The Barcelona Process
The European Union Agreement and the "Economy of Fear": the Road Ahead[*]

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I am honoured to be with you at this meeting dealing with a number of economic issues and policies that are of strategic importance for the future of our economies. This talk comes on the eve of the sixth anniversary of the Barcelona Declaration of November 1995. The Barcelona Declaration marked a turning point in the relationship between the EU and the Mediterranean countries. The Declaration outlined, set the framework for the future of relations between the 15 partners of the European Union (EU-15) and the 12 Mediterranean potential partner countries (MPC-12)[1]. The Barcelona framework, initiated a process of programmes and institutions, of policies with the stated aim of creating a zone encompassing the Maghreb, the Mashrek and Turkey, of shared peace, stability and prosperity. The Barcelona process calls for a new and comprehensive partnership covering economic, financial, social, human, cultural, security and political matters. Six years on, it is appropriate to examine the extent to which the stated objectives have translated themselves into achievements, to examine the progress, and to reconnoitre the road ahead[2].

Six years on the EU is continuing on its own dynamic process of structural change. The EU is in the midst of an enlargement that would add thirteen new members[3]. The proposed enlargement would have deep economic, social, and cultural as well as strategic consequences for the EU, given the nature of the economies, the population numbers, demographic and other characteristics of the candidate countries. The enlargement of the EU will also have important effects on the relations between the Arab countries, the Mediterranean countries, the MPC-12 partners, and the EU. It is important, at this juncture, to assess, if only in a preliminary way, the potential consequences of the EU's enlargement on the Barcelona process and its policy instruments.

The other elements that are looming large over regional issues and indeed on a global scale are the consequences of the September 11, 2001 terrorist attacks on the US.

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[1] The MPC-12 includes: Algeria, Morocco, Tunisia, Egypt, Jordan, Lebanon, Syria, Israel, the Palestinian Authority, Cyprus, Malta and Turkey.

[2] The European Commission has undertaken a comprehensive (and occasionally self-critical) assessment and evaluation in, "**The Barcelona Process, five years on**", **1995-2000**, European Communities, Luxemburg, 2000.

[3] Candidate countries are: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia and Turkey.

Certainly, the talk I give today is different from what I had planned when you invited me to speak two months ago. A "new" type of war has been declared, that is planned to be all encompassing. Beyond the military and security domains, the "war on terrorism" encompasses economic, financial and banking activities and their linkages to social and cultural activities, to all aspects of civil life. Indeed, security concerns have been given preponderance and over-shadowed other issues. Both market and policy reactions to the terrible events of September 11, 2001 portend a slowing down if not an end to the globalisation trend that dominated trade and economic activity during the 1990's. The exuberance of international and national financial markets, the unprecedented expansion in international trade in goods and services, the rapid technological change in information and communication and media technology, were engines of growth during the 1990's. Looking ahead, recent developments -before as well as after September 11, 2001- suggest that the above-mentioned factors will not play the same role. Some observers have even suggested that we have moved into an "economy of fear"[4]. Our region of the world appears to be in the "maelström" of the "new war", leading to increased uncertainty about economic, social and financial outcomes.

We are now living in the danger that security concerns will become overwhelming, that the syndrome of the "economy of fear" will dominate markets and economic activity. The main message of this talk is that the enlargement of the EU, the redrawing of Europe's map and the "new war" call for, require, decisive, pro-active policies, a strong reinvigoration of the Barcelona process[5]. **We should seize the historical, strategic opportunity created by hazard, by the deadly events of September 11, 2001 to create a zone of peace, stability and prosperity, to initiate policies and generate conditions of life that address the root causes of violent conflicts and terrorism, not its manifestation and its symptoms**. In the words of a recent briefing note to the European Parliament: "A proactive policy towards violent conflicts requires the EU to shift its focus from crisis management to conflict prevention, including structural preventive measures. A successful policy requires the EU to increase its efforts to systemically tackle structural problems i.e. root causes of conflict, in particular poverty and undemocratic rule"[6].

