

# Barcelona Process- Way Ahead: A Policy Perspective from the South

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# 'Barcelona Process' and Beyond

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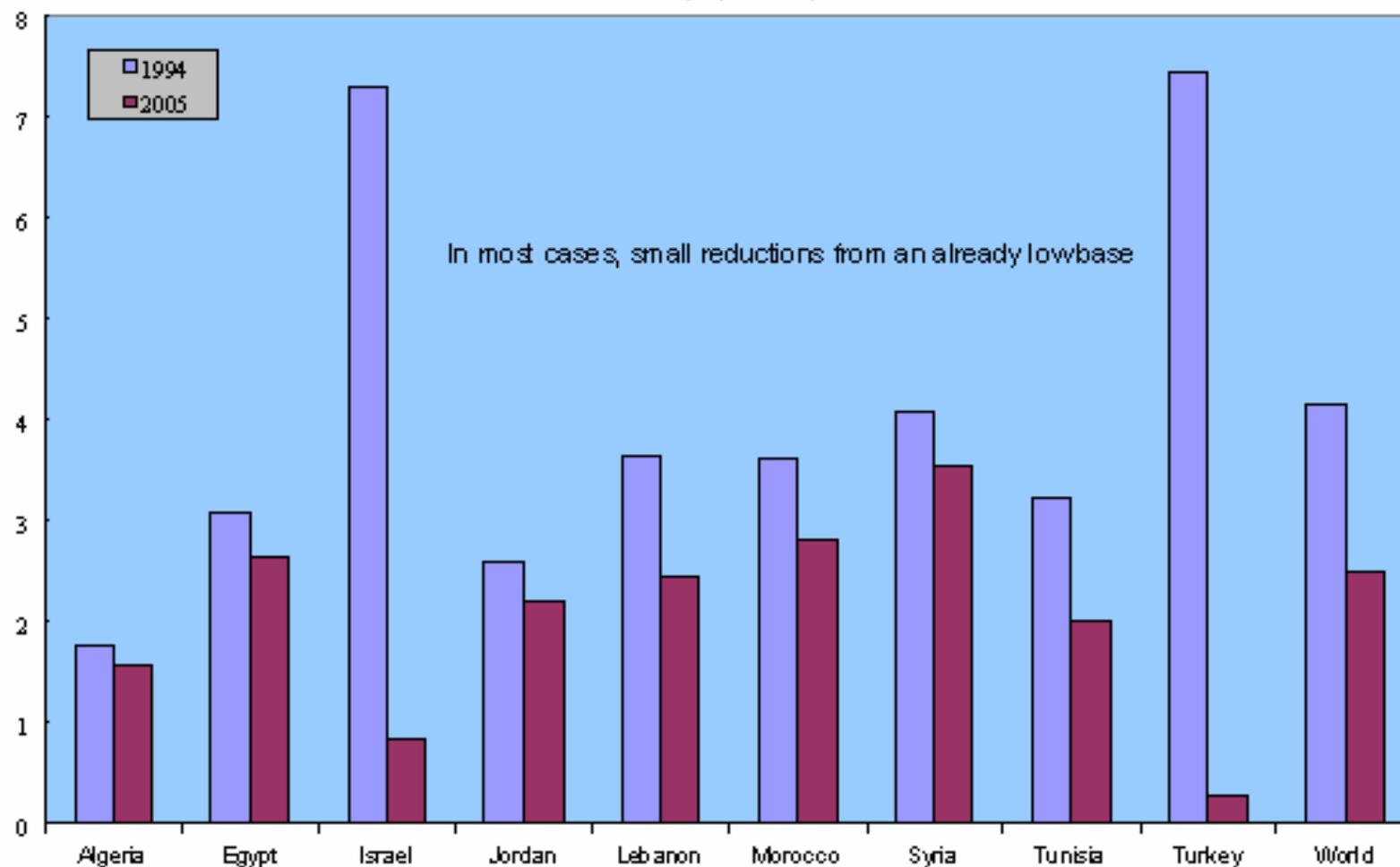
- n Historic links and common values have established proximity and interdependence
- n Regional conflicts, uncertainty & instability: requires remedial, intelligent, purposeful action
- n Create & Develop Institutional links
- n Barcelona process:
  - n Need to revise strategy, scope, approach & instruments
  - n Need to develop a monetary, payments, banking & financial market 'leg'

# Barcelona Process: Bright Promises, Dismal Performance

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- n Objective: "the construction of a zone of shared prosperity" through:
  - n Increase pace of sustainable socio-economic development in the SMPs
  - n Improvement of the living conditions of their populations, the increase in the employment level and the reduction in the development gap
  - n Encouragement of regional cooperation and integration.
- n Goals:
  - n Free Trade Area by 2010
  - n Aid package
  - n Cooperation: Energy, Water, Fisheries, Agriculture
- n 'EuroMed Association Agreements':
  - n Main economic focus is on free trade area & commercial policy

