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THE ECONOMIC FACTOR IN MEDITERRANEAN SECURITY

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With the end of the Cold War and the advent of the peace process in the Middle East, the concept of security has, inevitably, taken on a new meaning. Many factors outside the straightforward concepts of "hard security" have now entered the lexicon and have, in some cases, acquired an importance and immediacy which transcend remaining concerns and perceptions about military threat and conflict. Economic issues have begun to acquire a dominant role in this respect, as the realities of future regional and global economic patterns begin to emerge.

Mediterranean or Middle East?

In political terms it is difficult to consider the South Mediterranean world of the Maghrib and the Mashriq in isolation from their geographic, political and social hinterlands. Admittedly, the Maghrib has little to do with the Sahel, for the Sahara desert forms an effective socio-political and economic barrier, but there are strong social and cultural links eastwards. The Mashriq, in turn, is certainly still intimately connected to the Gulf region which forms the third of the three sub-regions which originally comprised the Arab-dominated Middle East. Even though the political cohesion which characterised the Cold War Middle Eastern world up to the end of the 1980s has now disappeared, there are still substantial social, diplomatic and cultural ties which bind the three sub-regions together.

Indeed, from a European point of view it would be difficult to treat them separately in economic terms as well. Europe - essentially the fifteen states which now make up the European Union - is heavily dependent on the Middle East and North African region in terms of energy supplies, for nearly 60 per cent of its needs in hydrocarbon supplies come from there. In 1993, The Middle East supplied 32.6 per cent of Europe's requirements in oil (43.2 per cent of oil imports), whilst North Africa supplied a further 14.6 per cent (19.3 per cent of oil imports). In terms of natural gas, Algeria and Libya alone supplied 19.4 per cent of European gas demand, with a further 6 per cent to be supplied by the new Algeria-Spain gas pipeline via Morocco which will be completed in June 1996, bringing the total up to one quarter of Europe's natural gas import needs[1]. Since it is the Gulf region which is the major supplier of oil to Europe within the overall region, it is difficult to consider Mediterranean security issues in economic terms without including the Gulf as an outlier of the Mediterranean region itself.

At the same time, the importance of the Middle East and North African region to Europe, from an economic point of view, should not be over-stressed. In 1993 the region only supplied 8.1 per cent of all Europe's imports and absorbed 7 per cent of

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1 British Petroleum (1994), **BP statistical review of world energy**, London; 16, 24

Europe's imports. However, in terms of the region itself, Europe was by far the most important trade partner it possessed, as Table (1) demonstrates. In 1992, for example, the twelve-member European Union supplied 47.1 per cent of the region's import requirements and absorbed 38.3 per cent of its exports. No other region of the world even approaches these proportions, a consideration which underlines the essentially asymmetrical trading relationship between the Middle East and Europe.

(1) MIDDLE EAST AND NORTH AFRICA: MARKET SHARES 1992 (%)

Supplier Region	Imports	Exports
North America	17.3	13.3
European Union	47.1	38.3
Japan	10.6	21.4
Eastern Europe and former USSR	1.2	1.7
Newly industrialised countries	8.3	12.7
East Asia developing countries	3.5	3.2
Other developing countries	2.8	4.2
Other developed countries	9.2	5.3

Source: World Bank, **Economic research forum**, Gammarth; A16

The South Mediterranean region is thus highly dependent on its relationship with Europe and this dependency has tended to increase, not weaken, over recent years. Littoral states, in particular, are acutely aware of the real nature of the relationship, as the primacy given to their economic links with Europe indicates. Certain European states, too - particularly those in Southern Europe - are also very concerned by these factors as well. Overall, however, European concern is conditioned by two factors; firstly dependence on the region and its hinterland for oil and gas supplies and secondly over the implications of economic decline within the South Mediterranean and Middle Eastern region. This is a very real concern; as the European Commission pointed out in 1993 when it admitted that, "It is difficult to avoid the conclusion that the economy of the region is a failure."[2] Although the document in question referred to the Middle East, very similar conclusions had been reached a year earlier in a similar analysis of the Maghrib.[3]

Both factors - economic decline and energy supply - have clear security implications for the Mediterranean world. One potential concomitant of economic decline is social unrest and political instability amongst the states concerned. This, in

2 "Future relations and cooperation between the Community and the Middle East", Communication from the European Commission, COM (93) 375, September 8, 1993.