My discussion today will fall in three parts. I will, briefly, mention some facts concerning the economic relations between the EU-15, the MPC-12 and focus on Lebanon. The second section discusses the objectives of the Barcelona process and its main policy instrument, the proposed Association Agreements. Again, the perspective is from a Southern Mediterranean perspective, from Lebanon's perspective. The third part discusses issues relevant for drawing a road map for the future.

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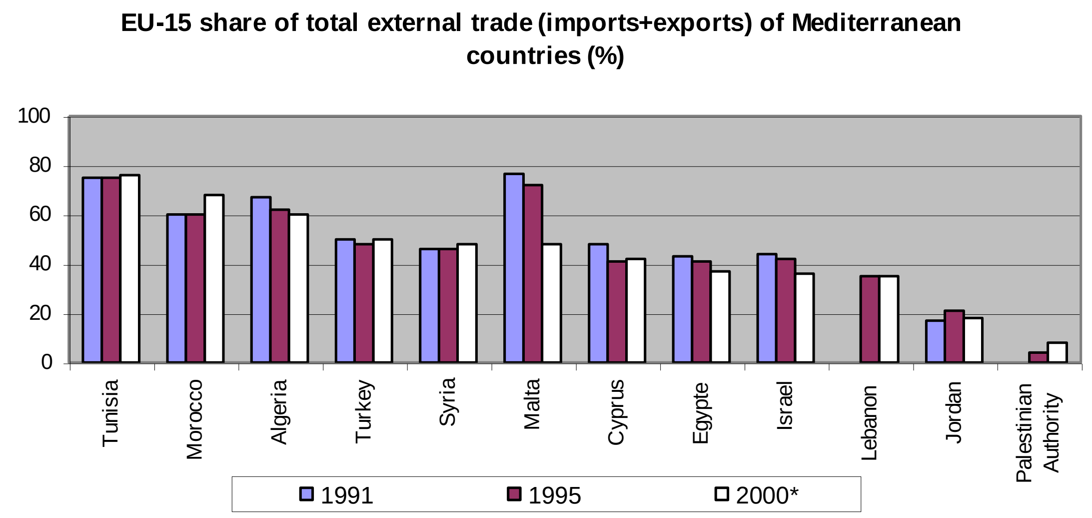
[4] See Paul Krugman's essay, in ***The New York Times***, September 30, 2001.

[5] This is also the call made at an earlier date by European Commission and by Rt. Hon. Chris Patten in his speech at the ***Joint debate for the Mediterranean and reinvigorating the Barcelona process***, European Parliament, Brussels, 31 January 2001.

[6] See "***Instruments of Conflict Prevention and Civilian Crisis Management Available to the European Union***", STOA, Briefing Note No.1/2001, European Parliament March 2001.

Trade, Aid Economic relations

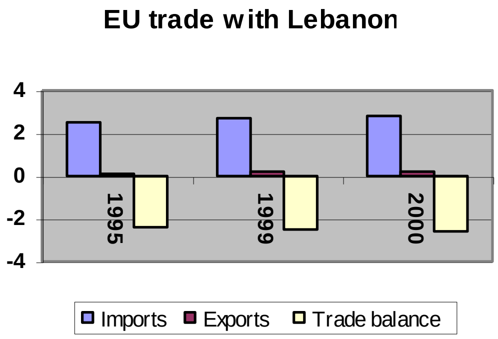
The EU-15 is the main trade partners of the MPC-12, accounting for more than 45% of their total trade[7]. The Maghreb countries and Malta are geographically the closest and the most reliant, with more than 60% of their total trade with the EU-15. For the Mashrek countries -which are also less open economies- trade with the EU-15 represents some 40% of their total trade, with Syria being *more* dependent on trade with the EU than Lebanon.