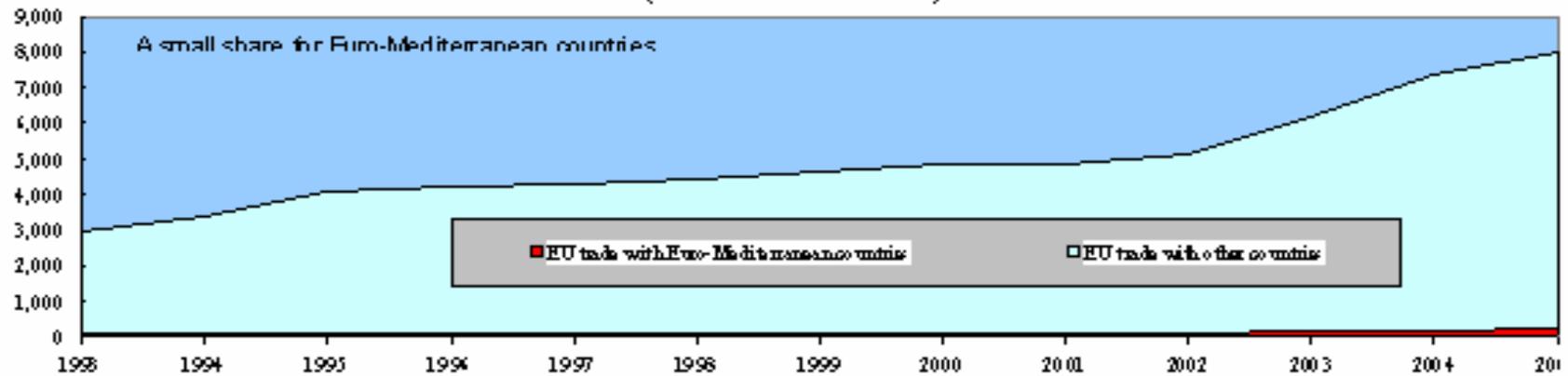
**Chart 5. EU average applied tariff rates vis-à-vis Euro-Mediterranean countries**  
(In percent)



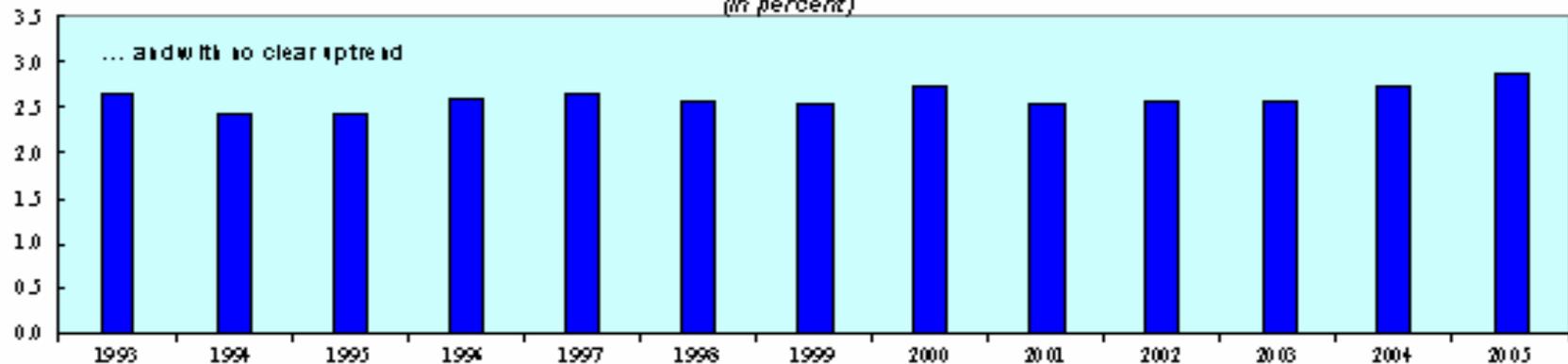
Source: World Integrated Trade Solution.

**Chart 6. EU Trade with the Euro-Mediterranean Countries**

EU trade with its Euro-Mediterranean partners and the rest of the world <sup>1/</sup>  
*(in billions of U.S. dollars)*



Euro-Mediterranean countries' share of total EU trade <sup>1/</sup>  
*(in percent)*

