



# Regional Integration in the Mediterranean Moving out of the Deadlock?

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BY TIMO BEHR



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## List of Acronyms

<b>AA</b>	<b>ASSOCIATION AGREEMENT</b>
<b>AS</b>	<b>ADVANCED STATUS</b>
<b>AAEU</b>	<b>AGREEMENT ON ARAB ECONOMIC UNITY</b>
<b>ACAA</b>	<b>AGREEMENT ON CONFORMITY ASSESSMENT AND ACCEPTANCE</b>
<b>ACC</b>	<b>ARAB COOPERATION COUNCIL</b>
<b>ACM</b>	<b>ARAB COMMON MARKET</b>
<b>AEC</b>	<b>ARAB ECONOMIC COUNCIL</b>
<b>AFDT</b>	<b>AGREEMENT ON FACILITATION AND DEVELOPMENT OF TRADE</b>
<b>AMU</b>	<b>ARAB MAGHREB UNION</b>
<b>ASEAN</b>	<b>ASSOCIATION OF SOUTHEAST ASIAN NATIONS</b>
<b>ATFRTT</b>	<b>AGREEMENT ON TRADE FACILITATION AND REGULATING TRANSIT TRADE</b>
<b>ATU</b>	<b>AGADIR TECHNICAL UNIT</b>
<b>AU</b>	<b>AFRICAN UNION</b>
<b>BMICE</b>	<b>BANQUE MAGHRÉBINE D'INVESTISSEMENT ET DE COMMERCE EXTÉRIEUR</b>
<b>CEN-SAD</b>	<b>COMMUNAUTÉ DES ETATS SAHÉLO-SAHARIENS</b>
<b>COMESA</b>	<b>COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA</b>
<b>CPCM</b>	<b>COMITÉ PERMANENT CONSULTATIF DU MAGHREB</b>

<b>EEC</b>	<b>EUROPEAN ECONOMIC COMMUNITY</b>
<b>EIB</b>	<b>EUROPEAN INVESTMENT BANK</b>
<b>EMFTA</b>	<b>EURO-MEDITERRANEAN FREE TRADE AREA</b>
<b>EMP</b>	<b>EURO-MEDITERRANEAN PARTNERSHIP</b>
<b>EMPA</b>	<b>EURO-MEDITERRANEAN PARLIAMENTARY ASSEMBLY</b>
<b>ENP</b>	<b>EUROPEAN NEIGHBOURHOOD POLICY</b>
<b>ENPI</b>	<b>EUROPEAN NEIGHBOURHOOD AND PARTNERSHIP INSTRUMENT</b>
<b>EU</b>	<b>EUROPEAN UNION</b>
<b>FDI</b>	<b>FOREIGN DIRECT INVESTMENT</b>
<b>FEMIP</b>	<b>FACILITY FOR EURO-MEDITERRANEAN INVESTMENT AND PARTNERSHIP</b>
<b>FTA</b>	<b>FREE TRADE AGREEMENT</b>
<b>GAFTA</b>	<b>GREATER ARAB FREE TRADE AREA</b>
<b>GCC</b>	<b>GULF COOPERATION COUNCIL</b>
<b>GMP</b>	<b>GLOBAL MEDITERRANEAN POLICY</b>
<b>LAS</b>	<b>LEAGUE OF ARAB STATES</b>
<b>MENA</b>	<b>MIDDLE EAST AND NORTH AFRICA</b>
<b>MPC</b>	<b>MEDITERRANEAN PARTNER COUNTRY</b>
<b>NAFTA</b>	<b>NORTH AMERICAN FREE TRADE AGREEMENT</b>
<b>PAFTA</b>	<b>PAN ARAB FREE TRADE AREA</b>
<b>PEMCS</b>	<b>PAN-EURO-MED CUMULATION SYSTEM</b>
<b>RMP</b>	<b>RENOVATED MEDITERRANEAN POLICY</b>
<b>ROO</b>	<b>RULES OF ORIGIN</b>
<b>SPS</b>	<b>SANITARY AND PHYTOSANITARY MEASURES</b>
<b>TJDEC</b>	<b>TREATY FOR JOINT DEFENCE AND ECONOMIC COOPERATION</b>
<b>UfM</b>	<b>UNION FOR THE MEDITERRANEAN</b>
<b>WTO</b>	<b>WORLD TRADE AGREEMENT</b>

## Executive Summary

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This research report is the last of a series of case studies conducted by Notre Europe on contemporary trends in political and economic regionalization.

The study takes stock of current trends in regional integration processes in the Mediterranean. Examining regional dynamics on both the North-South and South-South axis, the study argues that political and structural impediments continue to hamper regional integration. While North-South cooperation seems to be moving out of its temporary impasse, the Euro-Mediterranean project has changed its character and has become increasingly fragmented. South-South integration, similarly, has made a step forward with the establishment of GAFTA and the Agadir Process, but remains weighted down by a lack of political commitment and serious structural impediments. In the absence of political support, globalization has further accentuated a growing trend towards regional fragmentation. Movement towards deeper integration therefore remains primarily limited to a bilateral level. In order to prevent a further fragmenting of the Mediterranean region and to assist southern Mediterranean countries to overcome structural barriers to integration, the study recommends a greater emphasis on interregional cooperation and more European support for South-South integration.

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## Introduction

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The Mediterranean represents a unique case when it comes to questions of regional integration. Around the Mediterranean Basin, dynamics of integration and fragmentation have often gone hand in hand and have tended to alternate strongly over time. While most Mediterranean countries share a common history and similar cultural traits, today there are few places in the world that are more politically divided and conflict-ridden. And while throughout history the Mediterranean has served as an artery of global trade and commerce, more recently the region has turned into an economic backwater that is characterized by one of the lowest levels of trade integration in the world.

But despite this varied history of integration and fragmentation, regional ideas and ideals remain in high currency around the Mediterranean Sea. As a result, the region has become home to a unique blend of different Pan-Arab, Euro-Mediterranean, Pan-African and Maghreb projects of region-building that are evolving in both concert and competition. These different trends are largely an expression of the regions multicultural history and heritage and have contributed to the creation of a “couscous bowl” of multilateral, regional, sub-regional and bilateral trade agreements.

Today, both the context and content of Mediterranean regionalism differ substantially from that of other regional integration projects that have now become a familiar part of the everyday reality of global politics. This “Mediterranean exception” results from three specific characteristics that are distinguishing the region from other parts of the world. First, more than any other part of the world, the Mediterranean has been subject to various overlapping forms of regionalism. Different political and economic orientations and allegiances are pulling Mediterranean countries in different directions and impose different sets of rules that reinforce regional divisions. The concrete implications of these overlapping and competing regionalisms have often been ignored.

Second, despite some attempts to foster regional integration, the level of intra-regional trade and economic integration remains lower than in most other parts of the world – especially amongst the southern Mediterranean countries. The reason for this can be found in a number of structural and political factors that represent an enduring obstacle to integration. As a result, trade agreements are shallow, tariff and non-tariff barriers remain comparatively high and Euro-Mediterranean trade is biased towards the north. As regional economic cooperation has foundered, economic globalization has provided an incentive for many southern Mediterranean countries to choose bilateral avenues of trade liberalization, further increasing a trend towards fragmentation.

Finally, Mediterranean regionalism differs from the regional integration projects in other parts of the world because of the EU’s direct involvement as both a promoter and self-interested player. Whereas the EU has served as an unavoidable reference point for almost all regional integration schemes, in the Mediterranean it has also been an active participant. This endows the EU with some ability to influence and even steer regional dynamics in the Mediterranean. For the most, the EU has used this ability to support the creation of a Euro-Mediterranean regionalism that is centred on the European Union. But more recently, the EU has also attempted to support and promote certain processes of sub-regional and pan-regional cooperation amongst the southern Mediterranean countries.

This paper will attempt to assess how these different characteristics have impacted the dynamics of regional integration in the Mediterranean. It will analyse the main drivers and obstacles towards regional integration on both the North-South and South-South axis and examine what role the EU has played as a motor or break of regional integration. It will consider the impact of overlapping regional schemes on the shape of Mediterranean regionalism and speculate on their future complementarity. Finally, the paper will consider whether recent advances in regional integration indicate that the Mediterranean is approaching a new take-off point that will allow it to move towards a deepening of political and economic cooperation following the example of other regions around the world.

To answer some of these questions, the paper will provide an overview of different regional integration process around the Mediterranean. A first part will consider the political and economic factors shaping regional integration in the Mediterranean as a whole. A second part will provide an overview of South-South integration and its inherent difficulties and problems. This will be followed by an account of the changing nature of North-South integration in the form of the EU-Mediterranean Partnership. A fourth part will finally look at recent EU attempts to promote South-South integration through interregional cooperation. The conclusion will provide a brief summary of the current state of regional integration in the Mediterranean and speculate on future developments.



## I - The Mediterranean: Political Dream and Economic Reality

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The Mediterranean represents a *sui generis* case when it comes to questions of regional integration. In the past, the Mediterranean has provided an early example for regional cooperation and integration – driven by both commerce and conquest. Today, there are few regions in the world that are as divided and fragmented. Indeed, there seem to be little prospects for a distinct “Mediterranean” regionalism to take roots. Instead, the region has been divided between a variety of Pan-Arab, Euro-Mediterranean, Pan-African and Maghreb projects of regional integration evolving in concert and competition with each other. However, the reasons for this Mediterranean exception from the broader global trend towards regionalisation and the way different regional integration schemes in the Mediterranean interact with each other remain ill understood.

In order to shine some fresh light on these issues and allow for a more thorough evaluation of the current dynamics of regional integration, this section will consider some of the reasons behind this Mediterranean exception. It will begin with a short overview of the different political visions of regional integration in the Mediterranean and how they have been articulated over time. This will be followed by a brief description of the economic reality of the Mediterranean

region as well as some of the more notable attempts at economic integration. A final section will consider some of the reasons that have been provided for the Mediterranean's exception when it comes to regionalisation and question whether recent developments indicate that the region is approaching a new take-off point that will move the Mediterranean towards the global mainstream.

## 1.1 The Mediterranean Dream

The dream of establishing an integrated and peaceful Mediterranean system goes back a long time. For centuries, the Mediterranean has been caught between forces of integration and fragmentation. Variably, it has been the place of military confrontations between North and South – from Rome and Carthage to the Crusades, Habsburg Spain and the Ottomans – and an object of European imperialism and domination. For some it represents a “liquid continent” and “peaceful lake” where the cultures of different continents mix and mingle. To others, it appears as a “sea of conflict” and a dividing line of competing civilisations.<sup>1</sup> Over time, therefore, ideas about the shape, contours and meaning of the Mediterranean have differed considerably and have left a mixed legacy.

In the academic literature about International Relations, there are broadly speaking two different ways of explaining the formation of regions. Neo-realists and neo-liberal theories emphasise the material basis of regionalism: commonly shared characteristics, such as geography, language, religion, economic ties and institutions.<sup>2</sup> Constructivist scholars, on the other hand, have argued that although material factors matter, regions – like nation states – are above all “imagined communities”.<sup>3</sup> This means that regions are socially constructed entities, created by common narratives about identity and belonging.<sup>4</sup> While these narratives change over time, they are often based on shared enmity

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1 Emanuel Adler, Beverly Crawford & Federica Bicchi, eds. (2006), *The Convergence of Civilisations: Constructing a Mediterranean Region*, Toronto: University of Toronto Press

2 For an overview of theories on regionalism, see Louis Fawcett & Andrew Hurrell (2003), *Regionalism in World Politics*, Oxford, OUP

3 Benedict Anderson (2003), *Imagined Communities: Reflections on the Origin and Spread of Nationalism*, London: Verso

4 Michelle Pace (2006), *The Politics of Regional Identity: Meddling with the Mediterranean*, London: Routledge

towards a hostile “other”. In the Mediterranean context, this has most commonly been expressed in the dichotomy between Christian North and Muslim South.

While this paper aims to provide an overview of the current dynamics of regional integration in the Mediterranean and will not concern itself with the more theoretical questions about regionalism and region-building, constructivist insights are useful in reminding us that there are different – and at times competing – visions of the Mediterranean. Indeed, based on historical precedence and current ideas about regional identity and belonging, it seems possible to distinguish between three different visions of the Mediterranean, each advocating a different path for regional integration.

One vision of the Mediterranean, which has historically been dominant in Europe, is that of the Mediterranean as a *mare nostrum*. This is the idea of Mediterranean unity based on the heritage of a common Latin civilisation that has left its traces around the Mediterranean Sea.<sup>5</sup> It also is the Mediterranean of European colonialism, which sought justification in claiming a *mission civilisatrice* aimed at “restoring” a rational Latin or Western civilisation to the southern Mediterranean shores.<sup>6</sup> In the Arab south, the closest equivalent to this vision of the Mediterranean is the Arab Renaissance (*al-Nahda*) of the 19<sup>th</sup> and early 20<sup>th</sup> century which looked towards the European Enlightenment as a source of inspiration and reform.<sup>7</sup> Overall, therefore, it is the idea of Euro-Mediterranean regional unity that is orientated towards a European vision of modernity and Enlightenment.

Another vision of the Mediterranean is that of the Mediterranean Sea as a dividing line between unchanging and inherently conflictual civilisations.<sup>8</sup> This is a vision of the Mediterranean not as a region, but as a frontier – a border between Christian North and Islamic South.<sup>9</sup> An early precedent for this idea of the Mediterranean was set by the crusades. Contemporary bedfellows for this way of

5 Paul A. Silverstein (2002), “France’s Mare Nostrum: Colonial and Post-Colonial Constructions of the French Mediterranean,” *Journal of North African Studies* 7 (4)

6 Abdelmajid Hannoum (2001), “Colonialism and Knowledge in Algeria: The Archives of the Arab Bureau,” *History and Anthropology* 12 (4)

7 Albert Hourani (1991), *A History of the Arab Peoples*, New York: Warner Books

8 Paul A. Silverstein (2005), “The New Barbarians,” *The New Centennial Review* 5(1), Spring 2005

9 Samuel Huntington (1996), *The Clash of Civilisations and the Remaking of World Order*, New York; Simon & Schuster

viewing the Mediterranean are theories about the “**Clash of Civilisations**” and a “Fortress Europe” that is seeking to insulate itself from southern Mediterranean immigrants and the “spread of Islam”. In the South, this vision finds its equivalent in the enduring legacy of “Third-worldism” and the Islamist division of the world between the *Dar al-Islam* and the *Dar al-Harb*.<sup>10</sup> The political consequence of these trends is that of opposing regionalisms and sub-regional divisions that draw legitimacy and identity from defining themselves in opposition to an alien and hostile ‘other’.

The final narrative of the Mediterranean is that of the Mediterranean as a meeting place, a commonly shared *patrie méditerranéenne*, where different cultures and models of society mix and mingle to enrich each other. This is a vision of the Mediterranean that can be found amongst others in the writings of the French *Ecole d’Alger* and the *Annales School* of Fernand Braudel.<sup>11</sup> The historical precedent for this version of an open and cosmopolitan Mediterranean region is that of *Al-Andalus* and its impact on the European Renaissance through philosophers such as Averroes (*Ibn Rushd*) and Avicenna (*Ibn Sina*).<sup>12</sup> The modern day equivalent of this vision of the Mediterranean is the idea of an open and shared regionalism that balances the interests and traditions of North and South and allows for common ownership and a more consensual project of region-building.

While these are very rough categorisations of long-standing and by no means unified historical trends and tendencies, they indicate the existence of several competing narratives about the Mediterranean as well as the means and ends of regional integration. Each of these follows its own distinct logic and sets a different path for regional integration ranging from **assimilation**, to **separation** and **amalgamation**. These different ideas about the Mediterranean have provided a rationale for distinct and at times competing projects of region-building. But opposing visions of the Mediterranean also tend to mingle within some of the current regional schemes. Just as opposing *Atlanticist* and *Gaullist* tenden-

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10 Islamic scholars sometime use these terms to differentiate between the Islamic World (“House of Islam”) and the hostile rest (“House of War”), where Islamic laws and traditions do not apply. On the enduring legacy of “Third-worldism,” see: Robert Malley (1996), *The Call from Algeria: Third Worldism, Revolution, and the Turn to Islam*, Berkley: University of California Press

11 Fernand Braudel (1995), *The Mediterranean and the Mediterranean World in the Age of Philip II*, Berkley: University of California Press

12 Gilles Kepel (2006), *The War for Muslim Minds: Islam and the West*, Harvard University Press

cies co-exist within the EU, different visions of the Mediterranean are present within the Euro-Mediterranean Partnership, the Arab Maghreb Union and the Arab League.

All of this means that the Mediterranean lacks a commonly accepted meta-narrative that could act as a driver for a distinct Mediterranean regionalism. Rather than there being one Mediterranean dream, there are therefore several different ones. Finding a compromise between these different visions of regional integration is not impossible but can be complex, as the example of the European Union has shown. Above all, it requires the willingness of different actors to compromise and work together. In the past, however, this has not always been the case and different regional projects have largely developed in isolation and competition with each other. While the lack of a shared political project has hindered Mediterranean integration, Mediterranean realities have had a similar effect.

## 1.2 The Mediterranean Reality

The Mediterranean reality is complex. Despite a shared past and some cultural affinities most countries around the Mediterranean Basin differ dramatically in respect to their system of governance, level of economic development and commitment to regional integration. Moreover, the Mediterranean Basin is divided between several sub-regional groupings, each characterised by their own distinct culture and tradition and subject to their own internal dynamic: the EU-27, the EU candidate countries (Balkans and Turkey), the Levant (Mashreq) and North Africa (Maghreb).<sup>13</sup> Partly as a result of this regional complexity, the results of regional integrations have been mixed.

