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The Euro-Mediterranean Partnership

An Experiment in North-South-South Integration

The Euro-Mediterranean Partnership (EMP), a framework for political, economic and social relations between the European Union and its Southern Mediterranean neighbours, saw daylight in Barcelona on 27-29 November 1995. Ten years on, the international conditions in which the EMP operates have been radically altered by events in the Middle East as well as the enlargement of the EU. How well has the partnership performed in this changing environment and what are its prospects for the future?

The Euro-Mediterranean Partnership (EMP), which celebrates its tenth anniversary this year, established a common framework for governing relations between the European Union (EU) and its neighbours on the Southern shores of the Mediterranean stretching from Morocco to Syria.¹ The concept of development “partnership” was hailed as a new model of North-South-South integration. It implied that the EU would move away from its old “hub and spoke” type of bilateralism towards a more multilateral form of engagement with the Mediterranean partner countries (MPCs). The new “region-to-region” approach was based on the premise that a simultaneous two way process of integration would occur. Vertical integration between the EU and the Mediterranean countries would take place in parallel to horizontal integration between those countries themselves. This new model of inter-regionalism was intended to foster South-South integration. Thus, regional integration, by leading to increased intra-regional trade, would help to integrate the MPCs into the global economy in a gradual and smooth manner. In other words, regionalism would be a bridge to globalisation.

Why was the EMP needed? The EU always had special policies for the Mediterranean countries because of the important links binding the two regions, but the EMP was a clear upscaling of policy to meet the new challenges of the 1990s. The “prosperity gap” between North and South was already large and threatened to diverge further following enlargement to the East. Poor economic performance in the MPCs, with their large youth populations, was generating major immigration pressures. The proximity of the Mediterranean region to Europe, with its growing threats of terrorism, political instability and religious extremism, was creating a

new geo-political situation of heightened security risk. Globalisation and the new trade agenda of the World Trade Organisation (WTO) were pushing the EU to expand its own free trade area.²

But the call for horizontal integration among the MPCs was a tall order. In contrast to the strongly integrated EU in the North, the Mediterranean region in the South was fragmented and torn by internal rivalries. There was no historical experience of trans-regional integration and intra-regional trade was amongst the lowest in the world. Neither was there any institutional framework for regional integration. What makes a region? Geographical proximity is obviously an important element in regional integration but it is by no means conclusive. There are many different parameters in international relations, which define how political actors relate to each other. And in the Mediterranean region, the natural political dynamics of integration was towards “sub-regional” groupings. Prior to the EMP, a number of initiatives had been taken towards this end but none of them have been very successful to date.³

To address those problems the EMP, also known as the “Barcelona Process”, adopted a new holistic approach to development – based on three pillars – that

¹ When the EMP was launched in 1995, there were twelve Mediterranean countries including Morocco, Algeria, Tunisia, Egypt, Jordan, Israel, Palestinian Authority, Lebanon, Syria, Cyprus, Malta and Turkey. Since 2004, Cyprus and Malta have become full members of the EU, and Turkey is on track for accession. Libya, which was excluded from the original agreements, is gradually integrating into the EMP following its reconciliation with the international community and renunciation of terrorism.

² J. Joffé: European Union and the Mediterranean, in: M. Têlo (ed.): The European Union and New Regionalism, Aldershot 2001, Ashgate, pp. 207-227.

³ S.C. Calleja: The Euro-Med Partnership and Sub-Regionalism: A Case for Region Building? Euromesco Working Paper, PRI-4, 2003, pp. 1-33.

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went way beyond the traditional approach of trade and aid. The political-security partnership called for a "political dialogue" to contribute to the peaceful resolution of conflicts in the region, fostering democracy in the Arab MPCs and creating the general political climate necessary for development. The economic and financial partnership aimed to create a Euro-Mediterranean free trade area (FTA) supported by increased financial and technical assistance for capacity building. The human and cultural partnership addressed the "human development" deficits by policies in the fields of education and an inter-cultural dialogue. To achieve those aims, a comprehensive work programme was attached to the Barcelona declaration.⁴

How do we evaluate the EMP – ten years on? The international conditions in which the EMP operates have been radically altered by events in the Middle East as well as the enlargement of the EU. So how well has the partnership performed in this changing environment and what are its prospects for the future? This paper will assess the EMP with a view to determining how inter-regional integration has served as a development strategy and as an intermediate stage of integrating the MPCs into the global economy.

