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**'Europeanisation' Without Europe? A Critical Reflection
on the Neighbourhood Policy for the Mediterranean**

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Summary: The Neighbourhood Policy is the European Union’s (EU) approach to its new geographical borders in the wake of enlargement. This new focus is global in nature and aims to integrate EU foreign policies with its various neighbours under a common and coherent strategic umbrella. In principle, application of the Neighbourhood Policy to Mediterranean Partner Countries (MPCs) implies a substantial change in the strategy hitherto employed under the Barcelona Process, the institutional framework for relations between MPCs and the EU. The emphasis of the Neighbourhood Policy lies on economic and political conditionality, and on offering incentives to those MPCs who introduce economic and political reforms. At the economic level, the possibility of participating in the Single European Market without becoming a member of the EU at first glance constitutes a strong incentive to reform. This work conceptualises the EU’s new approach as the ‘Europeanisation’ of MPCs as a means of attaining economic and institutional modernisation. From this standpoint, MPCs must adapt their economic institutions and policies to the community *acquis* in regard to the Internal Market, a process which in literature on European integration is known as ‘Europeanisation’. However, a closer look at the challenges and economic premises of the Neighbourhood Policy for MPCs reveals some conceptual flaws in the strategy.

Introduction

The European Commission’s proposal in 2003 of a European Neighbourhood Policy (ENP), and its subsequent development,¹ has aroused considerable interest, evidenced by increased writings on the subject, especially in the field of political science. Although many authors see it as a positive step,² there are some doubts as to its viability and/or its long-term effects on the Euro-Mediterranean Partnership as conceived in the Barcelona Process.³ Furthermore, the initiative has received a cool political reception in many Mediterranean Partner Countries (MPCs), and was actually opposed by Egypt. Only Israel, Jordan, Morocco, the Palestinian Authority and Tunisia have expressed an interest in going beyond the current Association Agreements for participation in the Single European Market (SEM). This means accepting the obligations of the community *acquis* in regard to the SEM and complying with the political and human-rights-related conditions imposed by the EU.

The Wider Europe Initiative, from which the Mediterranean-focused Neighbourhood Policy stems, was conceived as the ‘Europeanisation’ of the EU’s borders, based on the experience of the new members states from central and eastern Europe, and has a clearly institutionalist bias.⁴ Since the instruments are the same as those envisaged for MPCs in

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the ENP, we may conclude that, in fact, the ENP implies the ‘Europeanisation’ of MPCs at the institutional level. The difference is that the EU is open to all European countries, whereas in principle it is not open to all MPCs. The latter are offered, to quote Prodi, ‘everything except institutions’. We might therefore see the ENP strategy for MPCs as ‘Europeanisation without Europe’.

At the economic level, the main novelty in the ENP is the promise of participation in the SEM, as well as strengthened financial cooperation and an effort in matters of infrastructure. Nevertheless, there are scarcely any economic studies in regard to the implications of the ENP which extend beyond a mere overview of these two aspects.⁵ Surprisingly, there is not even a discussion of the obvious complexities of attaining a single market even with the most economically advanced MPCs. A full single market would involve the four freedoms (free movement of goods, services, capital and workforce), as well as a complex institutional structure similar to that of the European Economic Area (EEA). The lack of interest on the part of economists in regard to the economic aspect of the ENP might be evidence that in its economic conditions the ENP is perceived as *merely cosmetic*, or, on the contrary, that it requires too much voluntarism to merit rigorous economic analysis. The scant exceptions to this are academics studying the prospects of a deeper-rooted integration of Israel in the SEM.⁶ In any event, it seems useful to analyse the ENP as an EU strategy consisting of the ‘Europeanisation’ of the economic *rules of the game* in MPCs, adopting North’s concept as an approach to formal and informal institutions within a society.⁷

In this work, the ENP is analysed from the standpoint of its hypothetical economic impact on MPCs. Specifically, the analysis is confined to the effects of MPCs’ (partial) participation in the SEM. There is no doubt that the initiative presents interesting novelties for countries such as Spain, for example, in the means it can provide to manage the EU’s external borders. However, this analysis excludes the political and economic impact that is unrelated to participation in the SEM. Moreover, in view of the implicit ambiguity in the formula chosen by the Commission in regard to the type of involvement envisaged for MPCs in the SEM, the current Association Agreements are used as a benchmark for analysis, and the European Economic Area as the ideal standard for participation in the SEM. Evidently, the Commission is not currently proposing that MPCs attain a status in line with that of EFTA countries in the EEA (not even in Israel’s case), but, together with the case of Switzerland, they are the only two existing models of participation in the SEM and they serve as a framework for analysis.

