the period 1983-86 to over 23,5 percent in 1996[17]. The private sector dominate in all economic activities, with the exception on non-manufacturing industry (mining, energy and public utilities). The private sector generates 98 percent of agricultural and fishing output, and almost three-quarters of the value added of manufacturing and nonadministrative services.

Considering the distribution of enterprises by legal status and the number of employees, most enterprises are owned by a sole proprietor and are family owned. SMEs in the manufacturing sector are concentrated in food processing, garments, plastic products, furniture, metal working and construction.

### 6.1.6 Algeria

Since 1988, the Algerian government has pursued a radical change in economic policy moving towards a market-based economy. The liberalisation of trade represented an

[17] For more details see Mohamed Lohouel (1999), "The Business Environment in Tunisia", in Samiha Fawzy, Ahmed Galal (Eds.), *Partner for Development. New Roles for Government and Private Sector in the Middle East and North Africa*, World Bank Institute-ECES, Washington.

extraordinary development of opportunities for many private entrepreneurs and now the private sector has become a major component of the Algerian economic environment. In 1996 the formal private sector – excluding agriculture, the informal and marginally employed sector – included more than 28.000 enterprises and more than 800.000 individual entrepreneurs registered in the trade register. If one includes workers in the informal and marginally employed sector, the private sector employs approximately 2.85 million persons or nearly half of total employment. Its strength relies on the growth of employment: more than 800.000 jobs (an increase of 40 percent) between 1992 and 1998.

According to ONS sources, the private sector generated between 41 percent and 46 percent of GDP. Excluding hydrocarbons, its contribution was 72 percent of GDP. The informal sector provides supplementary employment or resources to more than 1.4 million persons (representing half of private sector jobs and nearly one fourth of the active population). Alternative sources from the CNAS files, the National Social Security Fund, confirm the raise of a new private sector. The number of enterprises operating in Algeria in 1977 was 143.513, including both corporate entities and individuals stating that they have paid employees. These figures, collected by the newly created Ministry of Small and Medium-Sized Enterprises, is 5 times higher than those provided by the trade register.

Despite the macroeconomic instability, the increase in the competition and the existance of several obstacles hindering the development of private enterprises, a strong growth in the creation of enterprises characterised the second decade of the 1990s. Private enterprises are more profitable than the public enterprises and use their fixed assets more efficiently. In view of the considerable delay in privatising public enterprises, it is notable that the private sector - including the informal sector - succeeded in generating close to half of the GDP.

Table 10, below, is instructive mostly for the trend it reveals on a more than four year period. The trend in the formation of enterprises illustrates the dynamism and growth of the private sector at a time when the public sector is in decline, with the closure of some public enterprises. Most of the new start-ups (70 percent) are individual entrepreneurs and limited liability companies (25 percent), followed by other types (corporations, etc).

According to the Ministry of SMEs and the CNAS, these economic agents are divided among 143.512 SMEs (made up of corporate enterprises and firms that state to have employees), and approximately 600.000 individual entrepreneurs (firms that do not declare to the CNAS that they have any employees).

Table 10: Net registrations of individual and corporate enterprises

| | 1993 | 1994 | 1995 | 1996 | 1" half of 97 |
|---|---|---|---|---|---|
| *Individual enterprises* | | | | | |
| Net registrations | 21029 | 33350 | 27412 | 24568 | 19597 |
| Number at end of period | 708 358 | 741663 | 769 075 | 793 643 | 813 240 |
| Growth in the total number | 3% | 4.5 % | 3.6 % | 3.1 % | 2.4 % |
| *Corporate enterprises* | | | | | |
| Net registrations | 3709 | 3473 | 4729 | 4314 | 1697 |
| Number at end of period | 17349 | 20822 | 25551 | 29865 | 31562 |
| Growth in total number | 21.4 % | 16.7 % | 18.5 % | 14.5 % | 5.4 % |

Source: Algeria, 97 - The Economic and Social Year - - Ecotechnics - Information from the trade register

Table 11: Change in employment in the private sector

| | 1992 | 1996 | Change 92/96 | Est. 1998 | Change 96/98 |
|---|---|---|---|---|---|
| Formal sector | 598 | 830 | 39% | 1,040 | +25 % |
| Nondeclaring formal sector | 179 | 319 | 78% | 360 | +13 % |
| Formal subtotal | 777 | 1,149 | 48% | 1,400 | +22 % |
| Informal sector | 456 | 499 | 9% | 450 | -10 % |
| Marginally employed | 801 | 985 | 23% | 1,000 | 2% |
| Informal subtotal | 1,257 | 1,484 | 18% | 1,450 | -2% |
| Total | 2,034 | 2,633 | 29% | 2,850 | +8% |

In thousands of jobs.

Table 12, below, details the distribution of enterprises by number of employees. It is clear that the overwhelming majority of enterprises are very small. Only 3,937 among them (2.7 percent) have more than 10 employees and can appropriately be labelled as SMEs. The others are microenterprises. In this list, however, the overall employment in SMEs, as officially registered to the CNAS, is estimated at around 440,000 persons; an average of 3 employees per enterprise.

Table 12: Distribution of enterprises categorised by number of personnel

| | 0-9 | 10-19 | 20-49 | 50-99 | 100+ |
|---|---|---|---|---|---|
| Number of SMEs | 139576 | 1241 | 1318 | 765 | 612 |
| % | 97.3 | 0.9 | 0.9 | 0.5 | 0.4 |

Source: Ministry of SMEs, study of the overall economic climate for 1997.

Detailed quantitative data were collected in the course of a study carried out by the Ministry of SMEs[18] in 1998. This study dealt with he population of 143,512 SMEs polled by the Ministry. From it, the following information can be drawn:

(a) in terms of **number of enterprises**, the most important sector of activity is that of services, i.e. transportation, commerce and other services (41 percent). However, it is followed closely by industry (32 percent), with the construction making up the third largest group (24 percent). Agriculture accounts for a negligible number of enterprises (3 percent of the total). Outside of construction, the most important subsectors are commerce (17 percent of the total number of enterprises), housecleaning services (10 percent), agribusiness (8 percent), transportation (8 percent) and the hotel industry (7 percent).

(b) in terms of **employees**, industry leads with 43 percent of jobs, followed by the construction sector (31 percent), transportation, commerce and services (23 percent) and agriculture (2 percent). This indicates a strong presence of SMEs (or micro enterprises) in the tertiary sector, where there is an average of 1,7 jobs per enterprise[19].

(c) in terms of total sales, industry, again, leads with 45 percent of sales, followed by services (28 percent), construction (26 percent) and agriculture (1 percent). This confirms the important role played by SMEs in the Algerian industry where they generate 21 percent of the **added value** in industry (excluding hydrocarbons). Excluding the construction sector (26 percent of total sales), the most important subsectors are commerce (22 percent), agribusiness (18 percent), construction materials (6 percent), services to enterprises (6 percent) and the

[18] The summary of this study is included into a recent WB Report, The World Bank, *Private Sector Development Strategy*, Volume II, Washington, October 1999.

[19] It is also in this sector that underreporting of employees is most frequent, hence its true importance is understated.

metallurgic and engineering industries (5 percent). Textiles, along with leather and shoemaking each represent less than 3 percent of total sales of private enterprises.

(d) Finally it is interesting to note that while SMEs as a whole represent a 30 percent of the gross production and 21 percent of value added in industry, only 3 percent of fixed assets belong to SMEs. Therefore they are concentrated in the less capital-intensive industrial sectors, mainly the processing industries that support public enterprises.

According to the study quoted above, SMEs total sales increased by 5,3 percent during the 1996-97 period. However importatn differences emerge among sectors: construction materials, glass and ceramics grew by 46 percent in their total sales, and trade by 35 percent, while the sectors of mines and quarries had a drop in activity of 33 percent, as was true for metallurgy, which dropped by 27 percent, chemicals/rubber/plastics by 15 percent, textiles by 12 percent, and wood and paper by 4 percent.

Despite this progress, SMEs continues to underperform. Thus, a strong underutilisation of productive capacity can be seen - estimated at approximately 30 percent - due to the weakness of domestic demand and the sector's inability to assert itself in export markets. Its past isolation hindered its capacity to face international competition, in terms of structures (which have remained too family-based and too national in scope), management methods (only 30 percent of enterprises are computerized), quality, innovation, industrial equipment (on its way to becoming obsolete), and investment (which is generally lacking). A rise in optimism by enterprises regarding the future, and an increase in intended investments and jobs can be seen, but is very slight (the most common word used to describe the situation is "shaky"). The elimination of remaining obstacles to development is an essential condition for strengthening this incipient confidence and for the undertaking of investment projects.

### 6.1.7 Turkey

Small and medium enterprises play an important role in the economic and social life of Turkey. This fact is confirmed by three important indicators, i.e.the number of enterprises, the number of employees and value added. SMEs in the manufacturing sector account for 99,5 percent of total number of industrial enterprises, 61,1 percent of total employment in the manufacturing industry and 27,3 percent of value added.

Table 13: The distribution of enterprise, employment and value added by size of firm in the manufacturing industry, Turkey (*)

| SIZE | No. Of enterprises | | Employment | | Value added | |
|---|---|---|---|---|---|---|
| Number of workers | Number | % | Number | % | Million TL | % |
| 1-9 | 186.574 | 94,4 | 545.809 | 35,6 | 20.7 | 7,7 |
| 10-49 | 7.972 | 4,0 | 175.660 | 11,5 | 17.2 | 6,4 |
| 50-99 | 1.405 | 0,7 | 97.356 | 6,4 | 14.6 | 5,4 |
| 100-199 | 842 | 0,4 | 1.116.319 | 7,6 | 21.0 | 7,8 |
| >200 | 982 | 0,5 | 595.601 | 38,9 | 194.9 | 72,7 |
| Total | 197.775 | 100 | 1.530.745 | 100 | 268.4 | 100 |
| (*) Source: SSI-State Statistical Institute (1992) | | | | | | |

## 6.2 The Informal Sector

### 6.2.1 Description Of The Sector

A significant portion of the private sector in the MED countries is informal. The informal sector plays an essential role as a social security back-up to cushion the shock of the transition to a market economy. The informal sector is present particularly in the construction sector, followed closely by services and trade, and trailed very distantly by industry. More than half of the jobs in the construction sectors are informal. These are most often artisans (masons, painters, roofers, plasterers, plumbers, electricians) who are employed by the job or by the day, using unskilled or manual labour. A third of service and trade jobs are also informal. There are found primarily in housecleaning services, transportation, the hotel and restaurant industry, and among small merchants operating on the street or from home. The informal sector is more limited in industry, where it accounts for around 10 percent of production.

### 6.2.2 Functioning And Dynamics Of The Informal Sector.

The informal sector operates essentially within a market based on proximity. It relies on personal relationships and on trust. At times, it utilises a network, in order to facilitate the distribution of goods - often acquired illegally - beyond the immediate neighbourhood. Only a small investment is needed - essentially, a workplace and perhaps a vehicle. Its method of operation relies on great flexibility and extreme agility in avoiding detection by the authorities. Transactions are made without invoices and with payments in cash. Prices are lower than those of enterprises in the formal sector, since their costs do not reflect the burden of payroll taxes and income taxes, hence their operating costs are lower.

There is a close overlapping of formal and informal sectors, due to the frequent subcontracting relationships that exist. The separation between the two groups is difficult to establish, since many enterprises in the formal sector engage in certain methods of operation that are characteristic of the informal sector. For example, it is common not to declare a significant portion of their personnel and of their activity. Most of transactions are made in cash, without an invoice; consequently, they are not recorded in the enterprise's books; and they are not declared to the tax authorities.

Despite a recent trend toward formalisation, the incentives to maintain informal status remain strong, due to the excessive burden of payroll taxes, the costs of official registration and observance of regulations, the persistence of high unemployment, and the inability of state services to enforce law and regulations. There are also specific constraints on formalisation, such as the poverty of commercial properties, the regulatory requirement demanding certification in order to officially practice a craft, and the requirement on young people to have completed their military service in order to be able to formally establish an enterprise.

The implication for the informal sector is that informal assets can neither be used in efficient and legally secure transactions nor be used as collateral[20]. Reducing the informal economy requires, in part, pursuing greater liberalisation of markets, developing competition; organising modern import and distribution networks; reducing payroll taxes, taxes and customs tariffs; implementing a unified system of classifying enterprises and of cross-referencing the commercial register, revenue service and the social security office records; combating corruption; strengthening the state's mechanism for controlling illegal activities; and providing stricter enforcement of the law. More generally, the elimination of obstacles to the development of the formal private sector will in time lead to the formalisation of informal activities.

## 6.3 Clusters and industrial districts.

### 6.3.1 Clusters

International experience in both developed and developing countries has proved that networks of firms or their clustering in one location and on a sectoral basis contributes to enhancing their competitiveness and provides the appropriate framework or vehicle for intervention of the support institutions. In addition to networks and clusters, subcontracting is another form of business link that leads to greater specialisation and efficiency of small firms. They help small firms to deal with globalisation.

A cluster is defined as a sectoral and geographical concentration of firms. The benefit of such a concentration for individual firms is derived from external economies. It also enhances interaction between small firms, and leads to a certain division of labour, thus increasing

[20] See Hermando De Soto (1997), "Dead Capital and the Poor Egypt", Distinguished Lecture Series 11. ECES, Cairo.

specialisation and innovation. The existence of clusters provides increased opportunities for SMEs to work together and cooperate in various areas. In fact, the problem of many small firms is not their small size, but rather their isolation, their being dispersed sectorally and geographically and their lack of information.

An industrial district is a cluster of small firms, which has a certain organisation, such a business association and an explicit form of inter-firm collaboration. In addition to its geographical location and sectoral specialisation, the main characteristics of an industrial district are: close inter-firm collaboration, the predominance of SMEs, inter-firm competition based on innovation rather than on low wages, the existence of a business association, support from government or private sector organisations, and the existence of trust among the entrepreneurs. In the industrial districts, firms benefit not only from being together (external economies) but also from joint action, through sharing equipment, developing new products, joining forces in securing raw materials and new technology, cooperating in exhibitions and fairs, and establishing sectoral business associations, etc.

In contrast to a cluster, an industrial district implies the existence of a developed inter-firm cooperation and division of labour. Industrial districts developed first in Europe, in particular, in Italy.

Individual firms can benefit from external economies (in the case of a simple cluster) and from external economies and joint action (in the case of an industrial district). Clustering and active cooperation provides firms with gains and advantages they can rarely attain on an individual basis.

In this connection, it is important to stress the significance of trust between owners of small enterprises as a condition for inter-firm cooperation and joint action. Cooperation between firms increases their bargaining power and improves their access to information and knowledge of the market. Family ties and a socio-cultural identity would facilitate such cooperation. Another important point is that the emergence of clusters and industrial districts was spontaneous, and not the result of planned action by government agencies or private sector institutions, or part of an industrial strategy, though both the public and private sectors played a role in their growth.

### 6.3.2 Network of small firms

A network of small firms would also result in collective efficiency and provide mutual benefits through active cooperation and joint action. Networking is promoted with the aim of improving the competitiveness of SMEs and to prepare them to deal with globalisation. The aim of the establishment of the network is to facilitate the delivery of support services by various support institutions which prefer to deal with groups rather than with small individual firms. The network also aims at promotion of inter-firm cooperation through the development of better relations between the participating firms in the network; such cooperation - which enables SMEs to raise their competitiveness - is particularly in the area of product design and standardisation, process innovation and human resources management.

### 6.3.3 Difficulties for inter-firm collaboration in the Mediterranean area

There are several factors that impede the creation of networks and cooperation between firms in the area. With few exceptions, enterprises are scattered geographically and sectorally. It is rare to find a concentration of small firms in one location and/or on a sectoral basis. There are several industrial zones or cities, but the existing firms in these zones are of different size and specialisation. However, one may find very small or micro projects (the handcrafts) grouped sectorally (such as woodwork and metalwork) in one area.

One of the main reasons for the lack of a network of entrepreneurs is the mistrust that exists between owner-managers on the one hand and the lack of programmes that promote inter-firm collaboration on the other. Very little inter-firm cooperation exists due to inter-firm competition and a lack of trust between entrepreneurs;

Business associations representing the interests of small industries are rare in most countries: industries are generally isolated: Their market is limited to the area in which they are located, and in addition they are isolated regarding information they can obtain on competitors, suppliers, new technology and export markets. The main problem of small enterprises is more that of isolation than of size.

It is important to understand the attitude of entrepreneurs in the countries considered in order to set up adequate schemes likely to enhance cooperation and increase the competitiveness of small firms. Although entrepreneurs in these countries generally share common views regarding peer learning, attitudes vary from very individualistic in Lebanon to a more moderate attitude to cooperation in Jordan and the Syrian Arab Republic.

They talked about the domination of competition rather than of cooperation among small entrepreneurs. They do not see themselves participating in programmes and sharing information with others in the prevailing competitive environment. Entrepreneurs are afraid that their "secrets" may be used by others in the same business. The lack of cooperation between entrepreneurs can be related to cultural factors affecting the way in which business is conducted.

They are not ready to help each other. Many entrepreneurs consider themselves as highly-skilled; and it is rare for them to consult their peers. Very few entrepreneurs are open to their peers; some of them have, nevertheless, given advice to others who are in the same business because of his long experience in the field.

Small entrepreneurs were afraid of contacting their peers or other business associates for coordination and information exchange. The most common coordination between them was through the exchange (buying or borrowing) of raw materials when there were factory shortages. Some entrepreneurs indicated that they had learned from the mistakes of their competitors; others from friends and relatives who have industrial experience, but not from those in the same business sector. Some of the entrepreneurs were eager to learn from foreign businessmen and to exchange information with them rather than with those in the same country.

# 7 SMEs, INTERNET AND THE IMPACT OF "GLOBALISATION"

In the past, and until the mid-1980s, countries of the region, had followed an import-substitution strategy. Most industrial firms, including SMEs, used to operate in markets highly protected by the State, even though during that period governments did not provide for any special measures to promote the creation and operation of SMEs. At that time, "globalisation" was not considered as important to the growth or survival of SMEs as for enterprises operating in open markets.

"Globalisation" is not a new phenomenon. It is a process that started with the rapid growth of international trade and foreign direct investment in the nineteenth and early twentieth centuries. Today, globalisation in economic and technological fields is becoming more and more important given to the unprecedented growth in international finance and technological innovation, particularly in information technology.

The new computer and information technologies (ICT) are creating new products and markets and are changing the nature and location of economic activities. Information technology together with product knowledge are now becoming the most important factors of production.