The Institutional Framework for Partnership

Institutions create the channels through which regular communications between the partners take place and they play an important role in inter-regionalism at three levels.⁵ At the cognitive level, they contribute to building a common outlook on regional problems. At the expectations level, they contribute to confidence building and predictability by establishing regular practice and regional norms. At the level of formal regional integration, which varies according to how deep the desired integration is, they contribute to stability and continuity by establishing mutually agreed rules and institutional memory.

The traditional regional trade agreement (RTA) has been governed by Article 24 of the GATT/WTO. It allows trade partners to conclude preferential agreements as long as they meet certain requirements that would make them compatible with multilateral rules including product coverage, transition periods, etc. Therefore, RTAs do not necessitate any new institutional arrangements.

⁴ The Barcelona Declaration was adopted at the Euro-Mediterranean Conference, 27-28/11/1995. The strongest part of the Work Programme relates to Economic and Financial partnership containing thirteen chapters, the Social, Cultural and Human Affairs section contains eight chapters, while the Political and Security Partnership was the weakest with only three chapters.

⁵ J. Gils on: Defining Inter-Regionalism. The Asia-Europe Meeting, in: SEAS Electronic Working Papers, Vol. 1, No. 1, 2002, pp. 1-9.

But the way in which the concept of development partnership has evolved encompasses a whole new spectrum of meaning.⁶ "Participation" is one of the most important characteristics. It implies that policy making should be extended beyond the exclusive role of governments to include non-state actors such as the private sector and civil society groups like non-governmental organisations (NGOs). National parliaments, which are directly responsible to citizens, should also be much more involved than in the past.

Two different levels of participation may be identified: "Functional" participation, which is a means to achieving project type goals, leaves much to external agencies, and the primary emphasis is on efficiency. Participation of non-state actors usually takes place only after the most important decisions have been taken. By contrast, "interactive" participation calls for joint action at all levels of policy making from initial analysis, to preparation of strategy papers, to development of action plans, and capacity building for implementation. This approach, which maximises the involvement of all stakeholders, emphasises participation as a right and considers it essential for sustainable development policy.

How does the institutional machinery of the EMP operate? The EMP has no independent Secretariat, nor does it have a permanent location and its top governing body of Ministerial meetings is a moveable event. There is no institutional framework for integration in the Mediterranean region so that, in practice, it is completely dependent on the institutions of the EU. All of the EU institutions are involved in a system of multi-level governance that operates at multilateral, bilateral and unilateral levels.⁷

The EU Council takes the lead in the multilateral political dialogue, which is conducted by the Euro-Med Conference of Foreign Ministers and chaired by the EU rotating Presidency. It is supported by a Euro-Med Committee, which is composed of senior officials from both EU member states and the MPCs. The Ministers and Committees meet regularly to coordinate the main areas of policy. A series of technical sub-committees are responsible for implementation. In practice, however, it is the European institutions that take responsibility for the preparation and follow-up of the meetings. A similar procedure is followed in other sectoral Ministerial meetings.

⁶ S. Maxwell, T. Conway: Perspectives on Partnership, in: World Bank Operations Evaluation Department, Working Paper No. 6, 2001, pp. 1-10.

⁷ E. Philippart: The European Mediterranean Partnership: Unique Features, First Results and Future Challenges, Centre for European Policy Studies Working Paper No. 10, 2003, pp. 1-35.