3 "The future of relations between the Community and the Maghreb", Communication from the European Commission SEC (92) 401, April 30, 1992

turn, has the potential to threaten European market access or to provoke economic migration - one of the greatest anxieties of European states - as well as to threaten the Strategic Lines of Communication along which oil and non-oil commerce flows. In both respects, the Mediterranean plays a very important part in European security concerns

South Mediterranean economies

Economic decline in the South Mediterranean is primarily the consequence of the inability of national economies to develop sufficiently fast to parallel population growth and to provide both essential services, such as education and health care, and employment to their burgeoning populations. The scale of the problem faced by these economies is revealed by recent World Bank population projections, as shown in Table (2).

(2) POPULATION PROJECTIONS 1950-2100

	North Africa	Southwest Asia	Europe/USSR
Population (mn)			
1950	52	42	572
1970	83	74	703
1990	140	133	790
Growth rates (%/year)			
1950/70	2.89	3.81	1.15
1970/90	3.43	3.99	0.62
Population projections (mn)			
2000	174	175	814
2025	261	290	851
2050	328	388	850
2100	386	483	859

Source: World Bank (1994), **Population and development: the implications for the World Bank**, Washington; 23, 29

Note: Southwest Asia includes Turkey, Cyprus and the Arab Middle East. North Africa includes Egypt.

National economies will have to grow at a rate of at least 6 per cent per annum in real terms simply to contain these massive populations, which are admittedly now growing more slowly than suggested by the figures above. However, even at projected growth rates of between 2.0 and 2.8 per cent per year, they will still almost double by the year 2050, as shown in Table (3), . Any lower rate of economic growth will not permit governments to provide essential education, health and housing services, nor to create sufficient employment to absorb a predominantly young population. Even now, unemployment rates are between 10 and 30 per cent throughout the region and under-employment rates can range as high as 50 per cent of the labour force.[4]

(3) MIDDLE EAST AND NORTH AFRICA POPULATION: 1970-2010
(Population in millions; annual growth in per cent)

	1970	gr 70-90	1990	1995	gr 90-10	2010
Maghrib	36.2	2.8	62.7	70.3	2.0	95.0
Mashriq	43.3	2.5	71.5	80.4	2.0	107.6
GCC	7.7	5.4	22.1	25.0	3.0	39.4
Iran/Iraq	44.1	3.3	85.1	100.0	3.0	152.0
Israel	3.0	2.2	4.6	5.6	2.0	6.8
Total	**134.2**	**3.0**	**246.0**	**282.0**	**2.5**	**400.0**

Source: World Bank (1995), **Economic Research Forum**, Gammarth; B6

The problem is that average growth rates for the past decade have been between 1.5 and 2 per cent for the South Mediterranean littoral economies and, whilst they have been better in the Gulf, this has only been due to the fact of oil-fuelled development. Furthermore, many of the more populous economies, which are also usually those with no or little oil to fuel development, have incurred heavy foreign debt burdens. The pressure of debt repayment is an added disincentive for rapid and effective economic development, particularly in the cases of those countries which are heavily indebted, such as Egypt, Algeria, Turkey, Syria, Morocco and Iran.

At the same time, it is precisely these states which have had to seek international help in rescheduling their foreign debt repayments because of the burdens placed upon their economies. The necessary help is, however, dependent on the state concerned being prepared to accept economic restructuring along the lines laid down in the "Washington Consensus" - a neo-classical prescription for economic reform supported by the G-7 Group of developed economies and the major financial multilateral bodies. Application of the "Washington Consensus" involves the International Monetary Fund (IMF) and the World Bank in the first instance, although commercial creditors in the London Committee and official creditors in the Paris Club are also involved and have usually taken their cue from the IMF and World Bank lead.