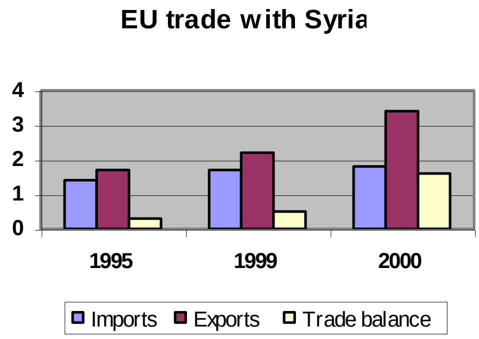


Source: National statistical Institute of Mediterranean Countries
** Figures for Palestinian Authority refer to 1999.*

Despite a slight fall back in trade relations over the past decade, the EU-15 remain the major provider of MPC-12 imports, their share out of the total for the period 1991-2000 averaging more than 60%. This concentration of trade is also true of exports: the EU-15 countries constitute the main destination for MPC-12 exports with an average share of about 68% over the same period.
By contrast, the Mediterranean region has not increased in importance in terms of the EU's foreign trade. The MPC-12 share of the EU-15 total imports was about 6% (over which Lebanon: 0.3%), and about 9% of total exports (over which Lebanon: 3.2%), less than the shares of the EFTA countries, the Candidate countries or the USA. Lebanon's share of the EU-15 total imports was about 0.02%, and about 0.3% of total exports. The Mediterranean countries have not been able to gain wider access to the EU's growing markets (domestic or external), reflecting weak external competitiveness in the MPC-12, continued protective barriers, in particular non-tariff trade barriers (NTBs) in the EU-15, and that the full impact of the Association Agreement is not expected before the realization of the EuroMed free trade zone in 2010.

[7] See the recent statistical review in S. Quefelec: ***EU-15 and the 12 Mediterranean Partners: solid trade links***, Statistics in Focus http://europa.eu.int/comm/eurostat/Public/, July 2001.





Source: EU-15 and the 12 Mediterranean Partners: solid trade links, Statistics in Focus, July 2001.

Hence, despite the initiation of the Barcelona process, trade has not expanded between the Mediterranean countries and their EU trade partners.

An evaluation and assessment of the EU's aid and cooperation programme, 'MEDA I', a major policy instrument for the Barcelona process has led to substantial reform measures. 'MEDA I' committed Euro 3,435 million in financial aid and grants for the period 1996-2000. However, effective implementation and payment amounted to Euro 890 million, or only 26% of commitments, with large disparities in implementation rates across countries. 'MEDA II' proposes an increase to Euro 5,350 million, internal Commission reform, increased linkage with implementation of the EuroMed Association process and institutional reform through the set-up of EuropeAid.[8] These concrete reform measures should raise the implementation rate, delivering more of the Barcelona process intentions to the partner countries. It is important that the Barcelona process deliver and visibly to the populations of the existing and potential partner countries.

Clearly, whatever may have been "les bonnes intentions" of the original architects of the Barcelona process and subsequent political and budgetary decisions; the results and implementation rates of the MEDA programme are below expectations. Clearly, "things must be done differently" if cooperation and the partnership agreements between the EU and the Mediterranean countries are to prove successful.

The Barcelona Process and Association Agreement[9] [10] with Lebanon

The proposed Lebanon-EuroMediterranean Association Agreement (LEMAA) is currently being finalized. The LEMAA replaces previous preferential trade agreements and protocols dating back to 1972. Lebanon is in the process of opening-

[8] See the review and evaluation of the MEDA programme in http://europa.eu.int/comm/external_relations/reform/intro/ip_00_1535.htm

[9] For further discussion, see N. Saidi, "*Lebanon and the European Union at the Cross Roads: An Interim Assessment of the Partnership Agreement*", chapter 2 in **Pathways to Integration, Lebanon and the Euro-Mediterranean Partnership**, The Lebanese Centre for Policy Studies, 1997. H. Ghesquire, provides a survey for the MPC in "The Impact of European Union Association Agreements on Mediterranean Countries", chapter 11 in Macroeconomic Issues and Policies in the Middle East and North Africa, edited by Z. Iqbal, the International Monetary Fund, Washington, D.C. 2001.