The economic partnership is conducted bilaterally between the Commission and the individual MPCs. Directorate-General Trade, which has exclusive competence in matters of trade negotiations, has negotiated a set of bilateral Association Agreements (AAs) between the EU and each individual MPC. Although the bilateral trade agreements are supposed to be the stepping stones to a full Euro-Med free trade area (FTA) expected to be operational by 2010, they are not linked together by the multilateral principle of most-favoured-nation (MFN). The result has been a network of North-South bilateral trade agreements but with no institutional provisions for South-South integration. Consequently, no institutional incentives for increasing intra-regional trade or attracting foreign direct investment by creating a large regional market have emerged.

The Directorate-General for External Relations is responsible for drafting the country strategy papers (CSPs) which are crucial to defining the long term objectives and priority areas as well as identifying the projects to be financed by the EU. Moreover they are supposed to be instruments of partnership in that they give developing countries ownership over their own development policies. But the process of drawing up the CSPs for the period 2002-2006 was not based on true partnership as this work was almost exclusively carried out by the Commission. The process provided for consultation, both internally and externally, but in practice there was very little. The EC has not involved civil society in the process on the grounds that it was more important to support civil society through technical assistance to make it stronger before it could be accepted as an actor in the negotiating process.

The unilateral nature of decision-making on financial and technical assistance makes this a donor dominated rather than a mutually agreed development instrument. Financial assistance for the implementation of the Barcelona work programme, disbursed by AIDCO, is awarded in the form of grants under the Meda (*mesures d'accompagnement*) aid programme. Based on a proposal from the Commission, the amount of Meda funding is finally determined by the Council and the Parliament. As a result of this unilateral decision making on available funding, financial assistance has been more closely linked to achieving the EU's objectives, especially those set out in the bilateral trade agreements, than to the needs of individual MPCs.

What was innovative and promising in the EMP was the hope it offered that the EU would really engage with the MPCs in a more multilateral mode based on equality and mutuality. For that to happen there was

first of all need for some "region building" measures in the Mediterranean. But no institutional framework for integration among the MPCs was created. Instead the EU institutions dominated the whole process and like all North-South institutional arrangements there was asymmetry in terms of economic power and capacity. That was most clearly shown in the economic partnership where the whole emphasis was on North-South integration and market opening in the MPCs to accommodate EU interests. No new mechanisms were created to go beyond the traditional bilateralism and move towards a new model of regional multilateralism. Consequently, there were no institutional incentives for the growth of a regional Mediterranean market that would foster intra-regional trade among the MPCs and attract foreign direct investment into the region.

The Economic Partnership

The goal of economic partnership is ultimately poverty reduction and sustainable development. The extent of poverty in the Mediterranean region can be estimated from World Bank figures on comparative regional poverty using international standards.⁸ Regarding the number of people living in extreme poverty, which is defined as living on one dollar a day, the Mediterranean region has the lowest headcount index for any developing region. But the figure is much higher for the number of people living on two dollars a day. Therefore, the World Bank has warned that a large proportion of the population is vulnerable to lapsing into poverty because of the volatility of the region due to volatile economic, environmental and political characteristics.⁹

The EMP has failed to deliver economic results in any way comparable to what the enlargement process in Europe's peripheral region in the East produced. There is still a wide prosperity gap between the new Member States and the MPCs. The exception is Israel, which has 80 per cent of the average per capita income in the EU. The Arab MPCs range from five per cent in Syria to nineteen per cent in Lebanon of average EU per capita income. This is much lower than the average per capita income in the new Member States which range from 69 per cent of the EU average in Slovenia to 29 per cent in Lithuania.¹⁰ So why has regional integration in the South been so disappointing?

⁸ The World Bank includes the Mediterranean region in the larger entity, which it calls the Middle East and North Africa (MENA) region. This region includes the rich, oil exporting, Gulf States of the Middle East as well as the poor states of the Mediterranean region, where the poverty is concentrated.

⁹ The World Bank: Middle East and North Africa Region Strategy Paper, Washington DC 2004.