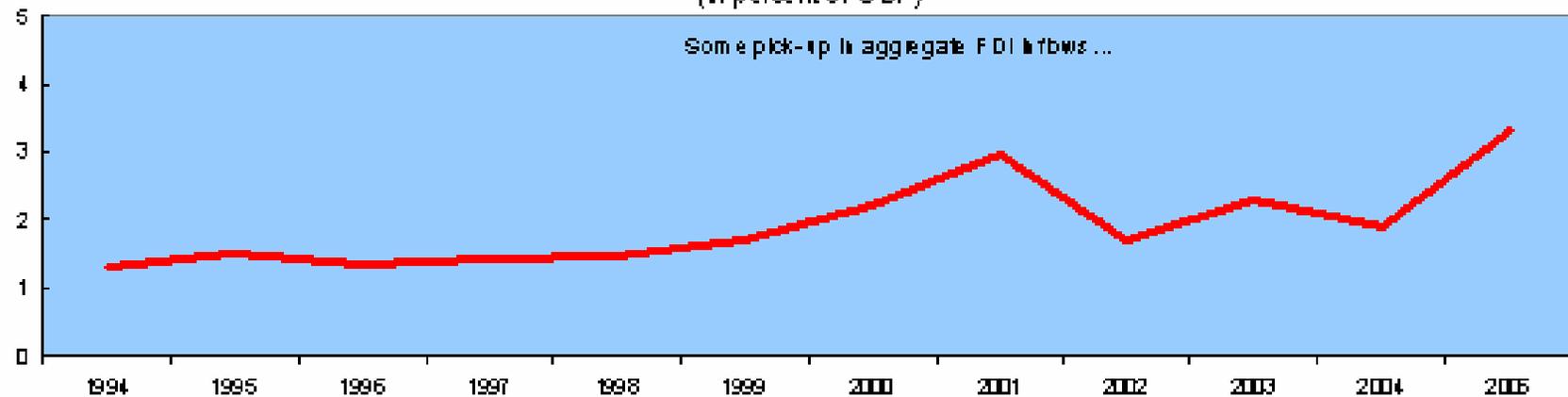


Source: MF *Direction of Trade Statistics*.

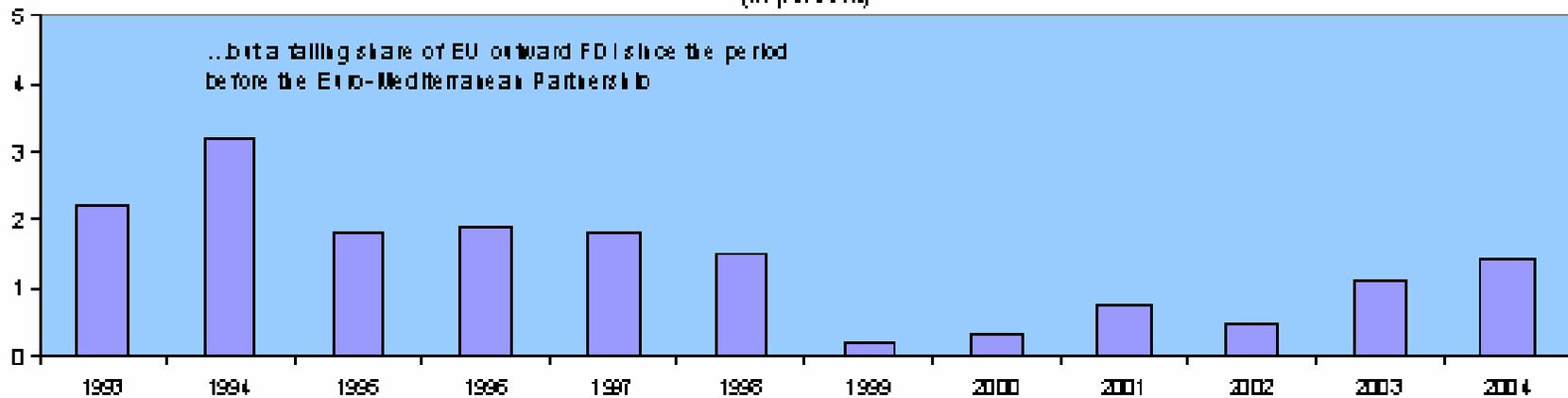
<sup>1/</sup> EU trade is the sum of total merchandise exports from and imports to the European Union.

## Chart 8. Foreign Direct Investment Inflows to Euro-Mediterranean Countries

Foreign direct investment inflows to Euro-Mediterranean countries, 1994-2005  
(In percent of GDP)