Since the early 1990s, most countries have been introducing changes in their economic policies in order to cope with "globalisation" to meet the challenges of the domination of market forces and trade liberalisation. These countries are members of the World Trade Organisation (WTO); others, like China, are taking steps to join that organisation.

Since most of the world economies are becoming increasingly open, the survival and growth of SMEs depend to a large extent on their ability to compete with imports in the local market and to increase their competitiveness to export to international markets.

The reduction of customs duties under the WTO agreement provides SMEs for opportunities to enter new export markets and to improve their access to production technologies and to other input materials. In fact, information technology and communications allows SMEs to operate at the global level. However, trade liberalisation represents also a real threat for enterprises which are not able to compete against foreign firms. As SMEs are an important source of employment generation, national economies could be severely affected if steps will not be taken to assist SMEs to compete with foreign producers.

Usually programmes directed to SMEs deal with training, provision of credit, business advice, information, technological development, etc. However a few programmes are specifically addressed to the impact of globalisation. The development of SMEs, as that of larger firms, will be seriously affected by the globalisation of the economic activity.In this regard, government industrial policies should place particular emphasis on assisting small firms to become innovative and globally competitive as traditional comparative advantage - based on low wages -loses importance. Special attention should be given to the innovative approach in responding to customer needs worldwide as customers become more outward-looking.

## 7.1 THE INTERNET: BUSINESS APPLICATIONS AND TRADE FACILITATION

### 7.1.1 Internet in the MED region

Internet is a revolutionary breakthrough in communication and information technology. It connects millions of computers and users and facilitates access to thousands of databases around the world. Through the NET, personal desktop computers have become "super-computers" with unlimited access to information and processing possibilities.

The NET is growing exponentially. It is estimated that every second, seven people from all over the globe connect to the Internet for the first time.

Table 14: Breakdown of Internet Users Numbers in Arab World

| Country | Number of Subscribers | Number of Users per account | Total Number of Users |
|---|---|---|---|

| | | | |
|---|---|---|---|
| UAE | 160,000 | 2.5 | 400,000 |
| Saudi Arabia | 100,000 | 3 | 300,000 |
| Bahrain | 15,000 | 2.5 | 37,500 |
| Libya | 1,500 | 5 | 7,500 |
| Sudan | 2,000 | 5 | 10,000 |
| Qatar | 18,000 | 2.5 | 45,000 |
| Oman | 20,000 | 2.5 | 50,000 |
| Kuwait | 40,000 | 2.5 | 100,000 |
| Egypt | 55,000 | 8 | 440,000 |
| Yemen | 3,000 | 4 | 12,000 |
| Lebanon | 65,000 | 3.5 | 227,500 |
| Syria | 4,000 | 5 | 20,000 |
| Jordan | 25,000 | 3.5 | 87,500 |
| Morocco | 15,000 | 3.5 | 52,500 |
| Tunisia | 22,000 | 5 | 110,000 |
| Total | 545,500 | 3.5 | 1,899,500 |

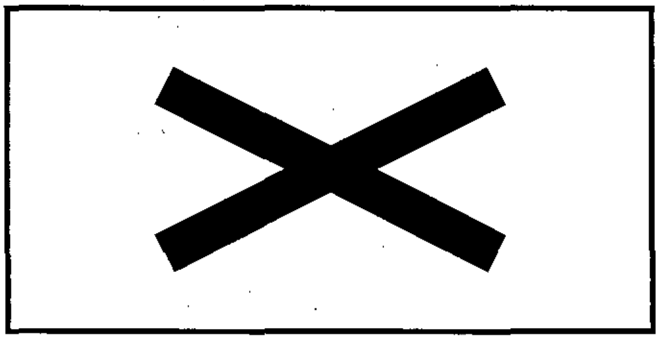
Internet users in the Arab World have almost hit the 1.9 million figure. The number of Internet account holders in the region has risen from 338,000 at the end of April 1999 to 545,000 on 1st February 2000, an increase of 62 percent. The number of subscribers with Internet providers in Arab countries increased from 236,000 to 338,200 during the four-month period ending April 30.

It is expected that by 2002 users will number 12 million but although the internet population is doubling every year, after 2002 the growth could drop considerably due to infrastructure constraints.

Though the growth rate is also high in the number of Internet users, they constitute only 0.7 percent of the population of the Arab world, which stands at 280 million. However, the annual growth rate in the number of users is expected to slightly increase and average at between 80 and 100 percent during the next three years. Variations in socio-economic conditions and Internet access rates were also taken into consideration to adjust the ratios.

With the new finding the average ratio for the whole Arab world was adjusted from 2.5 to 3.5, with the ratio for Egypt being amended from four to eight - the highest in the region - which doubled the previous estimate and gave Egypt the biggest single Internet population among Arab countries: 440,000. according to estimates made by the research unit of Internet *Al-Alam Al-Arabi (IAW)* magazine, which is published by the Dabbagh Information Technology Group.

The new ratio for Syria, Tunisia, Libya and Sudan now stands at 5 users for every Internet account, followed by Yemen at 4. Lebanon, Jordan and Morocco now have a ratio of 3.5, Saudi Arabia: 3, while the rest of the Gulf countries are retaining an estimated ratio of 2.5. Internet access in Lebanon grew by more than 60 percent. Lebanese ISPs also provide access to neighbouring Syria, where connection is limited to government departments, universities and selected institutions until a reported multi-staged plan to provide wider access materialise by the end of this year. Lebanese access to the small number of Syrian users, however, is often limited to E-mail services or limited access. The combined growth in Internet access in Syria and Lebanon is estimated at 72 percent during the four-month period. Internet access in Egypt, the most populated Arab country, grew by 42 percent to reach about 52,000 subscribers, or more than 200,000 users. It is followed by Jordan, with 20.000 accounts and a growth of 21 percent. Growth rate in Morocco is estimated at 26 percent, while Tunisia is growing at 28 percent.



The growth of Internet use in the Mediterranean region will offer more incentives for businesses, telecommunication companies and governments to develop electronic business. Internet offers new opportunities to small and medium-sized enterprises. It is an open environment and offers easy access to everyone. In this respect, Internet offers new opportunities for SMEs for rapid worldwide communication.

Incorporated into the Internet, as a tool for communication and information, are other instruments such as newspapers, books, rapid mail, telephone, fax, radio, video and television. One main difference with these well-known media is that using the Internet is cheaper and faster in most cases. With an Internet service provider (ISP) in the area, using the NET in most countries will cost the equivalent of a local telephone call, plus the charges of the service provider, which varies according to the country. Additionally, the NET is especially powerful because of its instant worldwide reach.

According to *IAW*, the average Internet user in the Middle East is young,(about seven years younger than his US counterpart; 29 vs 36 years old),male and educated. Of the total respondents, only 4 percent were women.

| Table 15: Percentages of user by age group | |
|---|---|
| 15 and under | 0.9 |
| 16-20 | 9.3 |
| 21-26 | 31.9 |
| 27-35 | 37.7 |
| 35-45 | 15.7 |
| 46 and over | 4.5 |

Internet is also used for non-business information, communication and entertainment. This is another reason the Internet has such a great impact. It is an instrument that mixes economic, professional and personal applications. Many SME entrepreneurs may also have this in mind when showing their interest in the use of Internet. With hardware becoming cheaper, and with new developments such as Web-television that has immediate Internet connection facilities, accessing the Internet is becoming increasingly easy and its popularity will continue to rise.

| Table 16: Distribution of users by professions. | |
|---|---|
| Engineers - computer/telecom | 15% |
| Engineers – other than computer/telecom | 11.1% |
| Technicians – computer/telecom | 10% |
| Consultants – management/technical | 5.4% |
| Managers/administrators | 4.7% |
| Accountants | 3.9% |
| Medical staff/pharmacists | 3.1% |

| | |
|---|---|
| Salespersons | 2.7% |
| Physicians | 2.1% |
| Marketing specialists | 1.9% |
| Graphic/art designers | 1.5% |
| Media professionals/writers | 1.3% |
| Architect/interior designers | 0.9% |
| Others | 36.4% |

There's an even fifty fifty split among those who use the Internet at home and at work, those in work likely to be in large educational and governmental organisations. Businesses with less than 25 employees are unlikely to provide Internet access to their employees. 17 percent of businesses worked in computer and Internet related fields, with 1 percent in general trade including gas and oil, and 2 percent in the financial sector. and entertainment medium rather than being an inherent part of business.

| Table 17: Percentage of users according to educational level | |
|---|---|
| Highschool certificate and below | 27% |
| Vocational/technical certificates | 7% |
| Bachelor degrees | 44.5% |
| Graduate degrees (below Master's) | 7% |
| Master's degrees | 11% |
| Phd and other doctorate degrees | 3.5% |

User satisfaction also seems reliant on the cost effectiveness of the service- home users tend to be more critical of the service as they have to pay for their own connection. Kuwait users have the lowest dis-satisfaction rating (38 percent) whilst those in Jordon are the most dis-satisfied with their service (73 percent), where Internet connection costs are correspondingly very high.

The study also found that Arabic sites with Arabic text are getting much more visits than Arabic sites with English text. However, not all browsers can read Arabic text.

### 7.1.2 Problems

Although advantages are impressive, Internet also poses its own specific challenges, as small and medium-sized enterprises encounter serious barriers to entering the Internet. One such barrier is that most SME entrepreneurs in the region have little PC knowledge. Limited education and literacy among SME entrepreneurs and managers make this problem difficult to overcome. Using computers may become easier, as an increasing amount of the software is being translated into Arabic and desktop PC's are increasingly user-friendly. The younger generation of new entrepreneurs is also more acquainted with the use of computers.

Furthermore, the Internet environment itself is constraining, as English is the most widely used language on the NET. Additionally, some countries offer only limited NET accessibility. This makes it more difficult for entrepreneurs to become familiar with the Internet. This could be one of the reason of the limited development of Internet in the Mediterranean area

Another problem emerges from the open character of the NET. The Web is essentially a self-policing environment with no central regulator, where users themselves take the initiative of organising themselves. Therefore a lot of effort is required to ensure confidential transactions. Notorious computer hackers have demonstrated that companies have not been putting enough effort and/or investment into making their web pages secure. Consumer confidence is therefore being harmed, limiting the reach of E-commerce development. Internet is also being used to freely distribute copyright of protected materials. Governments should introduce adequate legislation to cope with such problems.

Additionally, the openness causes an overload of information and one may lose time searching for items that are truly relevant to the business. It requires time and personal analysis to select the relevant information and to make a synthesis of very disparate sources. In many cases, details must be added through additional reading of other information inputs such as official documents and specialised publications. It is therefore important that the entrepreneur clearly specify his or her goal before logging onto the NET. Moreover, illegal information can be put on the Internet and criminal investigators may have difficulty in tracing its source. Internet is also dependent on the hardware, and frustration may occur when the NET reacts slowly or is saturated.

This provides some examples of the use of Internet technology in business and endeavours to focus on applications that are of relevance to small and medium-sized enterprises. The examples given are by no means exhaustive as the Internet continues to develop at a truly revolutionary speed. It is clear that the Internet is having a major impact on the world economy and on society. Internet offers a unique platform for markets to relay information and to organise a better allocation of scarce resources. It helps the markets to function more efficiently and it contributes substantially to wealthy creation.

There must be strong awareness of what is at stake and of the practical use to which the internet can be put by companies, governmental institutions and non-governmental organisations. Large companies may increasingly choose to collaborate with small and medium-sized companies only if they are compatible with their electronic data environment. Small and medium-sized enterprises may lose potential markets as public tenders are negotiated through the Web. New technological trends and market related information may increasingly be available only on the Web, etc.

Governments that do not take the Internet into account may lose critical opportunities to develop a more transparent institutional and regulatory framework. As has been reported, the SME entrepreneurs face a systematic shortage of information. The Internet can significantly improve this situation.

### 7.1.3 The Syria case.

In Syria, Internet users are only some thousands, mostly entrepreneurs or governmental workers. In Damasco it is possible to be connected to the local server with a proxy system but you are allowed to open only some web sites, not all. It is impossible to read your own E-mail on Hotmail or Yahoo. To overcome the problem it is possible to do a subscription with a Beirut provider, but with higher costs than the ones of local call.

The restriction imposed by the Syrian government have stopped the Internet development. Introduced for the first time in 1998, Internet first was only at disposal for scientific institutions, followed by universities and than enterprises.

The situation is different from the Beirut one, where the mobile phone, even with prepaid cards, and Internet are available anywhere. Now in Damasco the Internet access is the most expensive in the Mediterranean region: based on a research on connection costs by the "Internet Arab Word", the Emirates servers gain $35 for an average of 60 hours of use monthly. With reference to the same time in Syria it is possible to pay $184 and the same price difference is independent on the surf hours. Today the cost of a mobile phone in Syria is around $1.200 for the activation, $80 monthly payment and $ 0.08 for minutes for call mobile to mobile and 0.12 from mobile to fix. They are prohibitive prices for the majority of the population as the average monthly salary is around $40 and the salary of an engineers is $100.

The Syrian Telecommunication Establishment (STE), the sole Internet access provider in the country, has slashed the rates of subscription and use of Internet by half to encourage more businesses to get connected. Effective from July 1, Internet account holders will be charged 1,000 Syrian pounds (US$20) per month for subscription instead of SP2,000. STE also announced that the rates for using telephone lines to access the Web were now reduced from SP2 per one minute of use to SP1. The reduction in Internet rates, however, did not effect a one-off payment of SP5,000 (US$100) made for initial connection setup.

STE, whose E-mail service is provided separate from Internet access, also announced a similar reduction in E-mail subscription rates from SP 1,200 to SP 600 per month. The rates for telephone line use for e-mail were also reduced to SP 1, while the initial setup fees remained unchanged at SP 5,000.

A pilot project to officially introduce the Internet into Syria was launched in June 1999. Access was given to businesses and other institutions in September , while access for home users was slated for the near future. There are about 5,000 Internet subscribers in the business and public sectors in Syria, in addition to a similar number of accounts obtained by home users from neighbouring Lebanon. If applied to home users once access is given to the public, the setup fees, which now stand at US$100, would be a burden for the majority of home users when the current salary for a fresh university graduate, for instance, ranges between US$100 and US$200.

# 8 THE POLICIES

This section explores policy options actually available in the MED countries to promote SMEs start-ups and to assist SMEs during their operations. These policies include financial support as well as the provisions of different types of services, such as information, consultancy, technical assistance and training.

Financial support, however, has increased its importance over the 1990s, when Governments and International Institutions started to launch different types of micro-credit programmes in order to offer SMEs, on one hand, means to minimise the negative effects of the structural adjustment reforms, on the other hand, a tool to overcome entry barriers to institutional bank system, which normally imposes severe conditions on the provision of loans to SMEs.

Several promotion agencies, both public or belonging to the private sector, allow for the provision of non-financial services. Business associations have been established in a number of countries to respond to the needs of the SMEs, and many Chambers of commerce and industry have established special units for this purpose. Various support schemes have been developed by Business Development Service (BDS) organisations and efforts have been made in the area of training, business counselling, information and other areas of concern to SMEs. However, little coordination and cooperation exists between these organisations at both country and regional level. In fact, most of the Agencies are not able to contribute effectively to the solution of most of the major problems SMEs can face since the support services they provide are still limited. In several countries, BDS organisations have limited experience and are not equipped to cope with the growing needs of micro and small enterprises.

Furthermore little is known about the effectiveness of these institutions and little in-depth research has been carried out in order to assess whether and to what extent the services offered are appropriate to the needs of SMEs.

The following sections are a first contribution in this direction. Starting with the financial services the section will compare several initiatives in the Mediterranean region.

## 8.1 Financial support to SMEs.

In the Mediterranean region, as well as in the developing countries, the bulk of formal credit is directed to large enterprises. SMEs, including informal micro enterprises, which generate most of the nation's value added and employment, are generally excluded from formal financing channels and rely on informal and self financing. Commercial banks consider SME lending a risky and expensive activity, and the normal economic response would be to charge higher prices to reflect the risk and cost inherent in this segment. There is no specific legislation that encourages banks to lend to SMEs, but the removal of interest rate controls, a measure included in the Structural Adjustment Programmes (SAP) implemented by the Mediterranean countries during the 1990s, had a distorted impact on such lending in that it allowed banks to price loans to SMEs at higher levels to cover the perceived higher risks and administrative costs associated with this type of lending. Very rough estimates of the volume of SMEs lending in Egypt[21] indicate that the total SME lending, by the whole banking sector, is estimated to be between 5-6 percent of total credit disboursed. Almost all micro enterprise lending by commercial banks is politically motivated, with the primary impetus coming from the Social Fund for Development (SFD) initiative of the Government. In other countries donor-subsidised SME credit programmes cover a fraction of the financial demand of these enterprises. The access to finance for business start-up and/or expansion of SMEs, as well as the coordination of the different financial institutions, is a critical issue. The Jordan's ad hoc task force proposed in 1997 a "small enterprises financial scheme" which included the direct participation of commercial banks. The rationale was that existing or new small enterprises are a profitable market for lending. However, microcredit granting activity requires a coordinated and integrated approach, starting from technical assistance and training for banks' staff, the provision of

[21] DEPRA Project, *Financial Reform for Small Business Development in Egypt*, Cairo, December 1997

adequate funding, guarantee mechanisms and the coordination with other institutions, in order to provide an effective assistance for SMEs.

### 8.1.1 Social Fund for Development: Egypt

Micro enterprise lending is primarily granted through the Social Fund for Development (SFD) programme. The Enterprise Development Programme (EDP) is one of the five core programmes of the Social Fund for Development (SFD)[22]. EDP promotes the establishment of new micro and small businesses and the expansion of existing ones through the provision of credit, technical assistance, training and know-how. EDP targets new graduates, unemployed, women, employees wishing to leave their jobs in public enterprises, and existing small firms entrepreneurs. It reaches its target groups through sponsoring and executing agencies, which can be either governmental, non-governmental, financial or non-financial institutions. Currently, EDP is being transformed into a financially sustainable Small Enterprise Development Organisation (SEDO). SEDO services are intended to be demand-driven and on a gradual cost recovery, so that dependence on donor funding will be reduced.

EDP provides loans for all activities - micro and small projects - related to agriculture, industry, services and trade. A small enterprise is considered as one with a capital investment not exceeding LE400,000 (around US$120,000), and employing not more than 20 workers. The maximum loan is LE50,000. Until July 1998, around 25 per cent of projects financed by EDP through intermediaries were in industry, mainly in food, ready-made garments and furniture. EDP no longer provides loans to projects related to ready-made garments, leather and furniture, in view of the duplication of such projects with no innovation. The Government grants EDP-financed projects tax exemption for ten years.