The Economic Dimension of the Neighbourhood Policy

In order to implement the ENP, the Commission proposed the following method in the *ENP Strategy Paper* (p. 3.):

‘[...] together with partner countries, to define a set of priorities, whose fulfilment will bring them closer to the European Union. These priorities will be incorporated in jointly agreed Action Plans, covering a number of key areas for specific action: political dialogue and reform; trade and measures preparing partners for gradually obtaining a stake in the EU’s Internal Market; justice and home affairs; energy, transport, information society, environment and research and innovation; and social policy and people-to-people contacts.’

The most appealing economic factor explicitly included in the ENP is that of ‘obtaining a stake in the EU’s Internal Market’. The Commission’s documents do not make it clear what this really means, and what degree of participation in the SEM it would involve. The ENP Strategy Paper (p. 14) sees it as being ‘based on legislative and regulatory approximation, the participation in a number of EU programmes and improved interconnection and physical links with the EU’. Moreover, the ENP Strategy Paper envisages the ENP as an extension of the Association Agreements under the Barcelona Process, whose potential has not yet been realised: for the Commission (2004, p. 7) the purpose of the ENP is ‘to enable the EU and its partners to attain the full benefit of the structures which are in place’. Indeed, the ENP ‘will be implemented through the Barcelona process and the Association Agreements with each partner country’ (*ibid.*, p. 6).

Participation in the SEM could be the kind of economic breakthrough which some authors believe is being demanded by the EU and the US in the political arena.⁸ Strengthened financial cooperation is simply a quantitative issue, whereas infrastructure is seen as something that is complementary and subordinated to involvement in the SEM. On the other hand, the creation of a single Euro-Mediterranean market, a strategy proposed in the Valencia Action Plan of 2002, would imply a significant qualitative leap. In fact, the challenge could be too ambitious for most MPCs, and insufficient for Israel. For the Wider Europe, Emerson proposed a set of common political areas similar to those set up between the EU and Russia, including three in the economic sphere: a pan-European economic area, a European monetary area and an area of infrastructure and networks. Application of this system to MPCs would require a programme of reform spanning decades, and a major financial outlay by the EU to provide the physical and institutional infrastructure necessary for the operation of a single market of this ilk.

At the monetary level, there are some interesting initiatives, such as the Eurosystem Workshops with MPCs, in which high-level civil servants from the European Central Bank meet with governors of MPC central banks. However, these initiatives are formally independent of the Barcelona Process and the ENP: ‘they are events initiated by central banks for central banks. They fill a gap in the network of institutional relations with and within the Mediterranean.’⁹ But Euro-Mediterranean monetary cooperation is limited in comparison with the Wider Europe dimension. There are some areas where cooperation might be possible, such as facilitating the transfer of emigrant workers’ remittances, but *euro-isation* (adoption of the euro as the benchmark currency) in MPCs is hampered by the degree of freedom needed by these countries in their exchange rate policies. Some MPCs are highly dependent upon climatic risk factors or energy prices, which means they cannot *glue* their currencies to the euro and European monetary policy without increasing their vulnerability to the inevitable asymmetric shocks which this would imply. Furthermore, other MPCs (Egypt, Jordan and Israel) have significant economic ties with the US, and could not therefore abandon the dollar as their benchmark currency. Also, despite some nominal headway, convergence in real terms is very limited and there is a clear lack of synchronisation between the economic cycles in the two regions.¹⁰ Even the transitions proposed from current exchange rate mechanisms based on a currency basket (with an increasing weighting for the euro) to a smooth anchorage of MPC currencies to the euro seems difficult in the short term.¹¹ Consequently, EU-MPC monetary cooperation is limited to low-profile technical issues and the *socialising* of central bank civil servants.