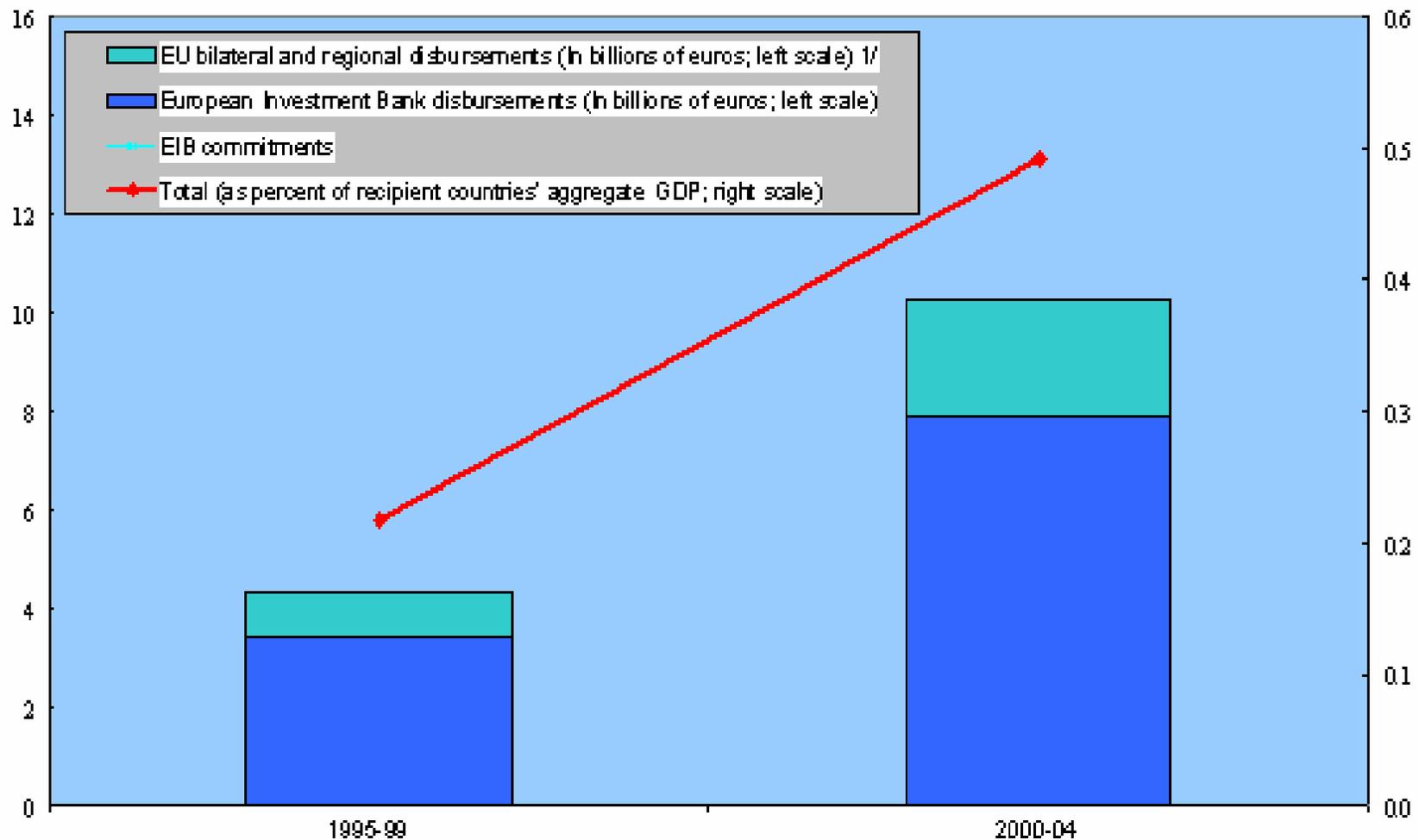


Euro-Mediterranean countries' share of EU outward foreign direct investment, 1993-2004  
(In percent)



Sources: Eurostat and IMF *World Economic Outlook*.

Chart L. EU Financial Assistance to Mediterranean Partners since 1995 <sup>1/</sup>



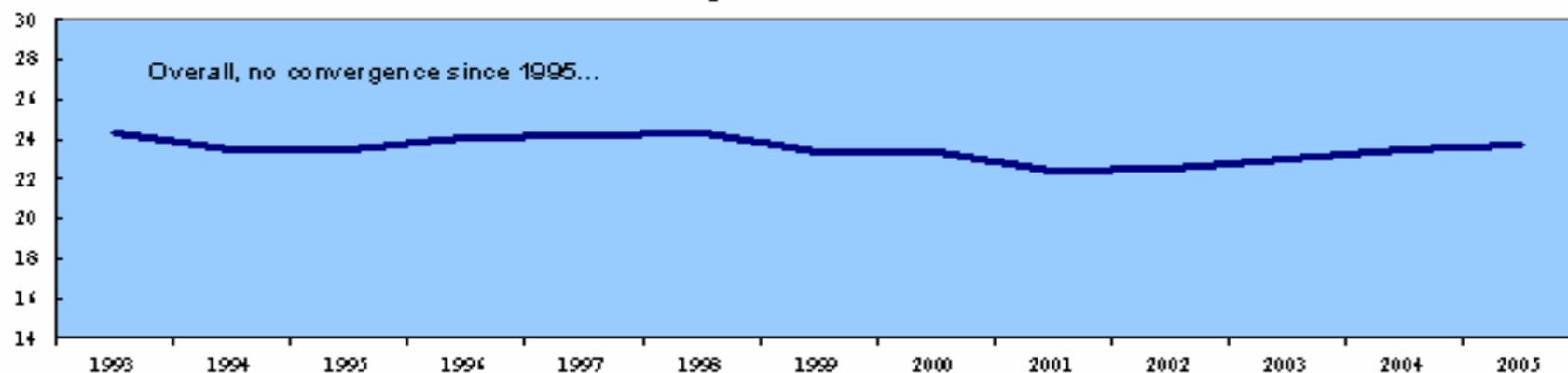
Sources: European Commission, European Investment Bank, and IMF *World Economic Outlook*.

<sup>1/</sup> Includes Turkey, which since 2001 has received assistance via a separate EU program.