Some of the MPCs – Algeria, Lebanon and Syria and the Palestinian Authority – were not even members of the WTO and had been completely protected from international competition. Even among those countries that were WTO members some still had the highest MFN tariffs in the world. And they have been able to preserve those high tariffs in the absence of any institutional framework for intra-regional free trade under the EMP. Many of the Arab countries had economic structures similar to those of the former communist countries in the East. Their economies were based on outmoded socialist principles with large oversized public sectors and widespread government monopoly power. Free trade alone was not sufficient to change this situation, it needed to be underpinned by domestic structural reforms. While this was addressed head on in the accession strategy for the new member countries, and was, in addition, supported with large-scale technical assistance, nothing comparable was undertaken in the MPCs.

The economic partnership was based on the premise that it would bring all of the recognised benefits of regional integration – both static and dynamic.¹¹ It would create a large regional market and the resulting economies of scale would lead to intensified trade flows, technological innovation, increased productivity and increased competition. Integration would also bring the non-conventional benefits of enhanced policy credibility to small MPCs by anchoring their policy reforms to the large EU acting as the regional hegemon. This would provide additional incentives for foreign direct investment in the region, which would further enhance economic growth.¹²

But those predictions have not been fulfilled and today the Mediterranean region suffers from economic stagnation. The core of the economic partnership has been the lengthy negotiation of bilateral trade agreements, most of which are now in place with the exception of Algeria, which has signed but still not ratified, and Syria which has yet to sign, although the negotiations have been completed. This has led to a network of trade agreements but they are not linked up together to create coherent market conditions. For example, a producer who is located inside the EU

market can export his products to 25 +10 countries. By contrast, a producer who is located in an MPC, can only export his goods to 1+ 25 countries. The benefits of regional integration cannot be reaped by the MPCs under those conditions.

When bilateralism is combined with dependency of MPCs on the EU market it will lead to increasing trade diversion, as is well illustrated by the case of Tunisia. It still has high MFN tariffs with other countries, on average 30 per cent, which is much higher than the rates of other MPCs, such as Turkey or Lebanon, which average about 10 per cent. Tunisia is very dependent on the EU market conducting approximately 75 per cent of its trade with its large neighbour. The result of its high MFN tariffs combined with preferential access to EU market leads to increasing trade diversion. While Tunisia has the highest share of trade with the EU, the other MPCs also have very large shares, for example Algeria has 63 per cent, Syria has 50 per cent, Lebanon has 40 per cent and Egypt has 30 per cent.¹³

Border tariffs were successfully targeted but behind the border obstacles were left largely untouched. Neither harmonisation of standards, nor rules of origin have been successfully dealt with, which act as effective technical barriers to trade. Furthermore, trade liberalisation focused on industrial goods and left the liberalisation of services and investment largely untouched – so that key sectors of the economy such as telecommunications, transport, and banking have not been de-regulated. And agricultural liberalisation, which is of major interest to many MPCs, has been left aside.¹⁴

The EMP has created a model of vertical integration which has not been accompanied by horizontal integration between MPCs. They have been obliged to open up their markets to the EU before building and consolidating their own integration. Yet the EU's own experience of regional integration has shown that internal liberalisation has always preceded external liberalisation. Furthermore, trade liberalisation in the EU has always been linked to domestic structural reform and supported by high amounts of structural funding. Without those measures to cushion the short term costs of adjustment, trade liberalisation in the MPCs has created social pressures resulting in feelings of instability and insecurity that have prevented govern-

¹⁰ B. Gavin: Trade and Investment in the Wider Europe: EU neighbourhood Policy for Enhanced Regional Integration, in: *The Journal of World Investment*, Vol. 4, No. 5, 2003, pp. 893-907.

¹¹ B. Gavin, P. De Lombaerde: Economic Theories of Regional Integration, in: M. Farrell, B. Hettne, L. Van Langenhove (eds.): *The Global Politics of Regionalism: Theory and Practice*, London 2005, Pluto Press, pp. 69-87.

¹² W.J. Ethier: The New Regionalism, in: *The Economic Journal*, Vol. 108, No. 449, 1998, pp. 1149-1161.

¹³ M. Dodini, M. Fantini: The EU Neighbourhood Policy: Implications for Economic Growth and Stability, Paper presented at the conference on The Cooperation between the Widened European Union and its new Vicinity: Stakes and Prospects, Rabat 2004, pp. 1-25.