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4 For details on North Africa, see Joffe G. (1993), "The development of the UMA and integration in the Western Arab world", in Nonneman G. (1993), **The Middle East and Europe: the search for stability and integration**, Federal Trust (London); 207. For indicative figures, see World Bank (1995), **Will Arab workers prosper or be left out in the twenty-first century?**, Washington; 3, 5. At the same time, considerable levels of unemployment were soaked up by the informal sector - 28.9 per cent of non-agricultural employment in Algeria (1985); 39.7 per cent in Egypt (1986); 63 per cent in Morocco (1991 - it had been only 57 per cent in 1982); and 35 per cent in Tunisia (1989 - compared with 46.7 per in 1980)

The IMF, which is primarily concerned with states' external accounts - where the imbalances lie which render debt repayment so difficult - has taken a consistent view of the problem; the lack of foreign currency to repay foreign debt is a consequence of misallocation of resources brought about by unrealistic pricing policies. It is this analysis that lies at the heart of the "Washington Consensus". In essence, the corrective process the IMF requires before debt repayment aid is forthcoming is the restructuring of economies to deal with this fundamental problem. This is done by liberalisation of trade regimes and the introduction of convertible currencies, thus creating "open" economies in which external competition eventually forces domestic economic change so as to create and encourage export-oriented manufacturing sectors alongside more traditional primary product exports. These changes are accompanied by domestic restructuring designed to reduce the role of the public sector, which is conventionally considered to retard the development of genuine competitiveness within the economy, and the liberation of domestic price regimes by the removal of subsidy and control systems, so that world prices can restore a competitive environment.

(4) FOREIGN DEBT: 1992
($ billion)

Country	**Total debt**	**Long-term debt**
Maghrib		
Algeria	26.349	24.762
Mauritania	2.301	1.855
Morocco	21.305	20.536
Tunisia	8.475	7.644
Mashriq		
Egypt	40.517	36.712
Iran	12.866	1.716
Jordan	7.516	7.026
Oman	2.855	2.340
Syria	19.016	15.912
Turkey	55.605	42.945
Yemen	6.571	5.253

Source: World Bank (1994), **Debt Tables**, Washington

Inevitably, such economic restructuring causes considerable social disruption and, on occasion, impoverishment. Coping with the problems it causes is the domain of the World Bank which provides bridging finance and structural readjustment loans for this purpose. However, since the basic assumptions of the economic restructuring process refer only to the domestic economy concerned, no account is taken of the external environment in which reforms are to take place. This is often hostile towards national economic development and, since it is the environment in which national exports must compete, can nullify the supposedly beneficial effects of the proposed reforms which are designed to improve international competitivity. In addition, compression of foreign exchange earnings not only hinders debt repayment but also causes compression of vital imports. The consequence is that the restructuring process can be significantly lengthened as a result of such external factors and the social disruption caused is thereby intensified. Indeed, the goal of the restructuring process may become virtually unattainable for these reasons.

A good example of these effects is provided by the Algerian experience of the mid-1980s. This was a time when the Algerian regime was attempting to introduce state-directed and gradual economic liberalisation. The sudden Saudi-induced drop in world oil prices in 1986 came, therefore, at a critical juncture. The sudden worsening of its foreign exchange position - the decline in nominal oil prices combined with a simultaneous depreciation of the dollar, the currency in which oil prices are denominated produced a 20 per cent decline in foreign currency receipts in an economy which was a high capital absorber - seriously affected import supply and the debt service ratio which, by 1992 had climbed to a terrifying 72 per cent.

Of course, the resultant crisis was also of the regime's own making; it did not seek rescheduling fast enough and refused to accept the need for significant and specific economic restructuring. Nonetheless, the external environment did nothing to ease its predicament and played a significant role in creating the conditions for the October 1988 riots. A similar pattern of social unrest leading to widescale rioting has marked the economic restructuring programmes of Tunisia (January 1984), Morocco (June 1981, January 1984 and December 1990), Egypt (1976 and 1986) and Jordan (1990).

(5) NORTH AFRICA: RESOURCE FLOWS - 1993
($ mn)

	Algeria	**Egypt**	**Morocco**	**Tunisia**
Long-term debt	-479	405	182	276
Official grants	82	1,192	179	135
Direct foreign inv.	15	493	522	239
Portfolio equity inv.	0	0	0	0
Workers remittances	993	4,960	1,945	599
Exports	10,230	2,244	3,991	3,802
Resource flows	-382	2,090	884	650
Net transfers	-2,237	917	-239	-6

Sources: World Bank Development Report 1995; World Bank World Tables 1995.