**Chart 3. GDP per capita at PPP in the Euro-Mediterranean Countries**

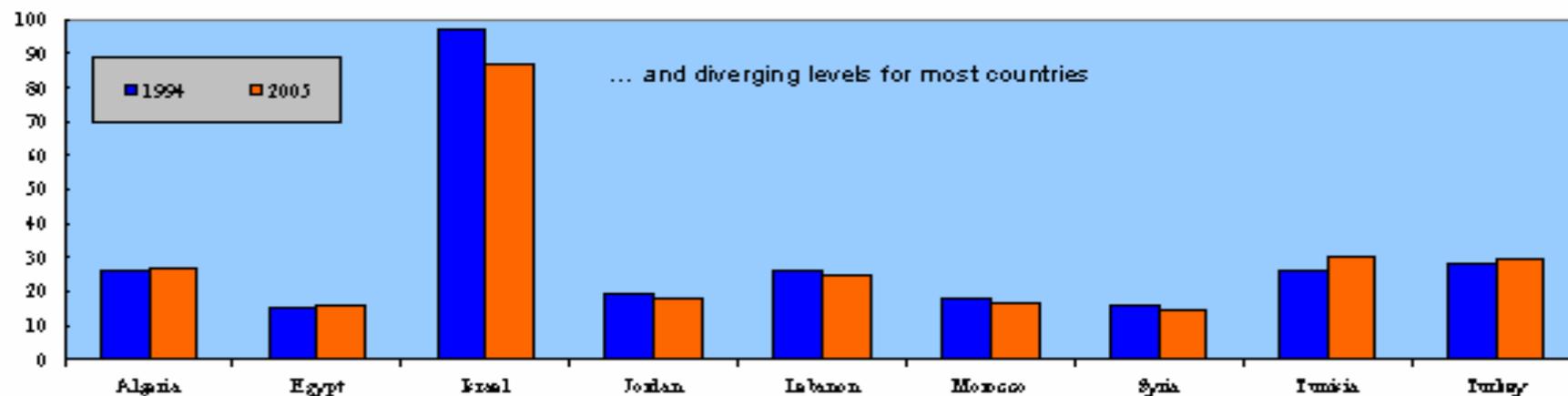
*(In percent of EU level)*

*Average across countries*



\*1/ The average level is population-weighted, excluding the West Bank and Gaza Strip, for which data were unavailable.

Levels in individual countries



Source: IMF *World Economic Outlook*.

## Barcelona Process: Bright Promises, Dismal Performance II

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- n All but one of the Euro Med countries have signed association agreements with the EU, providing for the gradual elimination of industrial tariffs and the removal of non-tariff barriers.
- n Trade agreements between Mediterranean countries have been reached: Agadir agreement
- n Main Social, Educational and Health indicators have generally improved in the Mediterranean countries, but not necessarily linked to EuroMed

# Barcelona Process: Bright Promises, Dismal Performance III

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## n Failure for multiple reasons:

- n Differences in expectations of gains from trade: SMPs viewed gains as minimal with markets opened in SMP but barriers remaining in EU
- n EU barriers:
  - n Agriculture
  - n Labour and Movement of Persons
  - n NTBs
- n Aid & TA did not deliver: small overall amounts; no leverage effects; inefficiencies of aid process

# Barriers to Euro-Arab Integration

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- n Lack of Regional Arab economic & financial integration: negative impact on market size, absence of economies of scale. Needs political will & vision.
- n No framework for private sector participation
- n Slow progress on Economic and Structural Reforms
- n Policy & Regulatory Barriers:
  - n Patriot Act
  - n AML-CTF legislation
  - n Basel Accords I & II
  - n Domestic regulatory barriers to market access
  - n Absence of legal & regulatory and governance framework for M&A and Cross-Border investment

# Non-Integration of the Arab Countries

**Globalization**

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**Trade**

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**Labour**

$\ddot{u}$

**Capital Flows &**

**FDI**

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# Moving Forward

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1. Focus on 'Deep Integration' with EU
2. Extend revised Barcelona Process and Neighbourhood Policy to GCC countries
3. Regional Integration of Arab Countries should be policy priority
4. Focus on Infrastructure Investment
5. Monetary, Payments & Capital Markets Integration

# Deep Integration with Europe?

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EuroMed Free Trade agreement insufficient:

- n Extend Trade to Services
- n Harmonization of codes & standards,
- n Legal & Regulatory harmonization
- n Institutional cooperation; what institutional set-up?
- n Relation of EuroMed and Neighborhood policy: complements or substitutes?

# Bases for Euro-Arab Integration

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- n “Demographic dividend” & “Energy Resources”
- n Private Participation in Integrated Euro-Arab Infrastructure
- n Integration and investment in ‘Networks’
- n Economic Reforms and State Divestment & Privatisation
- n Arab economic integration: GCC Monetary Union in 2010, Greater Arab FTA

Barcelona Process & Neighborhood Policy need to be extended to the GCC countries, because much of the region's wealth is in the GCC countries and they will be nucleus of Arab integration

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- n Between 2001 to 2005, the average annual growth rate of EU's trade with GCC countries was 13.2%, reaching up to 31.7% in 2005.
- n In 2004, EU was the main source of imports by GCC, and the second largest export market for GCC. Nearly one third of GCC imports came from the EU. By contrast, only 12% of exports including oil are directed to the EU.
- n In 2005, GCC ranked fifth in terms of geographic direction of EU exports. Saudi Arabia topped other GCC countries as EU's supplier of imports, while the UAE was the top destination of EU's exports to the region.