EDP also provides non-financial services to potential and existing entrepreneurs, particularly in assisting them with administrative procedures and licensing, participation in fairs and exhibitions, training courses in business administration and offering different types of courses to up-grade the entrepreneurial skills.

### 8.1.2 Industrial Development Bank: Egypt

The Industrial Development Bank combines credit activity with the provision of non-financial services. IBD classifies enterprises according to fixed assets. Micro (or very small) and small firms are those enterprises whose fixed assets (excluding land and buildings) do not exceed LE 700.000 and LE I.400.000, respectively. More than 90 per cent of the number of loans, representing 43,5 percent of total value of Bank's portfolio are granted to micro and small enterprises, which enjoy special credit conditions. Special consideration is given by the Bank to small-scale soft lending with a subsidised interest rate Given the difficulties SMEs face in securing collaterals, the IDB considers machinery and equipment as an appropriate guarantee for the loan; in this case, the machinery belong to the Bank until the loan is repaid.

Technical assistance is generally granted through the Ministry for Scientific Research and the Industrial and Engineering Design Development Centre. In fact, the Bank has signed an agreement with these two agencies for the provision of technical assistance to certain projects that may encounter technical and managerial problems.

The Bank provides also marketing assistance to its clients by offering them the participation in the Cairo International Fair and other international fairs. The Bank is now considering the idea of establishing an international marketing company, with the aim of providing marketing assistance to SMEs.

---

[22] Egyptian public banks account for more than 78 percent of the SFD usage. According to DEPRA Project Report of 1997, there is nearly unanimous agreement that the SFD business is unprofitable, and that banks would not undertake it on their own for this reason. Although the SFD indicated that ten private banks were joining their programme, there were no significant new SME initiatives mentioned by the interviewed banks with the exception of the National Bank for Development, which is expanding its programmes at its own expenses (USAID's support for the programme had come to an end in 1997).

### 8.1.3 Industrial Development Bank: Jordan

The Industrial Development Bank (IBD) is a financial institution established in 1965. It should be considered as a private institution, since the Jordanian Government owns only 12,7 percent of the shares, while the Housing Bank (the major shareholder) owns 33,7 percent. IBD provides easy term loans (up to 10.000 JDs) to small enterprises and handicraft for financing investment projects below 40.000 JDs. According to the Bank, small enterprises are those whose fixed assets do not exceed 10.000 JDs. In term of number of loans approved, the most important sector is that of medical services, followed by carpentry and metal works. The number of loans has dramatically declined after 1994 as a result of a bank's decision to revise the lending policy after the disappointing rates of repayment and to reduce lending in some sectors characterised by an oversupply of services (carpentry, masonry).

### 8.1.4 Credit Guarantee Companies

The Credit Guarantee Company for Small-Scale Enterprises (CGC) was established in 1989 as an Egyptian private stock company, with the aim of helping small enterprises to solve the issue of collateral. The CGC defines a small enterprise as one which has an investment (excluding land and buildings) varying between LE40,000 and LE 7 million. All economic sectors, except trade, are eligible for CGC guarantees. The CGC offers a guarantee up to 50 percent of the total amount of the loan granted to small-scale firms by a commercial bank. On average, the guarantee offered on a bank loan may range from a minimum of LE 10.000 (around US$3.000) to a maximum of LE 700.000 (around US$230.000). The loan should not be less than LE 20,000 and not more than LE 1.4 million. The guarantees are granted only on bank loans in domestic currency, asked to finance the purchase of new equipment and other production requirements. The Credit Guarantee Company has received a large number of requests for guarantees and has been able to sustain its activities on a commercial basis.

CGC also provides, free of charge, information on the latest available overseas export opportunities through the International Trade Net. Besides, CGC is currently participating in the establishment of a complex for small-sized industries in Zahra' Al Maadi, with a total area of 11,000 square metres. CGC intends to form a company that will provide marketing assistance to small enterprises.

The experience of Jordan is different. The Jordan Loan Guarantee Corporation (JLGC) is a public shareholding company incorporated in 1994 with the aim of providing guarantees related to loans whose amount is less than 40.000 JDs up to 6 years, granted by banks to SMEs. JLGC defines SME as enterprises with less than 20 employees. For projects located within the boundaries of the Greater Amman Municipality and amounting to more than 20.000 JDs, the guarantee covers 50 percent of the loan. Loans below 20.000 JDs or granted to women, regardless of the project location or size, are guaranteed up to 75 percent of total amount.

## 8.2 Non financial support to SMEs

A variety of services are provided to potential and existing small enterprises in countries of the region, aiming at increasing the number of start-ups and assisting existing enterprises to solve their problems and improve their competitiveness. These services include: technical and managerial training, advisory services, consultancy, awareness programmes and business information.

Non financial services are essential in the entrepreneurial career. However, these services are relatively scarce in most Mediterranean countries. When available, very few entrepreneurs use them. Most of the entrepreneurs underestimate the role of such services since financial support is still perceived as the most pressing need.

Institutions that provide non financial services to SMEs include government agencies, non-governmental organisations (NGOs) and private sector institutions including business associations. Some of them are specialised institutions, providing services only to SMEs; others support the industrial sector in general, including SMEs. They may be separated into two groups: the service delivery organisations; and the membership organisations:

1. The service delivery organisations are established by government agencies, NGOs, and private sector organisations including consultancy offices, with the aim of providing support services to the SME sector. This group can be divided into two categories:
   (a) Organisations that provide exclusively non-financial support, such as training, consultancy, information and technical assistance, either to existing enterprises only, to start-ups, or to both;
   (b) Organisations that combine non-financial services with credit provision.
2. Membership organisations are created or owned directly by firms. This category includes Chambers of commerce and industry, business associations, cooperatives, etc. These organisations are generally nonprofit and are finances directly by their members. They represent the interests of members and offer them several kinds of services.

Generally speaking, these institutions are not targeted to specific industrial sectors and/or category of firms (small vs. large). Such a policy limits their impact on SME development and promotion.

In the following subsection, the activities of selected institutions providing non-financial services to SMEs will analysed. The discussion is limited to only three countries, Egypt, Jordan and Lebanon.

### 8.2.1 Vocational Training Corporation: Jordan

The Vocational Training Corporation (VTC) in Jordan was assigned the implementation of an ILO/UNDP project (March 1992 to December 1997) on Industrial Extension Services (IES) for small and medium-sized industrial enterprises. The immediate objective of the IES program was to build a national capacity to provide training and consultancy services for SMEs, defined as employing from 5 to 100 employees.

The project trained 10 national industrial facilitator officers. Its efforts concentrated on the four manufacturing sectors that had shown the best growth possibilities: garments and textiles, timber, metals, and plastics. However, the project provided services also for enterprises belonging to the chemical industry (paints and detergents), printed materials and foodstuffs.

During the five-year duration of the project, a total of 167 courses and seminars were organised on management and technical issues, consisting mainly of: basic accounting, marketing, basic management skills, quality control, and maintenance. A total of 1,146 managers and technicians from 433 firms benefited from these courses.

According to an assessment survey carried out by VTC on the project results, 37 percent of the participants were enterprise owners, and 61 percent were employees. In the consultancy area, a total of 4.724 advisory visits were made to enterprises on specific management and technical issues related mainly to costing, stock control, layout, accounting and planning.

Most of the VTC beneficiaries were companies with more than 20 employees. According to VTC officials, these small enterprises have more educated entrepreneurs, and therefore are more aware of the importance of training to their business. Entrepreneurs with a more limited educational background have difficulties in understanding the importance of this kind of services.

It is important to notice that most of VTC training courses were organised directly on site (at enterprise locations); such an option helps to solve the problem of the lack of time for the entrepreneur. Generally, training courses attracted, on average, about 10 participants each. Services were provided free of charge. This limited, to a great extent, the sustainability of the project.

After the completion of the project VTC established the Institute for Small and Medium-Scale Industries, which has seven engineers as facilitator and training officers. The Institute aims at increasing industrial productivity through the provision of training courses and advisory services in management, finance and technical studies. However, for various reasons, the Institute is now facing serious difficulties in the implementation of its program. The enterprises were reluctant to pay nominal fees (JD 5. - Per hour of advice or technical assistance and JD 20. - Per week for a course). Such reluctance raises again the question of the perceived effectiveness of this kind of services, that were provided by the UNDP/ILO project. This could be explained by the fact that VTC services are not meeting the real needs of the entrepreneurs who, at the same time, see no direct benefit from such services.

### 8.2.2 Business support services offered by the European Union

With a view to promoting private sector development in the region, the European Union, in cooperation with local Governments, recently established some offices: the Private Sector Development Programme (PSDP) in Egypt (1996) and the Business Service Team (BST) in Jordan (1998); These offices[23] are non-profit consultancy agencies which offer their services to small and medium-size private enterprises.

In Jordan, the Programme is facilitated through the Euro-Jordanian Business Service Team (BST) for a three-year period. The main components of the programme are: Business Support Services; Marketing and Export Development; Business Collaboration and Investment Promotion; Information and Data services; and Development of Business Associations. The main area of the Programme has been the Business Support Services.

As far as this latter is concerned, three different types of business support activities are offered:

(a) A preliminary support, with the aim of identifying the real needs of the firm; the service is free of charge;

(b) A general support, which consists of the implementation of a business and action plan;

(c) A specialised support, consisting in the provision of highly-specialised services such as production processing, IT, product development, marketing or quality management. This part of the programme is implemented by highly-qualified European experts. The client is charged a nominal fee.

The BST (a team of six consultants) received 88 applications by the end of 1998. However, only 50 percent were qualified for assistance and a limited number of small enterprises applied for assistance; most of the applicants had more than 40-50 employees.

The PSDP implemented in Egypt is similar to the Jordanian scheme. It is a five-year programme managed by a Project Management Unit (PMU) and has two main components: the Business Support Programme and the Institutional Development Programme.

The Business Support Programme comprises: (a) Business Upgrading Services, and (b) Business Support Services. The aim of the Business Upgrading Services is to improve the performance of individual companies. This programme is implemented in three stages: an exploratory study of the company, the preparation and implementation of a business plan. The first two stages are implemented free of charge; in the last stage, the company has to contribute 10 percent of the cost of consultancy services. The Business Support Services provides practical consultation and training in specific key areas to individual companies and groups of companies where common issues may be addressed. These issues may include: human resources development, marketing and export development, information and research, and business cooperation (joint ventures, technology transfer, etc.).

The Institutional Development Programme, is the second main component of the PSDP in Egypt. IDP is offered to business associations and support institutions with the aim to improve the capability of these organisations and to enable them to meet the needs of their members.

Until early 1999, around 550 companies have applied to take part in the PSDP. Most of the companies belonged to food processing, textiles and garments, and software sectors. There is also a large demand for training: The programme for 1999 is expected to deliver 400 training days for top and middle management in various areas of management.

[23] In Egypt, manufacturing enterprises employing more than 30 workers, and service companies with more than 10 employees, are eligible for the support services of the program. In Jordan, to benefit from the services of the Business Service Team (BST), enterprises should have more than 10 and fewer than 200 employees.

### 8.2.3 The Outreach Consultation Project at the University of Jordan

Launched in 1992 with the financial support of the United States Agency for International Development (USAID), the aim of the Outreach Consultation Project (OCP) at the Industrial Engineering Department of the University of Jordan is, among other things, to establish a link between the University and the industrial sector (particularly SMEs), to identify its problems and provide assistance to the sector through consultancy services, organisation of awareness seminars and training courses.

The OCP has been very active in the organisation of seminars and workshops, particularly in the technical fields of industry such as quality control (ISO 9000), production planning and control, maintenance, the management of human resources, etc. However, OCP did not succeed in reaching a large number of SMEs. It provides services mostly to medium and large enterprises, which are more aware of the importance of the introduction of the principles of industrial engineering in their companies.

The fact that OCP focuses its activities on technical rather than on managerial areas, is one of the main factors in the success of the programme, as a large number of industries have been attracted to OCP activities. The seminars have enabled the OCP to become familiar with the problems of the industrial sector, while contributing to closer contact between OCP staff and industrial managers

### 8.2.4 Marketing support

Marketing is considered by most small enterprises as their major problem, and more important than financing. Entrepreneurs in the region have a misconception of marketing, which is considered in its narrow definition. They relate their problems to external factors: the limited size of the local market, the competition from the product itself, which does not meet the standards and quality, and the taste and needs of the consumer.

The problems can be attributed to the inability of enterprises to expand their market base beyond the local community and immediate neighbourhood; therefore market assistance should include support to entrepreneurs in term of information, procedures, techniques and methodologies for preparing a marketing plan..

#### 8.2.4.1 The Egyptian Export Promotion Centre (EEPC)

The Egyptian Export Promotion Centre (EEPC) was established in 1979 as a governmental authority affiliated to the Ministry of Economy and Foreign Trade, with the aim of stimulating exports from Egypt worldwide. Since 1996 it has been affiliated with the Ministry of Trade and Supply. It offers the following services to both start-ups and existing firms:

(i) Marketing studies and coordination of fairs: EEPC focuses on the promotion of exports in difficult markets such as Africa and Latin America, and organises visits of foreign importers in Egypt;

(ii) Upgrading of Egyptian products, particularly SMEs' products: EEPC signed bilateral agreements with several international organisations which provide experts in specific areas. Foreign assistance is provided to companies with growth potential in the area of product development (new design and better quality) and export. However, small companies that benefitted from such assistance are rare; most of the assisted companies employ more than 50 workers;

(iii) Information: EEPC has a database covering various areas: foreign trade statistics, Egyptian exporters and foreign importers, information on foreign markets and export opportunities, selected international fairs and exhibitions, export procedures and regulations, etc.;

(iv) Human resources development: EEPC carries out specialised training courses to develop the skills and improve the performance of the export sector in Egypt. Training covers areas such as product development, market research, negotiation skills, management skills, ISO 9000, Total Quality Management, export procedures, etc.

EEPC has designed an interesting scheme for start-up companies through the provision of assistance in the preparation of the pre-feasibility study, in identifying export opportunities, and arranging the establishment of joint ventures with foreign companies.

#### 8.2.4.2 Jordan Export Development and Commercial Centres Corporation (JEDCO)

Until 1992, the function of the Jordan Commercial Centres Corporation (JCCC) was the management of regional trade protocol agreements on behalf of the Ministry of Industry and Trade. In 1992 its name was changed to JEDCO as it assumed the additional function of the national trade development.

JEDCO now offers a wide range of services, which includes product promotion, market information and research, technical assistance for product design and development and process innovation, and export development advisory services. Exporters can consult JEDCO's database, which include profiles of around 1.200 export companies. Particular attention, according to JEDCO officials, is paid to SMEs. However, most of small firms are not exporters, since exporters generally employ more than 40-50 employees.

#### 8.2.4.3 Trade Information Centre: Lebanon

The Trade Information Centre was established in 1995 by presidential decree. It operates under the Ministry of Economy and Trade and benefits from technical support from the International Trade Centre (ITC) in Geneva. Its core mandate is trade facilitation and export promotion.

The Trade Information Centre runs an inquiry/ reply service providing Government- related information on international trade, including policy agreements and regulations, procedures, tariffs and prohibitions. The Trade Information Centre also helps in identifying partners for export and import markets. It initiates or supports regional and sectoral meetings and trade fairs and acts as a host to international seminars. Entrepreneurs can also benefit from monthly sessions on the use of the Internet. Additionally, the institution has information on procedures and requirements for the registration of enterprises.

Information is free of charge and is available to all interested. Information is provided on simple request by phone or fax, and by means of the standard e-mail Information Request Form available at the Institute's web address which is part of the Ministry's web site with url:*www.econorny.gov. lb*. The Institute's web site also provides contact information and trade statistics with basic economic indicators. However, very few enterprises are aware of the existence of such databases. There should be increased awareness on the part of business owners of the importance of data to business success.

#### 8.2.4.4 The Egyptian International Trade Points.

Trade points (TPs) were established by the Government in Cairo, Alexandria, Kafr El-Sheikh and 10th of Ramadan city. The Cairo TP acts as the nucleus of the network and receives and disseminates information to the other TPs in Egypt. The Cairo TP itself is connected through the Internet to the Global Trade Point Network (GTPN) located in Melbourne, Australia. This network was initiated by the United Nations Conference on Trade and Development (UNCTAD) and links 142 country- TPs around the world. The Egyptian TPs are also linked to the Inter-Arab Trade Information Network (IATN) that was initiated by the Arab Trade Financing Programme with the support ofUNDP and the ITC.

Egyptian TPs provides trade information to SMEs: trade statistics, market and product information, trade opportunities, import/export regulations, customs requirements, country legislation, etc. The TPs rely on statistics provided by the Egyptian Central Agency for Public Mobilization and Statistics (CAPMAS), and on price and product information provided by private sector and professional associations.

However, TPs have experienced a number of difficulties. In the initial stage, TPs were entirely financed by the Government and international organisations, but it was assumed that they would become self-financed; but SMEs are reluctant to pay fees and limited financial resources have hampered their operations. Information provided by GTPN is often incorrect, and GTPN does not display all information the Egyptian TPs provide. Moreover, the trade statistics provided by CAPMAS are often outdated, and information from other Egyptian sources are sometimes inaccurate and contradictory.

### 8.2.5 Support from the Ministry of Industry and Labour

#### 8.2.5.1 Ministry of Industry and Trade: Jordan

The Ministry is considering the establishment of a special unit that could provide services to SMEs. The Industrial Development Directorate of the Ministry is the counterpart of a four-year USAID programme amounting to US$15 million. The objectives of the programme are: to improve the growth and survival rate of small and medium-size industrial enterprises; and to increase the rate of new start-ups. The programme provides technical assistance to SMEs in various fields: design, quality control, marketing, management, information, and environmental management systems. More particularly, it includes the establishment of the following centres:

(a) *Small and Medium Industries Centre* (SMIC) which aims at assisting in product design and development and technology improvement, providing practical technical and managerial training; assisting in developing new markets, and developing a Management Information System Centre;

(b) *Manufacturing Technology Centre* (MTC) aiming at helping SMEs to upgrade and modernize their technology in order to achieve a more competitive edge in the local and global markets. This is carried out mainly through facilitating business partnerships with US companies, identifying technology needs, assisting in technology adaptation and providing specialised training and computer databases;

(c) *Quality Assurance Centre* (QAC.) which aims at promoting the awareness of SMEs on the importance of "Quality", in order to enhance the competitiveness of Jordanian enterprises.