There is little doubt that most of the South Mediterranean and Gulf economies need economic reform; their chronic budget, trade and current account deficits make this clear, as does their dismal growth record over the years. Public sector involvement in their economies has traditionally been high - 70 per cent in Algeria, 40 per cent in Tunisia, Morocco and Egypt up to the 1980s, for example[5], which often contributed

5 By the 1990s, these levels had begun to drop as a result of restructuing programmes, according to the World Bank (World Bank (1995), **Will Arab workers prosper...?**; 20). Selected levels were Algeria (1990): 58 per cent; Tunisia (1989): 36 per cent; Morocco(1992): 30 per cent; Egypt (1992): 35 per cent; Jordan (1991): 48

significantly to their heavy budget deficits. Failure to achieve adequate export levels has meant that, except for the oil economies, foreign trade balances have usually been negative and this has contributed to indebtedness, as foreign exchange to pay for imports has been lacking. It is for this reason that workers remittances[6] and tourist revenues have been essential in reducing current account deficits, with capital inflows being the only way in which the balance of payments has usually been maintained for most of the non-oil exporting economies.

One consequence of such deficits, particularly in the external account, has been to reduce public sector investment, with concomitant reductions in economic development rates. This has been particularly serious in terms of the development of human resources. The persisting problems of adult illiteracy, despite decades of heavy investment in education, indicates the level of the failure they have experienced in exploiting their human resources - which ultimately determine any sustained development process, as the experience of South-East Asia makes clear. There improving levels of education went hand-in-hand with low labour costs and government strategic involvement in achieving and maintaining development. In the South Mediterranean region, however, even if the necessary employment could be created, there are not the necessary skilled workers to satisfy demand. In any case, many of the more enterprising elements of the workforce migrate to Europe or to the Gulf.

(6) ADULT ILLITERACY RATES: 1993
(% population above 15 years old)

Country	Illiteracy	Country	Illiteracy
Algeria	43.0	Jordan	20.0
Morocco	51.0	Syria	35.5 (1990)
Tunisia	35.0	Lebanon	19.9 (1990)
Libya	36.2 (1990)	Turkey	20.8 (1990)
Egypt	52.0	Israel	5.2 (1992)*

Sources: World Bank (1995), **Will Arab workers prosper...?**; 18
Encyclopaedia Britannica, **Book of the Year 1995** (Chicago)

Quite apart from the issue of human resources, the majority of South Mediterranean countries also suffer from inadequate physical infrastructure. This, combined with ill-trained and motivated work-forces, seriously hinders access to direct private foreign investment, which is now considered to be the crucial motor for economic

per cent; and Syria (1991): 33 per cent.

6 In 1990, workers remittances were more important worldwide in generating current account financial inflows into developing economies than was official development assistance - over $70 billion and $54 billion respectively (World Bank (1994), **Population and development: implications for the World Bank**, (Washington; 33.

development, once satisfactory economic restructuring has been achieved. Here, however, the South Mediterranean region has been a manifest failure, as Table (7) demonstrates, coming just above South Asia - the lowest ranking region in the developing world in terms of access to direct private foreign investment.

(7) FOREIGN INVESTMENT: DEVELOPING COUNTRIES BY REGION
($ billion - 1993)

	FDI	(%)	PEI	(%)
East Asia/ Pacific	36.5	54.5	18.1	38.3
Latin America/ Caribbean	16.1	24.2	25.1	53.1
Europe/ Central Asia	9.6	14.4	1.3	2.8
Sub-Saharan Africa	1.8	2.7	0.4	0.8
Middle East/North Africa	1.7	2.6	0.4*	0.8
South Asia**	0.8	1.3	2.0	4.2
Total	**66.6**		**47.3**	

Source: COMET 43 (May 1995); 21
Note: * World Bank projection
** In total investment terms, South Asia outstrips the Middle East!

This is a staggering position, given the potential of the South Mediterranean region and its closeness to a major world market. It reflects, in part, the Western perception of chronic political instability within the region and the inadequacy of infrastructural, financial, human and legal resources to persuade investors that investment prospects are good. It also reflects the anxieties of indigenous investors over the region's potential. Around $465 billion-worth of Arab private investment is located *outside* the Middle East-North Africa region, rather than within it! It also highlights the levels of development that will be needed if the region is ever to attract the investment it needs to be able to realise the growth rates that are essential if the demographic problems its faces are to be contained. This can only be done with the aid of external assistance, a consideration that makes the economic relations of the region with Europe of crucial importance, particularly as official development assistance levels are declining - in accordance with the "Washington Consensus".