¹⁴ P. Brenton, M. Manchin: Trade Policy Issues for the Euro-Med Partnership, Centre for European Policy Studies, Working Paper No. 7, 2003, pp. 1-19.

ments from taking the needed initiatives to bring about change.

The Political Partnership

The political partnership is framed within the principles of the United Nations Charter, and the Universal Declaration of Human Rights, to which all of the MPCs have subscribed. This should provide a common basis for dialogue on a range of governance issues including democracy and respect for human rights, the rule of law and resolution of conflicts through peaceful means, combating terrorism and fighting against organised crime. The UN Charter also enshrines the principles of sovereignty, territorial integrity and non-intervention in the domestic affairs of states. With regard to the latter principles, Arab countries have accused the West and the United Nations of double standards in their discourse and in their actions. The UN resolution concerning the Palestinian occupied territories, which dates from the 1970s, has not yet been fully implemented. In contrast, UN resolutions relating to the two gulf wars with Iraq have been speedily implemented or bypassed. Therefore, many Arab countries have ambivalent feelings towards the United Nations.

Although the MPCs have signed the UN Declaration on Human Rights, it is not implemented in the domestic legal systems of many Arab countries. The powerful influence of "Islamisation", which has been strongly exerted and financed by Saudi Arabia and the rich Gulf states since the 1960s, has strengthened opposition still further.¹⁵ Saudi Arabia has always challenged what it considers to be the "Western" concept of human rights embodied in the Universal Declaration. The most fundamental conflict between Islamic and Western countries concerns freedom of religion and freedom of women in society.

It must be recognised that, although the European discourse on human rights is based on "moral individualism", in practice it is highly political because it leads to conflict with established groups in Islamic societies such as the family, schools, religion and the state. However, it must be emphasised that what the human rights discourse asks for is "freedom from" violence, oppression, discrimination etc, and it does not make prescriptions on "freedom for". That leaves open many cultural practices and does not require Arab states to accept the totality of Western lifestyle.¹⁶

The advocacy of fundamental political and civil liberties embodied in the human rights doctrine fits very well with Nobel prize winning Sen's new paradigm of development.¹⁷ He considers that such substantive freedoms as the liberty of citizens to participate in the political process and to have access to basic education are not only among the "constituent components" of development, they are also an effective means of contributing to economic progress. In a very concrete way, the market economy cannot function without the freedom of citizens to participate in all economic exchange, for example, in the labour market. Moreover the participation of women in the labour market can make an important contribution to economic growth, as shown by the experience of Western countries.

The political partnership comes under the umbrella of EU "foreign policy" which is different from traditional foreign policy of nation states. More specifically, it is characterised by a "structural" approach, in other words, it is conceived as a long term strategy for creating the conditions necessary for sustainable economic and social development. As a "civil power" the EU is more oriented towards the problems of "human security" and alleviating the "soft security threats" that claim millions of lives through hunger, poor sanitation, environmental degradation, infectious diseases and the lack of basic social services. Human security is also about helping the victims in the wake of internal conflicts by getting local communities functioning again – an area that has been given low priority in the international cooperation system.¹⁸

The political partnership has not resolved the major conflicts in the Mediterranean region, but it has contributed a number of "confidence building measures" that are tentative first steps towards region building. It has created the only framework where Israel, the Palestinian Authority and the Arab states can all come together. Although countries like Syria and Lebanon have frequently boycotted the official conferences of the Foreign Ministers in the past, the unofficial co-operation still goes on. The Palestinian Authority has been treated diplomatically as a quasi independent state and EU financial assistance has been crucial to keeping the Palestinian Authority functioning as the situation deteriorated following the breakdown of the Oslo peace process. The partnership has also contributed to an emerging "epistemic community" in the region through the Euromesco network of foreign policy institutes and the Malta Diplomatic Seminars.

¹⁵ G. Képél: *La Revanche de Dieu: Chrétiens, juifs et musulmans à la reconquête du monde*, Paris, Seuil, 1991.