[10] For a useful and comprehensive guide to the EU Partnership Agreements, see "***Information Notes on the Euro-Mediterranean Partnership***", http://europa.eu.int/comm/external_relations/

up its external sector and implementing a policy of trade liberalization. Since April 1999, it has observer status at the WTO and presented (in May 2001) its Memorandum on the Trade Regime, a stepping-stone on the road to entry. The proposed LEMAA would dismantle tariffs to establish a free trade zone over a twelve-year transition period, with exceptions for some agricultural and agro-industrial or processed goods.

Reflecting the production structure of the Lebanese economy and by contrast with all other EMAA, the AA also calls for **liberalization of services** between the EU and Lebanon. Indeed, Lebanon has a liberal regime for the rights of establishment[11] and can gain from the liberalizing of the services sector. EU companies would receive national treatment in Lebanon, while Lebanese companies would receive MFN in the EU. This would favour the setting up of EU companies to benefit from Lebanon's important relations and linkages -financial, economic, social, cultural and political- with the Arab world. A recently passed investment law will also favour investment by facilitating the obtaining of licenses[12]. This would reinforce Lebanon's aim to be a regional hub for services.

The LEMAA will have an important impact on a number of economic sectors, notably agriculture, industry and the agro-food industry. These sectors will require a *mise à niveau*: an upgrading of the physical capital stock, the re-capitalization of companies, modernization of equipment and the adoption of international norms and standards, in order to compete in the EU market and internationally. The cost, including the provision of infrastructure services could run to about 1% of GDP over a five- year period. An Industrial Modernization Programme (with financing of Euro 11 million) was signed with EU in June 2000 to assist in the upgrading of Lebanese industry.

The LEMAA will also have a substantial fiscal revenue cost for Lebanon, given the extent of trade with the EU-15 (more than 45% of imports), and the dependence on revenue from customs (about 47% of total revenue). It is estimated that the loss of fiscal revenue could amount to about 4.5% of GDP by the end of the trade liberalization period. This cost and loss of revenue could be higher if there is substantial trade diversion towards the EU, and as EU-15 enlargement proceeds to include the candidate countries. To part compensate for the loss of revenue and as part of a wider effort at fiscal and tax reform, Lebanon intends to introduce a broad-based tax, VAT, by 2002.

For Lebanon, the main benefits and fundamental importance of the LEMAA will come from the wider domestic, legal, regulatory and institutional reforms that will modernize the economy and society and enable it to strengthen its international competitiveness, and from the higher investment rates that will raise total factor productivity. The dynamic gains from the Association are likely to be more important than the static gains.

The LEMAA will be favourable if it generates substantial inward investment into productive, export-oriented goods and services activities. It will signal to investors, domestic and foreign, a commitment to deep and widespread economic and financial reforms, that will modernize, de-regulate and liberalize trade (domestic and foreign)

[11] That is the freedom to set up and engage in foreign direct investment and receive treatment as a national.

[12] See the site of the Investment Development Authority of Lebanon, for more information, IDAL.

and economic activity. This "signalling effect" of initiating the LEMAA and the deeper reforms required for entry into the WTO[13] will enhance the credibility of the national authorities as they seek to reconstruct and modernize Lebanon.

The LEMAA will need to be supported by policies that will reduce the costs of adjustment, enhance the transfer of technology, and invest in human capital geared to the new information, communication, and telecommunications and media technologies (NICTM). The responsibility will be on the EU acting in true partnership to provide substantial financial aid and cooperation, and create conditions that will encourage EU companies to invest in Lebanon.