A *One-Stop-Shop* Committee for industrial licensing has been established to facilitate the administrative procedures for investors. It consists of representatives of all concerned Government ministries. The committee acts as facilitator, not as a decision maker.

## 8.3 Non-financial support combined with credit provision

### 8.3.1 Alexandria Business Association

An example of an agency which combines credit and non-financial services is the Small and Micro Enterprise (SME) Project of the Alexandria Business Association (ABA). The ABA project started in 1990, thanks to USAID funding. It aims at developing micro and small enterprises, raising their income, creating new jobs, and helping them to convert their activities from informal to formal. ABA does not provide credit or other services to start-up projects. ABA targets owners of micro and small businesses, who are not able to access credit from the formal banking system.

*Micro enterprises* are defined as those with up to 5 employees and small enterprises those with between 6 and 15 employees. To benefit from a loan, enterprises should have been in operation for at least one year. Most loans are provided to micro enterprises (74 percent of the portfolio), particularly to manufacturing activities. Manufacturing activities account for 63 percent of the portfolio, followed by trade (26 percent) and services (11 percent).

The amounts of loans range from a minimum of LE 1.000 to a maximum of LE 50.000. Disbursement of the approved loan, however, is provided gradually to ensure the size of the loan is appropriate for the business. The first three instalments are short-term, to be used only in financing working capital requirements; fixed assets can be financed later, usually by the fourth instalment. The maximum duration of the loan is two years. The SME project is managed as a private business, as borrowers are charged appropriate commercial interest rates.

Also non-financial services are charged with appropriate fees, so that the project can become sustainable and self-sufficient. According to ABA officials, the non-financial support component of the project has been able to sustain itself financially without subsidies. ABA has established the *Alexandria Small Business Centre* (ASBC) to meet the non-financial needs of its clients; according to a survey carried out by the Project in 1998 , the main problems faced by borrowers are in marketing and the bureaucratic government procedures.

Non-financial needs are addressed through four main areas of intervention:

(a) Business and technical training: how to deal with taxation and social security; steps required for registration and licensing; bookkeeping; and technical training. This kind of services has been provided to firms belonging to woodwork and garments sectors;

(b) Marketing: ABA organises exhibitions for clients' products. Clients can also display their products in the ASBC's showroom;

(c) Information: A catalogue library has been established in the Centre, providing the latest fashions and production techniques;

(d) Technical assistance The provision of technical assistance to clients upon request.

ABA is recognised worldwide as one of the most successful SME agencies. Consultancy services are now being provided to national, regional and foreign institutions in a number of areas such as design of sustainable credit schemes, design of service delivery mechanisms, steps required to start micro-credit operations, training workshops, staff incentives and performance measurement, and the socio-economic impact of credit schemes.

In 1998 ABA carried out a survey to assess the impact of its programme on a sample of 806 clients[24]. The results of the survey indicated that more than 20 percent of its clients converted their businesses from informal to legal operations. This result confirm that seminars on registration and licensing have been effective. The results also showed that 43,5 percent of the sample clients were able to increase their average monthly sales and that 21,6 per cent were able to record an increase in employment.

#### 8.3.2 The Development and Employment Fund: Jordan

The Development and Employment Fund (DEF) provides small loans directly to borrowers as well as through organisations such as the Noor Al Hussein Foundation and Queen Alia Fund. The beneficiaries of DEF should be unemployed. The Social Development Project at DEF, which provides non-financial services to small businesses - thanks to funds granted by the European Union - was very active, particularly in 1997, through the implementation of an entrepreneurship programme, with the assistance of ESCWA. The Project concentrated its activities on building training capacity among young Jordanian University graduates, to enable them to run training courses for potential entrepreneurs. A number of courses in entrepreneurship awareness and Start your Own Business (SYB) were conducted in 1997, particularly in rural areas.

#### 8.3.3 Queen Alia Fund: Jordan

The Small Business Development Centre at the Queen Alia Fund (QAF) provides small loans to micro and small projects, the amounts of which may reach up to JD6,000 (around US$8,500). The Centre which has seven business advisers, helps the beneficiaries in developing a business plan through advice and training. The Centre - which has developed some training materials and guides - concentrates its activities on start-up projects.

QAF has also implemented handcrafts and other income-generating projects, some of which are run by local communities and others by QAF, which also provides the centres with financial, marketing and training support.

### 8.4 Membership organizations

#### 8.4.1 Federation of Egyptian Industries

The Federation of Egyptian Industries is today restructuring so as to become better equipped to adapt to the new free market environment. With the support of USAID, a Project

[24] See United Nations (1999), pag 32.

Management Unit has been established within the Federation in June 1998. It started by setting up procedures and defining the objectives of the Federation and the policies to be followed. Particular emphasis was placed on the capacity-building of the Federation and on setting up information systems and an industrial database. According to the new draft of the law under revision, membership will be voluntary and open also to small industries (with more than 10 workers and capital of more than LE 50.000).

One of the current objectives of the Federation of Egyptian Industries is to support small and medium-sized enterprises and promote a market economy. The Federation provides its members with a number of activities, such as awareness programmes, or services concerning the promotion of exports, anti-dumping measures, compliance with environmental law, quality management certification, the International Organisation for Standardisation (ISO), etc. However, so far, the activities of the Federation have been addressing more medium and large enterprises rather than the small ones.

### 8.4.2 Chamber of Industry: Jordan

The Amman Chamber of Industry provides its members, including small enterprises, with a wide range of services consisting mainly of: (a) information and consultancy in various areas such as international trade agreements, investment, labour regulations, marketing; (b) workshops and seminars on various economic issues; (c) an organisation for participation of members in regional and international trade fairs; (d) organisation of visits abroad for business delegations, with the aim of promoting joint ventures in Jordan; (e) coordination of activities of advisory committees that represent various industrial subsectors; (f) publication of a Jordanian Industrial Directory, and several research studies or information booklets.

The Chamber of Industry established a specials department for SMEs in 1998. It is expected to give support to SMEs in the following areas: Marketing, exports, advice and guidance, financial and legal matters, industrial management and technical consultancy. The department will be involved in sectoral studies to identify the requirements of SMEs. It is still in its early stages.

### 8.4.3 Association of Lebanese Industrialists

The Association of Lebanese Industrialists is a group of industrialists from all over Lebanon. Its main objective is "To create and maintain an environment which is favourable to industrial investment, growth and development" . The Association carries out several activities, including: exploration of foreign markets for Lebanese industries, participation in international fairs and exhibitions, protection of the interests of Lebanese industrialists, dissemination of information, and the organisation of awareness seminars and conferences on specific topics of interest to industrialists (WTO agreements, for example), etc.

### 8.4.4 Association for the Development of Small and Medium-Scale Industries in the New Cities: Egypt

Established in 1996, the Association (ASMINC) is an Egyptian NGO aiming at developing small and medium-scale enterprises through the provision of the following non financial services: (a) scientific and technical services; (b) social and cultural services and information; and (c) marketing services.

The Association is currently implementing five projects, which can be summarized as follows:

(a) Project for the development of SMEs in the new cities. The main objective is to promote the establishment of new enterprises the new cities and to link SMEs with large enterprises through the provision of loans. This project is financed by the Social Fund for Development (SFD) which has allocated the total sum of LE 5 million, plus 7 percent operating fees for the Association. Until now, 16 projects have been approved for loan financing and 8 are under way. The amounts of the loans range from LE 50.000 per person to LE 200.000 per company of four partners;

(b) Information and communications programme. Under this project, the Association provides its members with shared facilities such as computer services. Internet, fax and photocopy machines, and library facilities. Access to information is also provided through the creation of an adequate and enabling environment, as well as through facilitating access to training and consultancy. In this field, the European Union has assisted (through a consultancy firm) in drawing up a business plan for upgrading the performance of the Association, and the Friedrich Ebert Stiftung (FES) is assisting in the organisation of workshops and seminars;

(c) Project for the establishment of a social and cultural club. The FES has carried out the feasibility study for the club and the Association has presented the study to the donors for funding;

(d) Project of building and upgrading the training centre for woodwork and furniture production. FES has financed the feasibility study but until now the Association has been unable to get funding for the project;

(e) Project for educating young employees in the small-scale enterprises: The project, which aims at improving the educational level of young workers in SMEs, started early in 1997, but lasted only one year.

### 8.4.5 Association of Small-Scale Industries for Local Community Development in the 6 of October City: Egypt

The Association was established in 1997 with 22 members. There are now 183 members. The objective of the Association is to assist small-scale industries as well as the local community. Most of the services provided by the Association are offered at cost. The Association has carried out several projects:

(a) Training graduates of the faculty of Engineering in industrial firms for one year at a nominal salary. At the end of the year, both the graduates and the industrialists have the choice of either continuing to work together - the graduates with an appropriate salary - or for the graduate to work in another factory. In 1998, 153 graduates were trained: 120 of them remained in the factories where they had trained, 22 moved to other factories and 11 did not complete the full training period;

(b) Making available Ph.D theses to members of the Association, upon request, with the aim of helping them establish a new business or develop an existing one.

(c) The Association acts as a pressure group on decision-makers. For example, the authorities agreed to provide a piece of industrial land and divide it to small lots (500m^) to be used by Association members;

(d) In the field of marketing, a permanent showroom was established at the headquarters of the Association to enable small industrialists to display their products for a monthly fee;

(e) Support for the conservation of the environment through the organisation of awareness programmes (seminars and lectures); the establishment of a laboratory at the Association's headquarters to analyse industrial waste, under the technical supervision of the Faculty of Sciences at the University of Cairo; and the provision of counsel for the firms whose waste is not in accordance with environmental criteria;

(f) Establishment of a communications and a database centre, equipped with computers with Internet access, and fax and photocopying machines. Members may benefit from these services at a minimal cost;

In the area of employment, the Association maintains a record of the unemployed who register their names; and it publishes and distributes a monthly bulletin that includes a list of the registered unemployed. In fact, 75 people have found employment through this service.

### 8.4.6 Business Women's Association: Egypt

The aim of the Association is to provide assistance to businesswomen in the province of Daqhlieh, and it is active in the villages and cities of that province. Its objectives are as follows: (a) to assist businesswomen to solve their problems; (b) strengthen the capability of businesswomen in the technical field; (c) search for job opportunities for youth; (d) provide consultation when needed; (e) help in conservation of the environment.

The Association provides a number of services to its members: Advanced training sessions in various fields of business; Facilitation of participation in exhibitions; Consultancy services; Contacts with concerned authorities to solve businesswomen's problems; Assistance with attendance of international economic conferences; Provision of training opportunities in the members' firms; Provision of economic information; Assisting women in establishing new businesses; Marketing assistance.

### 8.4.7 The Business and Professional Women's Club: Jordan

The Business and Professional Women's Club was founded ten years ago. Its activities are well-known to the public; and it has the advantage of an existing, well-developed infrastructure (trained staff and physical assets). On its board there are members of the private sector community, the Chambers of Commerce and Industry and prominent lawyers. The administrative committee is headed by a president and consists of eight members, each member required to supervise one project. The club has been able to expand its activities outside Amman, and it has now offices in Akaba, Zarka and Irbid. The main activities of the club include the following: Business counselling centre; Business incubator; Legal counselling; Information centre: Career development project. The business incubator started its operations a year ago. It has five clients. The actual capacity of the incubator does not exceed ten people.

# 9 CONCLUSIONS AND RECOMMENDATIONS

Small and medium enterprises could be seen in the region as a driving force towards a modernisation of the countries. They could be a vehicle of social stability more than a growing factor for the large corporations and for the economic of the region.

The increase of the number of SMEs in the region will be seen as an indicator of democratisation of the political system itself, moving along with the consolidation of the social and economic environment. Furthermore SMEs diffusion can incentivate the technological innovation in all countries due to their traditional capacity of innovation.

Governments have a major role to play in improving the **business environment** for SMES. They have to focus their economic strategies on creating a healthy business environment and framework for economic activities, even through the set up of a transparent, efficient and non-discriminatory tax system. On the labour hand, it's important to establish income distribution mechanisms as long as with labour regulations not too constraining. Adequate resources need to be in place for a more effective and faster functioning of the judiciary, particularly for the settlement of economic disputes; furthermore laws should be transparent, with minimum ambiguity.

Equally important is the establishment and/or strengthening of institutions that can enforce the compliance of SMEs with international standards, even the import and export regulations should be streamlined and the avoidance of artificial returns on foreign currency exchanges

It is extremely important to promote an **enterprise culture** and introduce entrepreneurial concepts and practices at all educational levels. Such programmes should focus on assisting students to increase their motivation, self-confidence, risk-taking, initiative and creativity, to enable them to start a business and generate innovative business ideas. In the Mediterranean region most people are educated to prefer to work in a secure environment such as government employment or as employees in large companies. Efforts must be made to change this attitude and encourage people to choose self-employment as a good alternative,

Development of the above mentioned personal attributes will help students move towards self-employment, in small business management; in fact the self-employed should have all of these attributes so as to solve problems by themselves, take responsibility in decision making, deal with uncertainty.

Strong awareness must be created about the benefits the **Internet and IT** can bring to SME development. In view of the fact that, due to limited literacy and educational background, small entrepreneurs generally have difficulty in introducing computers into their own establishments, it is recommended to create focal points that would offer SMEs the facilities to access the Internet. Focal points would provide Internet facilities to a number of SMEs located in a specific geographic area. This services s would concentrate on the exhibition of products on a Web site (virtual fair); on the establishment of business to business databases and on create web directories or portal fairs (exhibition of products on a Web page), providing information on themes related to SME support and assisting in projects of e-commerce.

It could be important to assist enterprises operating in the same business line to form **networks** and to cooperate in the new globalisation environment, thus increasing their competitiveness. A network of 10 to 20 small firms could be formed and encouraged to cooperate in different areas. By taking part in network activities, entrepreneurs would be able to build trust between themselves, thus contributing to the creation of a culture of cooperation, particularly in countries where mistrust and fierce competition is dominant among entrepreneurs.

The organisation of SMEs into mutual support groups or **associations** by occupational status would facilitate the provision of services and the sharing of experience between entrepreneurs. Common problems faced by owner- managers could be addressed therefore within the support group or association. It is important that associations of producers be established in all industrial branches in order to facilitate the delivery of services to small enterprises.

On the other hand, many small business owners are not well aware of their needs and lack information on the existence of small business advisory agencies. The problems encountered by SMEs need to be identified by means of adequate surveys of the target group of entrepreneurs. Surveys also have the advantage of making the entrepreneurs more aware of their problems and of their need for managerial and technical assistance.

Business organisations generally reach only a small number of beneficiaries in the area of non-financial services, in view of the limited resources and the use of traditional means of communication with entrepreneurs. To be more effective, they must be able to reach thousands of entrepreneurs through the use of information technology as, for examples, production of CD multimedia and software in areas covered previously by written materials related to training courses or information booklets.

Many of the services provided by business organisations do not meet the needs of small entrepreneurs. They should be developed in form and packages more attractive for the SMEs. Small entrepreneurs rarely use the services of business organisations, particularly those provided by non-private institutions. They rely more on services bought at private sector agencies, as well as on services provided by a network of informal relations: their peers, friends and relatives. Such results raise the issue of the effectiveness of non-private business organisations as providers of services, so it would be better to change their role in a facilitator.

Furthermore, in order to meet the needs of entrepreneurs, services should be provided on sector specific, specialised and demand driven basis

Since the demand for business services is expanding, there is a great need to develop training materials that can help entrepreneurs adapt to changes in the international environment and face the challenges of globalisation. Such materials should be based on action-learning methods, the use of the participatory approach, problem solving and peer learning.

In fact in the action-learning approach, the participants are placed in an environment similar to that of a small business through practical activities and exercises, where they can exercise and experience the tasks of management of small projects through competition, risk-taking, profit and loss, identification and exploitation of opportunities.

Little cooperation exists between Business organisations at the regional level, or even at the national level. The establishment of a **network of business organisations** at national and regional would enable them to consolidate resources, focus their activities, specialise in areas where they enjoy comparative advantages, and enhance their capacity-building through joint activities and the development of a common approach to enterprise development. It would also entail the sharing of experience, skills and expertise, and the exchange of information and databases.

In addition to the macro and microeconomic environment and the institutional and regulatory issues, social attitudes also play a role in the well-functioning of SMEs. In some countries, the prominent role of State-owned enterprises curbed the entrepreneurial motivations. It is still being reflected in the higher social status government employees have over that of the private sector workers. As a difference with the European SMEs, their contribution to the total employment in the country is limited and in part it is a consequence of the more prestige given to the public workers. Moreover it is considered unusual for women to run their own business. Women who want to start a career in the private sector often face pressure from the family. Additionally in the region, the basic unit of social allegiance is the family, the tribe or the local community.

# 10 REFERENCES


Becattini G. (1990), *The Marshallian Industrial District as a Socio-Economic Notion*, in Pyke F., Becattini G. and Sengenberger W. (1990), (Eds), *Industrial Districts and Inter-Firm Cooperation in Italy*, Genève, International Institute for Labour Studies, ILO.

Belussi F. (1992), Nuovi Modelli d'impresa, gerarchie organizzative e imprese rete, Milano, Angeli.

Christin I. (1997), *Jordan. Small and Medium Enterprises's role and the Issies of quality of production within the framework of the export development project*, mineo.

De Soto H. (1997), "Dead Capital and the Poor Egypt", Distinguished Lecture Series 11. ECES, Cairo.

Depperu D. (1993), L'internazionalizzazione delle piccole e medie imprese, Milano, EGEA.

EGF-Hermes (1997), *Egypt: A New Economic Horizon*, Cairo, EGF-Hermes.

Fawzy S., Galal A. (Eds.) (1999), Partner for Development. New Roles for Government and Private Sector in the Middle East and North Africa, World Bank Institute-ECES, Washington.

Guigale Marcello, Hamed Mobarak (eds.) (1996), *Private Sector Development in Egypt*, Cairo, The American University Press.

United Nations (1999), *Small and Medium Enterprises: Strategies, Policies and Support Institutions*, Economic and Social Commission for Western Asia, New York, E/ESCWA/ID/1999/5.

World Bank (1994), Private Sector Development in Egypt: The Status and the Challenges, Washington, D.C., World Bank.

World Bank (1997), Arab Republic of Egypt, Country Economic Memorandum, Egypt: Issues in Sustaining Economic Growth (Volume II: Main Report), Washington, D.C.: World Bank.