Taken as a whole, the Mediterranean region is characterised by large asymmetries between its northern and southern shores. In terms of economic development, there remain clear differences between North and South. GDP per capita

<sup>13</sup> A note on definition: The Levant is generally characterised as including Lebanon, Israel, Syria, Palestine, Jordan and Iraq. For the purpose of this report a more narrow definition will be adopted that excludes Iraq, due to the fact that it is not part of any Euro-Mediterranean grouping. The North African countries that form part of this report are: Morocco, Algeria, Tunisia, Libya, Mauritania and Egypt. This report gives preference to the term North Africa over the Maghreb, due to the latter usually excluding Egypt.

varies considerably in the EU from Bulgaria (€3,763) to Ireland (€44,197) and in the southern Mediterranean countries from the Palestinian Territories (€1,022) to Israel (€16,679).<sup>14</sup> While most of the southern Mediterranean countries have seen robust economic growth during the last five years and seem to have survived the international financial crisis relatively unscathed, differences in economic and social development remain stark.<sup>15</sup>

In terms of economic structures, many southern Mediterranean economies remain agriculture and energy-based “rentier-states”, although the service sector is increasingly gaining in importance.<sup>16</sup> The European Union, on the other hand, continues to maintain a strong industrial base as well as a high-tech service industry that European countries seek to foster with the promotion of a “knowledge society”. While European economies are open and export-oriented, many Mediterranean countries maintain relatively closed and state-controlled economies, despite a more recent trend towards more liberalisation and openness amongst some of the countries in the region.

Similarly, while the EU is one of the largest exporters in the world and one of the prime locations for global investment, the southern Mediterranean countries have consistently captured a low share of world trade, technology exports and foreign direct investment (FDI). Thus, the overall share of global trade by the southern Mediterranean countries has been regularly below 5 percent. The long-time average of the global share of foreign direct investment attracted by the region has been a paltry 1-2 percent. Although this has intermittently risen to 4 percent of global FDI, the long term level of investment remains well below the region’s potential and needs, given a very low starting point.<sup>17</sup>

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<sup>14</sup> GDP per capita figures for 2007, as displayed in the Eurostats Yearbook. See: Eurostats (2009), *Euro-Mediterranean Statistics*, Brussels: European Commission

<sup>15</sup> Over the last five years, many southern Mediterranean countries have experienced average annual growth rates of above five percent. World Bank Group (2008), *Middle East and North Africa Region: 2008 Economic Developments and Prospects*, Washington, DC: World Bank Group

<sup>16</sup> A rentier state is a state which derives a substantial portion of its national revenues from renting indigenous resources to external clients, making them less reliant on taxation (and public control) as a means of income. Hazem Beblawi (1990), “The Rentier State in the Arab World,” in Giacomo Luciani, *The Arab State*, London: Routledge

<sup>17</sup> Samir Abdelkrim & Pierre Henry (2009), Foreign Direct Investment in the Med countries in 2008, ANIMA Investment Network, Study 3, March 2009, p. 17

The political situation in parts of the southern Mediterranean also remains erratic. The Arab-Israeli conflict, spill over from the war in Iraq, and Iran's growing regional influence all contribute to a tense regional situation. Long-standing conflicts over the Western Sahara, northern Cyprus and Lebanon's political future have further contributed to the creation of different camps amongst the southern Mediterranean countries. In addition, many countries in the region remain closed authoritarian regimes that face considerable domestic tensions; especially from Islamist opposition groups that have been apt at exploiting the dysfunction nature of some of the Arab countries.

Finally, large differences exist when it comes to human and social development. While the EU is ageing fast as the "baby-boomer" generation is moving towards retirement, many southern Mediterranean countries are experiencing a "youth-bulge" with some 60% of the Arab population currently below 25 years of age.<sup>18</sup> Both processes are problematic. While the EU is facing skill shortages and mounting fiscal problems, the Arab Mediterranean countries are encountering a host of serious problems caused by this demographic explosion – from rampant unemployment, food shortages, rapid urbanisation to environmental degradation and water scarcity.<sup>19</sup> Finally, under-funded and over-loaded education systems and a consistent brain drain have meant that most southern Mediterranean countries fare only poorly on global human development indexes.<sup>20</sup>

As a result of these deep political and economic divisions between the countries of the region, the logic of competition regularly dominates over the logic of cooperation in regional affairs. Nevertheless, despite these large asymmetries between the northern and southern shores and the differences amongst the group of southern Mediterranean countries, there have been several attempts at region-building driven forward by the League of Arab States (LAS), the European Union (EU), and the African Union (AU), as well as sub-groups of Mediterranean

18 Although fertility rates have been in decline, the population aged 20-29 of the MENA region will increase by some 4-5 million annually and plateau in 2015. According to some estimates, the countries of the MENA region will have to create some 75 million new jobs by 2020 to absorb these new entrants into the labor market. Sara Johansson de Silva & Carlos Silva-Jauregui (2004), *Migration and Trade in MENA: Problems or Solutions for Unemployment in MENA?*, Washington, DC: World Bank Group

19 United Nations Development Programme (2009), *Arab Human Development Report 2009: Challenges to Human Security in Arab Countries*, New York: UNDP.

20 According to UNDP's 2007 Human Development Ranking, the highest scoring southern Mediterranean country (out of 182) is Israel as #27, followed by Jordan #83. The lowest scoring is Mauritania on #156. UNDP (2009), *Human Development Report 2009: Overcoming Barriers*, UNDP: New York

countries. Most common amongst these have been attempts to establish regional and sub-regional free trade areas:<sup>21</sup>

- The **Euro-Mediterranean Free Trade Area (EMFTA)**: Launched in 1995, the Euro-Mediterranean Partnership – or Barcelona Process – seeks to establish a common framework for economic, political and social relations between the EU and 10 Mediterranean countries.<sup>22</sup> One goal was the creation of EMFTA by 2010 through the establishment of ‘pluri-bilateral’ Association Agreements.<sup>23</sup> As will be discussed, while some progress has been made on the liberalisation of merchandise trade, progress on agricultural products has been limited and negotiations for the liberalisation of services and investment are only in their infancy.
- The **Greater Arab Free Trade Area (GAFTA)**: Sometimes also referred to as the Pan Arab Free Trade Area (PAFTA), this initiative was launched by 17 out of the 22 member states of the Arab League in 1997. GAFTA came into force in 2005 (3 years ahead of schedule), liberalising trade in industrial and agricultural products across the region, but excluding services and investment. The effect of GAFTA has been limited due to its strict rules of origins, the exclusion of non-tariff barriers and the absence of a functioning dispute settlement mechanism.
- The **Arab Maghreb Union (AMU)**: AMU was launched by the 5 Arab Maghreb states in 1989 with the aim of deepening economic integrations and strengthening cooperation in foreign and defence policy.<sup>24</sup> Originally, the establishment of a customs union was planned for 1995, to be followed by the creation of a common economic market in 2000. Due to political differences between the Maghreb states, neither came about. Recently, several attempts have been made by Maghreb states to revive AMU and break the political deadlock.
- The **Agadir Agreement**: Signed by Morocco, Egypt, Tunisia and Jordan in 2004, the Agadir Process aims to liberalise trade in the region by building on existing agreements and remains open to the participation of other Arab countries.

21 For a concise overview of regional economic integration in the Maghreb, see: Gary Clyde Hufbauer & Claire Brunel, eds. (2008), *Maghreb Regional and Global Integration: A Dream to Be Fulfilled*, Washington, DC: Peterson Institute for International Economics

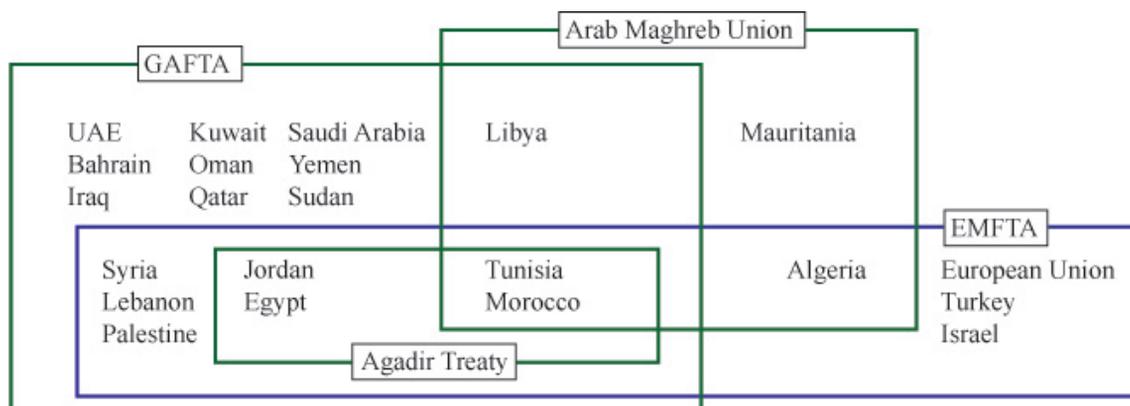
22 Algeria, Israel, Tunisia, Morocco, Egypt, Jordan, Palestine, Lebanon, and Syria.

23 Juliane Brach (2007), “The Euro-Mediterranean Partnership: The Role and Impact of the Economic and Financial Dimension”, *European Foreign Affairs Review*, 12(4)

24 The AMU member states are Libya, Mauritania, Morocco, Tunisia, and Algeria.

The Agadir Process is being sponsored by the European Commission which has regarded further sub-regional integration as an essential step to prepare the way for the Euro-Mediterranean Free Trade Area.

### OVERLAPPING TRADE AGREEMENTS IN THE MEDITERRANEAN



Apart from these regional initiatives, some Mediterranean countries also participate in Pan-African free trade areas – such as COMESA and CEN-SAD – reflecting their historical connections with Sub-Saharan Africa.<sup>25</sup> Another important regional integration project in the Arab world is the Gulf Cooperation Council (GCC), of which none of the Mediterranean countries is a member.<sup>26</sup>

Regardless of these various regional schemes, the level of trade and economic integration amongst the southern Mediterranean countries remains comparatively low. Thus, intra-regional merchandise exports amongst GAFTA members (9% in 2007) remains considerably below the level achieved by other regional organisations, such as NAFTA or ASEAN.<sup>27</sup> A similar picture presents itself when it comes to regional FDI. More advanced is the integration of the region through labour mobility, given large migration flows especially to the oil-producing countries. Recently, the southern Mediterranean countries have also seen an increase in portfolio investment flows, especially from the GCC.<sup>28</sup>

25 Established in 1998, CEN-SAD includes Libya, Morocco and Tunisia along with 20 other African states. COMESA was established in 1994 and consists of Libya as well as 19 African states.

26 The GCC consists of Kuwait, UAE, Bahrain, Saudi Arabia, Oman, and Qatar and was founded in 1981.

27 World Bank Group (2008), *Middle East and North Africa Region: 2008 Economic Developments and Prospects*, Washington, DC: World Bank Group

28 According to a World Bank survey market capitalisation in the MENA region overall has grown from a mere 13%

**TRADE WITHIN REGIONAL GROUPINGS (% OF TOTAL MERCHANDISE TRADE)<sup>29</sup>**

	<b>AGADIR AGREEMENT</b>	<b>AMU</b>	<b>GAFTA</b>
<b>ALGERIA</b>		<b>1.2</b>	
<b>EGYPT</b>	<b>1.5</b>		<b>13.6</b>
<b>JORDAN</b>	<b>3.0</b>		<b>35.7</b>
<b>LEBANON</b>			<b>30.6</b>
<b>LIBYA</b>		<b>2.7</b>	<b>5.1</b>
<b>MOROCCO</b>	<b>1.2</b>	<b>2.2</b>	<b>7.5</b>
<b>SYRIA</b>			<b>46.7</b>
<b>TUNISIA</b>	<b>1.4</b>	<b>6.7</b>	<b>7.4</b>
<b>MAURITANIA</b>		<b>2.8</b>	

Significantly more advanced is the level of trade integration between the southern Mediterranean countries and the EU. Overall, the EU receives some 46.5% of the region's exports and provides close to 40% of its imports.<sup>30</sup> However, as will later be discussed, unchecked dependence on the EU carries its own problems and has led to a "hub-and-spoke" relationship with its own disadvantages for the Mediterranean countries.<sup>31</sup> Moreover, for the time being, trade integration between the EU and its Mediterranean partners remains shallow and fraught with serious obstacles. While some progress has been achieved concerning the liberalisation of trade in industrial products and the establishment of EMFTA, trade talks on opening EU markets to agricultural and service products are only getting off the ground and remain limited to a few selected countries. Although the EU has recently renewed its promise to move towards deeper integration with the region, much remains to be done.<sup>32</sup>

<sup>29</sup> a decade ago to 50% by 2005. World Bank Group (2008), *Middle East and North Africa Region: 2008 Economic Developments and Prospects*, Washington, DC: World Bank Group

<sup>29</sup> Ibid, p. 39

<sup>30</sup> Luc de Wulf & Maryla Maliszewska, eds. (2009), *Economic Integration in the Euro-Mediterranean Region*, Center for Social and Economic Research, September 2009, p.42

<sup>31</sup> In a hub-and-spoke system, the hub will gain a larger share of the total income due to the additional privileges it is granted at expense of the spokes. For the spokes, the most important disadvantage will be the potential diversion of investment and their general marginalisation. Another effect of this relationship is the likely clustering of economic activity in the industrial centers of the North, as described by the core-periphery model. R.E. Baldwin (1994), *Towards an Integrated Europe*, London: Center for Economic Policy Research

<sup>32</sup> European Council, 8th Union for the Mediterranean Trade Ministerial Conference in Brussels, Conclusions, MEMO/09/47, 9 December 2009

Overall, the Mediterranean reality therefore remains one of fragmentation and divisions. Large political, economic, social and even cultural differences continue to divide the countries of the region and provide an obstacle to regional economic and political cooperation. Although various regional cooperation schemes exist, they have been hamstrung by a number of problems and have therefore remained shallow in their nature. As a result, the Mediterranean has been largely unaffected by the “new regionalism” that has been characteristic for the post-Cold War era.<sup>33</sup>

### 1.3 The Mediterranean Exception

The Mediterranean therefore constitutes an exceptional case when it comes to the dynamics of regional integration. While globalisation has served as a major driver behind the “new regionalism” that has affected most regions from Latin America to South-East Asia and Southern Africa, it seems to have played less of a role in the Mediterranean context. This Mediterranean exception, especially when it comes to the lack of any significant level of trade and economic integration amongst the southern Mediterranean countries, has been the subject of numerous academic investigations. Overall, this literature points towards a mixture of structural and political impediments that explain the absence of any significant level of economic integration amongst the countries of the region.

Several important **structural** impediments to regional economic integration have been identified. Most importantly perhaps the level of trade complementarity amongst the southern Mediterranean countries remains low. According to the World Bank, “countries with similar resource endowments, production capabilities, and export structures find it difficult to use regional integration as a means to establish patterns of specialisation and diversification.”<sup>34</sup> Empirical analyses have confirmed that a lack of complementarity remains an obstacle to further

<sup>33</sup> The term “new regionalism” usually denotes the heightened level of regional integration of the past two decades – often seen as a reaction to economic globalisation – that has been characterised by deep economic integration and a trend towards political cooperation.

<sup>34</sup> *Ibid.*, p. 39

economic integration.<sup>35</sup> Another problem resides in the tariff structure and spread amongst the countries of the region. Thus, average tariffs in the region range from 5 percent in Lebanon to over 20 percent in Morocco and Tunisia.<sup>36</sup> This matters, because it means that the benefits from tariff reductions will differ across countries, making it politically difficult to pursue integration. Non-tariff barriers are also comparatively high and remain an obstacle to regional trade. Finally, it is widely assumed that regional trade is hampered by important infrastructure bottlenecks – land and sea transportation, telecommunication and energy networks amongst others – that make it difficult for the Mediterranean countries to trade.<sup>37</sup>

In addition, there are well-established **political** obstacles that stand in the way of further economic integration. Here, the frozen conflicts of the Middle East – from the Western Sahara to the Israeli-Palestinian conflict – have been a major impediment to greater regional cooperation for some time. Another problem has been the closed nature of most political systems throughout the region.<sup>38</sup> In many cases, authoritarian leaders have engaged in a complex “ruling bargain” that combines elements of corporatism, rentierism and clientalism in order to maintain political control.<sup>39</sup> While externally imposed reforms have forced a measure of adaptation on these regimes, the essential elements of this bargain remain in place and continue to hamper the development of domestic markets and their expansion abroad.<sup>40</sup> Finally, economic nationalism remains pervasive in the region and is regularly used by Arab government as a tool to garner domestic support.

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35 O. Havrylyshyn & P. Kunzel (2000), “Intra- Industry Trade of Arab Countries: An Indicator of Potential Competitiveness,” in *Catching Up with the Competition: Trade Opportunities and Challenges for Arab Countries*, ed. B. Hoekman and J. Zarrouk, Ann Arbor: University of Michigan Press

36 Measured as simple average MFN-duty. See: S. Fawzy (2003) “The Economics and Politics of Arab Economic Integration,” in *Arab Economic Integration between Hope and Reality*, ed. Galal and Hoekman, Cairo: Egyptian Center for Economic Studies; World Bank Group (2008), Middle East and North Africa Region: 2008 Economic Developments and Prospects, op cit, p. 41

37 Hassan Benabderrazik (2009), “Opportunities for Logistical Improvements through Maghreb Integration,” in Gary Clyde Hufbauer & Claire Brunel (eds.), *Maghreb Regional and Global Integration*, op cit.