On the list of the ENP’s economic incentives is integration into EU transport, energy and telecommunications networks. The proposal of creating a Euro-Mediterranean energy ring

could be developed within the framework of a common energy policy, as evidenced by the objectives set out by the Commission's 2003 communiqué titled *On the Development of Energy Policy for the Enlarged European Union, its Neighbours and Partner Countries*. These objectives are to improve the security of energy supplies in the European continent, strengthen the enlarged EU's internal energy market, support the modernisation of energy systems in neighbouring countries and pave the way for the implementation of new energy infrastructure projects. This strategy follows on from the talks commenced in 1995 by the Euro-Mediterranean Energy Forum to help guarantee supplies to Europe and set up a free energy trade area in the Mediterranean. The ENP also tackles the deficiencies in transport infrastructure, at both south-south and north-south level, as explained in the Commission's 2003 communiqué titled *Development of a Euro-Mediterranean Transport Network*. The strategy envisages a network of multi-modal corridors (the trans-Maghreb multi-modal corridor and the double corridor of the eastern Mediterranean), which reflect the specific characteristics of the Mediterranean, where multi-modal transport with maritime and air connections prevails.

In the financial cooperation sphere, the increase in funds is an ongoing demand by MPC governments, and has been recognised by the ENP subject to conditions. The strategy is to simplify the framework of cooperation, in line with the precedent of the FEMIP (*Facilité Euro-méditerranéenne d'Investissement et de Partenariat*) instrument, introduced after the Valencia Summit in 2002. Its results eventually triggered the creation of a Euro-Mediterranean Bank to mitigate the financial difficulties facing SMEs in Mediterranean Partner Countries. Nevertheless, the mixed experience of the European Bank for Reconstruction and Development (EBRD), and the political squabbling between member states in regard to the location of its head offices, have postponed its approval, although the Commission is expected to make a decision in 2006. The most innovative financial proposal is the New Neighbourhood Instrument,¹² which proposes differentiated and staggered cooperation in order, among other things, to facilitate the future integration of MPCs in the SEM. Until the approval of new financial prospects in the EU, its application would be in an enhanced coordination of the existing financial instruments (PHARE, TACIS, INTERREG, CARDS, MEDA, BEI and FEMIP) to deal with the financial demands from the individual Neighbourhood programmes.

This work focuses, however, on the issue of the single market, sidestepping the financial cooperation component, as well as monetary matters and the subject of infrastructure. These feature in the EU documents as complementary elements within a global strategy to create an operational single market: the central problem lies in the gradual involvement of MPCs in the SEM. This involvement is a deliberate step towards 'profound Euro-Mediterranean integration', and the most sophisticated model 'of profound integration' achieved by the EU is the EEA, which integrates EU member states and three EFTA countries (Iceland, Liechtenstein and Norway) in the SEM. The SEM is governed by the community *acquis*, encompassing the four freedoms (free movement of goods, capital, services and people), and competition rules. As a result, more than 80% of the community *acquis* has been woven into internal legislation in EEA-EFTA countries.

Since the EEA is not a customs union, trade policy towards third parties is still decided nationally. In addition to legislating in the internal market, the EEA includes the so-called 'flanking and horizontal policies' to make the SEM run smoothly. These additional policies encompass important economic matters, such as research and development, environment, consumer protection, tourism, SMEs, information and audiovisual services.

EEA-EFTA states participate in EU programmes in these areas and are involved in policy shaping through the so-called ‘comitology’ mechanism which governs the EEA. Its common rules are continually updated to include new community legislation. However, the status of the SEM is incomplete in some markets that are significant for MPCs. For example, the EEA does not cover either EU Common Agricultural Policy or Common Fisheries Policy. It does contain some provisions in regard to various aspects of agricultural trade and fisheries products, but these are not fully included in the SEM. The difficulties experienced in the EEA to attain a SEM in terms of services and in areas relating to the mobility of workers are illustrative of the complexities of achieving a complete single market, even with developed countries.

