

EuroMed Economic Cooperation & Governance

Dr. Nasser Saidi

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Barcelona Process

- 10th Anniversary; what achievements; where do we go?
- Have EuroMed AA yielded the expected benefits to peoples of region?
- Trade in goods not solution to integration
- Objectives-Programs-Tools
- Reforms & new Institutions necessary for governance

Changing Geo-Political & Security

- Security: May 2000, Intifada, Sept 11 2001, war on Afghanistan, war on Iraq
- EU enlargement and new members: impact on Med country trade, investment & econ relations
- Single market
- New Constitution
- Single currency

Integration requires Framework for Private Sector Participation

- Trade: goods & services (latter fastest growing)
- Investment: direct & capital flows
- Labor: Med countries labor exporting
- Laws, regulations & institutions
- Privatization & reduced role of the State
- EuroMed AA: leading to hub-spoke effects; low tech industries migrating to low wage countries; industry relocation not permanent or sustainable
- Engage private sector & civil society

Integrated Infrastructure basis for Economic Integration

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

Regional Public Goods

- Integrated infrastructure in EuroMed area should be considered a RPG.
- Regional security, resolution of Arab-Israeli conflicts should be considered Global Public Good

Deep Integration

- Harmonization of standards, rules and regulations, laws
- Institutional cooperation; what institutional set-up?
- Relation of EuroMed and Neighborhood policy: complements or substitutes?

EuroMed AA

- Focus on Free Trade in goods reflects economic thinking of early 1980's
- Reform of AA to include: trade in services and investment facilitation
- Must address labor movements, NTBs
- Reform of EU agriculture policy & trade
- Expand to include GCC and neighboring countries

EuroMed vs. Multilateral Opening & liberalization

- Med & Arab countries face a menu of policy choices: GAFTA, ASEAN, WTO
- EuroMed is an example of a regional FTA: pros & cons
- EuroMed cooperation should be a means not an end
- Med and Arab countries have to pursue: entry WTO, creation of regional single market through GAFTA implementation

Integration & Financing: a symbiotic tandem

- Economic integration requires creation of major financing mechanisms and institutions: not successful otherwise
- Set-up a EuroMed Reconstruction and Development Bank (co-partnered with EIB) with co-financing from the region
- Financing for Infrastructure, Structural reforms, transition
- Central lesson from the EIB experience is the importance of a large and dynamic public bank to support integration and convergence processes.
- The EIB was intended as a source of relatively cheap interest loans and guarantees which would facilitate the financing of: “(a) projects for developing less developed regions; (b) projects for modernizing or converting undertakings or for developing fresh activities called for by the progressive establishment of the common market; (c) projects of common interest to several member states, which are of such size or nature that they cannot be entirely financed by the various means available in the individual member states” (Treaty of Rome, Article 130).
- The EIB was therefore created especially as a Bank to support the European integration process.

EuroMed R & D Bank

- Capital markets were incomplete and underdeveloped, so there was a strong case – both theoretically and politically- to deal with such market imperfections through the creation of a public bank that would help channel savings from the more developed parts of the Community to the less developed parts, and that would also help integrate European infrastructure to support trade integration.

FEMIP

What is FEMIP?