Challenges and Reforms: The Road Ahead

The Barcelona process, the Association Agreements and other policy instruments and institutions are of strategic and structural importance to both sets of partners. The Mediterranean countries are facing the challenges of a faster pace of globalisation and trade liberalization in goods and services. These challenges add new dimensions to the EuroMed aid cooperation and development. Promoting private sector flows to the region necessitates the reduction of the risk factors conducive to private investment. Apart from the over-riding element of reducing political and security risks, the improvement of the trade and investment environment should be at the core of the strategic objectives of MEDA financing for the next five years.

To move forward, there are a number of milestones and *dossiers* that must be addressed. This is not the forum for an extended discussion of the effects of EU policies on its Mediterranean partners[14]. Briefly, success in achieving Barcelona objectives as well as successful EU enlargement requires fundamental changes in three EU major policy areas. Specifically, **what is required is the adoption by the EU of market oriented economic policies, concerning the agricultural sector, commercial policy and the labour market.**

- Deep reform is required of the high cost and distortion-prone ***Common Agricultural Policy*** (CAP). The Mediterranean countries and the countries of Eastern and Central Europe have a comparative advantage in agriculture and in food production. The CAP has to be reformed to allow those countries to specialize in agriculture and food and export them to the EU. This would be first-best policy, a win-win situation for all parties[15].
- ***EU Migration policy*** needs fundamental review and correction. The EU requires immigration in order to realize the full benefits of the single currency that hinge on free labour mobility, the Euro to stabilize old-age dependency ratios and address the solvency of social security systems. The policy implication is that the EU needs to encourage not discourage and control immigration from the labour surplus, human capital exporting countries of the Mediterranean in order to help support its ageing populations.

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[13] A large number of laws (up to 17) will need to be passed or amended.

[14] See N. Saidi, **Aid, Trade and Cooperation and the EU: "Things Must Be Done Differently" to Rescue the EuroMed Partnership. *Mare Nostrum, Mare Pacifica*?"**, paper presented at the "Euro-Mediterranean Meetings: past, present and future in the relations Syria/EU", Damascus, March 2001.

[15] There is increasing realization by the EU Commission of the need for action on the issue of agriculture; see the European Parliament speech by Chris Patten, 31 January 2001. http://europa.eu.int/comm/external_relations/news/patten/speech_01_49.htm

- Finally, it is clear that the **EU's trade policies need reform** in order to allow greater access to the goods originating in the Mediterranean countries. In particular, a major effort has to be undertaken to amend **non-tariff barriers to trade**. EU product specifications, norms and standards (health, phyto-sanitory, environmental and other) are protectionist trade practices and trade-distorting devices. A transition period and assistance is required to help the Mediterranean countries adapt and conform to EU norms and standards and product specifications.

The Mediterranean Partner Countries and the Arab countries will need to implement substantial and comprehensive reforms. The policy agenda is full:

- Complete the negotiation, signing and ratification of the Association Agreements. These must be accompanied by deep economic and financial reforms in Lebanon and other Mediterranean partner countries. The objective should be to increase productive investment, both domestic and foreign, in order to raise productivity growth and enhance competitiveness.
- **Well-targeted reform oriented programs** should focus on the following:
  - Harmonization of laws, regulations and standards in a structured and systematic manner
  - Modernization of the competition policies and anti-trust frameworks, and the establishment of regulatory authorities responsible for fair-trading and services delivery.
  - Development of the banking and capital markets in the Southern Mediterranean and their integration with the EU's markets**,** through the modernisation of banking and financial laws, adoption of modern financial infrastructures, and linkages to the EU markets.