World Bank (1998), World Development Report, 1997, "The State in a Changing World", Washington, D.C.

World Bank (1999), *Kingdom of Morocco: Private Sector Assessment Update,* Report No. 19975-MOR, Washington, D.C., December 15, 1999.

9

**Very preliminary draft.**
**Please, do not quote.**

# Economic Development Assistance to North African Countries.

# A Macroeconomic Assessment.

**Francesco Lovecchio[*] and Roberto Zanola[+]**

**July 2000**

[*] Economics Research, Bank of Italy.

[+] Department of Economics, University of Turin.

## 1. A Macroeconomic Overview.

The total Gross Domestic Product (GDP) of all African countries is approximately close to half of the Italian GDP, or put it in other terms it is lower than the GDP of Spain. However, the African population scores more than 762 millions of inhabitants, and still shows an upward demographic trend. North African Countries, together with Nigeria and South Africa, take the largest part of the African GDP. According to the latest available data, in 1998 Morocco, Algeria, Tunisia, Lybia, and Egypt shared the 36 per cent of the African GDP and the 17,6 per cent of the population of the continent. Accordingly, the World Bank classifies these countries at the lower bound of the middle-income group, with the exception of Lybia which fits in the higher middle-income class.

The economies of this region are diverse, including both oil rich economies as Libya, and countries that are resource-scarce in relation to population such as Egypt and Morocco. Between 1965 and 1998, this region outperformed all other areas in terms of income growth. This growth was sustained by the increase in oil prices in 1973 and in 1979. Dramatic oil price increase fuelled rapid growth in oil and non-oil sectors. Non-oil countries benefitted from workers' remittance and financial support from oil-exporting countries. However, the hefty revenues from oil reduced the pressure to open up their economies to international markets. Public-led industrialization and political turmoils determined an inward-looking economic policy that implied a scarce interest in capital inflows, and foreign investors were not kin to enlarge their operations in the area. The development of the international trade was braked furtherly by high tariffs and non tariff barriers. Moreover, both the private and the public sector, and notably the banking sector, lacked experience and knowledge to penetrate international markets.

The oil price decline in the mid-1980s caused a prolonged slow growth that was exacerbated by the lack of efficient public institutions and of an efficient and developed private sector. Non-oil countries suffered from spill-over effects through lower workers' remittance from oil countries in the Middle East and North Africa. The scant presence of foreign investors was a further determinant of the insufficient response of the economies to the oil price slump. In the second half of the 1980s, all countries in the region experienced lower GDP growth, compared to that of the previous decade. Between 1985 and 1987 in the region the GDP per capita fell almost 2 per cent with peak of over 4 per cent in Algeria and Tunisia.

The most distinctive aspects of those economies are the large size and the rigidity of the public sector, the tiny private sector and the isolation from global trade. Soon after the decline of oil prices, investment collapsed, as did regional capital and labour markets. In the last 30 years the Total Factor Productivity declined while the population growth remained high: between the 1970 and the mid-1990s the regional population doubled.

In the second half of the 1980s. A number of countries (Morocco, Tunisia) began to undertake substantial programs of structural adjustments and reforms designed to restore a macroeconomic equilibrium, to open up to the international trade, and to ignite a transformation from a statalist to a private sector-led economy. These reforms overspilled across the region (to Algeria and Egypt) during the 1990s. Thanks to these reforms, and to less disruptive internal political turfs, investment and growth have improved slightly in the second part of the decade, and an improved understanding and management of external shocks have enabled the region to avoid economic crises notwithstanding the declining oil prices in 1997-1998 and the recent financial crises with its contagious effects, that have interested other areas.

In the 1990s, the problem of the reliance on a single commodity was not overcome and the manufacturing industry and the role of the private sector still remained small. Exchange rates moved unfavourably with adverse effects on the import expenditure; and public expenditures, in a ailing economy, became unsustainable even if they never reached the level experienced in some European countries at that time.

The exports of Algeria and Libya still rely heavily on oil and gas products, while Egypt counts more on services and workers' remittance. Morocco and Tunisia show a more diversified sources of foreign currencies such as tourism and manufacturing. The structure of foreign debt is also diverse. Algeria shows an high weight of official debts, especially from the French and the British governments or their agencies. Morocco and Egypt rely on the foreign private sector, while Tunisia's debenture is more diversified. Conversely, Lybia is a net creditor.

The structure of the foreign debt of North Africa does not match the structure of its commercial relationships. In fact, the main trading partners are from the European Union, whose share is about 25 per cent of total export towards EU and 44 per cent of imports, while large part of foreign debt is in US dollars and in Yen. In the last years, the economic operators are paying more attention to a more coherent composition of the currency basket of foreign debt. Those countries are increasing the issuances of bonds, with an ever increasing weight of Euro-bonds, and reducing the exposition to the banking sector.

However, the economic recovery still remains fragile and important issues remain to be settled. Above all, the development of the private sector which is slowed down by cumbersome regulatory regimes, inefficient legal and judicial systems, poorly managed banking system and underdeveloped capital markets, fealty government and public sector, outdated technology and scarce innovation. Since domestic markets are small, the international trade is the main channel to expand and to develop the private industrial sector. Though, Tariff barriers are still substantial they reduced significantly in the last years. More effort needs to be exerted with respect to human capital development, especially in training and education, and in the management of natural resources such as water which is increasingly becoming a serious issue for agriculture and populations.

### 1.2 GDP growth in the last 35 years.

In 1998, the total GDP of North Africa (at 1995 prices) was 197.493 millions of dollars, with an average real growth rate between 1965 and 1998 of 4,5 per cent (Fig. 1) During the 1970s the region experienced the fastest period of growth with an average of 5,6 per cent a year (Tab. 1). Progressively the growth declined together with the oil price slump. During the nineties the total GDP grew at a lean 2,6 per cent a year.

Because of demographic increase, the real growth of GDP per capita between 1966 and

1998 was 2,1 per cent a year in real terms (Tab. 2), with a phase of expansion during the 1970s when the growth rate was 3,3 per cent a year and a phase of deceleration during the 1980s and the 1990s, when the GDP per capita growth was deluding: 1,3 and 0,8 per cent a year, respectively.

The fastest growing economies were Egypt and Tunisia that experienced a per capita growth of 3 per cent a year during the last 35 years. During the last decade Tunisia maintained a satisfactory pace of growth with a 2,5 per cent a year while Algeria experienced a decline in real term.

Although, the weight of the agriculture sector remarkably declined it still remains an important share of GDP, with the exception of Libya whose share of agriculture is in line with most developed countries[12] (Tab. 3). However, the Libyan leader has given a high priority to the development of the agricultural sector vis-a-vis the urbanization.

### 1.3 International Trade

Geographical vicinity and former colonial links make Europe the primary commercial partner of North African countries. However, this traditional relationship is not yet symmetric. About 25 per cent of North African exports is to EU, while about 44 per cent of its import comes from Europe.

With the understandable exception of Libya, the rest of the region has experienced a continuos and constant growth of export of goods and services. The engine of this constant growth is different across countries. The degree of openness to trade of Egypt is remarkably low whose export is still lower than that of Tunisia. However, in the last decade Egypt has started implementing a series of reforms, that have favoured a sustained growth in its export of manufactures. Like Tunisia, whose export of manufactures has grown at high rates (Tab. 4). Morocco has benefitted from the larger export of manufactures and agriculture produces, while Algeria is still unable to supply a satisfactory amount of manufactures and must rely on refined products and natural gas to pay its imports. The pattern of imports are, instead, very similar across North Africa. The main items of the import bill are food and capital goods, whose dynamic has followed the growth rate of GDP and the degree of progressive liberalisation that countries have applied in their economies. However, the unfavourable evolution of the terms of trade, in particular during the decline of oil prices, caused a structural negative trade balance, which is partly offset by the workers' remittance from abroad.

During the 1980s the current account balance (trade balance+income+transfers) has shown a persistent deficit, or put it in other words, the degree of accumulation of assets held by

---

1 The agriculture sector, however, is as developed as other countries in the region. The low share of agriculture is caused by the scarcity of water and the importance of the oil sector.

foreigners has constantly increased[3].

All countries suffered from persistent and heavy current account deficits during the 1980s and not yet recovered during the following decade. The current account deficits have hampered the negative net asset position (i.e. debts) of North Africa.

### 1.4 Debt position of North Africa.

If it were asked to North African countries to join the Euro, they would be able to comply easily with the public finance criteria of Maastricht. In fact, the total debt/GDP ratio[4] in 1998 was below the 60 per cent, with the exception of Algeria whose debt was slightly above. And the public deficit/GDP ratio was about 4 per cent with a positive primary balance.

Differently from European countries, a very large part of their debts is toward foreign residents. However, the ability of North African countries to service the debt and pay the principal in hard currencies (dollars and yen) does not seem to be without risks. With the exception of the 1980s when external debt/export ratio reached its peak, the 1998 index scored 188 per cent, well above the European index but still sustainable (Tab. 5). However, because of the atrophy of exportation, the inflow of convertible currencies lags behind. In fact, the debt service ratio of North African countries is higher than in major debtor countries, such as Brazil, Mexico, Russia and Argentina. Egypt performed a sensitive improvement of its position. On the other hand, Morocco shows a preoccupying debt service burden that requires further analysis (Tab. 6). The inefficiencies and the overwhelming presence of the public sector in the economy play an important role: one fifth of the total external debt has been contracted by firms of the public sector (Tab. 7).

The share of debt on concessional terms by foreign countries has declined during the oil price slump and the economic recession in developed countries (Tab. 8). However, since the 1992 governments and multilateral organisms have increased their participation to official grant programmes, with a larger involvement of multilateral organisms that have progressively increased their commitments (Tab. 9).

## 2. International resource flows.

According to the World Bank, in 1998 the total flow of both direct and portfolio investment towards North Africa amounted to 4,2 billions of dollars, the 39 per cent of all investments directed to Africa (Tab. 10). During the period 1997-98 North Africa seemed to be able to attract the attention of foreign investors, especially towards Morocco and Egypt.

---

[3] The textbook relations explains to us that countries whose residents hold foreign assets (credits) experience a depletion of foreign assets in concomitance with current account deficits. At the end of the day, prolonged current account deficits determine a negative net position (debts).

[4] The largest part of the total debt is public, so we can easily extend our consideration to the management of the public finances.

However, the inflow of capital still remains low: the FDI/GDP ratio is between 0,7 (Algeria) and 2 (Tunisia) per cent, although Morocco has reached a 3,9 per cent in 1997 (Tab. 11).

African governments must apply for international aids and technical co-operation in order to finance the development of their economies. At the moment, several forms of financial assistance are in existence. The Official Development Assistance (ODA) are those flows to developing countries and multilateral institutions provided by official agencies and governments, which meet two conditions: a) the financial assistance is administered with the purpose to promote economic development and welfare; b) it is concessional and conveys a grant element of at least 25 per cent. The Official Aid (OA) are flows that satisfy the two ODA conditions, but are directed to the economies in transitions of the former communist block and to more advanced developing countries. The ODA/OA loans are credits with maturity of over one year and meeting the criteria set for ODA and OA, and for which repayment is required. The transactions that do not fulfil completely the two conditions set for ODA are defined as Other Official Flows (OOF) such as export credits, official portfolio and equity investment, debt restructuring.

In 1997, the net Official Development Assistance (ODA) from all donors was the 1,6 per cent of GDP, like for foreign investments, Egypt and Morocco were able to attract the largest amount of net ODAs from foreign governments and regional development banks (Tab. 12).

North Africa is able to receive a share of total ODAs to developing countries slightly larger than its quota of total population (Tab. 13), because of its links with European Countries. According to data from the OECD, in 1997-98, the EC lists Morocco and Egypt as major recipients of their total ODAs to developing countries (Tab. 14). The total flow of ODA from EU is estimated in 5,5 billions of dollars in 1997-98, whose 15,2 per cent is directed to North Africa. However, single European countries prefer directing their flows of aids to developing countries with whom they maintain important trade relationships or colonial interests. Despite this subordinate interest to North Africa, European countries, and above all France, rank as first contributors in comparison to other developed countries.

The major donor of **Algeria** is the EC. In 1998, after several years of scarce involvement, EC transferred 245 millions of dollars. Behind EC, France is the second major contributor with 116 millions of dollars in 1998, almost a third of all ODAs to Algeria. The main purpose of bilateral ODA was the realisation of social infrastructure and services (education, water supply and sanitation, health) However, the net total receipt, including ODA, other official flows and private sector, was lower (about 188 millions of dollars) because of private and public transfers of fund, mainly reimbursements, to United States (919 millions of dollars) and Italy (645 millions of dollars).

The major donors of **Egypt** are the United States (810 millions of dollars), France (308 millions) EC (190 millions) and Germany (112 millions). The purposes of the ODA commitments is diversified: social and economic infrastructure, especially in the energy sector, and programmes of assistance.

**Libya** receives a very small fraction of ODAs, which total a mere 7 millions of dollars a year, mainly for education purposes from Germany and other multilateral organisations.

Like Algeria, the major donors to **Morocco** and **Tunisia** are EC and France for social and economic infrastructures.

A cursory view of net ODA flows to North African countries shows that France and the European Community are the major donors to the development of those economies. However, part of this flows come along with tying arrangements, which require recipients to purchase goods and services from the donor country or from a specified group of countries. These arrangements may be justified on the grounds that they prevent a recipient from misuse their receipts, but they are also motivated by the desire to benefit donors' firms. The diffusion of tying arrangements depends on considerations of both foreign and interior policy. While about 70 per cent of United States, Spain and Canada Official Development Assistance is provided with tying arrangements, other countries like France, United Kingdom have only 20 per cent of their ODA with tying arrangements. Austria, Belgium and Italy position in the middle with a 30-36 per cent (Tab. 15).

### 3. Outline of the paper

This work is still in its gestation and lovely parents have already planned its future. The main objective of this paper will be the assessment of the economic impact of Development Assistance Aids as follows:

- cost-effectiveness of bilateral and multilateral programmes. "How did they spend my money?";

- as to how EU has dealt with the ODAs and OOFs;

- availability and feasibility of alternative means (*i.e.* economic integration EU-North Africa, Arab Free Trade Area) to foster the development;

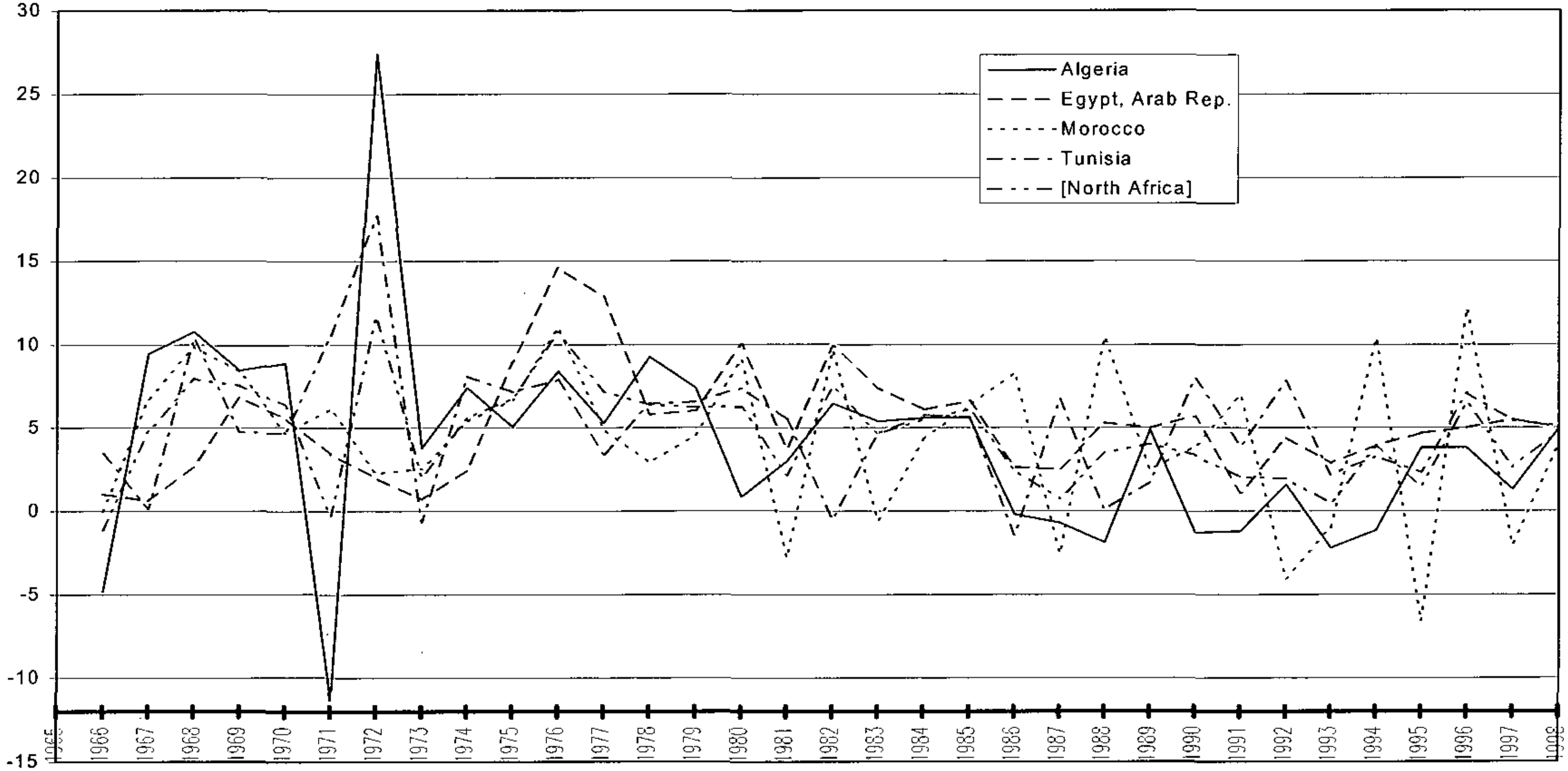
- the state of the art of co-ordination to promote development. Which instrument can EU play?

- immigration and financial flows to North Africa.