## EU TRADE WITH MAIN PARTNERS

(2005)

### The major imports partners

Partners	Mio euro	%
<b>World</b>	<b>1 174 633</b>	<b>100.0</b>
1 USA	162 926	13.9
2 China	158 040	13.5
3 Russia	106 729	9.1
4 Japan	73 039	6.2
5 Norway	67 127	5.7
6 Switzerland	66 080	5.6
7 Turkey	33 451	2.8
8 Korea	33 227	2.8
9 Taiwan	23 815	2.0
10 Brazil	23 225	2.0
11 Saudi Arabia	22 060	1.9
12 Algeria	20 729	1.8
13 Libya	19 473	1.7
14 India	18 904	1.6
15 Singapore	18 203	1.5
16 Canada	17 158	1.5
17 South Africa	16 725	1.4
18 Malaysia	15 894	1.4
19 Romania	15 289	1.3
20 WA_AO	13 743	1.2
<b>Gulf Cooper. Council</b>	<b>37 365</b>	<b>3.2</b>

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1 USA	251 291	23.7
2 Switzerland	81 913	7.7
3 Russia	56 398	5.3
4 China	51 746	4.9
5 Japan	43 655	4.1
6 Turkey	41 825	3.9
7 Norway	33 810	3.2
8 United Arab Emir.	25 281	2.4
9 Canada	23 672	2.2
10 Romania	21 804	2.1
11 India	21 101	2.0
12 Australia	20 694	2.0
13 Hong Kong	20 438	1.9
14 Korea	20 134	1.9
15 South Africa	18 071	1.7
16 Singapore	17 221	1.6
17 Mexico	16 758	1.6
18 Brazil	15 969	1.5
19 Saudi Arabia	15 429	1.5
20 WA_AO	13 484	1.3
<b>Gulf Cooper. Council</b>	<b>50 374</b>	<b>4.7</b>

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3 Russia	163 126	7.3
4 Switzerland	147 993	6.6
5 Japan	116 693	5.2
6 Norway	100 937	4.5
7 Turkey	75 276	3.4
8 Korea	53 361	2.4
9 Canada	40 830	1.8
10 India	40 005	1.8
11 Brazil	39 194	1.8
12 Saudi Arabia	37 489	1.7
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**EU Imports from ...**

Partner regions	Mio euro	%
<b>World</b>	<b>1 174 633</b>	<b>100.0</b>
<b>NAFTA</b>	<b>189 069</b>	<b>16.1</b>
Latin America	64 126	5.5
EU Candidates	57 995	4.9
EFTA	136 021	11.6
Medit. Countries*	54 667	4.7
ASEAN	70 731	6.0

**EU Exports to ...**

Partner regions	Mio euro	%
<b>World</b>	<b>1 061 013</b>	<b>100.0</b>
<b>NAFTA</b>	<b>291 722</b>	<b>27.5</b>
Latin America	54 493	5.1
EU Candidates	81 145	7.6
EFTA	119 286	11.2
Medit. Countries*	59 807	5.6
ASEAN	44 950	4.2

**Imports + Exports**

Partner regions	Mio euro	%
<b>World</b>	<b>2 235 645</b>	<b>100.0</b>
<b>NAFTA</b>	<b>480 791</b>	<b>21.5</b>
Latin America	118 619	5.3
EU Candidates	139 140	6.2
EFTA	255 307	11.4
Medit. Countries*	114 475	5.1
ASEAN	115 681	5.2

# Integrated Infrastructure basis for Economic & Financial Integration

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- n Geography & proximity, density & intensity of traffic suggest high returns to integrated infrastructure investments: standards, policies, pricing; integrated network
- n Transport: rail, road, air
- n Energy: oil & gas, electricity
- n Telecommunications & Infostructure (broadband+)
- n Payment Networks: increased use of Euro; facilitate payments & settlements in capital markets
- n Financial Market Infrastructure: integrated capital markets

# Infrastructure Projects in MENA & Private Participation

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- **The population of the MENA region is one of the fastest growing in the world. MENA region has a population of more than 415 million today, and is expected to grow to at least 833 million by 2050.**
- **Most important development challenge in the coming decade is to create enough jobs for the rapidly growing work force. The average annual growth in the labor force between 2000-10 is expected to be 3.4 percent a year, twice that in all other developing countries, with about 42 million net entrants.**
- **Rising demand for infrastructure services as a result of growing populations and changing demographics.**
- **Private sector participation is an engine of growth and can play an important part in meeting infrastructural demands of countries.**
- **Investment flows to infrastructure projects with private participation in developing countries overall grew by 12 percent to US\$64 billion in 2004.**
- **Telecommunications investments drove the growth, rising by 35 percent, while investment flows to other infrastructure sectors fell by 20 percent.**
- **Private sector participation in infrastructure projects in MENA ranked low compared to other regions.**

# Private Sector Participation in Infrastructure Projects in MENA

## Regions Ranked by Number of Projects 1990-2004

Region	Projects
Latin America and the Caribbean	1,051
East Asia and Pacific	764
Europe and Central Asia	550
Sub-Saharan Africa	245
South Asia	224
Middle East and North Africa	87
<b>Total</b>	<b>2,921</b>

# Private Sector Participation in Infrastructure Projects in MENA

## Regions Ranked by Total Investment 1990-2004 (US\$ million)

Region	Total Investment
Latin America and the Caribbean	391,042
East Asia and Pacific	199,217
Europe and Central Asia	138,705
South Asia	55,417
Middle East and North Africa	42,091
Sub-Saharan Africa	39,360
<b>Total</b>	<b>865,832</b>