This challenge is governed by a complex institutional network built on two basic linchpins (EFTA and EU), with certain collective bodies for decision-shaping, decision-making and difference-solving. Among the collective bodies, the EEA Council, comprising the EU and EEA-EFTA Foreign Ministers, brings political guidelines before the Joint Committee, which is responsible for managing the Agreement and making consensus decisions to incorporate community legislation. The Joint Committee meets monthly, and comprises the Ambassadors of EEA-EFTA states and representatives of the European Commission and EU member States. The Joint Committee is assisted by five subcommittees (which in turn have several working groups to aid them): (1) free movement of goods; (2) free movement of capital and services, including mercantile legislation; (3) free movement of people; (4) horizontal and flanking policies; and (5) legal and institutional matters. The Joint Parliamentary Committee monitors the EEA, and representatives of the EEA Council and Joint Committee regularly intervene before it. Other institutions include the EEA Consultative Committee, comprising the EFTA Consultative Committee and the Economic and Social Committee of the European Economic Community (EEC).

The design is so complex that its extension beyond Europe can be only limited, at least in the short term. Another model of ‘deep integration’ is that of Switzerland. In 1992, Switzerland decided not to join the EEA. Since 1994, there have been various rounds of talks about a vast range of specific sectors, such as the free movement of people, air and land transport, scientific and technological partnership, agriculture, public procurement, environment, cooperation to fight fraud and an agreement for the free trade of services. Both the EEA and the Swiss model seem appropriate for advanced economies, with substantial institutional clout and financial resources, such as some European economies and Israel, among MPCs. However, the Commission’s proposal in regard to the ENP is almost as ambitious (despite its ambiguity) for MPCs, especially considering their economic and institutional conditions at the outset. Let us assume that MPCs other than Israel want to develop the ENP framework. The ENP Strategy Paper suggests, among others, the economic reforms listed in Table 1.

Table 1: Economic reforms put forward by the 'ENP Strategy Paper'

- Gradual removal of non-tariff trade barriers.
- Development of suitable infrastructure.
- Convergence with EU industrial legislation and its regulatory structures.
- Legislative approach, capacity-building and modernisation in the customs area.
- Measures to guarantee security and safety of goods.
- Convergence with EU standards for sanitary and phyto-sanitary controls.
- Improved administrative capacity to ensure levels of food safety that allow access to EU markets.
- Approximation of mercantile legislation, and rules on accounting and auditing.
- Creation of a prudential regulatory framework and independent regulatory agencies in financial sector.
- Progress in the liberalization of capital flows and simplification of DFI regulatory framework in MPCs.
- Reduction of administrative barriers to business development.
- Strengthening of the operation of the judicial system.
- Effective protection of intellectual and industrial property rights.
- Regulatory convergence and improved access to public procurement market.
- Increased competition through independent supervisory bodies.
- Legislative approach in anti-trust matters, as well as in regulating State aid.
- Modernisation and enhanced transparency in the tax system.

Clearly, the reform agenda in Table 1 is geared towards the economic 'Europeanisation' of MPCs. The next section examines the economic and technical implications of including these steps in the SEM discipline as an EU strategy instrument.

Joining the EU Single Market

The economic reforms proposed by the ENP Strategy Paper and summarised in Table 1 constitute a daunting set of economic reforms for most MPCs. As we have mentioned, there are several ambiguities in the Commission's proposal of 'obtaining a stake in the EU's Internal Market'. In any event, *the means* to achieve this stake are clearly defined: legislative convergence with the EU community *acquis*. Consequently, we conceptualise the ENP for MPCs as a political agenda which points to the 'Europeanisation' of *formal* economic institutions in MPCs. However, in addition to the technical, human and financial difficulties in incorporating MPCs into the SEM, their political economics and the institutional implications must also be taken into account; we will tackle this matter below.