It might be considered that the oil-rich states of the Gulf region could provide seed investment for the region. It is indeed true that they have been amongst the biggest investors in the region for many years through the various development funds they maintain, although the bulk of their investment has been made elsewhere. However, they, too, face straitened times; Saudi Arabia's official reserves were depleted by the costs of the war against Iraq ($52 billion) and had been run down from the original level of $126 billion in the 1970s as a result of the secular decline in world oil prices in the 1980s. Kuwait has also seen its reserves depleted since 1990 and much of its assets are held in illiquid form abroad. In any case, the willingness to undertake such a task has disappeared and overall sums available would be inadequate for the task which needs to be undertaken.

Furthermore, the oil-rich states of the Arab world now face a series of structural crises. Oil-rich populous states which are high capital-absorbers - such as Algeria, Iraq and Iran - have discovered the dangers of depending on fluctuating oil revenues to cover essential import costs and development expenditure. In the case of Algeria it led ineluctably to high levels of foreign debt and import compression, as it did more recently in Iran. The smaller states which have an excess of foreign exchange revenues suffer from the rentier state problem and from the "Dutch Disease" - the distortion of the economy in favour of the hydrocarbon and service sectors which hinders balanced economic development and differentiation. Thus, although their plight is not as serious as those of the larger oil states and the non-oil states, they also suffer from serious economic imbalances.[7]

The Mediterranean economic environment

The domestic problems faced by the South Mediterranean economies are enhanced by the external factors arising from their economic environment. Some of these are likely to produce serious inconveniences for future economic development, others hold the promise of a possible solution. There is little doubt that the dependence of so many of these economies on primary product exports - oil, gas and phosphates (Morocco is the world's largest phosphate exporter and third-largest producer) - means that the secular stagnation in world prices seriously hampers their abilities to acquire foreign currency and thus to satisfy import demand, both for essential consumer supplies and for inputs into the development process.

Similarly, the continuation of the problem of foreign debt repayments saps at their capital import potential, particularly since, despite the Baker, Brady and Montreal debt forgiveness and reduction plans, official and commercial creditors in the developed world are loathe to contemplate significant mechanisms for debt forgiveness. There has been some interest in debt-equity swap mechanisms, particularly in the case of Morocco, but anxieties over political stability and the low price attached to secondary debt in the region has militated against this option. Similarly, no interest has been shown in the imaginative Tunisian proposal for the recycling of repaid debt as investment capital.

The point of the Tunisian proposal was to find a new method of financing essential major investment in the Mediterranean region which did not involve heavy commitments of Official Development Assistance, since the willingness of Western governments to commit increasing sums in this respect is static or in decline. Although levels of Official Development Assistance in the Middle East rose significantly at the

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7 Stevens P(1986), "The impact of oil on the role of the state in economic development: a case study of the Arab world," **Arab Affairs, 1,** 1 (Summer 1986); 87-101. Over 90 per cent of the Kuwaiti labour force is employed in the public service sector, for example (World Bank (1995), **Can Arab workers prosper...?**; 20).

start of the 1990s, partly because of the war against Iraq, the per capita levels have fallen, from $38 in 1991 to $23 in 1993.[8]

(8) OFFICIAL DEVELOPMENT ASSISTANCE: 1990-93
($ billion)

Region	**1990**	**1991**	**1992**	**1993**
Disbursements				
Net ODA (OECD)	53.4	57.1	60.9	54.5
Total: Current prices	54.5	58.6	62.7	56.0
1992 constant prices	59.8	62.1	62.7	57.1
%age GNP	0.34	0.35	0.35	0.30
OPEC	0.7	...	...	...
OAPEC	0.7	...	...	...
Receipts				
Middle East/North Africa	9.7	9.3	9.8	9.6
Sub-Saharan Africa	13.5	14.0	16.8	16.4
Latin America/Caribbean	3.8	4.1	4.6	5.3
East Asia/Pacific	6.7	7.1	8.1	7.7
South Asia	6.2	6.1	6.1	7.5

Sources: World Bank (1994/95), **World Development Report**; Tables 18, 19

If, indeed, significant new funding for infrastructural development is needed to persuade foreign private investors to direct their attention towards the South Mediterranean region, it is clear that such funding is not going to come from bilateral or multilateral Official Development Assistance. It was in this context that the Tunisian proposal had a significance that may now be taken up by some of the regional development banks that have been proposed.