¹⁶ M. Ignatieff: *The Attack on Human Rights*, in: *Foreign Affairs*, Vol. 80, No. 6, 2001, pp. 102-116.

¹⁷ A. Sen: *Development as Freedom*, Oxford 1999, Oxford University Press.

¹⁸ S. Ogata: *State Security – Human Security*, United Nations University Public Lectures, Tokyo 2001, pp. 1-14.

The Human, Cultural and Social Partnership

For regional integration to be sustainable it must go deeper than the functional process of integrating markets, it must also integrate peoples and cultures. In this context the meaning of culture is not confined to the traditional sense of the arts but is understood in the broad anthropological sense of how people live their daily lives in society and that includes the image of immigrant populations. The integration of peoples and cultures is an important element of regional "identity building" which contributes to overcoming divisive conflicts that are rooted in cultural and economic differences.

Economic globalisation, which fosters convergence towards "the universal" is perceived to threaten the legitimate diversity of cultures. Globalisation has affected societies on both sides of the Mediterranean in very different ways. Integrated Europe, with its rationalist, secular mentality, open to science and technology, has largely benefited from globalisation. The Mediterranean region, fragmented and torn by internal conflicts, dominated by religion, and largely closed off to modern scientific thought, has retreated into dangerous identity politics. The "murderous identity" of terrorists may be born from a feeling of humiliation engendered by globalisation. When change comes from "within", it is perceived as positive, but when it is imposed from "without" it is frequently regarded with fear. Globalisation is perceived by many in the Arab world as domination by the North and imposed from without.¹⁹

The rapid social change of the past decade is now challenging the traditional identity on both sides of the Mediterranean. Enlargement has forced the EU to rethink its own identity – where do the borders of Europe end? Does Turkey belong to Europe? How will the EU deal with its new neighbours? And, how will EU countries deal with the permanent presence of large immigrant communities from the MPCs?

The human, cultural and social partnership has addressed the issues concerning "human development" through building up the human capital needed for development and opening an inter-cultural dialogue. Education has been given priority with policies directed towards dealing with the four main challenges of access, quality, participation and building of the knowledge-information society. To make all cultures feel included and equally valued, the EMP has financed cooperation projects such as the Euro-Med Heritage which works to conserve traditional Mediterranean architecture, archaeology, music and

museums. The project fosters human resources in the cultural heritage field, and fosters mutual awareness of this rich heritage. It gives value to non-Western cultural projects and fights against the predominance of Western culture in the age of globalisation.

The Anna Lindh Foundation located in Alexandria, ancient crossroads of Eastern and Western philosophies, symbolises the "dialogue of civilisations". This recently created institutional framework for inter-cultural dialogue will give greater visibility to the Barcelona process through intellectual, cultural and civil society exchanges. All of the EMP partners have contributed to it as well as the EU Meda programme.

The human, cultural and social partnership, which started out as the weakest pillar of the EMP, has grown in strength and importance. And it has now been endorsed by the Arab Human Development Report which calls for the elimination of the human development deficit as a top priority.²⁰ This is necessary since there are persistently high rates of adult illiteracy, particularly among women, many children still do not have access to basic education, higher education is characterised by decreasing enrolment, and public spending on education has actually decreased since 1985. The Mediterranean and Middle East region is losing its human capital as approximately 25 per cent of graduates from Arab universities now emigrate to the West, foremost among which are medical doctors.

Future Prospects for the EMP

Former EU Commissioner for External Relations, Chris Patten has compared the EMP to the EU saying that it should not be seen as an end in itself, but rather as an evolving dynamic entity that is only a stage on the way to the organised world of tomorrow. So what will tomorrow bring?

The EMP will be subsumed into the European Neighbourhood Policy (ENP), which is the new EU policy for the post-enlargement era.²¹ This will alter the already existing imbalance of power still further in favour of the EU. Numbers can mask real power, of course, but the EU-25 against the MPC-10 will definitely tilt relations in favour of the North. Given that the new Member States are all economically more advanced than the Mediterranean countries, with the exception of Israel, the prosperity gap is set to widen and further compound the asymmetric economic relations between North and South.