Fig.1

GDP Growth of North Africa

*(percentual change)*




Source: World Bank

**Tab. 1**

**Average Real GDP Growth**

*percentual change*

| | 1965-69 | 1970-79 | 1980-89 | 1990-98 |
|---|---|---|---|---|
| Algeria | 4,6 | 5,9 | 2,8 | 1,2 |
| Egypt, Arab Rep. | 2,2 | 5,6 | 4,9 | 3,6 |
| Libya | .. | .. | .. | .. |
| Morocco | 6,2 | 4,6 | 3,5 | 2,0 |
| Tunisia | 3,7 | 6,6 | 2,8 | 4,1 |
| North Africa | 3,8 | 5,6 | 3,6 | 2,6 |
| All Africa | 3,5 | 3,7 | 2,2 | 2,1 |

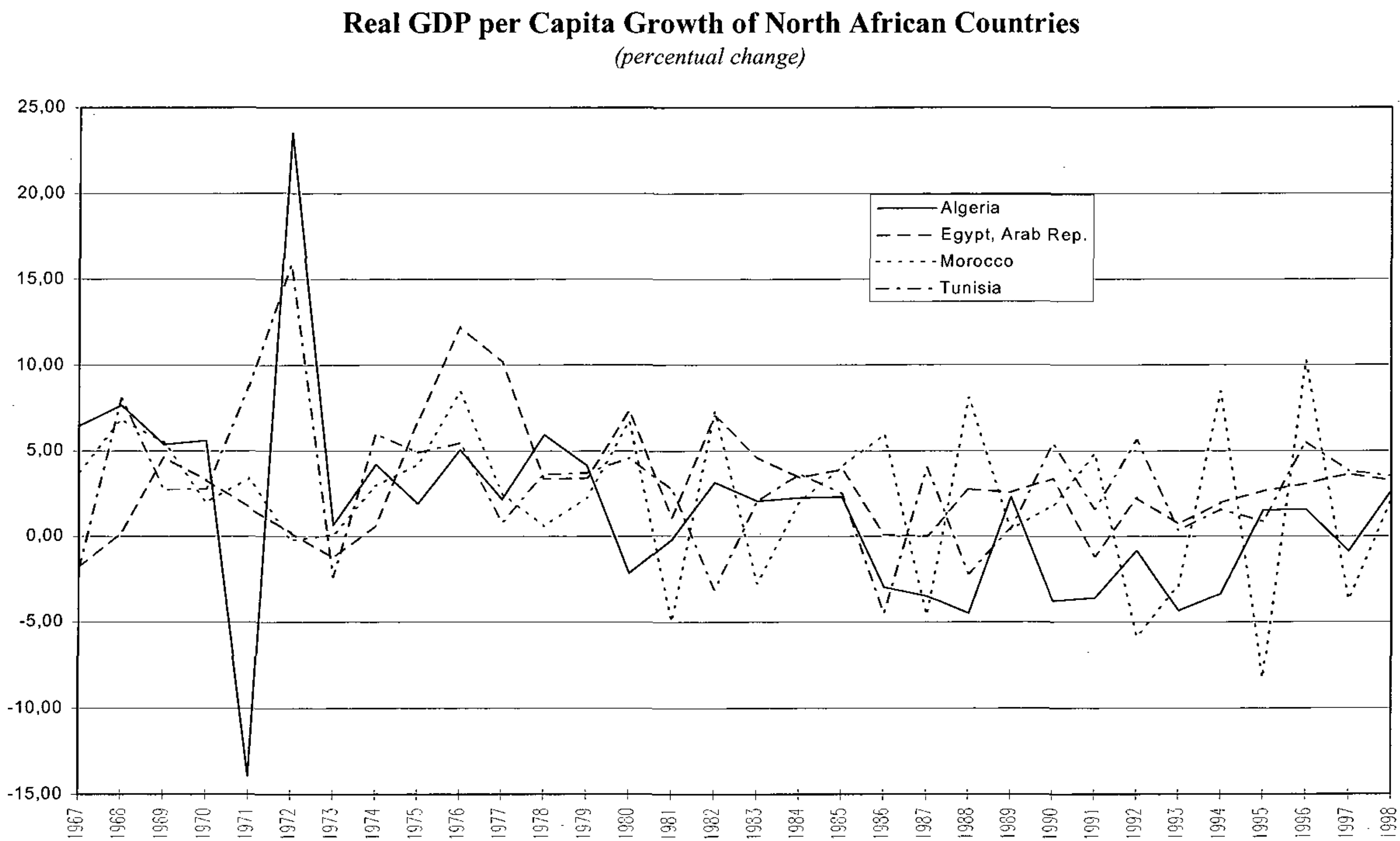
*Source: World Bank*

**Tab. 2**

| Average Real GDP per capita Growth (Const. 1995 US$) *percentual change* | | | | | |
|---|---|---|---|---|---|
| | **1965-69** | **1970-79** | **1980-89** | **1990-98** | **1965-98** |
| North Africa | 1,6 | 3,3 | 1,3 | 0,8 | 2,1 |
| Algeria | 4,8 | 3,0 | 0,1 | -0,8 | 1,3 |
| Egypt, Arab Rep. | 0,7 | 3,6 | 2,5 | 1,8 | 3,0 |
| Libya | .. | .. | .. | .. | .. |
| Morocco | 4,0 | 2,4 | 1,5 | 0,4 | 2,1 |
| Tunisia | 2,2 | 4,6 | 0,5 | 2,5 | 3,0 |

*Source: World Bank*

**Fig. 2**




Source: World Bank

**Tab. 3**

| Agriculture as share of GDP, % | | | | | |
|---|---|---|---|---|---|
| | 1965 | 1972 | 1980 | 1990 | 1998 |
| All Africa | 27 | 22 | 15 | 17 | 16 |
| North Africa | 20 | 17 | 10 | 14 | 13 |
| Algeria | 15 | 9 | 8 | 11 | 10 |
| Egypt, Arab Rep. | 29 | 28 | 17 | 18 | 16 |
| Libya | 5 | 2 | 2 | .. | .. |
| Morocco | 23 | 21 | 18 | 18 | 16 |
| Tunisia | 21 | 21 | 14 | 16 | 14 |

*Source: World Bank*

**Tab. 4**

| Growth in manufactured exports (%) | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Algeria | 833,7 | -86,6 | 230,6 | | -76,4 | -9,6 | -34,1 | 8,7 | -23,5 | -57,7 | -1,6 | 7,7 | 27,2 | 5,3 |
| Egypt, Arab Rep. | .. | .. | .. | 33,2 | -1,4 | 30 | -14 | 21,6 | -21,6 | -5 | 38,5 | -22,7 | -0,4 | 4 |
| Libya | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | 10,6 | 14,7 | 27,4 | 4,2 | 17,8 | 24,4 | 2 | -8,4 | -0,1 | -4,1 | 15,5 | -11,6 | -1 | 1 |
| Tunisia | 7 | 27,2 | 13,9 | 13,9 | 19,1 | 10,5 | 6,8 | 0 | 1,7 | -19,3 | 18,3 | -4,5 | -5,4 | 7,1 |

*Source: World Bank*

**Tab. 5**

| Total External Debt to export ratio, % | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1971 | 1975 | 1980 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| [All Africa] | 103,1 | 83,8 | 124,4 | 215,1 | 244,3 | 328 | 363,2 | 359,2 | 332,7 | 287,7 | 296,1 | 279 | 302,8 | 255,9 | 230,1 | 206,2 | 191,7 | 195,3 |
| [North Africa] | 163,4 | 109,8 | 157,6 | 205,2 | 233,8 | 321,6 | 354,7 | 349,2 | 320,3 | 234,4 | 220 | 191 | 195,8 | 213,4 | 192,9 | 175,2 | 157 | 188,4 |
| Algeria | 134,9 | 93,6 | 128,8 | 115,9 | 131,6 | 266,8 | 241,8 | 295,9 | 255,3 | 201,6 | 214,9 | 208,3 | 219,5 | 277 | 265,6 | 219,7 | 190,6 | 229 |
| Egypt, Arab Rep. | 198,5 | 163,6 | 207,7 | 284,2 | 330,3 | 398,5 | 622,6 | 585,6 | 493,6 | 298,4 | 240,4 | 180,6 | 181,9 | 203,5 | 171,3 | 157,5 | 139 | 195,1 |
| Libya | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | 151,4 | 92,6 | 212,2 | 348 | 370,3 | 340,4 | 342,9 | 293 | 322,7 | 273,7 | 245,5 | 229,2 | 230,6 | 227,5 | 204,4 | 183,8 | 167,3 | 186,9 |
| Tunisia | 161,5 | 83,6 | 89,8 | 130,5 | 161,8 | 191,9 | 176,6 | 141,8 | 137,3 | 131,4 | 143,7 | 128,4 | 137,2 | 125,9 | 123,9 | 127,6 | 126,3 | 111,1 |

*Source: World Bank*

**Tab. 5b**

| Total External Debt to GDP ratio, % | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1971 | 1975 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| [All Africa] | 17 | 18,6 | 28,9 | 32,5 | 38 | 42 | 45,3 | 54,1 | 57,7 | 60 | 61,2 | 62,2 | 58,6 | 61,4 | 59 | 61,7 | 71,1 | 67,9 | 62,5 | 57,1 | 50,9 |
| [North Africa] | 21,9 | 25,1 | 41,1 | 45,3 | 50,6 | 50,9 | 52 | 54,6 | 60,6 | 63 | 69,6 | 69,9 | 57 | 64,2 | 57,7 | 54,9 | 59 | 57,8 | 50,5 | 45,8 | 44,4 |
| Algeria | 24,8 | 29,7 | 45,7 | 41,4 | 39 | 33,5 | 30 | 31,5 | 35,9 | 37,8 | 44,3 | 49,3 | 45 | 60,9 | 55,1 | 52,3 | 71,3 | 79,5 | 72,6 | 65,7 | 68,1 |
| Egypt, Arab Rep. | 24,8 | 42,3 | 83,5 | 94,3 | 106,8 | 107,5 | 105 | 104,1 | 111,1 | 108,9 | 131,5 | 115 | 76,4 | 88 | 74,2 | 64,6 | 62,3 | 56,3 | 46,3 | 39,5 | 39,9 |
| Libya | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | 25,9 | 26,4 | 49,2 | 66,9 | 78,4 | 91,7 | 107,4 | 122,6 | 103,6 | 110,2 | 93,6 | 95,7 | 94,7 | 78,6 | 77,5 | 80,1 | 73 | 68,7 | 59,1 | 57,6 | .. |
| Tunisia | 39,9 | 25,6 | 40,3 | 42,8 | 46,4 | 48,6 | 49,6 | 58,1 | 65,9 | 70,3 | 67,3 | 69 | 62,6 | 63,1 | 54,8 | 59,3 | 61,4 | 60,7 | 58,5 | 59,8 | 45 |

*Source: World Bank*

**Tab. 6**

| Debt Service Ratios by Region (a) | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|
| North Africa & M. East (b) | 23 | 20 | 20 | 21 | 18 | 16 | 19 |
| Egypt | 22 | 16 | 11 | 27 | 11 | 9 | 10 |
| Morocco | 25 | 23 | 27 | 27 | 25 | 24 | 25 |
| Tunisia | 25 | 18 | 19 | 17 | 17 | 16 | 18 |
| **World total** | **19** | **18** | **17** | **16** | **16** | **15** | **16** |
| Memo: | | | | | | | |
| Major debtor countries (c) | 21 | 18 | 19 | 17 | 17 | 17 | 17 |
| LLDCs | 18 | 13 | 13 | 12 | 19 | 11 | 12 |

*Source: OECD, World Debt Tables and International Financial Statistics, 1999.*

a) *Long and short-term interest plus amortization payments (including to IMF) as a per cent of exports of goods and services (including private transfers).*

b) *Excluding Iraq.*

c) *Brazil, Mexico, Argentina, China, Korea, Russia, Indonesia, India, Thailand, Turkey, Philippines, Poland.*

Tab.7

| PE's external debt, as share of all external debt outstanding (%) | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1971 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
| [All Africa] | 20,4 | 25,8 | 26,7 | 26 | 28,5 | 29,3 | 26,7 | 24,1 | 21,8 | 20 | 18,9 | 19 | 19,2 | 18,1 | 17,1 | 16 | 15,8 | 13,9 | 13,5 | 13 | 11,1 | 9,5 |
| [North Africa] | 26,3 | 37 | 39,5 | 35 | 42,9 | 45 | 42 | 38,2 | 33,4 | 31,9 | 30,2 | 31,2 | 31,7 | 31,8 | 30,3 | 29,7 | 34,2 | 29,9 | 29,8 | 30 | 26,8 | 22,5 |
| Algeria | 59,4 | 79,8 | 84,6 | 72,9 | 79 | 81,1 | 79,9 | 78,1 | 73,8 | 75,5 | 75,9 | 75,8 | 71,4 | 76,6 | 72,9 | 69,6 | 70,5 | 66,5 | 68,2 | 68,7 | 54,3 | 40,5 |
| Egypt | 13,3 | 8,7 | 10,1 | 8,5 | 12,1 | 13 | 13 | 13,2 | 12,4 | 12,8 | 12,7 | 14,5 | 15,9 | 15,4 | 15,2 | 15,7 | 24,5 | 13,4 | 13,3 | 13,3 | 13,4 | 12,6 |
| Libya | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | 16,4 | 18,5 | 18,3 | 22,7 | 25,8 | 27,9 | 27,2 | 22,8 | 22,3 | 21,5 | 18,8 | 18,9 | 18,2 | 16,1 | 13,6 | 12,7 | 11,1 | 12,8 | 12,2 | 13,4 | 15,4 | 16,5 |
| Tunisia | 20,7 | 20,8 | 21,5 | 23,9 | 23,4 | 29,2 | 30,9 | 30,8 | 32 | 30,5 | 27,6 | 27 | 25,9 | 24,9 | 21,2 | 19,1 | 17,2 | 15,7 | 13,9 | 13,4 | 12,9 | 11,1 |

*Source: World Bank*

Tab. 8

| Share of debt on conces. terms (%) | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1971 | 1975 | 1980 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
| [All Africa] | 50,1 | 41,8 | 26,6 | 27,5 | 28 | 28,2 | 28,8 | 29,1 | 30,7 | 32,5 | 34,2 | 35,5 | 34 | 34,2 | 36,6 | 37,8 |
| [North Africa] | 48 | 41 | 26,3 | 24,4 | 23,5 | 23,8 | 24 | 24,4 | 25,9 | 28,4 | 29,9 | 32 | 32,6 | 33 | 37,4 | 37,4 |
| Algeria | 42,9 | 20,5 | 6,6 | 2,9 | 2,5 | 2,7 | 2,4 | 2,3 | 3,1 | 3,4 | 3,9 | 5 | 6,9 | 9,5 | 9,8 | 10 |
| Egypt, Arab Rep. | 39,6 | 55,6 | 42,4 | 31 | 30,3 | 30,7 | 31,4 | 32,3 | 38 | 51,1 | 55,2 | 59 | 60,4 | 61 | 76,7 | 75,6 |
| Libya | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | 63 | 42,3 | 29,3 | 30,5 | 31,5 | 29,9 | 30,9 | 31,8 | 32,6 | 24,6 | 24,8 | 25,8 | 27,1 | 28,1 | 29,2 | 30,4 |
| Tunisia | 57,8 | 60,7 | 39,3 | 37 | 35 | 35,3 | 34,8 | 35,2 | 35,1 | 34,1 | 33,3 | 33,2 | 31,8 | 28,6 | 25,4 | 23,2 |

*Source: World Bank*

**Tab. 9**

| Multilateral debt as % of total debt | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1971 | 1975 | 1980 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Algeria | 1 | 1,1 | 1,5 | 3,2 | 4,1 | 5 | 5,3 | 5,9 | 7,3 | 9,4 | 10,2 | 11,1 | 11,2 | 11,9 | 12,2 | 12,5 | 12,9 |
| Egypt, Arab Rep. | 0,8 | 2,1 | 13,7 | 10,8 | 10,9 | 11,4 | 10,6 | 10,9 | 10,4 | 10 | 10,6 | 11,8 | 12,1 | 11,9 | 12,6 | 13 | 14,1 |
| Libya | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | 7,1 | 12,4 | 7,8 | 12,1 | 15 | 17,2 | 17,1 | 17,8 | 19,2 | 23,7 | 24,3 | 26,8 | 28,4 | 29,9 | 30,4 | 31,3 | 34,9 |
| Tunisia | 9,3 | 15,6 | 12,3 | 16,9 | 19 | 22,4 | 23,1 | 26,1 | 29 | 32,8 | 32,4 | 35,7 | 36,3 | 33,9 | 31,8 | 30 | 37,3 |

*Source: World Bank*

**Tab. 10**

| Total investement (Foreign Direct +Portfolio) ( Net, cur. US$) | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1970 | 1975 | 1980 | 1981 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| [All Africa] | .. | 910 | -1259 | -219 | 2249 | 1091 | -1358 | 1950 | 4082 | 1273 | 2590 | 2832 | 3511 | 6351 | 5522 | 7573 | 16093 | 10909 |
| [North Africa] | 220 | -248 | -49 | -138 | 363 | 139 | -3172 | 135 | 507 | 449 | 648 | 1352 | 1586 | 2284 | 1312 | 1655 | 4160 | 4236 |
| Algeria | 45 | 98 | 281 | -171 | -87 | -64 | -109 | -48 | -25 | -39 | -34 | 3 | -2 | 0 | 0 | 270 | 260 | 350 |
| Egypt, Arab Rep. | .. | 225 | 541 | 747 | 192 | 219 | 176 | 124 | 124 | 136 | 141 | 359 | 453 | 1287 | 739 | 870 | 2186 | 2636 |
| Libya | 139 | -616 | -1249 | -1199 | 64 | -260 | -3443 | -180 | 38 | -61 | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | 20 | 0 | 143 | 118 | 55 | 89 | 112 | 129 | 226 | 227 | 376 | 503 | 590 | 555 | 278 | 258 | 1294 | 821 |
| Tunisia | 16 | 45 | 236 | 367 | 140 | 155 | 92 | 110 | 144 | 185 | 166 | 487 | 545 | 442 | 295 | 256 | 420 | 429 |