38 For a general overview of the political economy of the region, see: Alan Richards & John Waterbury (1996), *A Political Economy of the Middle East*, Boulder: Westview Press

39 While rentierism is a source of state financing, clientalism and corporatism and corporatism are used to bind the different social classes to the ruling regime. Mahran Kamrava (2004), “Structural Impediments to Economic Globalisation in the Middle East,” *Middle East Policy*, 11(4), Winter 2004

40 Daniel Brumberg (1995), “Authoritarian Legacies and Reform Strategies in the Arab World,” in Rex Brynen et al, *Political Liberalisation and Democratisation in the Arab World*, Volume I, Theoretical Perspectives, Boulder: Lynne Rienner

Together, these political and structural impediments go a long way towards explaining the low level of economic integration amongst the southern Mediterranean countries. The lack of a unifying political vision and the large economic and political differences between different parts of the region further contributed to this Mediterranean exception. As a result, the Mediterranean today appears as a region without regionalism which has little potential or political weight of its own.

And still, despite these serious obstacles to closer regional cooperation, recent developments suggest renewed support for regional integration in the Mediterranean. The establishment of GAFTA in 2005 and of the Union for the Mediterranean in 2007, a proliferation of bilateral free trade agreements (FTAs) amongst the Arab Mediterranean states and with the outside world and some signs of greater unity amongst the Arab states all suggest that Mediterranean regionalism might be approaching a new take-off point. But what are the dynamics that have driven these recent developments and what will be their concrete impact? Is the Mediterranean about to move out of its prolonged deadlock, or do recent developments represent yet another false dawn?



## II - South-South Integration: Condemned to Deadlock?

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Part of the Mediterranean's failure to develop a greater level of regional integration can be explained by the difficulties of South-South integration. While the desire for greater Arab unity and regional cooperation has deep roots and the League of Arab States (LAS) ranks amongst the world's oldest regional organisations, to this day the level of economic and political cooperation among Arab countries remains comparatively low. Despite a panoply of different regional and sub-regional treaties and organisations, regional dynamics have not favoured greater cooperation and the LAS remains stymied by political conflicts and competition. Neither does it seem that economic globalisation provided a fresh impetus for regional integration – as has been the case in many other regions around the world – able to bridge the political and economic divisions of the region.

As previously discussed, analysts have identified a variety of reasons for this development. Economists have tended to emphasise the lack of complementarity between Arab states, the limited size and structure of Arab markets, the dominance of the public sector, the lack of transport infrastructure and the large spread in tariffs. Political scientists have added to these a variety of other

factors, including frozen regional conflicts, the absence of regional leadership, the closed and authoritarian nature of Arab states, and the institutional set-up of regional organisations.<sup>41</sup>

One decade ago Paul Aarts concluded that as a result the future of Arab regionalism was bleak and that sub-regional integration would take its place. Identifying a “system of disunity” he wrote that “in short, the Arab states do not coordinate; to the contrary, they compete. In the foreseeable future, the dominant strategy will be bilateralism, not regionalism or multilateralism. It is even not unlikely that the very existence of a distinct ‘Middle East system’ will fade away if differentiation along national lines and globalisation prevail. The Northern Tier, the Gulf, the Levant and the Maghreb, each may take increasingly different paths. Subregional arrangements – if having any significance at all – and some forms of functional cooperation will be the highest attainable form of regionalism.”<sup>42</sup>

Ten years later, there seems to be both reason for optimism and despair. Globalisation and international pressure have forced some measure of liberalisation on several Arab states. The number of Arab countries that are members of the WTO or have filed an application for membership has increased.<sup>43</sup> While sub-regional cooperation has deepened in the Maghreb, the Greater Arab Free Trade Area (GAFTA) has provided a new regional framework and the Arab League itself is increasingly playing a more constructive international and regional role.<sup>44</sup> Bilateral FTAs are proliferating both in the region and with outside actors and the trade intensity amongst Arab countries seems to have somewhat increased following the implementation of GAFTA.<sup>45</sup>

But does all of this indicate that there is a new dynamic favouring greater Arab regional cooperation? For the time being regional trade still remains compara-

41 Ahmed Galal & Bernard Hoekman (eds.), *Arab Economic Integration: Between Hope and Reality*, Washington, DC: Brookings Institution Press

42 Paul Aarts (1999), “The Middle East: a region without regionalism or the end of exceptionalism?”, *Third World Quarterly*, 20(5)

43 12 MENA countries are WTO members. A further five – Algeria, Iraq, Lebanon, Libya and Yemen have observed status and have applied for membership, Syria has not yet applied.

44 Ibrahim Al-Marashi (2008), “Regional Organisations as Conflict Mediators? The Arab League in Iraq,” in Cilja Haarders & Matteo Legrenzi, *Beyond Regionalism? Regional Cooperation, Regionalism and Regionalisation in the Middle East*, Aldershot: Ashgate

45 Julia Devlin & John Page (2001), “Testing the Waters: Arab Integration Competitiveness and the Euro-Med Agreements,” in S. Dessus et al, *Towards Arab and Euro-Med Regional Integration*, OECD Development Center, Paris: OECD

tively low and much of the sub-regional projects seem to have run out of steam. The following section will provide an overview of the developments at the regional and sub-regional level amongst the southern Mediterranean states and consider some of the obstacles that remain in the way of further South-South cooperation.

## 2.1 The Arab Dream

### 2.1.1 The Quest for a Pan-Arab Market

Attempts to create a common economic zone amongst the Arab states go back to the 1950s and initially were centred on the League of Arab States (LAS). The LAS founding treaty enshrines the goal of closer economic cooperation in Article 2, referring to “economic and financial matters, including trade, customs, currency, agriculture and industry.”<sup>46</sup> However, early attempts to pursue closer economic cooperation went nowhere. In 1950, the Treaty for Joint Defence and Economic Cooperation (TJDEC) reaffirmed the goal of closer economic cooperation and established the Arab Economic Council (AEC).<sup>47</sup> Some practical steps were taken with the Agreement on Trade Facilitation and Regulating Transit Trade (ATFRTT) of 1953, but remained without much consequence.<sup>48</sup>

More ambitious was the 1957 Agreement on Arab Economic Unity (AAEU), which called for the establishment of a complete economic union including the free movement of labour and capital among Arab states.<sup>49</sup> While the AAEU met the same fate as its predecessors, it served as a precursor to the Arab Common Market (ACM) Agreement of 1964, which for the first time endorsed a detailed schedule for trade liberalisation amongst its four signatories (Egypt, Syria, Iraq and Jordan). Tariff barriers were meant to be lowered progressively, leading to the full liberalisation of agricultural trade in 1969 and of manufactured goods

46 Pact of the League of Arab States, 22 March 1945, Article 2(a)

47 Treaty for Joint Defense and Economic Cooperation between the States of the Arab League, 17 June 1950, Articles 7-8

48 Convention on the Facilitation of Trade Exchange and the Regulation of Transit Trade, Council of the Arab League, 7 September 1953. Nicolas Périody (2008), *The Greater Arab Free Trade Area: An ex-post appraisal within an imperfect competition framework*, FEMISE Project 32-03, September 2008

49 Tomer Broude (2009), *Regional Economic Integration in the Middle East and North Africa: A Primer*, Hebrew University of Jerusalem, Research Paper 12-09, p. 23-24

in 1974. In addition, a common external tariff was supposed to be established. But the ACM was riddled with exceptions enabling the extension of transition periods and allowed for little real progress.<sup>50</sup> Regional disagreements and conflict also meant that no new members joined the ACM and the project was ultimately shelved in 1972.

Following the failure of the ACM, nineteen Arab countries adopted a new Agreement on Facilitation and Development of Trade (AFDT) in 1981, aimed at establishing a customs union.<sup>51</sup> However, while an improvement on previous agreements, the AFDT also remained flawed, because it “lacked a binding commitment to its terms and a timetable for implementation and featured a positive list approach, which was captured by special interests’ effects in different countries.”<sup>52</sup>

Despite these various attempts to deepen regional integration, it seems that political divisions between Arab states were simply too entrenched to allow any progress. In fact, most of these early attempts seem to have been undertaken by Arab rulers primarily to demonstrate their commitment to Arab unity to a domestic audience, rather than due to their conviction and real dedication to regional cooperation. As Bernard Hoeckmann remarked: “very often PTAs appear to have represented convenient ‘displacement activity’ for governments, providing an opportunity for photos and the appearance of strengthening relationships with partner countries.”<sup>53</sup>

Given the failure of regional economic and trade integration, Arab countries began to focus greater attention on sub-regional cooperation throughout the 1980s. This tendency spurred the creation of the Gulf Cooperation Council (GCC) in 1981 as well as the Arab Maghreb Union (AMU) and Arab Cooperation Council (ACC) in 1989 – the latter proving to be a short-lived venture. Arab divisions in the late 1980s and early 1990s did not allow for a return to the regional agenda

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<sup>50</sup> Ibid.

<sup>51</sup> Economic and Social Commission for West Asia (2001), “Free Trade Areas in the Arab Region: Where Do We Go from Here?”, ESCWA Document E/ESCWA/ED/2001/4

<sup>52</sup> Nicolas Péridy (2008), *The Greater Arab Free Trade Area: An ex-post appraisal within an imperfect competition framework*, op cit., p. 33

<sup>53</sup> Bernard Hoeckmann & Khalid Sekkat (2009), *Deep Integration of Goods, Services, Capital and Labor Markets*, *Economic Research Forum*, Policy Research Report 32, July 2009

under the auspices of the LAS. However, by the mid-1990s economic globalisation a proliferation of regional trade agreements and the EU's Barcelona Process seemed to necessitate a coordinated response by the Arab states.<sup>54</sup> This led to the adoption of an executive programme for the AFDT at the Cairo Arab Summit of 1997, with the goal of establishing a common FTA by late 2007. The result of this renewed attempt was the creation of the Greater Arab Free Trade Area (GAFTA) in 2005.

### 2.1.2 The Greater Arab Free Trade Area

The adoption of GAFTA represents a significant shift compared with previous efforts at regional economic integration. The initial agreement envisaged a gradual reduction of tariffs by 10 percent on a yearly basis for agricultural and manufactured products, leading to the creation of an Arab-wide free trade area by 2007. Other than its predecessors, GAFTA adopted a 'negative list approach' and the signatories adhered to the time limits established for previously agreed exemptions. GAFTA was also buoyed by the fact that it attracted 14 out of the 22 LAS members – a number that has subsequently grown to 17.<sup>55</sup> GAFTA's success with the eradication of trade barriers led to the agreement by LAS's Economic and Social Council in 2002 to accelerate the process with the goal of abolishing all tariffs by 2005. Since then, tariff barriers have been abolished for agricultural and manufactured products.

The adoption of GAFTA also led to some Pan-Arab attempts to deepen economic integration. After the adoption of the executive programme a special committee was established to consider the eradication of non-tariff barriers in line with the other GAFTA commitments. On this matter, however, no progress was achieved and the special committee was eventually disbanded. Similarly, in 2003 GAFTA signatories agreed to initiate negotiations on a separate agreement on the lib-

54 Anja Zorob (2008), "Intraregional Economic Integration: The Cases of GAFTA and MAFTA," in Cilja Harders & Matteo Legrenzi (eds), *Beyond Regionalism? Regional Cooperation, Regionalism and Regionalisation in the Middle East*, Aldershot: Ashgate, p. 169

55 The GAFTA members are: UAE, Egypt, Saudi Arabia, Palestine, Kuwait, Syria, Tunisia, Morocco, Jordan, Oman, Qatar, Lebanon, Iraq, Bahrain, Libya, Sudan, and Yemen. Countries that have not joined include: Algeria, Djibouti, Comoros, Somalia and Mauritania. Due to their status as less developed countries, Yemen and Sudan have been granted a longer period of liberalisation until 2010, while the Palestinian Authority has been exempted from tariff reductions "due to its geopolitical situation."

eralisation of services – widely seen as key for Arab economies. However, while meeting on at least four occasions between 2004-2007, little progress was achieved on that matter. As a result, while GAFTA represents a significant step forward, it remains an example of “shallow integration.”

Indeed, for the time being, GAFTA remains hampered by a number of well-recognised problems. Despite provisions in the GAFTA Treaty, no full-fledged dispute settlement mechanism has yet been established.<sup>56</sup> Efforts to establish a detailed rules of origins (ROO) scheme have also foundered and a partial schemes covering 30-40 percent of the products traded has been adopted in 2008. GAFTA, moreover, lacks any provisions guaranteeing the protection of intellectual property rights, the harmonisation of competition rules or the movement of labour.<sup>57</sup> While efforts are ongoing on many of these issues, they have progressed only slowly since GAFTA’s establishment in 2005. This led most analysts to conclude that “despite the fact that GAFTA represents an unprecedented achievement in terms of institutional set-up if compared to previous trials of Arab trade integration, it still lacks the pillars of deep integration that ensure a well functioning and effective RTA.”<sup>58</sup>

These continuing problems have been acknowledged by the Arab League, which in a 2008 report noted that GAFTA was faced with problems in the area of standards, detailed rules of origin, certificates of origin, trading costs and movement of Arab entrepreneurs.<sup>59</sup> Moreover, while tariff barriers have been eliminated, there are indications that some members have since 2005 introduced additional surcharges on traded goods and raised non-tariff barriers. Nevertheless, efforts towards further harmonisation are on-going and empirical analyses have indicated that GAFTA might have increased trade by some 26 percent, contributing to the gradual rise in intra-regional trade.<sup>60</sup>

56 Article XIII of the executive programme establishes that a committee shall be formed to settle disputes over the implementation of the programme. Although the ESC adopted an executive decree for the establishment of a full-fledged dispute settlement mechanism it is still not functioning.

57 Anja Zorob (2008), “Intraregional Economic Integration: The Cases of GAFTA and MAFTA,” op. cit., p. 176-179

58 Nicolas Péridy (2008), *The Greater Arab Free Trade Area: An ex-post appraisal within an imperfect competition framework*, op. cit., p. 34

59 League of Arab States (2008), *The Private Sector’s Perception on Realistic Needs of GAFTA, What after Tariff Constraints?*, quoted in Nicolas Péridy, op. cit.

60 Nicolas Péridy (2008), *The Greater Arab Free Trade Area: An ex-post appraisal within an imperfect competition framework*, op. cit.

The Arab League, for its part, remains beholden by internal problems. Following the 2001 appointment of Amr Musa as its sixth Secretary General, the League has launched several attempts to reform its decision-making structures and institutions. Plans were made to move away from the requirement of unanimity in decision-making and to create a number of new institutions, including an Arab Court of Justice and a Pan-Arab Parliamentary Assembly.<sup>61</sup> Despite broad support for these measures, internal divisions between the Arab countries have meant that none of these proposals have been implemented. A 2004 reform summit in Tunis ended in failure and little progress has been made ever since. While recent cooperation on the Middle East Peace Process has been more promising, the League will first have to overcome some of its internal problems and reform its institutional structures, before it will be able to play a more constructive role in the region.

Overall, the Arab dream of a more tightly integrated common Arab market and the development of closer political cooperation centred on the League of Arab States have not yet come to pass. Although trade with the world and between Arab countries has deepened over the past few years – not least an achievement of GAFTA – intraregional trade is judged to be below its potential. There are various political, structural and institutional reasons for this – some of which have already been discussed in the above. In the meantime, the deadlock of regional trade integration has forced many Arab states to opt for greater integration with the global economy – through WTO membership, the Euro-Med and an increasing number of bilateral FTAs – as well as amongst each other through sub-regional frameworks and the conclusion of bilateral preferential trade agreements.

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61 Alexandra Samoleit & Hanspeter Mattes (2008), *Die blockierte Reform der Arabischen Liga*, GIGA Focus 2

## FOREIGN AND INTRAREGIONAL TRADE 2000-2007 (\$ MILLIONS)<sup>62</sup>

	2000	2001	2002	2003	2004	2005	2006	2007
<b>OVERALL TRADE</b>	402.4	388.0	403.0	486.7	691.4	855.1	1033.5	1217.4
<b>INTRAREGIONAL TRADE</b>	33.6	37.4	42.1	47.1	74.7	96.5	118.6	143.0
<b>SHARE OF INTRAREGIONAL TRADE</b>	8.35%	9.63%	10.46%	9.67%	10.81%	11.28%	11.48%	11.74%
<b>SHARE OF INTRAREGIONAL TRADE (EXCL. OIL PRODUCTS)</b>	14.93%	15.61%	15.48%	14.38%	15.80%	17.91%	18.16%	17.67%

## 2.2 From One to Many: Sub-regional Integration in the Arab World

### 2.2.1 The Arab Maghreb Union

The idea of regional cooperation between the Maghreb states has deep roots.<sup>63</sup> A Maghreb Unity Congress was held as early as 1958 and in 1964 the Maghreb countries established a “Comité Permanent Consultatif du Maghreb” (CPCM). However, divisions between the Maghreb states and the popularity of Pan-Arabism meant that no attempt was made to pursue Maghreb integration until 1989. At that time greater regional cooperation was made possible by the reconciliation of Tunisia and Libya in 1987 and the re-establishment of diplomatic relations between Algeria and Morocco in 1988. This thaw in regional relations led to the signing of the Treaty establishing the Arab Maghreb Union in February 1989 by Algeria, Libya, Mauritania, Morocco and Tunisia.