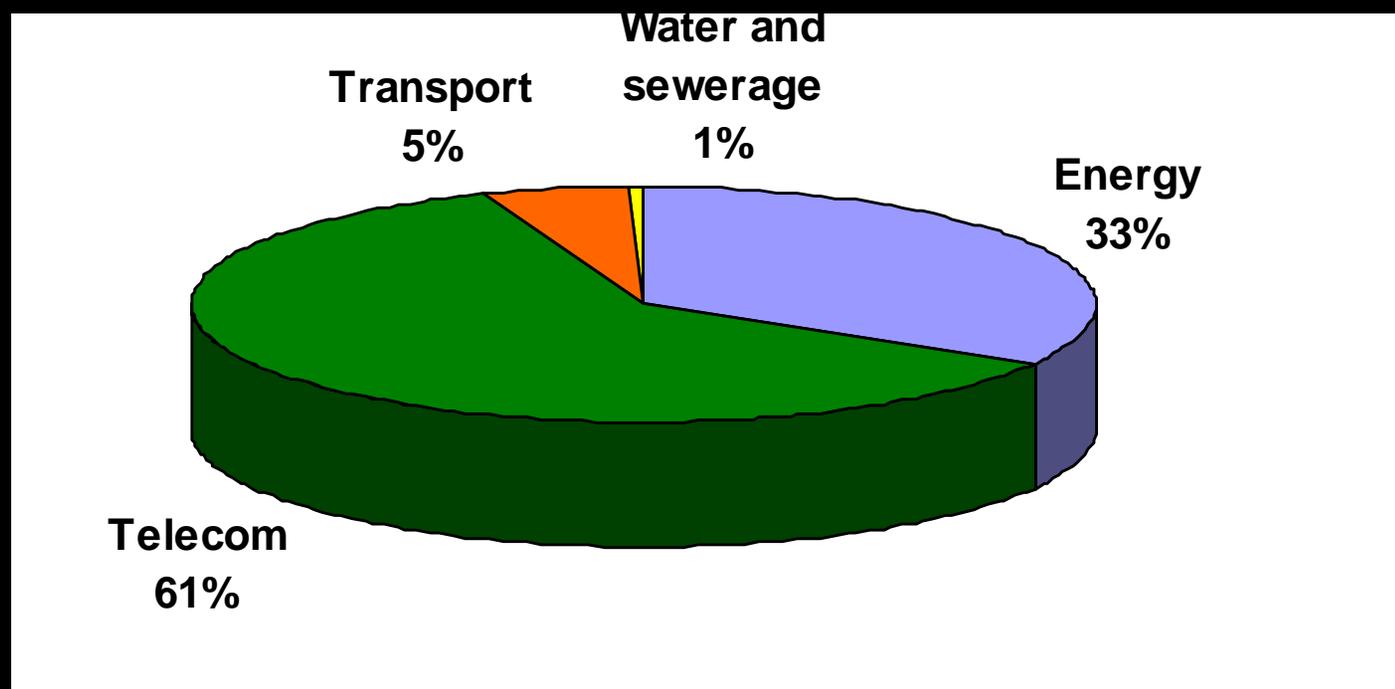
# Private Sector Participation in Infrastructure Projects in MENA

## Cumulative Investment in PPI Projects by Subsector, 1990-2004

Sector	Sub-Sector	Number of Projects	Total Investment (US\$ millions)
Energy	Electricity	19	10,814
	Natural Gas	4	3,177
	<b>Total Energy</b>	<b>23</b>	<b>13,991</b>
Telecom	Telecom	34	25,633
	<b>Total Telecom</b>	<b>34</b>	<b>25633</b>
Transport	Airports	8	588
	Railroads	1	182
	Seaports	14	1,460
	<b>Total Transport</b>	<b>23</b>	<b>2,231</b>
Water and sewerage	Potable Water	3	189
	Potable Water and Sewerage	3	10
	Sewerage	2	38
	<b>Total Water and sewerage</b>	<b>8</b>	<b>237</b>
<b>Grand Total</b>		<b>88</b>	<b>42,091</b>