An alternative mode of generating essential financial inputs might have been to tap the potential and synergies implicit in regional economic integration. Indeed, this was one of the purposes behind the creation of the UMA (Maghrib Arab Union) in 1989. Although its more immediate purpose may have been to resolve regional political issues in North Africa, there was also an underlying objective of creating a self-sustaining regional market that would of itself generate economic development.[9] Sadly, political imperatives have meant that these hopes - involving a customs union by 1995 and a full common market by the year 2000 - have been shelved, although the associated financial development institutions are still to go ahead. There is, in short,

8 World Bank (1994/1995), **World Development Report**; Table 19.

9 Joffé E.G.H. (1993), " The development of the UMA and integration in the Western Arab world," Nonneman G. (1993)(ed), **The Middle East and Europe: the search for stability and integration**, The Federal Trust (London); 203-209.

nothing to parallel the growth of the economic significance of the Gulf Cooperation Council which, despite its growing political problems, does seem likely to aid economic development in the Arabian peninsula, albeit under Saudi aegis. Not even the current Middle Eastern peace process is likely to change this picture, since the sought economic benefits are likely to be meagre, at least in the short term, and Israel is far more interested in Asia, Central Asian and European markets than it is in the Middle East or North Africa.[10] The figures given in Table (9) may be overly pessimistic in view of the Israel-Jordan peace treaty last year, but they nonetheless, still provide a valid perspective.

(9) PROJECTED ARAB TRADE WITH ISRAEL
(% total trade)

Country	**Imports from Israel**	**Exports to Israel**
Egypt	1.70	19.98
Syria	2.66	9.78
Lebanon	2.16	8.72
Jordan	2.40	6.41
GCC	0.47	2.11

Source: World Bank (1993), **Developing the Occupied Territories: an investment for peace**, Washington: II, 122-128.

Quite apart from the lack of such internally-sustained patterns of development, there are other objective factors which hamper economic development as well. Not least is the growing inaccessibility of Western European labour markets to the South Mediterranean region, so that excess labour there cannot be soaked up or generate further remittance flows, as in the past. There is also the growing problem for agricultural exporters of the barriers within Europe to their produce - most recently underlined by the dispute over cut-flower and tomato exports to Europe from Morocco. In part this reflects the fact that Europe is now virtually self-sufficient in all aspects of agricultural production and is no longer prepared to honour export patterns established in colonial times, particularly as far as early vegetables, olive oil and citrus are concerned. This is translated into quota and tariff restrictions under the Common Agricultural Policy which particularly affect Israel, Morocco, Tunisia and Egypt - Israel has already begun to cut back on agricultural exports for reasons of water access. These restrictions have acquired a new importance since, from 1986 onwards, Spanish and Portuguese integration into the European Market will be complete and new quota arrangements come into force to replace the old reference price system of tariff barriers to South Mediterranean agricultural exports.

Ironically enough, the successful conclusion of the Uruguay Round of the GATT, which was signed in Marrakesh in 1994, also has negative connotations for the

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10 cf: Murphy E.C. (1995), **Israel and the Palestinians: the economic rewards of peace?**, CMEIS Occasional Paper No. 47 (March 1995), University of Durham; 20-21.

South Mediterranean region. Although world trade was expected to rise by some $512 billion (some estimates spoke of $572 billion), sub-Saharan Africa and North Africa were expected to be net losers - with North Africa losing up to $600 million annually. The Middle East would gain by $1.2 million annually - although virtually all of this would accrue to the Gulf oil producers. One of the main reasons for the losses involved cereal imports which, under the reduced GATT tariff levels (with Europe removing 30 per cent of its subsidies) would undercut local prices which were supported. These imports are not insignificant: in the 1984-86 period, for example, Morocco produced an average of 5 million tons each year and imported 2.2 million tons; Algeria produced 2.9 million tons and imported 3.9 million tons; and Tunisia, which produced 1.2 million tons annually, imported a similar amount. Little has happened since then to alter the basic situation. Overall, the region imports 50 per cent of its cereal requirements and is extremely sensitive to external prices. This translates into a wider sensitivity to falling tariffs in the wider world and the World Bank has calculated that South Mediterranean trade with Europe will be severely affected by the GATT regulations, falling by $5.5 billion annually - unless the region is integrated into Europe.[11]