Let us begin by looking at the most obvious general difficulty: the differences between MPCs (except Israel) and the EU in terms of economic development. Economic conditions for a viable application of the four fundamental freedoms and competition policy which characterise the SEM are scarcely present in most MPCs. This is clearly evidenced by the ENP country reports and Action Plans, which bring to the fore numerous obstacles to full participation in the SEM. For example, the ENP report on Morocco highlights, among many other aspects, the obstacles identified in Table 2, whereas the ENP's EU-Morocco Action Plan suggests the reforms in Table 3. For a country like Morocco, the diagnosis performed by the Commission itself reveals a number of obstacles to its full participation in the SEM (see Table 2).

Table 2: Obstacles to participation in the SEM identified by the 'Morocco ENP Country Report'

- Prices are not liberalised for a number of staple products (petrol, vegetable oil, sugar and flour).
- The government indirectly influences prices via public companies.
- The State holds a monopoly in phosphate mining and tobacco marketing as well as in the supply of various goods and services.
- Public management is characterised by administrative formalism and low accountability.
- Regulations and red tape persist, and corruption is seen as being widespread.
- Governmental procedures are not always transparent and efficient.
- Obstacles to DFI remain in some sectors (wireless telecommunications, agriculture, insurance).
- In foreign transactions personal payments, the transfer of interest and travel expenses are subject to restrictions, documentary requirements and, in some cases, prior approval.
- Anti-trust regulation procedures are not credible.
- There is no uniform system of State aid comparable to that of the EU.
- The financial system is still controlled by State property, and specialist public banks frequently breach prudential regulations.
- The Casablanca Stock Market is still shackled by a high concentration of capital, and a lack of new securities, liquidity and depth.
- Sanitary and phyto-sanitary regulations fall short of international requirements.
- The TRIPS Agreement cannot be applied due to the absence of decree laws for its application.
- National preference may be applied to public procurement.
- DFI suffers complicated registration procedures and lack of regulatory transparency.
- Monopolies are widespread in transport and energy sectors.

Table 3: Priority economic reforms identified by the EU-Morocco Action Plan

- Enhance competitiveness of the Moroccan economy.
- Convergence of agricultural policy to create conditions for agricultural FTA with the EU.
- Ensure a balanced model of regional development to combat urban and rural poverty.
- Apply the Association Agreement to free movement of goods.
- Modernise customs and harmonise with international and EU regulations.
- Seek harmonisation of Moroccan industrial legislation with international and European practice and regulations.
- Improve consumer food safety and facilitate agricultural trade with the EU.
- Seek liberalization of foreign investment.
- Gradual liberalization of trade in services and the capital account.
- Unroll a system of taxation and tax institutions in line with international and European standards.
- Enforce obligations in regard to competition provisioned by the Association Agreement and develop comprehensive legislation and control compatible with those of the EU.
- Uphold the community *acquis* in terms of State aid.
- Ensure consumer protection at similar levels as those prevalent in the EU.
- Develop a procedure of competitive public procurement in line with Article 41 of the Association Agreement.
- Develop contacts between the Commission and external auditors of Morocco.
- Improve environmental conditions for the development of competitive businesses and new investment.
- Devise a national transport policy, including infrastructure development.
- Gradual integration within the EU electricity market and regulation of electronic communications.
- Foment good environmental management and improve educational systems.

The economic policy prescriptions in the Action Plans (Table 3) imply a greater challenge, given the starting point, not to mention the situation in terms of *political problems*, which include aspects ranging from the economy to the protection of property rights or judicial reforms. This reform agenda may be appropriate to mid-income countries, but most MPCs are countries where human development is low, and which face more immediate challenges. The accumulation of capital is insufficient to generate sustained growth, illiteracy levels are high and the health system is poor, rural poverty is rife and demography puts a strain on governments' capacity to provide basic public services. In short, financial and human resources available in MPCs are not equal to the competitive pressure from so many priorities targeted by the Action Plans.

Even the Israel country report pinpoints obstacles such as the existence of monopolies and State-owned companies in some sectors (despite the movement towards privatisation which began in 1990), the lack of uniform supervision of State aid and of updated phytosanitary laws. Some Israeli academics have also exposed differences between EU and Israeli institutions in regard to the SEM.¹³ In any event these are lesser obstacles compared with those identified in the country reports on Tunisia, Jordan and Morocco. The main difficulties highlighted for Israel are in aspects of the report concerning *political problems*.