¹⁹ A. Maaoui: *Les Identités Meurtrières*, Paris 1998, Grasset.

²⁰ United Nations Development Programme: *Arab Human Development Report*, New York 2004.

²¹ European Commission: *Wider Europe-Neighbourhood: A Framework for Relations with our Eastern and Southern Neighbours*, Brussels, COM (2003) 104 final.

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The European Neighbourhood Policy (ENP) will offer progressively deeper integration to the MPCs in the form of “a greater stake” in its own internal market by opening up the possibility for participation in a number of new policy areas:

- extension of the four freedoms of the internal market including free movement of goods and services and in the longer run free movement of persons and capital,
- enhanced preferential trade relations based on reciprocal market access,
- approximation of legislation in the fields of standards, technical regulations and conformity assessment procedures,
- adoption of a common system of rules of origin,
- simplification and rationalisation of customs procedures,
- integration into transport, energy and telecommunications networks,
- support for integration into the global trading system,
- new sources of finance,
- perspectives for lawful migration and movement of persons,
- stepped up cooperation to prevent and combat common security threats such as drug trafficking, trafficking in human persons and organised crime,
- increased EU involvement in crisis management and conflict prevention,
- greater efforts to promote human rights,
- enhanced cultural and educational cooperation through more mobility and integration into the European research area.

But implementation will not be based on the “common strategy” approach that marked the original EMP. Instead the new European strategy will be based on a differentiated, progressive and benchmarked approach. In practice this means that “Action Plans” will be drawn up for each individual country and adapted to the needs of each country. Progress towards greater integration will depend on the Commission’s evaluation of the situation in each country.²²

This implies that progress in the future will depend on the MPCs themselves taking the necessary steps towards a full democracy and a free market economy,

²² European Commission: European Neighbourhood Policy Strategy Paper, Brussels, COM (2004) 373 final.

bringing about social change including the education of women, and deeper respect for human rights. In return for those reforms, the EU is offering the benefits of deeper integration into its own internal market for all its neighbouring countries including the MPCs. Thus, the EU will not be “the driving force” in democratic change as it believes that lasting change in Arab countries must come from within. So while the ENP will not lead to the formal dissolution of the Euro-Med partnership, it clearly signals a change of direction. Bilateralism will be upgraded while the multilateral character of the EMP will be weakened. Although the EU continues to pay lip service to its multilateral engagement with the MPCs, in practice it has retreated from it.

The future of the EMP will also be bound up with the new strategic partnership that the EU is currently developing for the greater Middle East. It emphasises that partnership will remain the basis and the EMP as the most advanced example of partnership will be the cornerstone of the new policy. New elements in the strategic partnership will include enhanced integration between the EU and the Gulf Cooperation Council (GCC) which includes the oil producing countries of Saudi Arabia, Kuwait, United Arab Emirates (UAE), Qatar, Bahrain and Oman. An EU-GCC Cooperation Agreement has been in existence since 1989 and negotiations are under way to upgrade it to a free trade agreement. Economically, they are far more important than the Mediterranean countries given their oil reserves. Due to their wealth, prospects for economic growth in the Gulf region are brighter than in the Mediterranean countries.²³

Nevertheless, major changes in the overall energy scenario for the Middle East are predicted for the next 25 years. The most far reaching is that natural gas may displace petroleum as the world’s single most important fuel. The International Energy Authority (IEA) estimates that gas will satisfy 27 per cent of the world’s final energy consumption by 2030. Unlike oil, which has been dominated by the Gulf States, practically all of the MPC are involved in the natural gas industry. Together, the MPCs and the GCC states will be the largest source of natural gas in the world. But the investment costs for exploration and production will be way beyond the financial and technical means of governments in the region. The IEA estimates that \$280 billion will be needed for the Middle East and \$226 billion for North Africa. The figure is so high that the IEA has expressed doubts that it will be met.²⁴

²³ F. Cameron, E. Rhein: Promoting Political and Economic Reform in the Mediterranean Region and Middle East, European Policy Centre, Issue Paper, No. 33, 2005, pp. 1-16.