- Established following the Barcelona European Council (March 2002), the EIB's FEMIP (Facility for Euro-Mediterranean Investment and Partnership) accords special priority to the development of private-sector economic activity and to projects contributing to the creation of a favourable climate for private investment. Its aim is to assist the Mediterranean Partner Countries (MPCs) in meeting the challenges of social and economic modernisation and improved regional integration, looking ahead to the Euro-Mediterranean free trade area planned for 2010.
- FEMIP represents a major development of the Euro-Mediterranean Partnership. The Council's decision to entrust the EIB with strengthening the financial component of the Euro-Mediterranean Partnership was grounded in the EIB's long-standing experience in the MPCs: between 1974 and 2001, the Bank lent a total of EUR 12.6 billion in these countries. FEMIP's objectives are:
- Extensive involvement of the MPCs in FEMIP policy with the creation of the Ministerial Committee Meetings and opening of regional offices in the Mashreq and Maghreb countries;
- Primary focus on development of a wealth and job-creating private sector;
- Promotion of investment in human capital;
- Greater technical assistance for the design of quality projects and the process of economic reform in the MPCs;
- Deployment of innovative financial products and risk capital;
- Gradual increase in the annual volume of EIB activities in the MPCs from EUR 1.4 to 2 billion.
- By 2006, the EIB plans to invest between EUR 8 and 10 billion in the MPCs via existing Mediterranean lending mandates, risk capital resources from the EU budget, as well as technical assistance and investment aid funds provided by the Union.
- FEMIP is implemented by the EIB in close cooperation with all participants in the region's development: the European Commission, the banking community in Europe and the beneficiary countries, World Bank, IFC, AfDB, and other multilateral and European bilateral development finance institutions.

FEMIP

- In 2003, the first full year of activity since the launch of the Facility for Euro- Mediterranean Investment and Partnership (FEMIP), lending in the 10 Mediterranean Partner Countries (MPC) reached the record figure of almost Euro 2.1 billion, confirming the Bank's position as a major player in fostering the region's economic development and stability.
- *Focus on the private sector and infrastructure*
 - · EIB activity in the Mediterranean region reflects the high priority accorded to FEMIP's objectives: more than one third of operations directly promoted the growth of private businesses, through support for foreign direct investment (Turkey, Tunisia) or joint ventures resulting from cooperation between MPC promoters (Algeria), or through SME financing via creation of a regional venture capital fund.
 - · Loans also targeted infrastructure projects, including in the energy and environment sectors, underpinning private sector development in Morocco, Algeria, Egypt, Lebanon and Syria.
- FEMIP represents a major step forward in economic and financial cooperation between the Union and the MPC. Its priorities include:
 - · Extensive involvement of the MPC in FEMIP policy-making through the holding of ministerial-level meetings (Policy Dialogue and Coordination Committee –PDCC) and opening of regional offices;
 - · Development of the private sector;
 - · Promotion of investment in human capital;
 - · Greater technical assistance;
 - · Deployment of innovative financial products and risk capital;
 - · Gradual increase in the annual volume of EIB lending in the region.
- In December 2003, the Brussels European Council decided to augment FEMIP, by means of a number of measures in support of private sector development:
 - · Allocation of a maximum of 200 million from the Bank's reserves to the expansion of risk-sharing operations up to 1 billion, and better structuring of lending to mitigate private sector risks (special FEMIP envelope);
 - · Improved dialogue on the structural reform process to enhance the environment for private sector activity.
- A decision on whether to incorporate an EIB majority-owned subsidiary dedicated to the Mediterranean Partner Countries will be taken in December 2006 on the basis of an evaluation of the reinforced FEMIP's performance and taking account of the outcome of consultations with the Barcelona Process partners.

Economic & Structural Reforms

- Objective to restore growth and reduce barriers to investment: implement deep reforms
- Reduce disparities between countries of region and favor development of poorer countries: need to reduce and address poverty & lack of development; answer to security issues and risks
- Address cost of doing business
- Reduce size of the State
- Governance issues; private & public
- Barriers to growth: Oil (GCC), Oil non-GCC, non-oil
- Investment climate

Governance

- Arab & Med countries lagging (recent data)
- Governance (public, private) issues underlying lack of economic performance
- Adoption of EU 'acquis communautaire' and moving towards 'deep integration' should be part of the program for improved governance
- EU to engage in dialogue with both governments, civil society & business

EuroMed: Need a Revitalized Barcelona Process

- Build institutions
- Regional Infrastructure investments
- Expand AA to include countries of the GCC and Yemen, others
- Promote regional Med & Arab integration
- Call for a major conference