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**A MEDITERRANEAN ECONOMIC POLICY FROM
EUROPE AT THE ENLARGEMENT CROSS-ROADS**

presentation by Roberto Aliboni

Paper presented to the III Foro Formentor on “The European Union Enlargement And The Euro-Mediterranean Project”
Mallorca, 2-3 November 2001

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Question Marks

Admittedly, the results of the EU's economic policy towards the Mediterranean are to some extent disappointing.

What do we have to do? Do all we need is to modify and improve such policy? Or do we have to bring in some more substantive changes?

Is the policy disappointing in itself or because of the way it is implemented?

Furthermore, we are aware that these questions come up in conjunction with the advancement of the EU enlargement to Eastern European countries. Thus, a further question is what is the impact of the enlargement on EU economic co-operation with the Mediterranean. According to EU's own decisions, there must be a link between enlargement and Euro-Med Partnership: that is a fair balance between enlargement towards the East and co-operation towards the South. Is indeed that balance there? or there is a polarisation towards the East which demands for corrections?

A Non-Discriminatory Policy

If we take only economic factors into consideration, and leave aside political processes, we see that all the economic policies of the EU towards its closest areas spring from the same inspiration. Indeed, there is a profound homogeneity between these policies.

This homogeneity stems from the fact that, in setting out its external economic policies, the EU makes reference to its own model. This reference means that the EU assigns a crucial weight to economic co-operation and integration with a view to foster social stability and economic development.

The EU encourages the implementation of this model internationally, for example with respect to ASEAN or to the Mercosur, and so forth. In its closest areas, however, namely Central-eastern Europe, the ACP area, the Mediterranean and, ultimately, South-eastern Europe, the EU acts as a direct partner in the economic processes of integration and co-operation.

If we leave aside sub-Saharan Africa here and concentrate on the south-eastern arc going from the Mediterranean to the Baltic countries, despite existing differences, we can see very clearly the substantial unity and homogeneity of the EU economic agenda as well as the instruments to support this agenda:

- first, the new overall economic agenda is very different from the earlier policies of co-operation of the European Community. Those policies were tasked to open EU markets to external countries. Growth was supposed to be drawn by the demand. Those policies did not prove very successful, at least as far as the Mediterranean is concerned. The new policy aims at stimulating growth by exposing the less developed partners to international competition and setting out open structures of regional co-operation

(“open regionalism”). To use the words of a French economist - Gérard Kebabjian - “Le nouveau régionalisme est plutôt à interpreter du coté de l’offre comme un money pour crier UN “*Ben public*” destine à prouder Des *externalises*”. Growth is now supposed to be drawn by supply and by private investment from abroad.

- second, beside the fact that agendas towards the European East and the Mediterranean are the same, instruments are the same as well, or similar to one another: (1) the establishment of free trade areas geared to converge over time; (2) the establishment of what is called in the EU jargon a “single” market; very cogent and detailed for the European East, a single market agenda has been introduced also in the Euro-Med Partnership.

In sum, we have a new, uniform economic policy which does not discriminate between East and South. From the point of view of the balance between Euro-Med Partnership and eastward, enlargement it is not a handicap for the for the Mediterranean. On the contrary, it provides an opportunity.

In principle, the disappointment relating to the Mediterranean is not dependent on any basic economic imbalance between the enlargement and the Euro-Med Partnership. If EU new-liberal approach is to criticise, it is so on the Southern as well as on Eastern account.

Different Opportunities: Agriculture & Political Integration

It must not be overlooked, however, that from a substantive point of view East and South have different chances to catch the opportunities offered by EU policies. At least two important points must be raised: agriculture; the institutional and political context.

There is no doubt that all the EU partners suffer world-wide a long-standing discrimination with respect to agriculture. As far as the enlarged EU is concerned, it will be a limited opportunity for Southern European agriculture. Not so much so for the Mediterranean. Agriculture remains a crying exception in the liberal or en-liberal agenda as well as the identity that is claimed by the EU. This exception should be at least reduced.