While the Treaty sought to strengthen all economic and political ties between the Maghreb states it established an ambitious institutional structure and timetable

<sup>62</sup> Data applies to the group of 21 Arab states as defined in the ESCWA Annual Review. Economic and Social Commission for Western Asia (2008), *Annual Review of Developments in Globalisation and Regional Integration in the Arab Countries*, 2008, E/ESWA/EDGD/2008/4

<sup>63</sup> Mohamed Finaish & Eric Bell (1994), *The Arab Maghreb Union*, IMF Working Paper, WP/94/55

for economic integration. The charter foresaw the establishment of a consultative assembly (Algiers) as well as a regional judicial authority (Nouakchott). It also established a Maghreb University (Tripoli) and a General Secretariat (Rabat).<sup>64</sup> A customs union was supposed to see the light of the day in 1995, followed by the establishment of a common market in 2000. In the end, neither happened due to a revival of conflict between the Maghreb states; particularly a deepening in Moroccan and Algerian differences over the Western Sahara and between Libya and the other members over the Lockerbie incident.<sup>65</sup>

These conflicts meant that AMU remained by and large stalemated until very recently. Since 2007, AMU has again seen a moderate revival and meetings are being held amongst its member states on various issues of relevance to the region. Moreover, some progress is being made with the long abandoned project of establishing a Maghreb Investment and Foreign Trade Bank (BMICE) in Tunisia. Several countries have now deposited their initial tranches with the Bank and in late 2009 AMU foreign ministers nominated a Tunisian General Manager to the Bank for a four-year term. Finally, following the twentieth anniversary of the organisation, deliberations by the AMU Secretariat have been started concerning the future of economic integration in the Maghreb region.

Indeed, there is sufficient evidence that a deepening of Maghreb regional integration would be economically sensible. Various studies analysing the cost of “non-Maghreb” have argued that the economic benefit could be as high as 5 percent of cumulated GDP of the region.<sup>66</sup> And yet, chances for a quick revival of Maghreb cooperation and a deepening of economic ties seem slim. Divisions between Morocco and Algeria – the essential Maghreb partners – remain deep with little prospect for improvement and the overall strategic orientation of some of the Maghreb states has become increasingly dissimilar, with some prioritising their ties with Sub-Saharan Africa and the Arab world, while others look to the EU and the US and gradually the new emerging powers. All of this indicates that any revival of regional integration will be at best protracted.

64 For details, see the website of the Arab Maghreb Union: <http://www.maghrebarabe.org/fr/org.cfm> (accessed 25 October 2009)

65 Tomer Broude (2009), “Regional Economic Integration in the Middle East and North Africa”, op cit.

66 Moroccan Ministry of Industry and Finance (2008), *Issues of the Maghreb Integration: The Cost of Non Maghreb*, Rabat, October 2008; African Trade Policy Center (2006), *The Cost of non-Maghreb: Achieving the Gains from Economic Integration*, Work in Progress 44, November 2006

### 2.2.2 The Agadir Process

During the 1990s, the failure of achieving greater economic integration under the auspices of the Arab League resulted in a trend towards greater sub-regional and bilateral cooperation. In the southern Mediterranean, the countries spearheading this process were Morocco, Tunisia, Egypt and Jordan. These countries experimented with deeper integration amongst each other – through the conclusion of preferential trade agreements – and with the EU and the US respectively. But by the late 1990s it had become apparent that bilateral FTAs provided only neglectable benefits. Due to the limited size of their markets, these bilateral agreements held few economic advantages. Similarly, Mediterranean countries had become dissatisfied with the hub-and-spoke system that resulted from the adoption of EU Association Agreements and conscious of the need for further southern Mediterranean integration as a prerequisite for a Euro-Mediterranean Free Trade Area.<sup>67</sup>

Other analyses have pointed towards the failure of Euro-Mediterranean cooperation as the primary impetus for further sub-regional integration. According to Stephan Wippel, “Agadir is first and foremost a reaction to the EMP, its disappointingly meagre results and the need for complementarity in South-South relations to overcome the unfavourable hub-and-spokes structure and install a Euro-Mediterranean FTA on the 2010+ horizon. The Process was launched at a time when positive attitudes towards Euro-Med integration had become more critical again.”<sup>68</sup>

Either way, the result was a greater push by southern Mediterranean countries to extend the existing bilateral agreements and establish a multilateral framework for cooperation. The original impetus came during the Fourth Euro-Mediterranean Conference in Marseilles in 2000, when Morocco, Egypt, Tunisia and Jordan declared their intention of creating a common free trade area. This initiative was welcomed and supported by the EU and led to the formal launching of the Agadir

67 Béchir Chourou (2004), Arab Regional Integration as a Prerequisite for a Successful Euro-Mediterranean Partnership, in Annette Jünemann (ed.), *Euro-Mediterranean Relations after September 11*, London: Frank Cass  
68 Steffen Wippel (2005), *The Agadir Agreement and Open Regionalism*, EuroMeSCo Paper 45, September 2005, p. 24

Process the following year. Over the next few years, the participating countries agreed to a tariff reduction schedule for industrial products until 2006 and the establishment of a technical Secretariat. While disagreements between the participating countries resulted in some delays, the Agadir Agreement was finally ratified in 2006 and a technical Secretariat was established in Jordan in 2007.

For the time being, however, the impact of the Agadir Process on intra-regional trade and cooperation remains limited. While its membership remains open to all LAS countries that have concluded an FTA with the EU, no other countries have joined the process. Moreover, the Agadir tariff reductions have become largely meaningless when GAFTA went into force in 2005. At the same time, efforts to reduce non-tariff barriers and widen cooperation to include agriculture and investment have so far led to no concrete results. Similarly, although Agadir includes provisions for deeper integration in fields like standards and intellectual property rights, there has been little progress on these issues.<sup>69</sup> And while the technical Secretariat in Jordan (ATU) serves as a useful nucleus to launch studies and promote further actions, it has failed to create a framework for further integration with the exception of its organisation of an investor's forum in 2008.

Despite the rather limited effect of the process to this date, the EU has regarded the Agadir Agreement as the most promising way of enhancing South-South integration and has supported the setting up of ATU with €4 million.<sup>70</sup> Part of the EU's enthusiasm for the Agadir Process over GAFTA stems from the fact that Agadir closely ties the southern Mediterranean countries to the EU. Thus, the Agadir countries adhere to the Pan-Euro Med Rules of Origins and apply the so-called Euro Med certificates to their exports. These rules provide Agadir countries an easy way to access the EU market. The largest problem for the Agadir Process remains that unless Algeria and other LAS countries decide to eventually join the process, its reach and market size remains limited.<sup>71</sup>

69 Anja Zorob (2008), "Intraregional Economic Integration: The Cases of GAFTA and MAFTA," op. cit., p. 180

70 Peter Mandelson (2008), Agadir and after: Prospects for a Free Trade Area of the Mediterranean, Speech at the First Agadir Investment Forum, 8 April 2008

71 Luis Martinez (2006), *Algeria, the Arab Maghreb Union and Regional Integration*, EuroMeSCo Paper 59, October 2009

## 2.3 An End to Arab Exceptionalism?

As this short overview has shown, South-South integration remains very much a work in progress. Nevertheless, recent years have brought some movement when it comes to regional and sub-regional integration after decades of deadlock. The creation of GAFTA, the launching of the Agadir Process and the establishment of BMICE all provide some reason for hope. To make this – albeit cautious – progress possible, several factors have played together. Intra-Arab tensions have somewhat abated since the early 1990s and the Arab League under the capable leadership of Amr Mussa has turned into a more widely respected regional organisation. Globalisation, a partial liberalisation of Arab economies, and the multiplication of bilateral FTAs have also contributed to a more tightly integrated regional economic system, greased by money from the Gulf States. Finally, the EU has become more supportive of South-South integration, as will be discussed later.

Does all of this imply an end to Arab exceptionalism and the birth of a new Middle Eastern regionalism on par with comparative processes in other part of the world? At least for the time being, this seems highly unlikely. If anything, the MENA region has arrived at the beginning of a long and difficult process that has advanced much further in other parts of the world.

Despite the continuing popularity of pan-Arab ideas, Arab governments appear unwilling to move beyond the shallow regionalism they have recently established. Indeed, a multitude of political and technical obstacles remain. On a political level, Arab regionalism is hemmed by authoritarian Arab regimes, reluctant to share domestic control and influence with international markets and institutions. On a technical level, “intra-Arab trade suffers from a panoply of non-tariff obstacles: technical, quantitative as well as administrative barriers; para-tariffs and the lack of appropriate transportation and communication infrastructure.”<sup>72</sup> Both stand in the way of deeper integration.

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<sup>72</sup> Georges Harb (2008), *Trade Facilitation and intra-Arab Trade (1996-2002): An Empirical Assessment*, The Journal of Trade and Diplomacy 2(2), Winter 2008

Another potential disadvantage for the establishment of a MENA-based regionalism is that the Arab world is a relative late-comer to the regional game. Given the absence of regional efforts throughout the last decades, many of the Arab economies have oriented themselves towards the global economy and a deepening of bilateral trade agreements with Europe and the US. According to some, this international orientation has diminished the incentives for a deepening of regional cooperation. As Georges Harb recently argued, “it is likely that lower intra-regional trade intensity reflects an acceleration of the Arab world’s integration with the rest of the world.”<sup>73</sup> This also points towards a potential trade-off between a deepening of Euro-Mediterranean and Arab regional integration, as more bilateral cooperation with the EU means less of an incentive to integrate regionally.

One important reason that the European Union and the international community remain sceptical about the potential of Arab regional integration – whether of a regional or sub-regional connotation – remains its exclusivity. More specifically, both Europe and the US will find it difficult to support a region-building project that explicitly excludes Israel. Here as well, therefore, the normalisation of Arab-Israeli relations and a solution to the Middle East Peace Process remain a first order priority.

All of this seems to indicate that the future of South-South integration remains uncertain and that there is no fast-track out of the current deadlock. For the time being, it seems therefore unlikely that the MENA countries can overcome their considerable differences and generate the political and economic will and required resources that will allow it to move towards deeper integration. Given the inability of the MENA countries to move towards deeper South-South integration out of their own volition, what are the prospects and drivers of Euro-Mediterranean regional cooperation?

73 Georges Harb (2009), *GAFTA and Intra-Arab Trade (1997-2004): An Analysis*, Journal of Development and Economic Policies, 11(1), January 2009



### III - North-South Integration: A False Dawn?

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**M**ore than anywhere else, the EU has played an active role as a participant and driver of regional integration in the Mediterranean. Ever since the early 1970s, the EEC has treated the countries of the Southern and Eastern Mediterranean as belonging to one coherent region that shares a common path to development and modernity. As a result, the EU has adopted a variety of policies and initiatives that sought to address all Mediterranean countries within a common regional framework. One explicit aim of these policies was the construction of a Euro-Mediterranean region that – in the fashion of the EU – could function as a peace project and engine for economic development.

The initiation of the Euro-Mediterranean Partnership (Barcelona Process) in 1995 was widely hailed as a visionary first step towards the establishment of this Euro-Mediterranean region. Its aim was the creation of a zone of peace, prosperity and stability in the Mediterranean, by establishing a community of values and purpose, able to overcome the region's problems and divisions. When Barcelona failed to live up to these ambitious goals, EU policy-makers introduced a number of new initiatives in the hope of reviving Euro-Mediterranean affairs. However, while both the European Neighbourhood Policy (ENP) and later the Union for the

Mediterranean (UfM) introduced some interesting institutional and policy innovations, they seem to have been unable to revive the original Euro-Mediterranean vision or help to overcome the deeply rooted problems of the region.

Despite this mixed record of Euro-Mediterranean cooperation, the process has had its notable successes. The EMP (and later the UfM) represents a unique framework for the discussion of regional affairs and has been hailed as one of the few venues where Arab and Israeli counterparts meet on a regular basis. Plans for the creation of a Euro-Mediterranean Free Trade Area (EMFTA) are also gathering speed, as the participants are shifting towards deeper integration that promises to provide the Mediterranean partner countries (MPCs) with a stake in the EU's internal market. Indeed, on almost every level Euro-Mediterranean cooperation has advanced further than most other regional integration projects; although it continues to fall well short of its advocated goals.

The dynamics driving this gradual and often halting process of Euro-Mediterranean integration are varied. On the side of the EU, community-building is mostly seen as a functional way of stabilising Europe's unruly neighbourhood. Competition with the US and the emerging powers for influence and market shares in this vital region are no doubt another reason. Finally, there are those that consider Euro-Mediterranean affairs as driven by the EU's tendency to replicate its own model outside its borders. For the MPCs and their governing elites, there are still few alternatives on their quest to greater economic development. Indeed, as long as intraregional trade and cooperation remain at current levels, there are few alternatives to a deepening of economic ties with the EU.

While some measure of Euro-Mediterranean cooperation is therefore deemed to continue, the context and shape of North-South integration is steadily evolving. In the process, Euro-Mediterranean affairs are gradually departing from the original vision of Euro-Mediterranean cooperation conceived at Barcelona. Many of these changes are driven by the developing geopolitical context of the Mediterranean region, as well as internal changes in the EU itself. This section will provide an overview over how Euro-Mediterranean affairs have evolved since the mid-1990s and will speculate on the impact of more recent changes on the future of the relationship.

## 3.1 The Euro-Mediterranean Dream

### 3.1.1 The Road to Barcelona

Relations between the EU and the Mediterranean world have a long tradition, based on the colonial legacy of some European countries in the region. Following decolonisation, the EEC provided a welcome vehicle to re-establish economic ties between the Community and the newly independent states of Northern Africa and the Middle East and non-EEC Mediterranean countries. This was done by negotiating a number of cooperation agreements between the EEC and the Mediterranean countries in the early 1960s.<sup>74</sup> These agreements tended to differ considerably in scope and scale, but generally granted some form of preferential trade access to the industrial goods of partner countries to the common market.<sup>75</sup> The resulting patchwork of different agreements, however, did not provide the basis for the formulation of a more comprehensive approach towards the region.

Britain's membership negotiations provided the rationale for revisiting this patchwork of agreements.<sup>76</sup> To limit the economic damage to Britain's former colonies, now facing higher EU tariffs, it was agreed that a new way had to be found to engage with the countries around the Mediterranean. Under French leadership, the idea was born to formulate a comprehensive approach towards the region, leading to the adoption of the **Global Mediterranean Policy** (GMP) in 1972.<sup>77</sup>

Essentially, the GMP consisted of three policy measures.<sup>78</sup> First, it offered a new set of streamlined cooperation agreements to Mediterranean countries. These new agreements provided more complete access to the EEC market for industri-

74 A first set of agreements was signed with a group of countries including Greece, Turkey, Israel and Lebanon between 1961 and 1965.

75 According to Federica Bicchì, there was "little uniformity in terms of timing, content and legal base" to these first set of agreements. Federica Bicchì (2007), *European Foreign Policy Making towards the Mediterranean*, New York: Palgrave Macmillan, p. 60

76 Previous to its accession, the UK maintained a relatively liberal trade policy towards some of its former colonies in the Middle East and Sub-Saharan Africa. As its EU accession implied a sharp increase in the UK's external tariff there was a need to find a way of softening the blow to these countries.

77 The GMP was directed both at European Mediterranean countries such as Spain, Greece and Portugal, as well as the group of southern Mediterranean states in the Maghreb and Machrek.

78 Ricardo Gomez (2003), *Negotiating the Euro-Mediterranean Partnership: Strategic Action in EU Foreign Policy*, Aldershot: Ashgate

al goods and some limited concessions for agricultural products. It was hoped that this would stimulate export-led growth in their economies by allowing them to exploit economies of scale.<sup>79</sup> Second, separate financial protocols offered financial aid and loans to Mediterranean countries and addressed a variety of related issues, including technology transfers and worker training. Finally, the GMP for the first time established cooperation councils and committees to oversee the implementation of these agreements. This allowed for a limited form of political dialogue between the EEC and its partner countries at this early stage.<sup>80</sup>

By putting these structures into place, the GMP is generally seen as an important milestone in European relations with the Mediterranean, setting the tone for the future. Indeed, according to Federica Bicchì the GMP “created the Mediterranean region” by the virtue of grouping diverse Mediterranean countries together as one coherent whole.<sup>81</sup> However, political and economic developments of the late 1970s and 1980s put a damper on Euro-Mediterranean cooperation and ensured that the achievements of the GMP remained limited.<sup>82</sup> Regional economic developments especially suffered a severe setback in the aftermath of the oil shocks and during the debt crisis. Europe’s southern enlargement in the early 1980s also created new divisions between northern and southern Mediterranean countries and led to a reduction of European interests in the latter.

It was only at the end of the 1980s, when the socio-economic situation in the southern Mediterranean began to take on crisis proportions that European countries took a renewed interest in the region.<sup>83</sup> A first attempt to re-launch Euro-Mediterranean relations was made by the European Commission in form of the **Renovated Mediterranean Policy** (RMP) in 1989. Although of limited impact at the time, the RMP introduced some new ideas that would influence future reforms. By the early 1990s the deteriorating regional situation and a shift in

79 According to Federica Bicchì there existed a mismatch between the export-led strategy of the GMP at the time and the import-substitution policy followed by most Arab countries. Federica Bicchì (2009), “Euro-Mediterranean Relations in Historical Perspective,” in *Foundation for European Progressive Studies* (2009), *The Euro-Mediterranean dialogue: prospect for an area of prosperity and security*, Rome: Solaris

80 Another forum for political dialogue was the short-lived Euro-Arab Dialogue from 1973-1978.

81 Federica Bicchì (2007), *European Foreign Policy Making towards the Mediterranean*, op cit.

82 During that period EC attention was firmly focused on the southern enlargement to Greece (1981) and Spain and Portugal (1986), which also increased the self-sufficiency of the EC in the agricultural sector.

83 Ricardo Gomez (2003), *Negotiating the Euro-Mediterranean Partnership: Strategic Action in EU Foreign Policy*, op cit.