Tovias (p. 3, *op. cit.*) has argued that while Israel's access to the EU would be rejected because of the Israeli-Palestine conflict, access to the SEM is almost free of political significance. This is true if one compares the possible entry of Israel in the EU with its participation in the EEA (although Israel would first need to be accepted in the EFTA, which is highly unlikely) or in a similar agreement to the one between Switzerland and the EU. But political differences pervade even the most technical economic matters. For example, a long-standing demand by Israel is that the EU modifies its originating products regulation protocol to apply the diagonal accumulation of this regulation to MPCs. For its part, the EU establishes as a precondition the attainment of a solution for products originating from settlements. This shows how the Middle East conflict contaminates EU-Israeli relations.

In addition to the current economic divergences between the EU and the MPC economies, we must also consider other types of difficulty. The first is the burden for most MPCs of adopting the ever-expanding community *acquis*, which may exceed their current and future capacities. The recent emphasis on governance in economic literature has highlighted the fact that most MPCs are lagging well behind in terms of institutional development, as evidenced by the successive Arab Human Development Reports from the United Nations Development Programme (UNDP), and by works on governance by the World Bank. The ENP country reports (except the one on Israel) also highlight major institutional gaps, and public administration reform is a traditional matter in EU development cooperation with MPCs. However, to face the challenges of adopting and applying the *acquis* in relation to the SEM, the administrative reform in MPCs becomes a priority. Twinning (the strategy of exchanging civil servants applied in the process of pre-access in the latest enlargement) and technical cooperation may boost convergence by socialisation, but a comprehensive endogenous reform seems inevitable. Indeed, the SEM is a *moving target*, so that institutional and public capacities will require a sustained effort to supply financial and human resources necessary to meet the EEA objectives. Keeping pace may be as difficult as initial convergence itself.

Secondly, the degree of institutionalisation of the EEA will also require a substantial amount of human and financial resources from the EU to maintain the dense network of experts and civil servants involved in a possible policy-shaping, decision-making and difference-solving process. The EEA is governed by a human capital-intensive 'comitology' system, which could absorb most of the MPCs' human resources, stripping their domestic institutions of the few senior civil servants they have. This is especially true compared with the low degree of institutionalisation of the current Barcelona Process. It is hard to see how to make the transition from the simple Association Committees and Subcommittees under the Barcelona Process to the complex institutional network of the EEA (or the Swiss case) outlined above. Indeed, such a degree of institutional complexity and interdependence would require substantial political capital, on the part of both EEA countries and MPCs. We will return to the complex political economics of the ENP in the next section of this document.

Thirdly, variable geometry (the possibility that each MPC may advance in its own degree of integration in the EU at staggered rates) will bring fragmentation of the Euro-Mediterranean FTA, and will weaken the already-fragile initiatives of sub-regional integration. The Euro-Mediterranean FTA has been criticised from the outset for fragmenting the southern shores of the Mediterranean, at least from a trade standpoint, although some authors have suggested that this risk is low in view of the limited trade

potential between Middle Eastern and North African countries, and factors of political economics.¹⁴ The EU's response to pre-empt the negative impact of the hub & spoke mechanism consisted in promoting sub-regional integration among MPCs. Economic motivation centred on preventing the absence of regional integration among MPCs from generating a commercial and investment pattern that would strengthen the EU as a *hub* from which to export to MPCs, because a company cannot be located, for example, in Morocco and export from there to Algeria in view of the lack of sub-regional integration between MPCs themselves. These efforts came in step with the New Middle East Initiative for the Mashreq region, a brainchild of the US, and the Union of the Arab Maghreb (UAM) in the western Mediterranean. Both these initiatives failed, due mainly to political factors, to such a degree that even the modest *normalisation* of commercial relations (proposed by Tovias for trade between Israel and the Mashreq) has proved impossible.¹⁵