A second challenge stems from the politico-institutional dimension of the enlargement. The latter, unlike the Euro-Med Partnership, is also an agenda for political integration. As of today, the association agreements for East and South are very similar. They have quite a different destination, however. The political dialogues within the Eastern associations are bound to be translated into full participation in the CFSP. The Eastern agenda for political integration works as an important, strong multiplier economically. In this sense it creates a discrimination between the enlargement and the Euro-Med Partnership.

For a better evaluation of this point, a distinction should be made between the transition to the enlargement and its conclusion. In this sense, it is clear that, whereas there is competition between East and South in the course of the transition, once the process is concluded there will be a problem of relations between a greater EU and the Southern Mediterranean and not of between Eastern Europe and Southern Mediterranean.

Once the greater EU will be there, rather than thinking in terms of discrimination, one has to think in terms of exclusion and inclusion. At that point in time, the challenge will be that of setting out an inclusive EU external policy towards the Euro-Med Partnership

and maybe towards the developing world as a whole. A daunting undertaking. While the transition is on, the challenge posed by the different intensity in the politico-institutional agendas should not be neglected. During the transition this difference must be carefully managed, so as to prepare the ground for inclusion once the enlargement is completed. Here is the importance of the Commission undertaking to establish in the Euro-Med framework a “single market” similar to the European one as well as a web of networks to create a EU-like structural solidarity. Here is also the necessity that Art. 2 in the Mediterranean association agreements do work and are regarded by the Partners as an opportunity rather than an interference.

Financial Resources In An Enlarged Eu Perspective

With important caveats in mind, one can conclude that in principle the enlargement is not discriminating between East and South. However, the enlargement can have a negative impact in the long term from the point of view of the flow of resources to the Southern Mediterranean countries and the movements of the factors of production. This point concerns mainly the flow of financial resources ad aid, investment and emigration. As far as resources are concerned, as it is well known, the enlargement agenda entails an extraordinary increase in the resources to be redistributed internally to less developed members. There is no doubt that with respect to previous communitarian policies of internal solidarity and cohesion, next ones will have to be less ambitious and generous. Still, amounts will be considerable and could easily bring about a decrease or stagnation in the resources to be devoted to EU external common policies.

A broad decrease or stagnation in resources for external policies, would result in a reshuffling of external priorities, complicate the balance among external geopolitical targets. The inclusion of the CEEC and Baltic countries would reinforce interests towards Russia and CIS countries. This could in turn reduce the flow of EU resources towards the Mediterranean.

These shifts and their size will be influenced by other factors as well. One such factors regards the relevance and necessity of EU cohesion with respect to immigration and soft security issues. Increasingly, a good deal of immigration and soft security issues are being introduced through the southern EU approaches, still they affect the EU in its entirety. It would be wrong to see them as southern European risks only. In this sense, the control of southern approaches, though mostly carried out in and by southern EU countries, is a common interest and concern whose cost, sooner or later, will have to be shared. In this sense, EU cohesion would require more common resources to deal with common concerns for Mediterranean stability.

In sum, while resources assigned to the Mediterranean would diminish as a consequence of relative changes in resources and geopolitical priorities, such a decrease would to some extent be contained by the need to fund common policies towards immigration and soft security issues.

Developments in the Balkans, however, can also affect the relative amount of resources flowing to the southern shore of the Mediterranean . In fact, many risks from the South, explicitly contemplated by the Barcelona Declaration, like illegal immigration and drug trafficking, do not come from Mediterranean countries only, but to a large - or even larger extent - from the Balkans. What has emerged in the last few years is an east-south

arc which comprises the Balkans and the Mediterranean and where, in many respects, the latter seems less dangerous than the former.

The conclusion could be that in the next years, the enlarged EU will have good reason to rethink priorities in its external approaches. In principle, the cohesion of the enlarged EU will tend to divert resources from external to internal and from “southern“ to “eastern” and “south-eastern” tasks.

This tendency, however, will be limited by the necessity to meet new common interests in facing increasing transnational risks and issues of soft security coming from the East as well as the South.

On balance, resources to the South would diminish with respect to the East but this diminution would be attenuated by increasing common interests in facing soft security risks from both the South and South-east.

All in all, resources to the South should not diminish too much. This trend, however, concerns the cohesion of the Union. From the point of view of the Southern Mediterranean countries, even if the amount of resources were not to diminish significantly, this same amount would be allocated less to their development than to the Union’s security. The final may result, in sum, negative.