European attention towards the East led to a more serious effort by the EU's Mediterranean members, above all Spain, to put the relationship on more solid ground.<sup>84</sup> Following several aborted proposals, European countries gathered in Barcelona in 1995 to adopt the **Euro-Mediterranean Partnership** (EMP).<sup>85</sup>

At the time, the EMP was hailed as a visionary attempt to create a common Euro-Mediterranean space of peace and prosperity.<sup>86</sup> Its declared purpose, unlike other schemes preceding it, was the creation of a common Euro-Mediterranean community based on a consensual regionalism that was aimed at the creation of a "pluralistic security community"<sup>87</sup>. To implement this vision, the EMP introduced three specific innovations: a novel institutional structure that promised greater co-decision powers to MPCs; a refocusing of the policy-agenda to underline the urgency of political reforms and to promote civil society cooperation; and a shift in economic relations, emphasising economic liberalisation and promoting the creation of a Euro-Mediterranean Free Trade Area.

On the institutional side, the EMP introduced a new multilayered decision-making process to Euro-Mediterranean affairs. At a unilateral level, the EU continued to provide financial aid to the Mediterranean partner countries, although it would now do so in a more strategic and transparent manner.<sup>88</sup> At a bilateral level, the EU cooperated with its partner countries through revamped association councils and committees as it had done in the past. Most importantly, however, Barcelona added a new multilateral level to Euro-Mediterranean relations. This meant that the EMP would receive overall strategic directions from the biannual meetings of the Euro-Med foreign ministers. Sectoral ministers would also meet periodically to discuss specific issues and a subsequently created Euro-Mediterranean Parliamentary Assembly provides a consultative role.<sup>89</sup>

84 Richard Gillespie (2000), *Spain and the Mediterranean: Developing a European Policy towards the South*, New York: Palgrave Macmillan

85 Stephen C. Calleya (2005), *Evaluationg Euro-Mediterranean Relations*, Abingdon: Routledge

86 Emanuel Adler, Beverly Crawford & Federica Bicchi, eds. (2006), *The Convergence of Civilisations: Constructing a Mediterranean Region*, op cit.

87 Ibid, p. 19

88 The new MEDA regime introduced a more strategic approach to development aid through National and Regional Strategy Papers and Indicative Programs, but also reduced the input the Mediterranean states had on this process. Patrick Holden (2005), *Partnership Lost? The European Union's Mediterranean Aid Programmes*, *Mediterranean Politics* 10 (1)

89 Originally constituted as the Euro-Mediterranean Parliamentary Forum in 1998, the Euro-Mediterranean Parliamentary Assembly was created in 2003 and plays a consultative role for the EMP.

By adding a new multilateral channel that allowed Mediterranean partner countries an input in the decision-making process, it was commonly assumed that the EMP would instil greater co-ownership and inculcate the habit of compromise and cooperation.<sup>90</sup> Moreover, as the only regional forum that allowed regular meetings between Israeli and Arab counterparts, the multilateral channel of the EMP was seen as an important European contribution to the Middle East Peace Process. Despite these changes, the EMP remained an EU-driven process, in which the MPCs played only a limited role.

When it comes to the policy agenda, Barcelona considerably broadened Euro-Mediterranean affairs. Moving away from a singular focus on economic relations, the EMP introduced two broad new areas, or ‘baskets’, to the relationship: a political and security dimension and a social, cultural and human dimension. The primary focus of the political basket was on confidence building measures and especially on the adoption of a Euro-Mediterranean Charter for Peace and Stability.<sup>91</sup> The main thrust of the civil and human basket was to support the development of an independent Mediterranean civil society, foster a broad cross-cultural dialogue, and to promote “bottom-up” reforms in the MPCs.<sup>92</sup> By placing a greater emphasis on human rights and democracy, the EMP therefore gave a much more prominent place to the issue of political reforms. Since the terrorist attacks of 9/11 justice and home affairs have also been added as a de facto fourth basket of the agenda.<sup>93</sup>

Finally, the EMP departed from the economic path of its predecessors by introducing reciprocity into trade relations. The declared aim was the creation of a Euro-Mediterranean Free Trade Area (EMFTA) by 2010. The main challenge here was to gradually open the economies of the MPCs to increased European exports and competition. To soften the potentially destructive blow on local industry, the EMP promised an increase in financial aid directed towards economic restruc-

90 Fulvio Attinà (2003), *The Euro-Mediterranean Partnership assessed: the realist and liberal views*, European Foreign Affairs Review 8(2)

91 Sven Biscop (2003), *Euro-Mediterranean Security: A Search for Partnership*, Aldershot: Ashgate

92 Elisabeth Johansson-Nogués (2006), *Civil Society in Euro-Mediterranean relations: what success of EU's normative promotion?*, Robert Schumann Center, EUI Working Papers, 2006/40

93 Richard Gillespie (2003), Reshaping the Agenda? The Internal Politics of the Barcelona Process in the Aftermath of September 11, in Annette Jünemann, *Euro-Mediterranean Relations After September 11; International, Regional and Domestic Dynamics*, London: Frank Cass

turing and European support for South-South economic integration.<sup>94</sup> Economic reforms were also meant to attract much needed foreign capital to the region. It was hoped that with time these reforms would loosen the grip of the state on Mediterranean economies and societies and favour a slow and gradual movement towards political liberalisation and eventually democratisation.<sup>95</sup>

Together, these measures were seen as promising steps towards the creation of a Euro-Mediterranean region of peace and prosperity. Following the path-breaking developments at Maastricht and Oslo, the process drew on the prevailing optimism about the future of the region and the EU as a whole.<sup>96</sup> Political scientists widely considered the EMP as the expression of a new **'normative regionalism,'** informed by the EU's own character as a 'civilian power' and its deep commitment to region-building.<sup>97</sup> Rather than imposing certain models and solutions, it was argued that the EU, through the EMP, would use its powers of persuasion and attraction to change the region.<sup>98</sup> However, these initial predictions soon appeared to have been overly optimistic.

In many ways, the Barcelona Process represented a sea-change in Euro-Mediterranean relations. It constructed a novel multilateral framework for coordinating regional affairs and instilled some limited sense of common identity on a variety of regional actors. It enabled the EU to maintain a political dialogue with the Mediterranean countries and provided it with some influence over their internal development. To the MPCs, the EMP offered in return some measure of support in their difficult task of modernising their economies and societies. But considerable problems remained. Administrative and structural shortcomings limited the effectiveness of the EMP from the outset and the EU's reluctance to provide the required financial and economic resources made Mediterranean countries question the extent of EU solidarity. Most importantly, perhaps, the

94 Juliane Brach (2007), *The Euro-Mediterranean Partnership: The Role and Impact of the Economic and Financial Dimension*, *European Foreign Affairs Review*, 12(4)

95 Eberhard Kienle (2005), Political Reform through Economic Reform? The Southern Mediterranean States Ten Years after Barcelona, in Haizam Amirah Fernández & Richard Youngs, eds. (2005), *The Euro-Mediterranean Partnership: Assessing the First Decade*, op cit.

96 The Maastricht Treaty provided the EU with a more political ambition and the vision of creating a more integrated foreign policy. The Oslo Accords seemed to promise a thaw in Arab-Israeli relations.

97 Michelle Pace (2007), *Norm Shifting from EMP to ENP: the EU as a norm entrepreneur in the south?*, *Cambridge Review of International Affairs* 20(4)

98 Elsa Tulmets (2007), *Can the discourse on 'soft power' help the EU bridge its capability-expectations gap?*, *European Political Economy Review* 7, Summer 2007

EMP created overblown expectations about the EU's ability to transform the region. When the EU was unable to meet these expectations, the result was widespread disappointment and calls for reform.

### 3.1.2 From Regionalism to Bilateralism

Barely a decade after its creation, it appeared that the EMP had run out of steam. While Barcelona provided a welcome new channel for regular meetings and exchanges, there was little progress on substantive issues. Economically, the EMP had done little to improve the plight of the region. Politically, it had failed to make any contribution to the region's long-standing conflicts or to promote domestic political reforms. On social issues, finally, the EMP was unable to reduce the mounting tension and suspicions that surfaced in the aftermath of 9/11. Moreover, structural circumstances had changed considerably. In the Middle East, the Arab-Israeli Peace Process had foundered with little prospect for revival. In Europe, the Eastern Enlargement and the failure of the European Constitution led to a prolonged period of stasis and a shift towards more inter-governmentalism. All of this contributed to a general feeling of frustration and failure when it comes to the EMP.

In this situation the EU decided to launch its **European Neighbourhood Policy** (ENP). Originally conceived with a focus on Europe's "wider neighbourhood" in the East, the ENP was quickly expanded to incorporate the southern tier of Europe's neighbourhood as well.<sup>99</sup> The declared logic behind this action was not to replace the existing Barcelona framework, but to complement it with an additional layer of bilateral relations.<sup>100</sup> By doing so, it was hoped that the ENP would be able to overcome the shortfalls of the EMP in three specific areas: the ENP would provide greater incentives for political reforms and well-catered development plans; it would offer a way around the political deadlock haunting the region and provide for greater "joint-ownership"; and it would allow for some

99 Raffaella Del Sarto & Tobias Schumacher (2005), *From EMP to ENP: What's at Stake with the European Neighbourhood Policy towards the Southern Mediterranean?*, *European Foreign Affairs Review*, 10(1)

100 European Commission (2003), *Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours*, COM(2003) 104 final

much-needed differentiation amongst countries that were at very different stages of their development.<sup>101</sup>

One of the most widely lamented shortcomings of the Barcelona Process has been its failure to promote political reforms.<sup>102</sup> While the EMP Association Agreements in principle provided for some form of negative conditionality, the EU was unprepared to employ strong-arm tactics to have its way. At the same time, the EMP provided for few political and economic incentives to encourage political reforms.<sup>103</sup> The ENP was supposed to provide a way out of this quandary by enabling a more structured and strategic use of **positive conditionality**. The carrot was direct access to EU policies and programs and a stake in the EU's internal market for those Mediterranean countries willing to pursue more ambitious reforms.<sup>104</sup> From now on, country-specific Action Plans specified benchmarks and rewards that were supposed to address the particular situation in each partner country.

By placing an emphasis on bilateral relations and country-specific developments, the EU also hoped to escape the general deadlock in the region that had resulted from the failure of the Arab-Israeli peace talks and to instil a new dynamic to Euro-Mediterranean affairs. No longer would it be possible for single countries and problems to block the process. On the contrary, the new policy was supposed to allow certain countries to charge ahead and provide an example for the "slow movers". A greater emphasis on bilateralism and the joint development of Action Plans was also meant to increase "ownership" of the process amongst the southern Mediterranean countries. A new tool in this regard has been the granting of an "Advanced Status" (AS) to Morocco in 2008. This status foresees an intensification of bilateral political and trade relations, including Morocco's participation in Community programmes, and prepared the way for the

101 Raffaella Del Sarto & Tobias Schumacher (2005), *From EMP to ENP: What's at Stake with the European Neighbourhood Policy towards the Southern Mediterranean?*, op cit.

102 Richard Gillespie & Richard Youngs (2002), *The European Union and Democracy Promotion: The Case of North Africa*, London: Frank Cass

103 Judith G. Kelley (2006), *New Wine in Old Wineskins: Promoting Political Reforms through the New European Neighbourhood Policy*, *Journal of Common Market Studies*, 44(1)

104 In a famous speech Commission President Romano Prodi promised ENP countries a stake in the internal market and "everything but institutions". Romano Prodi, "A Wider Europe - A Proximity Policy as the Key to Stability." Sixth ECSA-World Conference. Jean Monnet Project, Brussels, 5-6 December 2002

first EU-Morocco summit in 2010.<sup>105</sup> While the concrete benefits of the AS remain vague, other MPCs are now vying to attain the same status.

Finally, while region-building as such remained officially on the agenda, as part of the EMP, the EU acknowledged that greater differentiation between countries and groups of countries was both possible and desirable. As a result, the EU focus shifted perceptibly towards promoting sub-regional integration and projects that were seen as complimentary to the EMP, such as the Agadir Process.

However, analysts remained critical about the potential of the ENP to reinvigorate the Barcelona Process. Most argued that including the Mediterranean in a framework originally conceived for Eastern Europe was a mistake. Many criticised that the ENP disaggregated the region and created a hub-and-spoke relationship between the EU and its Mediterranean partner countries.<sup>106</sup> Others again argued that ownership for the project amongst Mediterranean states remained weak and that the newly conceived Joint Action Plans failed to provide enough incentives to seriously push forward political reforms. While some additional money was provided by the European Neighbourhood and Partnership Instrument (ENPI), the EU made few new concessions when it came to trade integration, especially in agricultural products.<sup>107</sup> All of this created the impression that rather than seeking to address pressing regional concerns, the ENP agenda and its method of “normative bilateralism” were largely driven by internal EU dynamics, following EU Enlargement and the 9/11 attacks.<sup>108</sup>

## **3.2 Towards a new Euro-Mediterranean Vision?**

### **3.2.1 Regionalism or Realism? The Union for the Mediterranean**

While the ENP provided some new stimulus to the relationship, it was soon overtaken by events. In the midst of his 2007 Presidential election campaign,

<sup>105</sup> Kristina Kausch (2010), *Morocco's Advanced Status: Model or Muddle?*, FRIDE Policy Brief 43, March 2010

<sup>106</sup> Saleh M. Nsouli (2006), *The Euro-Mediterranean Partnership Ten Years On: Reassessing Readiness and Prospects*, International Monetary Fund At Crans-Montana Forum, Monaco June 23, 2006

<sup>107</sup> Judith G. Kelley (2006), *New Wine in Old Wineskins: Promoting Political Reforms through the New European Neighbourhood Policy*, op cit.

<sup>108</sup> Michelle Pace (2007), *Norm shifting from EMP to ENP: the EU as a norm entrepreneur in the south?*, op cit.

Nicolas Sarkozy launched the idea of creating a Mediterranean Union. Although cautiously welcomed by some of the MPCs, the idea of an exclusively Mediterranean club that was to be co-financed by the EU met with strong resistance from some northern European countries.<sup>109</sup> As a result, the project underwent considerable adaptations before being established as the “Barcelona Process: Union for the Mediterranean” in the summer of 2008.<sup>110</sup> Conceived as a “Union of Projects,” **the Union for the Mediterranean** (UfM) is meant to deliver concrete solutions to specific regional problems and – in the words of French President Nicolas Sarkozy – develop into “le plus grand laboratoire du monde du co-développement.”<sup>111</sup> But two years on, many questions remain about both content and shape of the new institution.

The UfM introduces three notable innovations to Euro-Mediterranean affairs: it convenes biannual summits of the Euro-Med Heads of State and Government to provide political direction to the process; it establishes a Co-Presidency and a permanent Secretariat to take charge of administrative responsibilities; and it shifts the focus of the process towards large-scale development projects.<sup>112</sup> While the UfM co-exists with the ENP, which continues to be managed by the European Commission, it replaced the existing Barcelona framework with a new set of institutions and policies and broadened its membership to include all Mediterranean countries. Together, these changes are likely to fundamentally change the course of Euro-Mediterranean cooperation.

On the institutional side, the UfM will provide greater political visibility to the process by introducing biannual meetings of the 43 Heads of State and Government (the so-called G-Med) to complement the regular meetings of foreign and sectoral ministers. The G-Med will adopt two-year work programs, which will then be coordinated and overseen by a newly established Co-Presidency, consisting of an EU and a non-EU representative (France and Egypt during the current term).<sup>113</sup>

109 Roberto Aliboni, Ahmed Driss, Tobias Schumacher, Alfred Toviás (2008), *Putting the Mediterranean Union in Perspective*, EuroMeSCo Paper 68, June 2008

110 Joint Declaration of the Paris Summit for the Mediterranean, Paris, 13 July 2008

111 Discours du Président Sarkozy sur le projet de l'Union de la Méditerranée, Tanger, 23 October 2007: “The world’s greatest experiment in co-development.” (author’s translation)

112 Roberto Aliboni & Fouad M. Ammor (2009), *Under the Shadow of Barcelona: From the EMP to the Union for the Mediterranean*, EuroMeSCo Paper 77, January 2009

113 Ibid.

In the EU's case, there has been some considerable confusion over how its representation in the UfM should be organised. During France's Co-Presidency, a cumbersome compromise prevailed, according to which the EU's Rotating Presidency chaired political meetings and France was responsible for sectoral summits. This compromise is likely to be challenged once the term of the current Co-Presidency expires, given the EU's recent establishment of a President of the European Council and a powerful new High Representative for Foreign Affairs. On the side of the MPCs, agreeing on a successor for the current Egyptian Co-President is similarly going to be a challenging task.

To support the work of the Co-Presidency, a technical Secretariat is also being established in Barcelona. The Secretariat is meant to shoulder many of the responsibilities previously executed by the European Commission when it comes to proposing new projects and overseeing their implementation.<sup>114</sup> However, the composition and competencies of the Secretariat have been a subject of some controversy, considerably delaying its establishment. By March 2010, Senior Officials finally appointed the Jordanian Ahmed Masa'deh to become its first Secretary General and determined that he should be assisted by six deputy Secretaries, hailing from Greece, Turkey, Malta, Italy, Israel and the Palestinian Authority. But with no statute for the Secretariat adopted and the division of labour with the EU Commission still undetermined, the UfM remains in a limbo.

When it comes to the policy agenda of the UfM, the Paris summit identified six priority projects: the de-pollution of the Mediterranean; Maritime and Land Highways; Civil Protection; Alternative Energies & Mediterranean Solar Plan; Higher Education and Research; and Supporting Business. Some of these projects are informed by the 2005 five-year work programme of the Barcelona Process, which also remains in force.<sup>115</sup> A contribution from the EU budget apart, these projects are meant to receive additional funding from UfM members, the International Financial Institutions and the private sector. But with many of these projects still in the development phase, their realisability and their potential future impact on the region remains a matter of speculation.