The reaction of the EU Commission seems to recognise the 'virtual' nature of sub-regional integration of MPCs,¹⁶ and that this cannot materialise at the expense of bilateral *deep integration* between the EU and MPCs. For some authors, the ENP may have deliberately abandoned the regional aspect of the Barcelona Process, at least in the Middle East.¹⁷ In all fairness to the ENP, we must admit that the sub-regional aspect has always been among the weakest links of the Barcelona Process.¹⁸ In any event, there is no doubt that the *differentiated focus* of the ENP implies erosion in the already-weak incentives offered by the Barcelona Process to sub-regional integration. The ENP Strategy Paper and Action Plans rhetorically support greater sub-regional integration of MPCs, but apart from support for the Agadir Initiative and emphasis on sub-regional infrastructure, these documents pinpoint few instruments able to promote it. For example, there is no mention whatsoever in the ENP documents of any specification in regard to how the Agadir Initiative (which seeks to establish a free trade area between more advanced MPCs in application of their Association Agreements) may benefit from sub-regional infrastructure, let us say from a road linking Morocco and Algeria (whose border is closed off).

Fourth, the EEA includes a budget instrument, the so-called EEA Financial Instrument, aimed at reducing the economic and social inequalities between European regions, enabling supplementary aid to be granted to development projects in EU Objective 1 regions. This tool recognises the need for structural cohesion funds to create an operational SEM with MPCs, which will be hard to obtain despite greater financial commitment by the EU envisaged under the ENP, in view of the current budget restrictions in the EU and the tough negotiation which is expected for approval of the forthcoming financial prospects. Experience of the Iberian and eastern enlargements also shows that the structural funds, or prospects of access thereto, were a powerful incentive for poorer countries to accept the internal market rules. The 'everything except institutions' proposal clearly precludes access to structural funds for MPCs, leaving the SEM *carrot on the stick* as the only consistent economic incentive offered by the EU to MPCs.

Finally, there are sectors such as agriculture and services for which it is not clear that full inclusion in the SEM would have net positive effects for MPCs. With regard to agriculture, some studies have shown that reciprocal and symmetrical agricultural liberalisation between the EU and MPCs within the framework of a possible multilateral opening may imply costs that outweigh the benefits for MPCs.¹⁹ In fact, agriculture is not included in the EEA: the community *acquis* in relation to the CAP is not adopted by EEA-EFTA countries, and agricultural trade is channelled through specific agreements, in a very similar way to what is provisioned in the recent EU-Moroccan agricultural agreement.

Consequently, involvement in the SEM will not automatically include free access to the EU's agricultural markets, a fundamental issue for many MPCs. Even the EEA treatment of agricultural exports from MPCs would seem difficult to attain, since agricultural trade in EEA-EFTA countries is quite limited and is subject to agricultural policies and cost structures in line with those that prevail in the EU. By contrast, the agricultural sector represents a significant portion of MPCs' gross domestic product (GDP), exports and, most importantly, employment. Furthermore, their cost structures are different, since they are competitive in Mediterranean agriculture, but unable to compete in continental products. It is not clear, then, how possible participation in the EEA could help unblock the agricultural bottleneck facing MPCs who attempt to access EU markets.²⁰

The liberalisation of services is another complex issue. For example, it has been warned that widespread deregulation could spell disaster for Arab countries.²¹ A number of public services are still provided through the State sector, and a comprehensive liberalisation-deregulation process would only make sense if these sectors were privatised. But candidate companies for entering privatisation processes, both foreign and national, perceive their appeal as being closely linked to their position of power in the market. Indeed, the privatisation of public companies in the absence of a transparent institutional framework could result in the same outcome as in some former communist countries in Europe: with the *old regime* elites controlling the recently privatised companies. Furthermore, the liberalisation of some services, such as energy, insurance and banking, imply critical decisions in regard to the creation of Euro-Mediterranean markets for these services. For example, the liberalisation of financial services would heap on pressure for liberalisation of the capital account, a revised recipe for developing countries in the wake of the Asian crisis, and one of the few economic plagues that MPCs do not yet suffer (except for Turkey, which went ahead with liberalisation).