- **Promote Regional Economic Integration**. We must minimize the potential of trade diversion and "hub-spoke" effects, whereby activity and production would locate in the EU and the MPC would merely be the consumption markets. The EU has put regional integration high on its agenda and has confirmed its commitment for greater support to the efforts made to strengthen ties and deepen **South-South economic integration in the Marseilles declaration[16].** This emphasis on regional cooperation has to be translated into concrete actions. The Arab countries must accelerate the implementation of the multilateral trade agreement, the **Greater Arab Free Trade Area (GAFTA)** that is projected for 2007. Regional economic integration and trade liberalization can lead to the realization of economies of scale and increased competitiveness. GAFTA should be realized in parallel with the creation of an **Arab Common Market**. The wealth of knowledge and experience gained by the EU in achieving a common market and a common currency can be shared with the Arab countries. A priority in this context is the full harmonization of

[16] See the declaration in http://europa.eu.int/comm/external_relations/med_mideast/euro_med_partnership/index.htm

Mediterranean rules of origin. The Arab League is now giving priority to the matter.

- The promotion of South-South trade and regional integration necessitates the allowance for the **cumulation of rules of origin**. This would allow the Mediterranean countries to reap the benefits of specialisation in accord with comparative advantage. A prime example is the case of Lebanon and Syria, where the implementation of a bilateral free trade zone, closer integration and the cumulation of the rules of origin would allow substantial gains from the specialization of production. Syria has a comparative advantage in agriculture and large-scale industry. Lebanon a comparative advantage in high-value added industry and services. Agro-industry could have excellent prospects in Lebanon, with low-cost agricultural raw materials from Syria, and the marketing skills and networking of the Lebanese abroad.
- Assist in the harmonization of policies and frameworks for bilateral and multilateral trade and investment agreements so that they become mutually compatible.

The Road Ahead Requires Courage and Determination in order to exit the "economy of fear"

The enlargement of the EU-15 to include the candidate countries will lead to heightened competition in the EU's single market. Lebanon and the Mediterranean countries will face competition from the candidate countries for the markets of the EU. These competitive pressures will be particularly strong in agriculture and agro-industry.[17] Similarly, there will be more competition for the EU's limited aid and cooperation resources, as the candidate countries join the EU-15.

Six years after Barcelona, and in light of the shared experience, the time has come for all parties to work in a more determined and realistic manner. Our declared, common objective is to reduce discrepancies, to bridge the economic and technological divides. To render the EuroMed partnership a major building block for the consolidation of development in the Mediterranean. To create conditions that will prevent the development of violent conflicts and terrorism.

For this to happen, a revolution is required in EuroMed relations in order to establish a self- sustaining partnership. Clearly, "***things must be done differently***" if we are to succeed in the partnership. The Barcelona process cannot simply be emasculated to become a wider, more comprehensive trade agreement, and 'MEDA II' aid and cooperation is not of sufficient size to lead to a convergence of incomes and bridge the economic and digital divides.

A stronger political foundation to the EU's cooperation with the Mediterranean is necessary through more constructive and well-targeted dialogue and action on the

[17] See the assessment in the recent study: ***The Consequences of Enlargement for EU Agriculture***, Working Document for the STOA Panel, Directorate General for Research, European Parliament, October 2001, http://www.europarl.eu.int/stoa/publi/pdf/00-10-01_en.pdf

objectives and instruments of aid and cooperation. This pro-active dialogue and joint action must happen on all the dimensions of the partnership: political, security, social, cultural, human and economic.

Failure to meet the challenges and exit the "economy of fear" raises the spectre of social and political instability resulting from the lack of development, low economic growth, stagnant economies, high population growth and demographic dynamics, pervasive poverty, deteriorating environment, slow political and institutional reform, and non-resolution of the Arab-Israeli conflicts, as evidenced by the bloody meltdown of the Madrid and Oslo Agreement we are witnessing in re-occupied Palestine.

The EU should possess and develop, the political willpower to seize the historical, geo-strategic opportunity in the Mediterranean and the Middle East created by the end of the cold war and as a consequence of the terrible events of September 11 2001 and their aftermath. Together we need to have the courage and the resolve in these difficult and testing times to create a zone of peace, stability and prosperity. Our *Mare Nostrum should also become* a *Mare Pacifica.*

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Beirut
24 October 2001