*Source: World Bank, in millions of dollars*

**Tab. 11**

| Foreign direct invest. as share of GDP, (%) | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1975 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Algeria | 0,6 | 0,7 | -0,4 | -0,7 | 0 | 0 | -0,2 | -0,1 | -0,2 | -0,1 | 0 | -0,1 | -0,1 | 0 | 0 | 0 | 0 | 0,6 | 0,6 | 0,7 |
| Egypt, Arab Rep. | 2 | 2,4 | 3,2 | 0,4 | 0,4 | 0,5 | 0,6 | 0,6 | 0,4 | 0,4 | 0,3 | 0,3 | 0,4 | 0,9 | 1 | 2,5 | 1,2 | 0,9 | 1 | 1,4 |
| Libya | -4,8 | -3,2 | -2,4 | -1,4 | -1,1 | -0,1 | 0,4 | -0,9 | -1 | 0,2 | 0,4 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | 0 | 0,8 | 0,8 | 0,9 | 0,6 | 0,6 | 0,4 | 0,5 | 0,6 | 0,6 | 1 | 0,9 | 1,3 | 1,8 | 2,2 | 1,8 | 0,8 | 0,7 | 3,9 | .. |
| Tunisia | 1 | 2,7 | 4,4 | 4,9 | 2,7 | 2,5 | 1,7 | 1,7 | 1 | 1,1 | 1,4 | 1,5 | 1,3 | 3,1 | 3,7 | 2,8 | 1,6 | 1,3 | 2,2 | 1,9 |

*Source: World Bank*

**Tab. 12**

| Net ODA from all donors as share of GDP (%) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1970 | 1975 | 1980 | 1985 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
| [All Africa] | 1,8 | 3,3 | 2,4 | 3,2 | 5,5 | 5,6 | 5,2 | 4,6 | 5,1 | 4,4 | 3,8 | 3,3 |
| [North Africa] | 2,3 | 5,3 | 2,1 | 2 | 5 | 5,6 | 4 | 2,7 | 2,8 | 1,9 | 1,9 | 1,6 |
| Algeria | 2,5 | 1,1 | 0,4 | 0,3 | 0,4 | 0,7 | 0,8 | 0,7 | 1 | 0,8 | 0,7 | 0,5 |
| Egypt, Arab Rep. | 2,2 | 19,3 | 6,1 | 5,1 | 12,6 | 13,6 | 8,6 | 5,1 | 5,2 | 3,4 | 3,3 | 2,6 |
| Libya | 0,1 | 0 | 0 | 0 | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | 2,2 | 2,7 | 4,8 | 6 | 4,1 | 4,4 | 3,3 | 2,7 | 2,1 | 1,5 | 1,8 | 1,4 |
| Tunisia | 7,9 | 4,5 | 2,7 | 1,9 | 3,2 | 2,7 | 2,5 | 1,6 | 0,7 | 0,4 | 0,6 | 1 |

*Source: OECD*

Tab. 13

## Total Net Receipts of ODA by Region and Selected Developing Countries

| | Per cent of Total ODA | | | Share in total population | ODA receipts $ billion | Annual real % change |
|---|---|---|---|---|---|---|
| | 1987-88 | 1992-93 | 1997-98 | (%) 1998 | 1998 | 1988-98 |
| Egypt | 4,6 | 6,1 | 5,0 | 1,3 | 1,9 | 0,2 |
| Morocco | 1,3 | 1,7 | 1,3 | 0,6 | 0,5 | -0,6 |
| Algeria | 0,6 | 0,8 | 0,8 | 0,6 | 0,4 | 6,1 |
| Tunisia | 0,8 | 0,6 | 0,4 | 0,2 | 0,1 | -9,2 |
| **NORTH AFRICA** | 7,3 | 9,2 | 7,6 | 6,2 | 3,0 | |

**Tab. 14**

| Major Recipients of European Community's Aid | | | | | |
|---|---|---|---|---|---|
| **1977-78** | | **1987-88** | | **1997-98** | |
| Bangladesh | 5,4 | India | 6 | Morocco | 4 |
| India | 4,7 | Ethiopia | 5,8 | Egypt | 3,9 |
| Viet Nam | 4,7 | Côte d'Ivoire | 5,5 | Bosnia-Herzegovina | 3,2 |
| Senegal | 4,3 | Egypt | 3,4 | Algeria | 2,7 |
| Turkey | 4,2 | Senegal | 3,3 | Tunisia | 2,2 |
| Niger | 3,7 | Papua New Guinea | 2,7 | Palestinian Adm. Areas | 1,8 |
| Congo, Dem. Rep. | 3,7 | Sudan | 2,7 | Turkey | 1,8 |
| Egypt | 3,1 | Kenya | 2,4 | Bangladesh | 1,5 |
| Mauritania | 3 | Bangladesh | 2,2 | Mauritania | 1,5 |
| Burkina Faso | 2,9 | Mozambique | 2,2 | Ethiopia | 1,5 |
| Rwanda | 2,5 | Chad | 2 | Mozambique | 1,4 |
| Madagascar | 2,5 | Tunisia | 1,7 | Madagascar | 1,4 |
| Chad | 2,4 | Uganda | 1,7 | Jordan | 1,4 |
| Somalia | 2,4 | Tanzania | 1,6 | South Africa | 1,4 |
| Tanzania | 2,3 | Malawi | 1,6 | Senegal | 1,4 |
| **Total above** | **51,7** | **Total above** | **44,8** | **Total above** | **31,1** |
| Europe | 6,2 | Europe | 3,3 | Europe | 11,5 |
| North of Sahara | 3,4 | North of Sahara | 6,4 | North of Sahara | 15,2 |
| South of Sahara | 60,5 | South of Sahara | 58,3 | South of Sahara | 40,5 |
| N. and C. America | 2,5 | N. and C. America | 6,4 | N. and C. America | 8,2 |
| South America | 2,4 | South America | 3,8 | South America | 4,5 |
| Middle East | 4,1 | Middle East | 1,3 | Middle East | 5,8 |
| S. and C. Asia | 13,8 | S. and C. Asia | 11 | S. and C. Asia | 8,1 |
| Far East Asia | 5,9 | Far East Asia | 3,8 | Far East Asia | 4,5 |
| Oceania | 1 | Oceania | 5,7 | Oceania | 1,6 |
| **Total Bilateral** | **100** | **Total Bilateral** | **100** | **Total Bilateral** | **100** |

Tab. 15

**Tying Status of ODA by Individual DAC Members**

| | Bilateral ODA 1998 Untied | Partially Untied | Tied | Total |
|---|---|---|---|---|
| Australia | 92,8 | - | 7,2 | 100 |
| Austria | 68,6 | - | 31,4 | 100 |
| Belgium [a,b] | 50,0 | 20,0 | 30,0 | 100 |
| Canada | 34,5 | - | 65,5 | 100 |
| Denmark | 81,4 | - | 18,6 | 100 |
| Finland | 78,6 | - | 21,4 | 100 |
| France [c] | 65,1 | 13,5 | 21,4 | 100 |
| Germany | 86,5 | - | 13,5 | 100 |
| Ireland | .. | .. | .. | .. |
| Italy | 63,9 | - | 36,1 | 100 |
| Japan | 93,6 | 6,4 | - | 100 |
| Luxembourg | 94,0 | - | 6,0 | 100 |
| Netherlands | 85,9 | 2,0 | 12,1 | 100 |
| New Zealand | .. | .. | .. | .. |
| Norway | 89,8 | - | 10,2 | 100 |
| Portugal | 82,6 | - | 17,4 | 100 |
| Spain | 26,1 | - | 73,9 | 100 |
| Sweden | 79,3 | 9,1 | 11,6 | 100 |
| Switzerland | 71,7 | - | 28,3 | 100 |
| U.K. [b] | 79,6 | - | 20,4 | 100 |
| U.S.A. [d] | 28,4 | - | 71,6 | 100 |
| **TOTAL** | **72,2** | **4,6** | **23,2** | **100** |

a) Includes technical co-operation and administrative costs
b) Gross disbursements
c) 1997 data.
d) 1996 data.
e) Reporting rate is the percentage of bilateral ODA covered by tying status reporting

| General govern. cons. as share of GDP (%) | | | | | |
|---|---|---|---|---|---|
| | 1965 | 1972 | 1980 | 1990 | 1998 |
| All Africa | 11 | 13 | 13 | 16 | 15 |
| North Africa | 11 | 14 | 12 | 15 | 13 |
| Algeria | 15 | 16 | 14 | 16 | 11 |
| Egypt, Arab Rep. | 19 | 27 | 16 | 11 | 10 |
| Libya | 14 | 20 | 22 | .. | .. |
| Morocco | 12 | 12 | 18 | 15 | 18 |
| Tunisia | 15 | 15 | 14 | 16 | 15 |

*Source: World Bank*

| Gross dom. invest. as share of GDP (%) | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1965 | 1970 | 1974 | 1980 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| [All Africa] | 16 | 17 | 22 | 22 | 19 | 20 | 18 | 19 | 19 | 20 | 19 | 19 | 20 |
| [North Africa] | 18 | 20 | 27 | 28 | 28 | 26 | 25 | 23 | 23 | 23 | 21 | 21 | 23 |
| Algeria | 22 | 37 | 40 | 39 | 29 | 31 | 30 | 29 | 32 | 32 | 26 | 26 | 27 |
| Egypt, Arab Rep. | 18 | 14 | 22 | 28 | 29 | 21 | 18 | 16 | 17 | 18 | 17 | 18 | 19 |
| Libya | 29 | 17 | 27 | 22 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | .. | 18 | 21 | 24 | 25 | 23 | 23 | 22 | 21 | 21 | 20 | 21 | 22 |
| Tunisia | 28 | 21 | 26 | 29 | 27 | 26 | 29 | 29 | 24 | 25 | 25 | 27 | 25 |

*Source: World Bank*

**Gross dom. savings as share of GDP (%)**

| | 1965 | 1970 | 1974 | 1980 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| [All Africa] | 21 | 22 | 30 | 32 | 19 | 20 | 16 | 16 | 17 | 17 | 18 | 18 | 16 |
| [North Africa] | 26 | 28 | 38 | 40 | 22 | 24 | 23 | 20 | 18 | 18 | 19 | 21 | 19 |
| Algeria | 19 | 29 | 43 | 43 | 27 | 37 | 32 | 28 | 27 | 28 | 33 | 35 | 33 |
| Egypt, Arab Rep. | 14 | 9 | 6 | 15 | 16 | 13 | 15 | 13 | 11 | 12 | 11 | 13 | 10 |
| Libya | 50 | 49 | 54 | 57 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | .. | 15 | 20 | 14 | 19 | 17 | 17 | 17 | 15 | 14 | 16 | 17 | 18 |
| Tunisia | 33 | 18 | 29 | 24 | 20 | 21 | 22 | 22 | 21 | 21 | 23 | 24 | 24 |

*Source: World Bank*

**Overall surplus/deficit, incl. all grants, as share of GDP, (%)**

| | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| [All Africa] | -7 | -8 | -5 | -4 | -5 | -5 | -6 | -5 | -3 | -2 | -2 | -4 |
| [North Africa] | -10 | -12 | -8 | -4 | -5 | -2 | -5 | -2 | -1 | 1 | 1 | -2 |
| Algeria | -7 | -12 | -2 | 4 | 2 | -1 | -9 | -3 | 0 | 3 | 2 | -3 |
| Egypt, Arab Rep. | -14 | -15 | -13 | -12 | -12 | -3 | -2 | -1 | 0 | -1 | 0 | 0 |
| Libya | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | -6 | -4 | -6 | -1 | -1 | -2 | -3 | -4 | -6 | 0 | 2 | -3 |
| Tunisia | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |

*Source: World Bank*

| Real defense spending (Index 1980=100) | | | | |
|---|---|---|---|---|
| | 1980 | 1986 | 1990 | 1994 |
| [All Africa] | 100 | 98 | 110 | 103 |
| [North Africa] | 100 | 144 | 105 | 167 |
| Algeria | 100 | 111 | 148 | 273 |
| Egypt, Arab Rep. | .. | .. | .. | .. |
| Libya | .. | .. | .. | .. |
| Morocco | .. | .. | .. | .. |
| Tunisia | 100 | 177 | 62 | 60 |

*Source: World Bank*

| Total expend. and net lending, as share of GDP, (%) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| [All Africa] | 31 | 32 | 29 | 29 | 29 | 31 | 32 | 31 | 29 | 28 | 28 | 29 |
| [North Africa] | 37 | 39 | 34 | 31 | 34 | 33 | 33 | 32 | 30 | 28 | 29 | 29 |
| Algeria | 38 | 40 | 31 | 25 | 30 | 31 | 36 | 34 | 32 | 30 | 32 | 34 |
| Egypt, Arab Rep. | 41 | 43 | 39 | 38 | 41 | 37 | 33 | 32 | 29 | 28 | 26 | 26 |
| Libya | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | 27 | 27 | 29 | 27 | 26 | 28 | 30 | 28 | 29 | 27 | 29 | 30 |
| Tunisia | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |

*Source: World Bank*

| Wages and salaries as % of total expend.& net lending, (%) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| [All Africa] | 14 | 14 | 22 | 23 | 22 | 27 | 27 | 27 | 27 | 27 | 27 | 29 |
| [North Africa] | 26 | 25 | 27 | 28 | 25 | 26 | 26 | 27 | 28 | 28 | 27 | 28 |
| Algeria | 31 | 28 | 35 | 37 | 28 | 32 | 29 | 30 | 30 | 30 | 28 | 28 |
| Egypt, Arab Rep. | 17 | 17 | 17 | 17 | 16 | 16 | 19 | 20 | 21 | 22 | 23 | 22 |
| Libya | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | 37 | 35 | 36 | 37 | 39 | 38 | 37 | 37 | 38 | 39 | 31 | 38 |
| Tunisia | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |

*Source: World Bank*

| Exports of goods & services & income receipts (Credit, cur. US $) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1966 | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 1996 | 1997 | 1998 |
| Algeria | 902 | 1129 | 4947 | 14629 | 13564 | 13476 | 11060 | 14170 | 15150 | 14747 |
| Egypt, Arab Rep. | .. | 962 | 2589 | 6516 | 7433 | 7293 | 16139 | 17074 | 18223 | 15955 |
| Libya | .. | 2536 | 6793 | 23366 | 10879 | 12135 | .. | .. | .. | .. |
| Morocco | 552 | 705 | 2026 | 3310 | 3294 | 6932 | 9120 | 9621 | 9656 | 10117 |
| Tunisia | 224 | 332 | 1326 | 3609 | 2748 | 5300 | 8126 | 8251 | 8282 | 8928 |

*Source: World Bank, in millions of dollars*

| Net ODA from mult. donors as share of recipient's GDP (%) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 1996 | 1997 | 1998 |
| [All Africa] | 0,4 | 0,6 | 0,6 | 0,8 | 1,4 | 1,8 | 1,4 | 1,3 | 0,1 |
| [North Africa] | 0,3 | 0,3 | 0,2 | 0,1 | 0,2 | 0,3 | 0,4 | 0,5 | .. |
| Algeria | 0,3 | 0,1 | 0 | 0 | 0 | 0,1 | 0,1 | 0,1 | 0 |
| Egypt, Arab Rep. | 0,3 | 0,8 | 0,9 | 0,3 | 0,2 | 0,4 | 0,3 | 0,5 | 0 |
| Libya | 0,1 | 0 | 0 | 0 | .. | .. | .. | .. | .. |
| Morocco | 0,2 | 0,1 | 0,4 | 0,3 | 0,4 | 0,4 | 0,6 | 0,7 | .. |
| Tunisia | 1,1 | 0,8 | 0,3 | 0,4 | 0,6 | 0,2 | 0,6 | 0,8 | 0,1 |

*Source: OECD*

| Non-conces. debt to GDP ratio, % | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1975 | 1980 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
| [All Africa] | 14,6 | 31,2 | 50,8 | 54,5 | 58,8 | 60,2 | 61,4 | 57,5 | 60,8 | 58,2 | 60,4 | 49,2 | 46,8 | 41,5 | 37,1 |
| [North Africa] | 18,9 | 40,7 | 49,8 | 52,7 | 54,8 | 60,1 | 60,2 | 48,1 | 52,4 | 46,1 | 42,6 | 45,3 | 44,1 | 36,1 | 32,7 |
| Algeria | 1,3 | 5,3 | 5,7 | 5,9 | 6,2 | 6,9 | 7,4 | 7,6 | 11,5 | 10,6 | 9,9 | 20,5 | 29,8 | 31,8 | 32,2 |
| Egypt, Arab Rep. | 5,9 | 19,7 | 36,9 | 38 | 43,1 | 51 | 40,1 | 20,1 | 21,2 | 18 | 15,8 | 15,8 | 14,4 | 5,2 | 4,2 |
| Libya | 0 | 0 | 0 | 0 | 0 | 0 | 0 | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | 3,3 | 4,3 | 26,8 | 25,6 | 33,1 | 29,3 | 31,4 | 34,9 | 34,5 | 35,6 | 37,1 | 33,3 | 30,8 | 25,7 | 23,6 |
| Tunisia | 3,9 | 6,6 | 14,5 | 17,1 | 19,8 | 18,9 | 20,8 | 20,6 | 23,1 | 19,6 | 22,9 | 24,4 | 24,3 | 23,7 | 23,5 |

*Source: World Bank*

**Present value of debt as % of GNP**

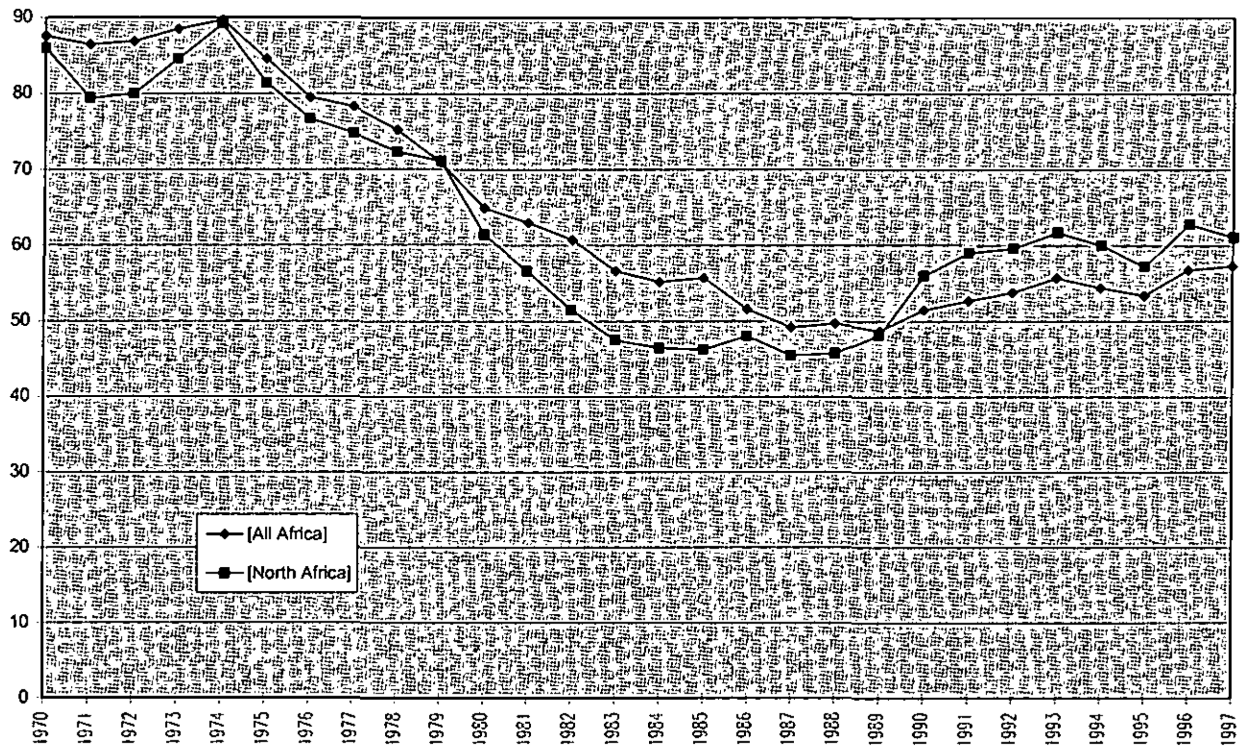
| | 1996 | 1997 |
|---|---|---|
| [All Africa] | 55,4 | 51,9 |
| [North Africa] | 47,5 | 45,6 |
| Algeria | 66,7 | 65,5 |
| Egypt, Arab Rep. | 30,8 | 27,8 |
| Libya | | |
| Morocco | 55,5 | 52,9 |
| Tunisia | 48,3 | 58,4 |