Source: World Bank, PPI Project Database

## Total Infrastructure Projects with Private Participation by Sector in MENA, 1990-2004 (US\$ million)



**Total \$ 42 billion USD**

# Euro-Med Gas projects



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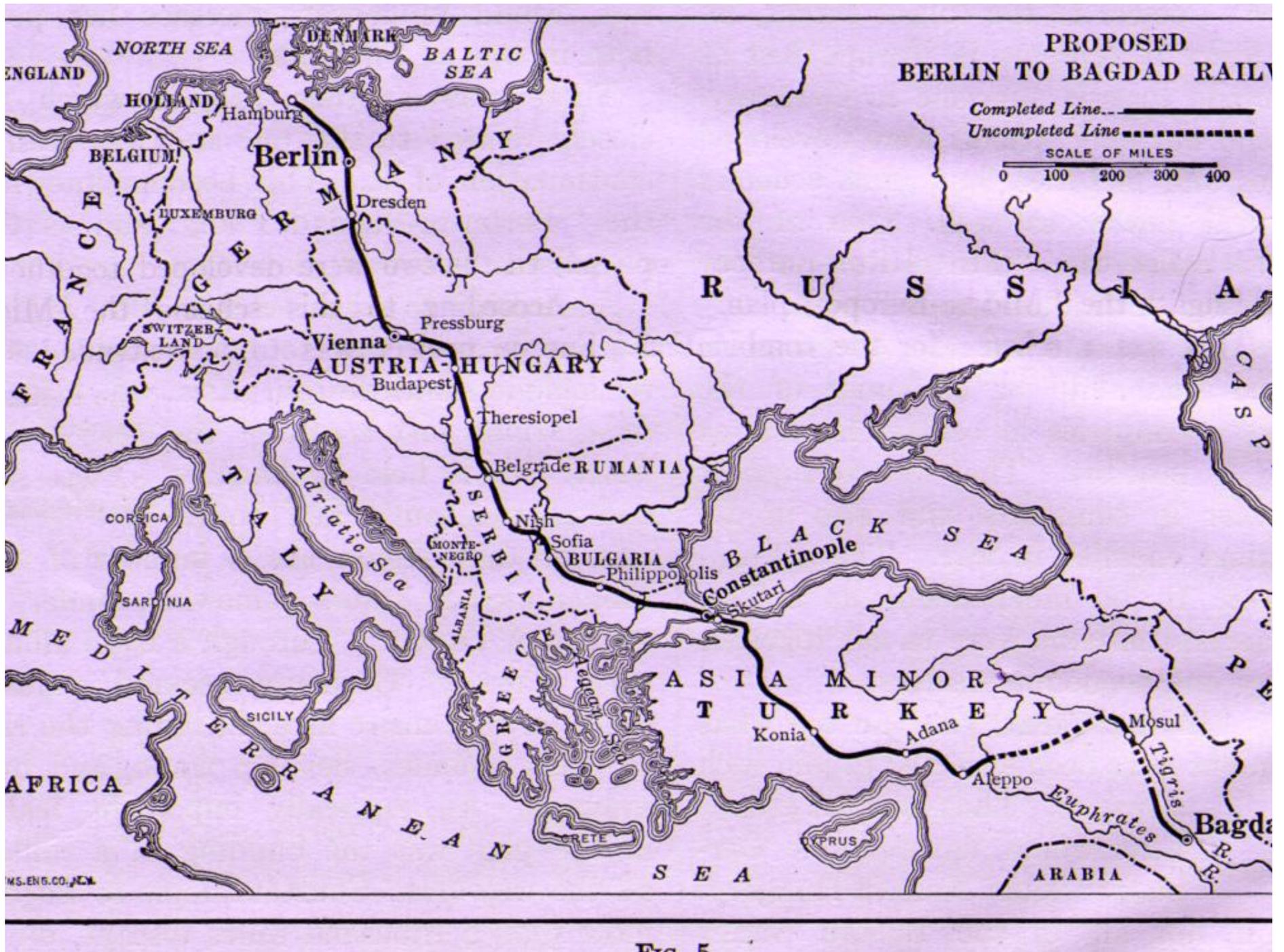


FIG. 5

# Hejaz Railway Damascus –Medina



# Integration & Financing: a symbiotic tandem

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- n Economic integration requires creation of major financing mechanisms and institutions: not successful otherwise**
- n Set-up a Euro-Arab Reconstruction and Development Bank or Facility (co-partnered with EIB) with co-financing from the region**
- n Financing for Infrastructure, Structural reforms, transition**
- n Central lesson from the EIB experience is the importance of a large and dynamic public bank to support integration and convergence processes.**

# Remove Barriers to Prosperity

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- n Act to reduce Conflicts & Violence:
- n Focus on Public and Private Corporate Governance
- n New Development Model:
  - n **'Bank the demographic dividend'**: education, infrastructure, housing, ICT, water
  - n **Invest in Knowledge & Technology**
  - n **Achieve Economic Diversification**
  - n **Focus on Private Sector as engine for growth**
  - n **Focus on Regional & International Integration** into global goods, services, and factor markets

# Way Forward

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- n **'Deep Integration' required: services, standards, laws & regulations : 'acquis communautaire'**
- n **EU has to break down barriers:**
  - n **agriculture, labour flows, NTBs**
  - n **Cumulation of rules of origin**
- n **Avoid 'hub-spoke' effects:**
  - n **Invest in regional infrastructure**
  - n **Payment system integration**
  - n **Financial system integration**
- n **Instruments:**
  - n **Neighbourhood Policy to be extended to GCC countries**
  - n **EIB focus on regional infrastructure serving economic integration of the Arab countries and links to EU: build networks**
  - n **Investment in Logistics as main enabler of trade and to lower cost of doing business**

# Barcelona Process: New Strategy

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1. Regional economic & financial integration to develop markets and create the potential for increased specialization and potential benefits from economies of scale and scope
2. Extend 'Neighborhood Policy' to GCC
3. Focus on Financing Regional Infrastructure
4. Focus on Governance of Banking and Financial Services
5. Develop the Capital Markets and their international integration
6. Focus on 'Deep Integration' with EU