The Euro-Mediterranean Partnership

It is this factor which makes the conclusions of the Barcelona Conference so important for the South Mediterranean Region. The decision to offer industrial free trade area arrangements on a bilateral basis to individual South Mediterranean states as part of a new set of Association Agreements was the first step in this process. The proposal to expand such agreements into a southwards extension of the European Economic Area is the second. The third will be to renegotiate both the restrictions on agricultural trade, to free it from the limitations of the Common Agricultural Policy and bring it into the free trade ambit - which the European Commission has agreed to consider - and to reconsider the restrictions on the free movement of people, to parallel that of goods and services. This is most unlikely in the near future, despite the fact that the European labour force is ageing and will not accept unskilled and semi-skilled work.[12]

The explicit objective of these new proposals - and the new types of bilateral agreements have already been signed by Tunisia, Israel and Morocco, with Turkey obtaining its own customs union agreement and Egypt and Algeria seeking to imitate their Maghribi partners - is to provide a basis for accelerated economic growth, so that increased migration will not be necessary. There is also the belief that economic improvement will reduce domestic political instability as thus increase access to direct

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11 World Bank (1995), **Economic Research Forum** (Gammarth); C48

12 It has been calculated that the European labour force will need to be expanded by 56 million by the year 2030, using migrant labour. Weidenfeld W. and Hillenbrand O. (1994), "Immigration: not a privilege but a necessity", **European Brief**, 2 (3) December 1994.

private foreign investment and to portfolio investment - which is now just beginning.[13] It has to be said, however, that the basic structural problems still remain and the costs of integration may prove to be very high indeed.

Despite the new institutional arrangements, there is still little to encourage the private foreign investor. Physical, institutional and human resource infrastructure is still weak and will take many years to change. Current policies of reducing public sector involvement in the economy will, in any case, slow down change, particularly if the private sector is not prepared to pick up the gauntlet. In addition, the costs of coping with adjustment to the new free trade areas is likely to be severe, despite the twelve year transition periods proposed (most South Mediterranean countries would have sought a fifteen year transition period, but the Commission is not prepared to tolerate this). Tunisia has estimated that 2,000 companies will disappear and 2,00 other may be similarly threatened, whilst a further two thousand companies will face difficulties. It is seeking $2.2 billion for the costs of transition designed to avoid the kind of industrial crisis it anticipates, up to 80 per cent of which will have to come from foreign sources. Morocco anticipates that, without significant help. up to 60 per cent of its industrial base could be destroyed by European competition[14].

Of course, the situation will never be as bad as portrayed. It is, however, clear that significant increases in foreign aid will be necessary to achieve the structural adjustment necessary if the new free trade area policy is to produce the desired result. In this connection, the doubling of European Union aid in the next Five Year Financial Protocol to $4.67 billion, with a similar amount being made available in the form of soft aid and concessionary loans does not seem to be very generous, since it represents only $2 billion annually for the whole of the South Mediterranean region.

The net result of the new proposals, in short, may not resolve the developmental crisis facing the South Mediterranean region. Israel's priorities of trade outside the region should protect it from this generalised potential failure, despite its own internal difficulties. The Gulf states, no doubt, can afford the oil option for years to come and can also seek market integration through oil into Asia and the West. The Maghrib and the Mashriq, however, have no such alternative. Without sufficient assistance to undertake and complete the essential infrastructural tasks they face - and

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13 It is hoped that this will be sparked off by the privatisation programmes now being undertaken widely throughout the region. Direct private foreign investment in such programmes between 188 and 1993 reached $325.4 million, out of a world total of $22.5114 billion. (Sader F. (1995), **Privatizing public enterprises and foreign investment in developing countries 1988-93**, World Bank (Washington); 42.)

Morocco and Tunisia, however, have hoped - vainly to date - that there would be a significant boost to their current levels of foreign investment as a result of their own privatisation programmes - from around $200 million annually to $4-500 million in the case of Tunisia and from $400 million annually to $2 billion in the case of Morocco. In reality, gains of about half the projected level have been achieved.

14 **Maghreb Quarterly Report, 19** (June-October 1995); 42

this must be provided from outside the region, either from private or public sources - they cannot anticipate the economic growth rates needed to deal with their demographic crisis and achieved sustained development. The alternative may well be that they become satellite economies of Europe so that balanced, self-sustained growth will become no more than a distant, unattainable dream.