Investments

When it comes to investments, it is well known that in the Mediterranean they are lagging behind. What the EU Commission says in its report released before the ministerial conference of Marseilles is that “the levels of EU investment in the region remain low and well below the flows of investment to other parts of the world”.

A recent study by the Bank of Italy provides a comparison between investment in Eastern Europe and in the Euro-Med area in the period 1993-97. In this period of time the EU’s average annual flow of direct investment in the Euro-Med area amounts to 1.1 billion dollar, whereas the same amount is 5.5 with respect to Eastern Europe (with Germany investing 0,2 and 2.3 in the Mediterranean and Eastern Europe respectively; Italy 0.06 and 0.1; France 0.3 and 0.9, the industrial countries 1.8 and 9.6).

When coming to the reasons of this striking difference, economic factors (size of the markets, proximity, cost of labour) look less important than institutional and political ones.

Apart from political stability, there is no doubt that, among many deficiencies, the transition of the Eastern countries towards an institutional setting fitting with a free market and the rule of law is by far more rapid and convincing than that of the Southern countries.

Let’s recall again the comment of the Commission on this point: “Some Partners have been reluctant to accelerate the pace of the economic transition and to introduce the reforms necessary to meet the obligations contained in the association agreements. The association agreements could not be a substitute for domestic reforms efforts”.

Thus, the southern environment seems to grow persistently adverse to foreign investment. The problem here is not that much that this trend increases the imbalance between East and South. The real problem is that this trend may translate the enlargement of the Union in a growing North-South gap across the Mediterranean.

As already noted, investment are at the heart of the model of development that is

guiding present EU Mediterranean policy. A reduced flow of private investment to the Southern Mediterranean Partners may prevent trade from working as an engine of development. In fact, the model of development that lies at the heart of the Barcelona's endeavour requires a significant shift of the Southern economies towards an export-led development in an open and competitive market. To make this shift possible, however, a significantly increasing flow of investment is indispensable.

To conclude on this point, it can be said that because of political and institutional reasons the process of enlargement is more attractive for private investment than the Partnership. However, it must be also stressed that results may prove different if the Partnership complied more strictly with the economic project which is supposed to guide the Barcelona process.

Emigration

As for movements of persons, and workers' migration in particular, it must be noted that as of today (i.e. in the transitional period of the enlargement process) migration from the East into the EU is not significantly easier than from the South. More in general, I don't think that there is competition between Eastern and Southern manpower, unless occasionally and locally. I also think that this situation will last for a long while and maybe stay even when the transition in the enlargement process will be near to be completed or even completed. There is a persisting gap between demand and supply of labour in the EU, even in the enlarged EU. Consequently, immigration from the South will continue to be needed.

If so, we have here a great and important need of changing and correcting policies. Immigration policies must become more communitarian (whereas today's trend is towards bilateralisation) and more open, even though more regulated (that is reassuring from the European point of view).

Conclusions

In conclusion: should a significant overall change take place in the EU economic policy towards the Mediterranean? My response would be NO. The fundamental agenda of liberalising and integrating Southern economy in the international competition by offering a softer landing opportunity within the Euro-Med region continues to look sound.

Important corrections are needed, however, like agriculture and immigration policies. Other questions need a careful management to smooth polarisation effects during the enlargement's transition, as in the case of institutional and political integration and co-operation.

Whether the enlargement of the EU is competing or hindering the Euro-Med agenda is partly a false issue. The outlook, however is that an enlarged EU will certainly be less interested in the Mediterranean than the present one. This will affect the flow of resources. Will probably affect the flow of investment. Will affect migrations much less.

In any case, the most important problem today in the South is that the Euro-Med

agenda, i.e. its own agenda is only very poorly implemented. Whether the FTA will be established in 2010 is doubtful. I think that the real problem with the Euro-Med agenda is not the influence of the EU enlargement but the weakening of confidence and political will in the Euro-Med arena. For sure, economic policies towards the Mediterranean can and must be improved but this remains a Euro-Med problem with only secondary links with the EU enlargement agenda.