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<sup>114</sup>Marseille Meeting of the Euro-Mediterranean Ministers of Foreign Affairs, Final Statement, Marseille, 3-4 November 2008

<sup>115</sup> European Commission (2005), Euromed Five Year Work Programme

Amongst these priority projects, the one that has advanced the most is the Mediterranean Solar Plan (MSP).<sup>116</sup> The goal of the MSP is to encourage the development of renewable energy resources in the Mediterranean and to reinforce power grid interconnections between the MPCs and with the EU. The specific target of the MSP is to develop by 2020 20GW of renewable energy generation in the Mediterranean at the estimated costs of €44 billion. While some pilot projects were agreed in summer 2009 and first monetary pledges have been collected from the International Financial Institutions and private investors they fall short of the expected costs of the project.<sup>117</sup>

Together, these changes represent a dramatic shift of the way Euro-Mediterranean affairs have been conducted in the past. Rather than being an EU-centred process that is driven and administered by the European Commission and shaped by its unique view of international affairs, once it is up and running, the UfM will be a co-managed scheme with a much narrower focus on specific development projects. According to one commentator, this means that in the Mediterranean “the EU is no longer running a policy of its own.” Instead, in the future “it will have to negotiate policies with its non-EU partners, in a far more stringent way than was the case in the EMP.”<sup>118</sup> And while this represents an ambitious move towards greater co-ownership and a more equitable regionalism, it is far from clear that this will enable the UfM to deliver on those issues where its predecessors have failed.

One problem has been that by guaranteeing equal rights to all of its 43 participants, the UfM has become even more vulnerable to internal conflicts and disagreements. Indeed, in the short time since its creation, the UfM has staggered from one crisis to the next. Shortly after its initiation, Israel’s military campaign in the Gaza Strip of December 2008 caused a suspension of all meetings and postponed plans for the opening of the Barcelona Secretariat.<sup>119</sup> When meetings gradually resumed by mid-2009, another conflict surfaced over the allocation

116 Houda Ben Jannet Allal, et al. (2009), *Mediterranean Solar Plan: Objectives, Opportunities and the role of the OME*, GEM No. 5, Observatoire Méditerranéen de l’Energie, October 2009

117 The European Investment Bank, the French Development Bank and the German KfW Bank Group have collectively pledged €5 billion to the MSP. Ibid.

118 Roberto Aliboni & Fouad M. Ammor (2009), *Under the Shadow of Barcelona: From the EMP to the Union for the Mediterranean*, op cit.

119 Meetings restarted with a Senior Officials meeting on 23 April 2009, where Arab countries agreed to attend meetings on an ad hoc basis. Ever since several meetings have taken place, including a ministerial meeting on sustainable development. European Commission (2009), *Union for the Mediterranean: State of Play*, MEMO/09/333, 10 July 2009

of deputy Secretary positions to the technical Secretariat, with Cyprus blocking Turkey's demand for one of the posts. With this issue finally resolved by spring 2010, prospects for the UfM seem only slightly improved, given the steadily deteriorating situation in the Middle East and the potential for new conflict in the region.

According to Roberto Aliboni, the problem is of a structural nature. Under the EMP, Arab countries had no direct ownership of the process and merely reacted to EU initiatives. While this made them reluctant participants, they could only protest but not block the entire process. Under the UfM, Arab countries have now acquired equal rights and as a result have little choice but to act on their national and security interests. Aliboni concludes that "as a result, the intergovernmental nature of the UfM is destined to reflect the conflictual situation in the Middle East without any filter whatsoever."<sup>120</sup>

Another problem with the UfM is that it puts into question the EU's "normative agenda" in the region. The reasons for this are twofold. First, under the current arrangements the future of the EMP's former third pillar, dealing with human rights and civil society, remains uncertain. One specific problem here is that there is still no agreement on which organisation will in the future be responsible for the management of the EMP's Euro-Mediterranean civil society networks, such as the Euro-Mediterranean Human Rights Network.<sup>121</sup> While the UfM's founding documents make no mention of these issues, there is currently pressure from the Egyptian Co-Presidency and some Mediterranean countries to transfer their management to the Barcelona Secretariat. If this was to be the case, it will mean the end of the EU's attempt to promote bottom-up reforms in the region, as it would grant Arab governments a veto right over all of these reform initiatives.

Second, although the EU will continue to pursue a more "normative agenda" through the ENP, in the future this will be done in isolation from the broader regional context and the potential economic carrots and leverage that the UfM could potentially provide.<sup>122</sup> This is likely to further hamper the EU's ability to influence its

120 Roberto Aliboni (2009), *The Union for the Mediterranean: Evolution and Prospects*, Istituto Affari Internazionali, Speech at the University of Teramo, 5 December 2009

121 Ibid.

122 Kristina Kausch & Richard Youngs (2009), *The end of the Euro-Mediterranean vision*, *International Affairs* 85(5)

partners to pursue internal reforms. In other words, if the ENP indicated a shift from negative to positive conditionality, the UfM drops the use of conditionality almost entirely. According to Rosa Balfour, this again is largely the consequence of introducing a greater measure of co-ownership into the relationship: “the principle of co-ownership does challenge the methods used by the EU in external relations (...)” because it “may weaken the EU’s ability to persuade its southern partners to address their social, economic and political problems differently.”<sup>123</sup>

These changes seem to indicate a shift from a normative EU policy that was aimed at inducing social and economic change in the Arab world towards greater realism and an emphasis on stability in the region. At the same time, the UfM has so far failed to deliver on those issues which according to public discourse have been so central to its creation: 1) improving the co-ownership of the process; 2) delivering on concrete development projects that address some of the region’s major problems.

First, it is not entirely clear whether the UfM will actually increase co-ownership and representation for the MPCs. During the current Co-Presidency both France and Egypt have largely followed their own national agendas in the region and can hardly be seen as uninterested power brokers.<sup>124</sup> Indeed, a number of countries from both sides of the Mediterranean have complained about the lack of transparency and consultation that have characterised the process over the last two years. This indicates a considerable change from the best practices established under the EMP, which included lengthy consultations with all actors in the run-up to Euro-Med summits and the launching of new policy initiatives. Whether the Barcelona Secretariat will be equipped to play a similar role as the European Commission and act as the guardian of the common “Mediterranean” interest remains to be seen. Without this being the case, however, there is little reason to expect that the UfM will instil a greater feeling of co-ownership and a more constructive attitude amongst the MPCs.

In addition, there is a clear risk that the UfM will turn the ownership issue on its head. While in its current form the UfM provides new forms of representa-

<sup>123</sup> Rosa Balfour (2009), *The Transformation of the Union for the Mediterranean*, Mediterranean Politics 14(1)

<sup>124</sup> Rosa Balfour (2009), *The Transformation of the Union for the Mediterranean*, op cit.

tion to the MPCs, it neglects a balanced representation of EU member states. With Spain slated to replace France as the next Co-President on the EU's side, and with all positions in the Barcelona Secretariat reserved for Mediterranean countries, it seems almost as if the change from the Mediterranean Union to the Union for the Mediterranean never took place. This presents a considerable risk for EU cohesion, given that northern and eastern member states have no visible stake in the process. Similarly problematic is the fact that the "southern" Co-Presidency represents a very mixed group of countries, including Israel, Turkey and a number of Balkan states. Given the lack of cohesion amongst these countries, it is no surprise that some of them feel that their interests are not being adequately represented.

The other promise of the UfM was to make a visible contribution to the economic development of the region by addressing issues of common concern. However, here again the results have been mixed. The political blockage and lack of concrete financial commitments have meant that most UfM projects are stranded in a pre-feasibility stage. On the eve of the first year anniversary of the UfM, the European Commission increased its contribution to the priority projects to a paltry €90 million for 2008-2010.<sup>125</sup> Somewhat more promising has been the creation of the InfraMed Private Investment Fund that makes €400 million available for the funding of infrastructure projects in the region.<sup>126</sup> All this does not bode too well for the new "Union of projects." As the European Commission stated in one of its Communications, "Its added value [of the UfM] will very much depend on its capacity to attract more financial resources for regional projects."<sup>127</sup> But whether and to what extent the UfM will be able to leverage private funds, especially from the GCC countries, remains still uncertain.

What does all of this mean for the future of Euro-Mediterranean relations? Will the UfM really lead to a more deeply integrated Euro-Mediterranean region that is characterised by a more equitable regionalism? So far, this hardly seems to

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125 European Commission (2009), *Union for the Mediterranean: Commission increases its contribution to priority projects*, IP/09/1113, 10 July 2009. According to unconfirmed reports from the Co-Presidents, private partners have also pledged the total amount of €23 billion for the UfM priority projects. However there seem to be few concrete monetary pledges.

126 The InfraMed Fund consists of the Caisse des Dépôts (France), Cassa depositi e prestiti (Italy), EFG Hermes (Egypt) and Caisse de Dépôt et de Gestion (Morocco) and was launched on 30 April 2009.

127 European Commission (2008), *Barcelona Process: Union for the Mediterranean*, COM(2008) 319 (Final).

have been the case. On the contrary, if anything, the UfM indicates a revival of realism in the relationship between Europe and the Mediterranean. The EMP's emphasis on promoting common norms and values, as well as bottom-up reforms – although often only half-heartedly implemented – has now become a relic of the past. Rather than providing the kernel for deeper regional integration, the UfM symbolises a return to a more **intergovernmental agenda**. For Mediterranean countries, the new club of 43 will have more similarities to the UN or the Arab League. For Europe, the UfM risks being a modern day Fouchet Plan that challenges the ability of the Union to appear as a coherent policy actor in the Mediterranean region.

### 3.2.2 Creating a Euro-Mediterranean Free Trade Area

When it comes to the creation of a Euro-Mediterranean Free Trade Area (EMFTA), progress has been slow and protracted. At Barcelona, the EU envisaged the establishment of a comprehensive free trade area by 2010, based on bilateral Association Agreements (AAs) in combination with a deepening of South-South integration.<sup>128</sup> Both have been slow to come about. Although a majority of MPCs have adopted a new generation of AAs with the EU, Algeria's Association Agreement only came into force as late as 2005, while Syria still has to ratify its AA and Libya is only now starting to consider negotiations for a framework agreement with the EU.<sup>129</sup> South-South integration has been similarly protracted, with the much anticipated Agadir Agreement only coming into force in 2007.

At the same time, the AAs remain marred by numerous exceptions and long transition periods. Thus, while they provide for the gradual liberalisation of industrial products over a transition period of up to 12 years, they initially included no concrete commitments on agricultural products and services. Similarly, while the AAs expressed the vision of moving towards deeper integration and included amongst others provisions on regulatory issues, competition, intellectual property rights and public procurement, commitment on these issues were non-

128 Juliane Brach (2007), *The Euro-Mediterranean Partnership: The Role and Impact of the Economic and Financial Dimension*, *European Foreign Affairs Review* 12(4).

129 The first and only country to have fully implemented the provisions of its AA until now is Tunisia, which completed its tariff reduction schedule on 1 January 2008.

binding and as a result progress remained sluggish. Indeed, even on the legally-binding commitments many of the MPCs dragged their feet.

### EU-MED TRADE AGREEMENTS AND ACTION PLANS

COUNTRY	EU ASSOCIATION AGREEMENT	ENP ACTION PLAN
ALGERIA	2005	
EGYPT	2004	2007
ISRAEL	2000	2005
JORDAN	2002	2005
LEBANON	2006	2007
MOROCCO	2000	2005
PALESTINIAN AUTHORITY	INTERIM AGREEMENT 1997	2005
SYRIA	RATIFICATION PENDING	
TUNISIA	1998	2005
LIBYA	EXPLORATIVE TALKS ONGOING	

As a result, the impact on EU-Mediterranean trade relations has been limited. Although MPC exports to the EU increased considerably since 2005, from around €45 billion to almost €120 billion in 2008, at least part of this increase was the result of a considerable hike in energy prices.<sup>130</sup> Over the same time period, the overall share of MPC exports going to the EU has slightly declined to 45%. By and large, the trade balance of the MPCs with the EU has also further deteriorated. Finally, the adoption of Association Agreements has not brought a hoped for increase in European investment in the region, which has failed to attract more than 1% of European FDI throughout this period. The main MPC exports to the EU remain energy, textiles, transport equipment and chemicals, with services accounting for only 5% of bilateral trade while generating 60% of GDP in the region.

Based on these disappointing results, Euro-Med trade ministers adopted a five-year work plan at the 10th anniversary summit of the Barcelona Process

<sup>130</sup> Energy exports made up 22.3% of MPC exports to the EU in 2007.

with the aim to bring about the creation of EMFTA within the 2010 perspective.<sup>131</sup> The work program draws on existing AAs and the newly established Joint Action Plans that were the results of the European Neighbourhood Policy. While most of the ENP Action Plans only recently came into force, they explicitly aim at deepening integration by supporting economic and political reforms in the MPCs and promote regulatory cooperation with the EU. Some of the most important measures of the five-year program included: the progressive liberalisation of trade in agriculture; the progressive liberalisation of trade in services; the adoption of the Pan-Euro-Med protocol on the cumulation of origin; and greater regulatory cooperation through the negotiation of Conformity Assessment and Acceptance Agreements (ACAAs).<sup>132</sup>

To provide a framework for agricultural negotiations, the EU adopted the so-called Rabat Roadmap in 2005, which envisages a gradual liberalisation of agricultural trade with the MPCs on a country-by-country basis.<sup>133</sup> To achieve this, the roadmap proposed a gradual approach that aims at reciprocal liberalisation, with the EU accepting that it might have to go faster and further than its partners and that sensitive products will be protected by a list of exceptions. Negotiations have begun in 2006 and both Israel and Egypt have finalised an agreement with the EU in 2008, while negotiations with Morocco and Tunisia are still ongoing.<sup>134</sup> In parallel to these negotiations, the Commission is promoting greater cooperation with the MPCs on Sanitary and Phytosanitary measures (SPS) through the ENP which remain a major obstacle to bilateral trade in agricultural products.<sup>135</sup>

Progress with achieving a liberalisation of services has been notably slower. As part of the five-year programme, Euro-Med Ministers agreed on “the progressive liberalisation of trade in services taking into account the non binding Framework Protocol adopted in Istanbul in 2004, in order to open negotiations on a voluntary

131 European Commission (2005), *Euromed Five Year Work Programme*

132 Luc De Wulf & Maryla Maliszewska (2009), *Economic Integration in the Euro-Mediterranean Region*, Center for Social and Economic Research, September 2009

133 CIHEAM (2006) *From partnership to neighborhood: Agriculture in the Euro-Mediterranean context*, CIHEAM Briefing Note 21, 3 December 2006

134 European Commission (2008), *Agreement reached to liberalise trade in agricultural and fishery products between the European Union and the Arab Republic of Egypt*, Press Release, IP/08/1104; European Commission (2008), *Agreement reached to liberalise trade in agricultural and fishery products between the EU and Israel*, Press Release, IP/08/1233

135 Sébastien Abis & Paula Cusi Echaniz (2009), *L'état du dossier agricole euro-méditerranéen*, Les notes d'alerte du CIHEAM 60, 16 June 2009

basis (...) as soon as possible.”<sup>136</sup> However, it took until 2008 for negotiations to be launched with Egypt, Morocco, Tunisia and Israel. The Euro-Med trade ministers have declared their intention to maintain a high level of ambitions in these negotiations and aim at progressive, reciprocal and asymmetric liberalisation of services and the right of establishment.<sup>137</sup>

The adoption of the Pan-Euro-Med Rules of Origin by the Agadir countries in 2007 (see below) also signifies a significant step towards the deepening of South-South integration and trade ties. Nevertheless, here too problems remain due to their cumbersome nature and the differences with the rules of origin (ROO) applying to other regional agreements in the Mediterranean. Finally, progress with the harmonisation of standards remains minimal. Only Israel has so far concluded an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) and initialled a mutual recognition agreement with the EU. According to a recent report, this reflects the distrust the EU puts into the procedures and institutions concerned with standards in the MPCs.<sup>138</sup>

All of this means that although some progress has been achieved since 2005, the establishment of a Euro-Mediterranean Free Trade Area still remains in the far distance. In 2008, Tunisia was the first Mediterranean country to complete the liberalisation schedule for industrial products set out in its Association Agreement. The next one will be Morocco in 2012. Most others will not achieve full liberalisation in industrial products before the end of the next decade. More importantly, liberalisation of agriculture and services, as well as cooperation on regulation and standards, only started recently. In the light of these developments, Euro-Mediterranean Trade Ministers adopted a new Euro-Med Trade Roadmap beyond 2010 to succeed the current five-year programme.<sup>139</sup>

This new Roadmap puts an emphasis on concluding the ongoing negotiations on agriculture and services and the implementation of the other measures already enshrined under the five-year work programme.<sup>140</sup> The Roadmap further

<sup>136</sup> European Commission (2005), *Euromed Five Year Work Programme*

<sup>137</sup> 7th Euromed Trade Ministerial Conference in Marseille, Chairman's Conclusions, 203/08, 2 July 2008

<sup>138</sup> Luc De Wulf & Maryla Maliszewska (2009), *Economic Integration in the Euro-Mediterranean Region*, op cit.

<sup>139</sup> 7th Euromed Trade Ministerial Conference in Marseille, Chairman's Conclusions, 203/08, 2 July 2008

<sup>140</sup> In their conclusions of the Trade Ministerial, Euro-Mediterranean Trade Ministers noted the reservations of some southern Mediterranean countries on the content of the Roadmap. 8th Union for the Mediterranean Trade

envisages the launching of bilateral negotiations on a package of non-tariff barriers and regulatory issues – indicating that further differentiation between the Mediterranean partners is on the cards for the future. Furthermore, Euro-Med Trade Ministers have promised the establishment of a trade and investment facilitation mechanism and the organisation of a Euro-Mediterranean business forum in 2010 and reaffirmed their support for South-South regional integration. Overall, this seems to indicate a continuation of Euro-Mediterranean trade relations along current lines, with an emphasis on the bilateral deepening of trade integration.