*Source: World Bank*

| Reserves in months of imports of goods and serv. | | | | | | |
|---|---|---|---|---|---|---|
| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
| [All Africa] | 6,7 | 7,8 | 8 | 7,7 | 8,3 | 9,3 |
| [North Africa] | 6,6 | 7,5 | 7,9 | 8,1 | 8,6 | 9,7 |
| Algeria | 3,2 | 3,8 | 4,5 | 3,5 | 5,5 | 9,1 |
| Egypt, Arab Rep. | 8,7 | 9,7 | 10,5 | 10,8 | 11,4 | 11,9 |
| Libya | .. | .. | .. | .. | .. | .. |
| Morocco | 4,4 | 4,7 | 5,1 | 3,6 | 3,9 | 4,2 |
| Tunisia | 1,4 | 1,4 | 2,2 | 2,1 | 2,5 | 2,6 |

*Source: World Bank*

## Share of bilateral debt on concessional terms (%)




*Source: World Bank*

| Imports of capital goods (volume index '87) | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| [All Africa] | 76,7 | 90,6 | 93,3 | 100 | 103,4 | 103,7 | 119,5 | 121,7 | 117,9 | 111 | 113,4 | 126,6 | 131,7 | 126,6 | 134,9 |
| [North Africa] | 230,8 | 165 | 139,5 | 100 | 113,3 | 133,4 | 184,4 | 171,5 | 152,6 | 147,7 | 139,8 | 141,9 | 165,5 | 165,4 | 176,7 |
| Algeria | 281,1 | 255,6 | 155,4 | 100 | 90,8 | 114 | 182,5 | 118,3 | 102,9 | 92 | 99 | 105,9 | 115,3 | 114,2 | 120 |
| Egypt, Arab Rep. | .. | .. | .. | 100 | 114,3 | 117,1 | 155,8 | 158,9 | 120,2 | 115 | 104,4 | 130,2 | 167,4 | 165,1 | 189,9 |
| Libya | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | 108,8 | 95,6 | 113,2 | 100 | 113,1 | 149,7 | 186,4 | 184,2 | 185 | 180,4 | 175,1 | 153,7 | 163,6 | 165,7 | 163,6 |
| Tunisia | 230,8 | 165 | 139,5 | 100 | 113,5 | 156,7 | 200,2 | 207 | 250,9 | 272,8 | 207,9 | 199,4 | 178,1 | 218 | 241 |

*Source: World Bank*

| Total imports (volume index '87) | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| [All Africa] | 99,6 | 96,5 | 91 | 100 | 101,2 | 99,8 | 108,2 | 113,5 | 117,5 | 110,9 | 113 | 124,1 | 120,3 | 129,1 | 147,8 |
| [North Africa] | 119,9 | 101,5 | 103,5 | 100 | 102,2 | 118,9 | 126,1 | 117,1 | 124,8 | 125,7 | 130,2 | 137,2 | 132 | 134,8 | 145 |
| Algeria | 179,1 | 167,4 | 131,3 | 100 | 93,1 | 116,9 | 114,4 | 96,9 | 94,8 | 84,1 | 96,3 | 97,6 | 91,8 | 82,1 | 90,7 |
| Egypt, Arab Rep. | .. | .. | .. | 100 | 71,7 | 72,1 | 90,1 | 94,3 | 87,6 | 93 | 90,5 | 102,1 | 108,3 | 113,3 | 123,8 |
| Libya | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | 84,3 | 85,9 | 89 | 100 | 111,3 | 120,9 | 137,8 | 143,5 | 156,9 | 158,5 | 166,7 | 172,3 | 177,1 | 185,1 | 177,1 |
| Tunisia | 119,9 | 101,5 | 103,5 | 100 | 117 | 136,1 | 149,2 | 137,4 | 154,7 | 165,8 | 164,1 | 174,5 | 155,6 | 156,3 | 166,1 |

*Source: World Bank*

| Consumer Price Index (1987=100) | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1970 | 1975 | 1980 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| [All Africa] | 17 | 29,2 | 49,3 | 82,8 | 91,1 | 100 | 110,3 | 121,5 | 135,1 | 150,1 | 177,7 | 196,7 | 222,9 | 245,2 | 267,2 | 298,1 | 330,4 |
| [North Africa] | 23,8 | 34,8 | 54,1 | 82,8 | 92,4 | 100 | 107,2 | 115,8 | 123 | 139,5 | 166,6 | 183,9 | 199 | 215,6 | 232,6 | 251,1 | 269,9 |
| Algeria | 5,4 | 6,9 | 12,1 | 18,8 | 21,1 | 22,6 | 24 | 26,2 | 30,6 | 37,6 | 49,5 | 59,7 | 77,1 | 100 | 118,7 | 125,4 | 131,7 |
| Egypt, Arab Rep. | .. | .. | .. | 31,3 | 38,8 | 46,4 | 54,6 | 66,2 | 52,9 | 64,7 | 77,3 | 85,3 | 92,3 | 100 | 107,9 | 116,5 | 125,2 |
| Libya | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Tunisia | .. | 23,9 | 33,5 | 53,5 | 56,8 | 61,4 | 65,8 | 70,9 | 75,5 | 81,7 | 86,5 | 90 | 94,1 | 100 | 103,7 | 107,4 | 111,4 |

*Source: World Bank*

**Wages and salaries as % of total expend.& net lending, (%)**

| | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| [All Africa] | 18,9 | 18,5 | 12,1 | 13,9 | 13,8 | 22,3 | 23,2 | 22,4 | 27,1 | 26,9 | 26,8 | 26,8 | 27 | 26,7 | 29,2 |
| [North Africa] | .. | .. | .. | 26,4 | 24,9 | 27,5 | 28,1 | 25 | 26,2 | 26,3 | 27,2 | 28,1 | 28,4 | 26,7 | 27,7 |
| Algeria | 19,1 | 19,5 | 24,8 | 31,3 | 28,4 | 35,2 | 36,7 | 27,5 | 31,8 | 28,9 | 30,2 | 29,7 | 29,7 | 28,4 | 27,7 |
| Egypt, Arab Rep. | .. | .. | .. | 17,4 | 17 | 17,3 | 16,7 | 15,6 | 15,8 | 18,8 | 19,7 | 21,5 | 22 | 23 | 22,3 |
| Libya | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | 33,5 | 32,3 | 33,4 | 36,6 | 34,8 | 35,5 | 37,1 | 39,5 | 38,1 | 37 | 37,3 | 38,4 | 39 | 31,2 | 38,3 |
| Tunisia | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |

Source: World Bank

| Gross priv. invest. as a percentage of GDP (%) | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| [All Africa] | 11,4 | 11,5 | 11,2 | 10,3 | 11,2 | 11,8 | 11,9 | 12,1 | 12,1 | 12,2 | 11,4 | 11,8 | 12,6 | 12,6 | 12,2 | 12,6 | 13,1 |
| [North Africa] | 13,6 | 12,1 | 12,9 | 12,9 | 15,8 | 17,1 | 15,2 | 17,1 | 16,8 | 16 | 15,3 | 14 | 14,7 | 14,9 | 13,8 | 14,6 | .. |
| Algeria | 18,2 | 15,9 | 16,4 | 16,6 | 20,5 | 17,8 | 13,3 | 15,8 | 17,6 | 19 | 19,4 | 18,4 | 21 | 22,1 | 20,4 | 19,6 | 19,9 |
| Egypt, Arab Rep. | 8,9 | 6,7 | 5,7 | 5,8 | 6 | 15,2 | 19,2 | 20,1 | 16,7 | 13,1 | 10,5 | 9,2 | 10,5 | 10,9 | 10,5 | 12,1 | 13,1 |
| Libya | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | .. | .. | .. | .. | .. | .. | .. | .. | 16,7 | 16 | 15,3 | 14,9 | 14 | 14,5 | 13 | 14,6 | .. |
| Tunisia | 15,4 | 14,8 | 15,6 | 13,3 | 12,1 | 11,3 | 11,5 | 12,5 | 13,4 | 13,9 | 15,2 | 12,8 | 13,3 | 11,9 | 11,4 | 12,1 | .. |

*Source: World Bank*

| | Credit to priv. sector as % of total dom. credit | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1966 | 1970 | 1975 | 1980 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| [All Africa] | 80,7 | 78,1 | 71,3 | 58,7 | 56,9 | 55,3 | 60 | 55 | 55,7 | 58,9 | 57 | 52,6 | 52,2 | 46,3 | 53,1 | 62,1 | 58,1 | 59 |
| [North Africa] | 56,4 | 46,7 | 71,6 | 67,5 | 60,7 | 64,9 | 66,8 | 60,3 | 47,2 | 45,7 | 51,5 | 35,5 | 37,8 | 43,4 | 43,9 | 46,8 | 58,1 | 57,1 |
| Algeria | 52 | 51,9 | 79,9 | 67,5 | 69,5 | 63,6 | 59,5 | 56,6 | 57,1 | 59,7 | 67,3 | 11,9 | 10,3 | 12,5 | 10,7 | 13 | 9,3 | 10,1 |
| Egypt, Arab Rep. | 28,3 | 26,2 | 23,6 | 15,5 | 26,9 | 28,8 | 28,4 | 27,5 | 25,9 | 24,5 | 23,1 | 27,8 | 30,9 | 36,2 | 42,5 | 46,8 | 50,8 | 54,1 |
| Libya | 278,7 | -51,5 | 71,6 | 94,2 | 60,7 | 66,1 | 74,2 | 64 | 37,3 | 35,4 | 34,9 | 35,5 | 37,8 | 43,4 | 43,9 | 42,5 | 58,1 | .. |
| Morocco | 56,4 | 46,7 | 49,1 | 39,9 | 40,5 | .. | .. | .. | .. | 45,7 | 51,5 | 53,2 | 54,3 | 54,2 | 54,5 | 56,4 | 58,1 | 60,1 |
| Tunisia | 69,3 | 75,1 | 90,7 | 86,1 | 86,7 | 86,1 | 85,3 | 86,8 | 88,8 | 88,1 | 88,3 | 90,9 | 92,5 | 93,8 | 95,2 | 96,2 | 94 | 95,4 |

*Source: World Bank*

| Gross public invest. as a percentage of GDP (%) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| [All Africa] | 8,9 | 8 | 7,5 | 8,1 | 7 | 6,6 | 6,3 | 6 | 5,9 | 6,1 | 6,3 |
| [North Africa] | 12,5 | 9,9 | 8,9 | 7,5 | 8 | 8,7 | 7,6 | 7,2 | 6,8 | 6,9 | .. |
| Algeria | 12,2 | 10,2 | 8,2 | 6,1 | 6,8 | 8,7 | 7,9 | 7,4 | 6,9 | 7,4 | 7,1 |
| Egypt, Arab Rep. | 15,2 | 10,5 | 10,2 | 9,2 | 8,5 | 7,1 | 6,1 | 5,6 | 5,5 | 5,6 | 6,3 |
| Libya | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | .. | .. | 7,3 | 6,2 | 7,1 | 7,9 | 6,7 | 7 | 6,5 | 6,1 | .. |
| Tunisia | 9 | 10 | 11 | 10,2 | 12 | 15,3 | 13,7 | 12,3 | 11,8 | 12,4 | .. |

*Source: World Bank*

**Industry as share of GDP (%)**

| | 1965 | 1970 | 1975 | 1980 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| [All Africa] | 24,7 | 26,2 | 31,4 | 38,5 | 32,5 | 29,7 | 29,7 | 30,2 | 31 | 31,9 | 32,2 | 33,1 | 31,8 | 31,5 | 31,3 | 31,2 | 30,9 | 30 |
| [North Africa] | 29,8 | 34,3 | 39,3 | 46,4 | 38,9 | 34,1 | 33,3 | 33,6 | 33,2 | 34,6 | 36,9 | 35,6 | 34,9 | 34,3 | 34,9 | 34,2 | 35 | .. |
| Algeria | 34 | 38,6 | 37,5 | 43,6 | 41,4 | 37,6 | 35,1 | 33,8 | 34,3 | 37,4 | 41,1 | 38,1 | 37,2 | 37,5 | 38 | 39,7 | 40,4 | 38,3 |
| Egypt, Arab Rep. | 26,9 | 24,2 | 26,1 | 35,1 | 27,5 | 25,3 | 25,9 | 27,4 | 26,7 | 27,3 | 32,5 | 31,4 | 30,7 | 30,5 | 30,8 | 29,5 | 29,7 | 30,8 |
| Libya | 62,6 | 66,6 | 66,1 | 74,2 | 58,4 | 49 | 49,9 | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | 27,5 | 27 | 34,7 | 30,9 | 33,4 | 32,3 | 32,9 | 33,5 | 33,2 | 32,4 | 30,9 | 32,3 | 32,3 | 30,8 | 33 | 31 | 33,2 | 30 |
| Tunisia | 19,2 | 20,6 | 25,9 | 31,1 | 32,7 | 30,5 | 29,5 | 30,6 | 31,1 | 29,8 | 29 | 28,5 | 28 | 29 | 29 | 28,3 | 28,5 | 28,1 |

*Source: World Bank*

**Industry as share of GDP (%)**

| | 1965 | 1970 | 1975 | 1980 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| [All Africa] | 24,7 | 26,2 | 31,4 | 38,5 | 32,5 | 29,7 | 29,7 | 30,2 | 31 | 31,9 | 32,2 | 33,1 | 31,8 | 31,5 | 31,3 | 31,2 | 30,9 | 30 |
| [North Africa] | 29,8 | 34,3 | 39,3 | 46,4 | 38,9 | 34,1 | 33,3 | 33,6 | 33,2 | 34,6 | 36,9 | 35,6 | 34,9 | 34,3 | 34,9 | 34,2 | 35 | .. |
| Algeria | 34 | 38,6 | 37,5 | 43,6 | 41,4 | 37,6 | 35,1 | 33,8 | 34,3 | 37,4 | 41,1 | 38,1 | 37,2 | 37,5 | 38 | 39,7 | 40,4 | 38,3 |
| Egypt, Arab Rep. | 26,9 | 24,2 | 26,1 | 35,1 | 27,5 | 25,3 | 25,9 | 27,4 | 26,7 | 27,3 | 32,5 | 31,4 | 30,7 | 30,5 | 30,8 | 29,5 | 29,7 | 30,8 |
| Libya | 62,6 | 66,6 | 66,1 | 74,2 | 58,4 | 49 | 49,9 | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | 27,5 | 27 | 34,7 | 30,9 | 33,4 | 32,3 | 32,9 | 33,5 | 33,2 | 32,4 | 30,9 | 32,3 | 32,3 | 30,8 | 33 | 31 | 33,2 | 30 |
| Tunisia | 19,2 | 20,6 | 25,9 | 31,1 | 32,7 | 30,5 | 29,5 | 30,6 | 31,1 | 29,8 | 29 | 28,5 | 28 | 29 | 29 | 28,3 | 28,5 | 28,1 |

*Source: World Bank*

| Military expenditure (% of GNP) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
| Algeria | 2,5 | 2,9 | 2,8 | 3,3 | 3 | 2 | 1,7 | 1,9 | 2,8 | 3,3 | 3,2 |
| Egypt, Arab Rep. | 12,8 | 11,7 | 11,2 | 7,8 | 4,7 | 4 | 4,1 | 4,2 | 4,3 | 4,1 | 5,7 |
| Libya | .. | .. | 12 | .. | 12,8 | .. | 7,4 | 6,9 | 5,1 | 4,3 | 6 |
| Morocco | .. | 6 | 6,2 | 5,4 | 5,1 | 5,4 | 4,3 | 5,9 | 4,7 | 4,1 | 4,3 |
| Tunisia | 3,6 | 3,6 | 2,1 | 2,8 | 3 | 2,7 | 2,7 | 2,4 | 2,5 | 2,4 | 2 |

*Source: World Bank*

**Real manufacturing GDP growth rate (%)**

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| [All Africa] | 8,9 | 1,9 | -2,1 | -1,5 | -0,1 | -1,4 | 1,4 | 5,1 | 2,4 | 4 | 2,4 |
| [North Africa] | 11,9 | 1,7 | -4,5 | 0,2 | 3,2 | -2,4 | 2,9 | 5 | 2,3 | 5,5 | 3,8 |
| Algeria | 28,1 | -9,9 | -24,4 | -17,1 | 6,6 | -22,3 | -3,4 | -5,2 | -20,7 | -7,2 | 0,5 |
| Egypt, Arab Rep. | 7 | 6,7 | 6,3 | 5,7 | 1,5 | 2,5 | 4,1 | 7,1 | 6,9 | 8,3 | 4,3 |
| Libya | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Morocco | 6 | -0,6 | 11,4 | 3,2 | 2,7 | -0,9 | 3,8 | 3,7 | 3 | 3,1 | 3 |
| Tunisia | 3,9 | 19,1 | -21,9 | 3,9 | 6,5 | 4,9 | 3,4 | 9,6 | 3,4 | 7,1 | 5 |

*Source:* World Bank