The enormity of this task provides a golden opportunity for the EU and the greater Middle East to develop comprehensive region-to-region cooperation covering all the stages of production, transport infrastructure and pricing strategy of the natural gas industry.

Conclusions

The EMP has broken new ground in North-South relations between the EU and the Mediterranean countries. It has set in motion a process of inter-regional integration that has begun to open up even the most tightly closed countries in the region. And it has gained political capital for the way it has combined trade liberalisation, political reform, good governance and human development in tackling the complex problem of development. Unfortunately, however, the achievements of the first ten years have fallen far short of the EMP's stated goals. Economic stagnation, political stalemate and a widening human development deficit characterise the Mediterranean region today.

The core of the EMP was the grand design for a Euro-Mediterranean free trade area by 2010, but this is unlikely to be achieved. There has been very slow and uneven progress towards economic integration and bilateralism has not given way to the intended multilateral regionalism. The EMP has not proved to be the catalyst for South-South integration that it promised to be. It has focused more on vertical integration between the EU and the MPCs and relatively neglected horizontal integration. As a result of this intra-regional trade in the Mediterranean region has not taken off and the costs of trade diversion have outweighed the benefits of trade creation for the MPCs.

This shows that the sequencing of trade liberalisation in North-South partnerships is crucially important: *ex-ante* measures for region-building in the South must precede opening up to the North. Without investing significant resources in region-building, South-South integration will be at best a mirage, and at worst, lead to a deterioration of the current problems related to bilateralism and dependency. The EU's own model of regional integration has always given priority to internal market consolidation before external liberalisation. This has involved not only internal trade liberalisation but also "positive" integration through harmonisation of standards and regional funding to support structural reforms.

The EMP has not delivered peace in the Mediterranean region but for that it cannot be blamed as forces outside of its control were at work. The political

dialogue has been positive in opening up new avenues for exploring issues of political reform and good governance that are increasingly considered to constrain development in the MPCs. Of course, the EU has always linked democratic values with economic integration and it has successfully done this in the accession countries. But the political dialogue has been less successful in achieving domestic political reform in the Mediterranean Arab countries. Consequently, the EU is now moving away from the carrot and towards the stick approach in the ENP, by making financial assistance conditional on progress with domestic reform.

There are, however, risks involved in pursuing this strategy as a means to force structural reform on a country by country basis. The new political conditionality should not replace the old economic conditionality that was practised by the Bretton Woods institutions in their structural adjustment policies. It would be preferable for the EU to move towards an enhanced political dialogue at the multilateral level as it would be a better way of fostering a common regional approach among the MPCs. In addition the EU should use the tools that it applies itself to achieving structural reform in the "open method of coordination".

Human development is now rightly recognised as a priority in the EMP and this sensitive social area in Arab countries should benefit from the institutionalised inter-cultural dialogue. The priority of education should be reflected in EU financing to the Mediterranean, which may mean less spent on concrete projects of direct interest to European producers. But viewed from the long-term perspective of the millennium development goals it is essential for poverty reduction.

Finally, the EU should support the dynamics of "sub-regionalism" in the Mediterranean and Middle East as the most promising building blocks to achieving more transregional integration in the Mediterranean and the Middle East. Cyprus and Malta have now become EU members and Turkey is on the road to accession. The new Mediterranean partnership will consist of ten Arab countries (Libya is expected to become a full member in the near future). The special position of Israel may be resolved by a Switzerland-type of special arrangement with the EU.²⁵ Building on the dynamics of sub-regionalism, the current energy situation offers a golden opportunity for developing true region-to-region cooperation for the future.

²⁴ M. Strauss: National Gas Survey Middle East and North Africa. A Regional Overview, Paris 2005, Arab Oil and Gas, p. 19.

²⁵ A large proportion of the population of Israel are of European origin and have the right to European passports. Cf. M. Emerson: The Wider Europe Matrix, Centre for European Policy Studies, Brussels 2004, p. 29.