### 3.3 New Dawn or Slow Death of the Euro-Mediterranean Vision?

The Euro-Mediterranean dream has come a long way since it was first conceived at Barcelona. The last few years have seen a concerted attempt on part of the EU to revive Euro-Mediterranean relations. The adoption of the Union for the Mediterranean with its grandiloquent rhetoric about a “dream of civilisations” and the EU’s five-year work plan for the creation of a Euro-Mediterranean Free Trade Area were meant to be pragmatic measures to deepen Euro-Mediterranean relations and instil a new dynamism into the waning partnership. Both, however, remain plagued with considerable problems: The UfM is only slowly moving out of the deadlock and many questions remain about its future shape and impact on Euro-Mediterranean affairs, while EMFTA is faced with its own problems of implementation and is lagging far behind its 2010 deadline.

At the same time, the nature and purpose of European region-building seems to have undergone a considerable change. Little remains of the project for a “normative regionalism” that many perceived to be the driving force behind the Barcelona Declaration.<sup>141</sup> Following the adoption of the ENP, the EU’s relationship with the Mediterranean countries has become more and more bilateral in its nature. Simultaneously, the UfM has largely passed with the idea that the relationship should be based on norms and that its ultimate goal is the creation of

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Ministerial Conference, Conclusions, MEMO/09/47, Brussels, 9 December 2009

141 Emanuel Adler, Federica Bicchi, Beverly Crawford & Raffaella A. Del Sarto, eds. (2006), *The Convergence of Civilisations: Constructing a Mediterranean Region*, Toronto: University of Toronto Press

a “community of values”. Neither does it seem to have led to a notable increase of ownership amongst the participants of the process. Rather, much in line with intra-European trends over the past few years, Euro-Mediterranean relations have become increasingly intergovernmental in nature and beholden to national interests.

The result has been a double impact. On the economic side, North and South of the Mediterranean Sea have become increasingly more integrated. Tariff barriers have disappeared and measures to move towards deeper integration are steadily being advanced. Still this process remains protracted and has not been uniformly implemented across the region. Rather it involves a few willing countries searching for closer ties with the EU, while others remain sceptical about the benefits of this relationship. Moreover, there are now other options available to the Mediterranean economies: the US has taken on a greater weight in the region through its bilateral FTAs and emerging powers like China and Russia are increasingly playing a role.<sup>142</sup> Simultaneously, North and South have increasingly grown apart – politically as well as emotionally. More than ever before, the idea of Mediterranean cooperation has become an elite-driven project. This has only been reinforced by the increasing importance of immigration and policing issues on the Euro-Mediterranean agenda.

In the light of these developments, there are reasons to be sceptical about the future prospects for Euro-Mediterranean cooperation. Economic integration with some of the EU’s traditional partners in the region will no doubt continue. When it comes to others, the EU will have to make a concerted effort to compete with the alternatives now offered by the US, China, Russia and others. Here, the ENP, the AS and the UfM will no doubt prove to be beneficial new avenues of cooperation. However, in order not to lose the support of the public in this process, the EU would be well advised to find back to its original Euro-Mediterranean vision of a “normative regionalism.” This might require a rethinking of the way

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<sup>142</sup> The US maintains bilateral FTAs with Morocco, Jordan and Israel, Trade & Investment Facilitation Agreements (TIFAs) with Algeria, Tunisia and Turkey and Qualified Industrial Zones (QIZs) with Jordan and Egypt. Riad al Khouri (2008), *EU and US Free Trade Agreements in the Middle East and North Africa*, Carnegie Papers No. 8, June 2008. While exports to China and India still represent a small share of total exports of the MENA region (6.4 and 8.2 percent respectively in 2006), their rate of growth has been impressive: 41.1 percent for China and 37.5 percent for India over 2004–06. Moreover, both are increasingly becoming investors of a considerable weight in select countries of the region. World Bank Group (2008), *Strengthening MENA’s Trade and Investment Links with China and India*, Washington, DC: World Bank Group.

the EU approaches the region in a way that does not compromise the EU's own values and ideals, while placing a greater emphasis on supporting South-South integration.



## IV - Interregional Cooperation: Jumpstarting the Process?

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The idea that the European Union as an international actor has a specific interest in promoting regional integration is widespread in the academic literature. On one level, the EU's desire to promote regional economic and political cooperation in other parts of the world is seen as deriving from the EU's own identity as a regional organisation.<sup>143</sup> On another level, analysts have pointed out that the EU's promotion of regionalism functions as a pragmatic strategy, both to establish the EU as a global actor and to ensure regional security, stability and prosperity on its borders and elsewhere.<sup>144</sup> One way the EU diffuses its ideas about regionalism and promotes regional integration is through the use of interregionalism – the dialogue and cooperation with other regions.<sup>145</sup>

According to academics, the EU has developed a sophisticated toolbox of measures that allow it to use interregionalism as an instrument for promoting regional integration in other parts of the world. These measures range from persuasion and socialisation – which attempt to use dialogue and institutional cooperation to win over

143 Karen E. Smith (2003), *European Union Foreign Policy in a Changing World*, Cambridge: Cambridge University Press, p. 95

144 Frederik Söderbaum & Luk van Langenhove (2005), *Introduction: The EU as a Global Actor and the Role of Interregionalism*, *Journal of European Integration*, 27(3); Thomas Diez (2005), *Constructing the Self and Changing Others: Reconsidering Normative power Europe*, *Millenium*, 33(3)

145 Heiner Hänggi, Ralf Roloff & Jürgen Rüland, eds. (2006), *Interregionalism and International Politics*, Abington: Routledge

others – to capacity-building and conditionality that the EU employs to manipulate the utility calculations of others, by either providing resources or threatening punishment.<sup>146</sup> By making use of this tool-box, it is often assumed that the EU has the ability to not only serve as a reference point for regionalism, but to directly support and steer regional integration projects in other parts of the world. On occasions, the EU has also tried to use these tools to construct new regional entities amongst countries sharing few common characteristics.<sup>147</sup>

The Mediterranean has been one of these cases where the EU used interregionalism to promote both South-South cooperation and its own vision of regional integration. The absence of any significant level of deep economic integration amongst the southern Mediterranean countries has often been seen as a potential stumbling block for Euro-Mediterranean cooperation.<sup>148</sup> In the past, the European Commission has admitted as much, stating that “setting up a Euro-Mediterranean FTA will actually be dependent on agreements being concluded between the [Southern] partners themselves.”<sup>149</sup> Indeed, some have warned that without further South-South integration, a deepening of Euro-Mediterranean trade relations might have an adverse economic effect on the MPCs, by both deepening their dependence on the EU and favouring a hub-and-spoke relationship.

While promoting South-South integration might therefore be in the EU’s interest, it is less clear how it can employ its “sophisticated toolbox” to promote regional integration and whether it can make any substantial contribution to overcoming the deep political and structural problems of the region. Moreover, given the overlapping nature of different regionalisms in the Mediterranean, EU interregionalism has the potential to affect the shape of regional integration amongst the MPCs; most notably by favouring Euro-Mediterranean regionalism over other forms of Pan-Arab cooperation. To evaluate how and to what purpose the EU has supported South-South integration in the Mediterranean the following section will review some examples of EU interregional cooperation.

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146 Tanja A. Börzel & Thomas Risse (2009), *Diffusing (Inter-) Regionalism: The EU as a Model of Regional Integration*, KFG Working Paper 7, Freie Universität Berlin, September 2009

147 Federica Bicchì (2006), *Our size fits all: normative power Europe and the Mediterranean*, Journal of European Public Policy 13(2)

148 Béchir Chourou (2004), *Arab Regional Integration as a Prerequisite for a Successful Euro-Mediterranean Partnership*, op cit.

149 European Commission (2001), *Euro-Mediterranean Partnership – Regional Strategy Paper 2002-2006 & Regional Indicative Programme 2002-2004*, 6 December 2001

## 4.1 EU Regional Support Programmes

One way the European Union seeks to promote regional and sub-regional integration in the Mediterranean is through funding provided by the Euro-Med regional programme of the European Neighbourhood and Partnership Instrument (ENPI). ENPI, which replaced MEDA as the EU's financial instrument for the region, provides funding for country and multi-country programmes as well as cross-border cooperation programmes in the European neighbourhood. In the Mediterranean, ENPI provides financial support for the objectives of the Barcelona Process, the Association Agreement, the ENP and the ENP Action plans. Although the majority of ENPI funding for the Mediterranean is country-specific, its Euro-Med regional programme purposefully aims to fund multi-country projects that focus on transnational issues and promote regional cooperation.<sup>150</sup>

While ENPI has programmed a total funding of €12 billion for the Mediterranean region for the 2007-2013 period, only €343.3 million of this sum are earmarked for supporting regional cooperation under the Euro-Med regional programme during the financial period 2007-2010. This funding is roughly divided between three priority areas: (1) political, justice, security and migration cooperation; (2) sustainable economic development; and (3) social development and cultural exchanges. In the first area, EU funding is focused on justice, police and migration cooperation as well as confidence building measures. The second priority area aims at supporting the establishment of the Euro-Mediterranean Free Trade Area through investments in infrastructure, trade facilitation and by ensuring environmental sustainability. The last priority area focuses on promoting intercultural dialogue and fostering the establishment of civil society in the southern Mediterranean.

In addition, the European Commission is also providing some €90 million in funding for projects under the Union for the Mediterranean for 2008-2010.<sup>151</sup> This funding is mainly targeted at programmes concerned with the de-pollution

150 ENPI Regional Strategy Paper (2007-2013) and Regional Indicative Programme (2007-2010) for the Euro-Mediterranean Partnership: [http://ec.europa.eu/world/enp/pdf/country/enpi\\_euromed\\_rsp\\_en.pdf](http://ec.europa.eu/world/enp/pdf/country/enpi_euromed_rsp_en.pdf)

151 European Commission (2009), Union for the Mediterranean: Commission increases its contribution to priority projects, Press Release, 10 July 2009, IP/09/1113

of the Mediterranean, the establishment of maritime and land highways and the creation of a Mediterranean Solar Plan. Substantial lending for the region has also been made available through the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) of the European Investment Bank (EIB).<sup>152</sup> While the €8.7 billion in lending FEMIP provides to nine Mediterranean countries during 2002-2008 is targeted to the private sector, this funding is likely to have benefited regional cooperation by eliminating infrastructural bottlenecks.

### REGIONAL SUPPORT ALLOCATION<sup>153</sup>

	2007	2008	2009	2010	TOTAL (€ MILLION)
GLOBAL ALLOCATION	10	6.9	6.1	8.9	31.9
<b>POLITICAL, JUSTICE, SECURITY AND MIGRATION</b>					
CONFIDENCE BUILDING: CIVIL PROTECTION	4.4				4.4
CONFIDENCE BUILDING: PARTNERSHIP FOR PEACE	5	5		10	20
JUSTICE, SECURITY AND MIGRATION			13		13
POLICY ANALYSIS				8	8
<b>SUSTAINABLE ECONOMIC DEVELOPMENT</b>					
INVESTMENT PROMOTION AND REFORM	6				6
TRANSPORT AND ENERGY		9	14		23
SOUTH-SOUTH REGIONAL ECONOMIC INTEGRATION			4		4
ENVIRONMENT		9	9	15	33
TECHNICAL ASSISTANCE AND SUPPORT TO FEMIP	32	32	32	32	128
INFORMATION SOCIETY		5			5
<b>SOCIAL DEVELOPMENT AND CULTURAL EXCHANGES</b>					
GENDER EQUALITY AND CIVIL SOCIETY	8			8	16
INFORMATION AND COMMUNICATION	12			10	22
EUROMED YOUTH			5		5
DIALOGUE BETWEEN CULTURES & CULTURAL HERITAGE	17	7			24
<b>TOTAL</b>	<b>94.4</b>	<b>73.9</b>	<b>83.1</b>	<b>91.9</b>	<b>343.3</b>

<sup>152</sup> FEMIP for the Mediterranean, <http://www.eib.org/projects/publications/femip-for-the-mediterranean.htm>

<sup>153</sup> ENPI Regional Strategy Paper (2007-2013) and Regional Indicative Programme (2007-2010) for the Euro-Mediterranean Partnership: [http://ec.europa.eu/world/enp/pdf/country/enpi\\_euromed\\_rsp\\_en.pdf](http://ec.europa.eu/world/enp/pdf/country/enpi_euromed_rsp_en.pdf)

Overall, EU funding can play a beneficial role in creating the enabling environment that allows for greater South-South integration. However, current funds are too limited to make a substantial contribution to regional integration. In the past, EU funding has also been criticised for being too unfocused and for putting too much emphasis on creating regional networks and dialogues. The European Commission has promised to rectify this during the current funding period, stating that “care should be taken to ensure that Mediterranean regional programmes focus on activities that foster regional or sub-regional integration and identify among the partners, and/or programmes that clearly generate economies of scale and scope at regional level.”<sup>154</sup> Nevertheless, unless there will be significant new funding through the UfM, it seems unlikely that EU capacity-building on its own will be able to remove the bottlenecks that are obstructing regional trade.

## 4.2 Pan-Euro-Med Rules of Origin

Rules of Origin (ROO) are a complex, but unavoidable, element of all preferential trade agreements. Their fundamental purpose is to ensure that products entering the EU market under tariff concessions have been produced in a partner country (in this case one of the Mediterranean countries) and not by a third country seeking to abuse the terms of the preferential trade agreement. In effect, ROOs limit a firm’s choices concerning the source of its intermediate inputs.<sup>155</sup> In case of so-called bilateral cumulation, a company is able to obtain intermediate inputs only from the EU in order to be conferred origin in a partner country. In the case of so-called diagonal cumulation, a company can obtain intermediate products from both the EU as well as other partner countries adhering to the same ROOs in order to be granted tariff concessions. This means that in principal applying diagonal cumulation has the potential of promoting intra-regional trade.

In the past, the Mediterranean partner countries (MPCs) of the EU have been subjected to the bilateral cumulation rules enshrined within the majority of the

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<sup>154</sup> Ibid.

<sup>155</sup> For a comprehensive overview of ROOs: Michael Gasiorek, Patricia Augier & Charles Lai-Tong (2007), “Multilateralising Regionalism: Relaxing Rules of Origin or Can those PECS be flexed?,” Paper presented at the Conference on Multilateralising Regionalism, 10-12 September 2007, Geneva

earlier Association and Cooperation Agreement. The only long-term exceptions were Morocco, Tunisia and Algeria that were granted full cumulation as early as 1978. Overall, bilateral cumulation contributed to a hub-and-spoke pattern of trade between the EU and the MPCs. As each of the MPCs (the “spokes”) oriented its trade towards the EU (the “hub”) this had a negative impact on intraregional trade and the creation of regional supply chains and increased their dependence on the EU. For obvious reasons, these hub-and-spoke patterns also tended to diminish foreign investment into the spokes.<sup>156</sup>

Things changed in 2002, when the Euro-Med trade ministers agreed that diagonal cumulation should be extended to all of the EU’s Mediterranean partner countries. A model protocol for the Pan-Euro-Med cumulation system (PEMCS) was, however, not adopted until 2005 by the members of the European Economic Area. Since then, diagonal cumulation applies to all MPCs that have signed a free trade agreement with each other that includes the PEMCS provisions. The most far-reaching example regularly pointed to by the EU is the Agadir Agreement, which remains open to other Arab countries. Turkey has also adopted PEMCS in its free trade agreements with Egypt, Israel, Morocco and Tunisia.<sup>157</sup> However, for the time being, “regional cumulation among the MPCs is still far from complete and is not progressing at a pace that will meet the 2010 or even 2012 target.”<sup>158</sup>

Although PEMCS through diagonal cumulation has the potential to make a substantial contribution to intraregional trade and integration in the Southern Mediterranean, its concrete impact is difficult to estimate. Given that the Pan-Euro-Med Protocol has only been enforced in parts of the region since 2007 little information exists regarding its impact on regional trade. According to Michael Gasiorek, the concentration of MPCs exports in primary products and low-technology products suggests that the benefits of PEMCS will be limited.<sup>159</sup> Similarly, another recent survey suggests that there continues to be a lack of cumulation between the MPCs, due to their low complementarity.<sup>160</sup> Nevertheless, it seems

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156 Martha O’Brien (2008), *Pan-Euro-Med Diagonal Cumulation: Can it make a difference to the achievement of the goals of the European Neighborhood Policy in the Mediterranean Region?*, University of Victoria

157 For an up to date list of PEMCS implemented: Official Journal of the European Union, C 85/25, 9 April 2009

158 Martha O’Brien (2008), *Pan-Euro-Med Diagonal Cumulation: Can it make a difference to the achievement of the goals of the European Neighborhood Policy in the Mediterranean Region?*, op cit.

159 Michael Gasiorek (2008), *The impact of the diagonal cumulation of Rules of origin in the context of Euro-Med integration*, FEMISE Research Report, 31-13, April 2008

160 Luc de Wulf & Maryla Maliszewska (2009), *Economic Integration in the Euro-Mediterranean Region*, Center for

that at least in the long run PEMCS can make a contribution to promoting vertical integration amongst the Mediterranean countries.

There are, however, two potential problems with the current PEMCS system. First, the existing rules of origin enforced by the EU remain rather complex. This is a considerable problem, given that complex and costly rules of origin can represent an obstacle to trade and thus function similar to a non-tariff barrier.<sup>161</sup> In a bid to simplify existing rules of origin, Euro-Med trade ministers have stated their intention to adopt a regional convention on the Pan-Euro-Mediterranean rules of origin in the near future. Discussions are also underway to include Western Balkan countries, now part of the UfM, in the existing PEMCS. Both provisions might further boost the positive impact of PEMCS.

Another problem arises from the membership of many southern Mediterranean countries in different overlapping free trade areas applying different rules of origin and cumulation schemes. Thus there are considerable differences between the Pan-Euro-Med ROOs and the still incompletely developed ROOs that apply to GAFTA and COMESA.<sup>162</sup> Based on this, some analysts have argued that PEMCS might work as a competitor to GAFTA and as a dividing factor in the region. Thus Anja Zorbo sees a risk that “Pan-Euro-Mediterranean RO will most probably hamper, rather than promote overall trade inside the region and with the EU.”<sup>163</sup> To avoid creating new divisions amongst southern Mediterranean countries and contribute to trade integration, closer cooperation between the EU and the Arab League on issues of ROOs and cumulation would therefore seem sensible.

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Social and Economic Research, September 2009, p. 90

161 Michael Gasiorek, Patricia Augier & Charles Lai-Tong (2007), “Multilateralising Regionalism: Relaxing Rules of Origin or Can those PECS be flexed?”, op cit.

162 Hanaa Kheir-El-Din & Ahmed F. Ghoneim (2005), *The Economic and Regulatory Policy Implications of Overlapping Preferential Trade Agreements in the Arab Countries: The Case of Egypt*, Economic Research Forum, Research Report 0425

163 Anja Zorbo (2008), “Intraregional Economic Integration: The Case of GAFTA and MAFTA”, in Cilja Harders & Matteo Legrenzi, *Beyond Regionalism: Regional Cooperation, Regionalism and Regionalisation in the Middle East*, Aldersgot: Ashgate, p. 180

### 4.3 EU Cooperation with Regional Organisations

While cooperation between the European Commission and the Arab League has been virtually non-existent since the demise of the Euro-Arab Dialogue, recent years have seen a cautious revival of their relations. EU interests in closer contacts with the Arab League were sparked by the 2002 Arab Peace Initiative and a general desire for closer engagement with the Arab world after the Iraq War. Following some exploratory contacts between the Commission and the Secretariat of the Arab League and an initiative launched by the government of Malta during the Finnish EU Presidency, relations between the Commission and the League were formalised in 2006. Henceforth, the EC Delegation in Cairo has been designated as the EU's formal representation to the League, with the equivalent function being performed by the League's representation in Brussels.

Malta remained one of the main drivers of this process, culminating in a summit of EU and Arab League foreign ministers in Malta in February 2008, under the Slovenian EU Presidency. The “Malta Communiqué,” although vague in content, has since served as a cornerstone for the relationship.<sup>164</sup> In the communiqué, the two sides expressed their desire for greater dialogue and cooperation, especially on “issues related to economic cooperation and integration, scientific cooperation and education, dialogue among cultures, energy security and climate change.” Since the Malta summit, the two sides have agreed on several joint initiatives, to strengthen cooperation and enhance the technical and administrative capacities of the Arab League, including:

- The establishment of a **Crisis Response Centre and Early Warning System** at the Secretariat of the Arab League. The project, which will benefit from the technical and financial support of the EU in the range of €2 million, is meant to enhance the ability of the League to react quickly to regional crises and communicate and share information with the EU.
- Technical assistance and exchange of best practices in the area of **electoral observation and monitoring**. The EU is supporting the attempt of the Arab League to establish its own electoral observation and monitor-

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<sup>164</sup> Malta Communiqué, EU-league of Arab States Foreign Affairs Ministerial Meeting, 11 February 2008

ing unit through training seminars and technical assistance.

- Cooperation on cultural events in the framework of the **dialogue of cultures**. The EU and the Arab League together with the Anna Lindh Foundation jointly organised a cultural event in Cairo in early 2009. Further cooperation is being considered.
- EU technical assistance in the field of **linguistics and translation**, especially concerning the League's official website and with setting up an Arabic language database and glossary.<sup>165</sup>

In parallel to these concrete initiatives, the two sides agreed to set up an office in Malta. The office will be responsible for the follow-up of current initiatives, organise seminars, and explore further avenues for cooperation. The office has been in operation since October 2009 and includes representatives from the Arab League, the government of Malta and the European Commission.<sup>166</sup> Due to the lack of a clear mandate from EU governments, the Commission will – for the time being – only be represented by a “political consultant.” Indeed, it seems that inside the EU political backing for the liaison office remains thin and its establishment has often been regarded as a consolation price for Malta's failed bid to host the UfM Secretariat. The resulting uncertainty concerning the concrete role and purpose of the liaison office is likely to endure.

A separate avenue of cooperation has recently emerged through the inclusion of the Arab League in the Union for the Mediterranean. Here again, it seems uncertain what role the League will eventually be able to play within the UfM structures. The initial attempt by the League – expressed in a non-paper of early 2008 – to associate non-Mediterranean Arab countries with the process has generated little support and raises some questions about their future financial involvement in the project.<sup>167</sup>

Despite all, EU-Arab League cooperation has made a considerable leap during the last three years. Current initiatives have the potential to strengthen the Arab League by improving its administrative capacities and EU-LAS cooperation –

165 Benita Ferrero Waldner (2008), Future perspectives and challenges of European-Arab relations, 19 December 2008, Vienna, SPEECH/08/718

166 Tonio Borg, Opening address at the official opening of the EC-LAS Liaison Office, 14 October 2009

167 LAS, Non-Paper on Barcelona Process: Union for the Mediterranean, 20 April 2008

both through the liaison office and the UfM – will be more systematic than ever before. Moreover, there still is considerable potential to deepen this partnership, especially when it comes to technical and administrative assistance. Most notably, no formal cooperation or exchange of information exists when it comes to trade and economic affairs, despite the obvious need for greater coordination between GAFTA, EMFTA and the Agadir processes.

While the Secretariat of the Arab League appears eager to deepen cooperation, the EU Commission remains more cautious about widening this partnership prematurely. Indeed, the general perception is that without greater political cohesion amongst Arab countries and their demonstrated willingness to empower and reform the League, there is little point in deepening EU-LAS cooperation. There are also other reasons why European countries remain reluctant to deepen their partnership with the League: some remain notably unenthusiastic about cooperating with an institution that is known for its sometimes bitter criticism of Israel; others regard Arab trade integration as unwanted competition. However, even for those committed to South-South integration, the lack of political cohesion amongst LAS members is seen as an obstacle.

Aside from EU-LAS cooperation, the last two years have also seen the revival of cooperation between the EU and the Arab Maghreb Union (AMU). However, contacts between the EU and AMU remain in a much earlier stage, primarily due to AMU's continuing political difficulties. Nevertheless, meetings between the two sides have taken place since a first informal meeting in late 2007 and attempts are being made to define a common work programme that includes the areas of trade facilitation and liberalisation and the interconnection of energy networks. Although no concrete results have been reached to this day, the EU appears determined to continue this dialogue in the future.

#### **4.4 The EU and South-South Integration: Motor or Brake?**

Over the past years, the EU has come to use its entire tool-box of inter-regional cooperation measures in support of South-South cooperation in the Mediterranean. It has engaged in capacity building through its regional funding

scheme to create an enabling environment for further integration and to remove infrastructural bottlenecks. It has employed some soft conditionality through the Pan-Euro-Med Rules of Origin to support the growth of regional trade and integration. And it has created new institutional channels with the Arab League and the Arab Maghreb Union to allow for dialogue and socialisation. In other words, the EU has behaved in line with its much lauded role as a region-builder and attempted to function as a motor for South-South integration.

However, despite all the official rhetoric, there seem to be some doubts as to the sincerity the EU has brought to this task. Overall, EU measures remain limited and fragmented. The current €330 million the EU has earmarked for regional cooperation schemes fall far short of what would potentially be needed. While the UfM has promised inter alia to leverage private sector funding, little progress has been achieved on this matter so far. A perhaps more positive effect can be expected from the introduction of the Pan-Euro-Med cumulation system. But while the switch to diagonal cumulation has been long overdue and remains incomplete, the current system risks having an adverse affect on South-South integration if it is not simplified and brought into line with GAFTA. Finally, a structured dialogue between the EU and the Arab League (and to some extent AMU) is only just being established and the European commitment to this process remains tepid.

All of this indicates that the EU commitment to South-South integration continues to be half-hearted and that the EU remains primarily focused on its own Mediterranean vision of regional integration. There are, of course, good reasons for the EU to remain sceptical about supporting Pan-Arab integration. Political divisions and institutional shortfalls, as well as the exclusivity of the Arab regional project have made the Mediterranean option more appealing to the EU. While this is perhaps unavoidable, the EU will have to prevent positioning its Euro-Mediterranean vision of regionalism as an alternative to or even in opposition to Pan-Arab regional projects.

This requires first and foremost a greater commitment to dialogue and coordination, especially with the Arab League, in order to avoid any friction between GAFTA and EMFTA. In the same vein, the EU can do much more to provide technical

and financial support to regional organisations in order to help them become trusted and credible regional interlocutors and crisis managers. Here the institutionalising of EU-LAS cooperation is an encouraging step in the right direction. Of course, the EU cannot and should not attempt to serve as a replacement for the lack of political will. But it can help regional organisations function more effectively within the limited margin set by the political process, and with that demonstrate its genuine support for Arab regional cooperation.

## Conclusion: The Future of Regionalism in the Mediterranean

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**A**s this paper has shown, regional integration in the Mediterranean remains a case of its own. The persistently low level of economic integration, the overlapping nature of different regionalisms and the EU's active role as both a player and promoter of regional integration all set the Mediterranean apart from other major world regions. This is unlikely to change in the near future, as considerable obstacles to regional economic cooperation remain and different integration processes will continue to vie with each other across the Mediterranean. The reasons for this "Mediterranean exception" tend to be of a largely political and geopolitical nature, although structural obstacles also play an important role. This has meant that globalisation, unlike in other parts of the world, has only played a relatively minor role in shaping regional integrations processes in the Mediterranean.

When it comes to Euro-Mediterranean cooperation, one of the major drivers of cooperation for the EU seems to be the expectation that economic and political integration will foster regional stability and peace. Competition for market shares with the US, China and other emerging powers also plays an important role. Amongst the southern Mediterranean countries, ideas of Pan-Arab unity

run deep and have stalled primarily due to political differences and conflicts, as well as a lack of economic incentives (i.e. trade complementarity). With the regional option blocked, the main impact of globalisation has been to contribute to further fragmentation, as Arab countries are focusing on sub-regional and bilateral trade agreements, lowering the prospects for pan-regional integration.

The recent revival of regional integration – both on the North-South and South-South axis – similarly seems to be primarily founded on political developments. In the case of the UfM, intra-European dynamics and global developments have played an important role in shaping the process. In the case of GAFTA, a certain abatement of intra-Arab conflicts and rivalries, together with the “external push” provided by the creation of the EMP, have been the most important factors. While both trends have provided a boost to regional integration in the Mediterranean, it seems unlikely that in the long run they will lead to deeper economic integration and the establishment of regional institutions and practices that are comparable with those existing in other regions around the world.

When it comes to South-South integration, Arab elites still lack the political will to sponsor a sustainable process of region-building that could challenge their absolute control over the levers of power. The resulting absence of regional options has meant that Middle Eastern economies have adopted an increasingly international orientation. And while there is much popular support for a deepening of regional cooperation in the Arab world, this is unlikely to translate into political action anytime soon. In the case of North-South integration, intra-European divisions and competition over financial resources together with a revival of economic nationalism are likely to work against a new dawn in Euro-Mediterranean cooperation. Moreover, the potential drawback from a hub-and-spoke system for the MPCs remains a major problem in this regard. The most likely outcome is going to be a deepening of bilateral cooperation with a selected few Mediterranean partner countries.

The EU’s role in steering regional integration processes has been rather ambiguous. While the EU has been the main driver behind North-South cooperation, it has now departed from its original vision of a normative regionalism with an emphasis on creating a community of values and a distinct Euro-Mediterranean

cultural identity. The creation of the UfM indicated a return to a greater realism when dealing with the region and seems to abandon previous European attempts at promoting bottom-up reforms in the Arab world. Until recently, EU support for South-South integration has been rather cautious and played little importance in the EU's strategy for the wider region. Even now, EU-LAS relations are only cautiously developing and for political and pragmatic reasons, the EU continues to favour sub-regional endeavours, above all the Agadir Process.

While European qualms about supporting Pan-Arab integration might be understandable, the EU has a clear interest in supporting greater cooperation amongst its southern neighbours. Europe's Mediterranean dream and the Arab dream for greater regional unity are not naturally opposed to each other and there are few reasons to think that they cannot thrive together. While the EU cannot replace the lack of political will amongst its Mediterranean partner countries, it can help regional organisations to function more effectively and contribute to an enabling environment that is conducive to South-South integration. The EU's own recent history has shown that outside powers can have both a unifying and a dividing influence on regional integration processes. In order to demonstrate its commitment as a region-builder and foster a more stable and peaceful Middle East, the EU would be well advised to make a more concerted effort to support South-South integration.

But doing so might require a rethinking of the EU's own approach towards the region. The EU's current division of the MENA region into two composite parts, consisting of the Arab Mediterranean countries and the Gulf countries – leaving several others including Iraq, Yemen and Sudan unattached to either – tends to ignore the realities of the Middle Eastern regional system. In the past, this division has nurtured a single-minded concentration on sub-regional and bilateral cooperation to the detriment of potential regional solutions.<sup>168</sup> In the future, the EU's singular fixation on the Mediterranean might obstruct a tentative revival of South-South integration and will make it more difficult for the EU to leverage the financial power of the Gulf. The solution is not to discard the Euro-Mediterranean

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<sup>168</sup> On the advantages of adopting a broader approach towards the Middle East, see: Edward Burke, Ana Echegüe, Richard Youngs (2010), *Why the European Union needs a 'broader Middle East' policy*, FRIDE Working Paper 93, February 2010

project, but to ensure that it does not run counter to emerging sub-regional and pan-regional dynamics. Here, the intensification of cooperation with the League and UMA, despite their continuing problems, is a first step in the right direction that might hold the key to creating a more consensual regionalism in the future.

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<b>Mohamed Al-Nsour</b>	Arab League, Cairo
<b>Ambassador Gamal Bayoumi</b>	Egyptian Ministry for International Cooperation, Cairo
<b>Marco Berti Palazzi</b>	EC Delegation, Rabat
<b>Sven Biscop</b>	Egmont Institute, Brussels
<b>Jamel Boujdaria</b>	Arab Maghreb Union, Rabat
<b>Jerome Cassiers</b>	EC Delegation Rabat
<b>Olivier de Laroussilhe</b>	European Commission, DG Trade
<b>Ambassador Abdelouahab Derbal</b>	Delegation of the Arab League, Brussels
<b>Dina Douay</b>	Arab League, Cairo
<b>Mohamed El-Agati</b>	Arab Forum for Alternatives, Cairo
<b>Amr Elshobaki</b>	Al-Ahram Center, Cairo
<b>Brahim Fassi Fihri</b>	Amadeus Institute, Rabat
<b>Leonello Gabrici</b>	European Commission, DG RELEX
<b>Ahmed Galal</b>	Economic Research Forum, Cairo
<b>Georges Harb</b>	Sciences Po, Paris
<b>Bertrand Hervieu</b>	Centre International de Hautes Etudes Agronomiques Mediterraneennes, Paris

<b>Minister Said Hindam</b>	Egyptian Foreign Ministry, Cairo
<b>Nathalie Janne d'Othée</b>	MEDEA Institute, Brussels
<b>Jawad Kerdoudi</b>	Institut Marocain des Relations Internationales, Casablanca
<b>Mohamed Khalil</b>	Egyptian Foreign Ministry, Cairo
<b>Hanna Kheir-El-Din</b>	Egyptian Center for Economic Studies, Cairo
<b>Driss Khrouz</b>	Bibliothèque Nationale, Rabat
<b>Charles Kleinermann</b>	European Movement, Brussels
<b>Eneko Landaburu</b>	European Commission, DG RELEX
<b>Ambassador Mohamed Naciri</b>	Arab League, Cairo
<b>Michael Ryan</b>	EC Delegation, Cairo
<b>André Sapir</b>	Bruegel, Brussels
<b>Rodrigo Romero van Cutsem</b>	EC Delegation, Cairo
<b>Alexander Zafiriou</b>	Council Secretariat, Brussels
<b>Thamer M. Zaidan</b>	Arab League, Cairo

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## Europe and World Governance

### Regional Integration in the Mediterranean Moving out of the Deadlock?

This research report is the last of a series of case studies conducted by *Notre Europe* on contemporary trends in political and economic regionalisation.

The study takes stock of current trends in regional integration processes in the Mediterranean. Examining regional dynamics on both the North-South and South-South axis, the study argues that political and structural impediments continue to hamper regional integration. While North-South cooperation seems to be moving out of its temporary impasse, the Euro-Mediterranean project has changed its character and has become increasingly fragmented. South-South integration, similarly, has made a step forward with the establishment of GAFTA and the Agadir Process, but remains weighted down by a lack of political commitment and serious structural impediments. In the absence of political support, globalisation has further accentuated a growing trend towards regional fragmentation. Movement towards deeper integration therefore remains primarily limited to a bilateral level. In order to prevent a further fragmenting of the Mediterranean region and to assist southern Mediterranean countries to overcome structural barriers to integration, the study recommends a greater emphasis on interregional cooperation and more European support for South-South integration.

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