All of these difficulties must be considered, and so must the benefits. Participation in the SEM is a powerful economic and political sign. It could alleviate MPCs' problems in accessing EU markets. Trade problems could be solved via a *deep integration* strategy, consisting of harmonising commercial standards and rules, thus cutting transaction costs and largely removing non-tariff barriers caused by such measures, even with the issue of agriculture remaining subject to *special treatment* along similar lines to the EEA. Equally importantly, it would improve the consistence in time of MPCs economic policies. However, although important, this greater consistency would be applied mainly to trade in goods, not to freedom of trade in services, capital and labour. Consequently, The Action Plans centre on common policy areas. In the current economic situation, the sectors in MPCs (except Israel) that are prepared for inclusion under these common policy areas seem quite limited. Trade in manufacturing goods is a clear candidate, as are energy and transport within the services sector.

In the short-to-medium term, though, even completion of the Association Agreements will not be a sufficient condition for inclusion of services, capital and labour in a SEM open to MPCs. In the economic sphere, Prodi's imaginative formula seems to imply a focus which we might describe as *diluted EEA*, with the peculiarity that the sole substantial aspect retained is trade in manufacturing goods, whereas it would continue to exclude most elements of a single market that are appealing to MPCs (agricultural trade and labour flows) and to EU member states (flows of capital and services).

The ‘Europeanisation-as-modernisation’ recipe for MPCs

As we have already mentioned, ‘Europeanisation’ of MPCs would consist in their adopting the community *acquis* in terms of the SEM, that is to say, the classical centralised method introduced by Monnet. Yet the ENP also resorts to concepts of best practice and benchmarking (referring reforms in a country to EU best practice and assessing their degree of convergence therewith) to evaluate the economic progress attained by MPCs, jargon which describes the open Lisbon method of policy coordination which includes the new ‘Europeanisation’ model.²² For our purposes, we will limit the applicability of the concept to the economic policy agenda of the ENP for MPCs, conceptualising it as ‘Europeanisation’ without Europe.

Some observers have underlined the need to avoid any colonial connotation, which could foment opposition to the move.²³ The Commission’s European Neighbourhood Policy Strategy Paper explicitly avoids all imperialistic connotations by introducing the concept of ‘ownership’, from recent literature on economic development:

‘Joint ownership of the process, based on the awareness of shared values and common interests, is essential. The EU does not seek to impose priorities or conditions on its partners. The Action Plans depend, for their success, on the clear recognition of mutual interests in addressing a set of priority issues. There can be no question of asking partners to accept a pre-determined set of priorities.’

In this way, the EU also seeks to *signal* a different strategy than the one proposed by the US and its ‘nation-building’, which some associate with social engineering of a past that has happily now been put behind us. However, the ENP could be perceived as an *arrogant* focus when compared with previous EU initiatives for the Mediterranean region.²⁴ Whereas this might be true in the political arena, the ENP’s economic elements are perhaps more likely to raise nationalist suspicions in MPCs.

The ‘Europeanisation’ of MPC political and economic institutions is a complex problem which requires a comprehensive focus that encompasses political economics, institutional economics and development economics, as well as deep-rooted knowledge of economic and institutional structures in these countries. In this regard, the objective of this section is much more modest than the development of a detailed framework for the ENP, taking into account all the theoretical elements: it seeks only to present some general notions which might be useful to better understand the implications of the ENP for MPC economies.

Economic ‘Europeanisation’ of MPCs may be seen as a game at two levels which links international and internal aspects, and tends to empower the Executive, which spearheads international negotiations.²⁵ From the political economics standpoint, the offer at international level consists of the EU offering a stake in the SEM to MPCs, whereas MPC governments demand this as a result of internal negotiation at secondary level. At this domestic level, MPC governments offer (or not) economic ‘Europeanisation’ via adoption of selected sections of the community *acquis*, in line with their preferences and institutional structures. On the demand side, non-governmental actors in MPCs demand (or not) convergence towards the community *acquis* via aggregation of individual preferences of interest groups and political engagement.

For MPCs, the assessment is more complex and depends on the real significance of 'obtaining a stake in the SEM'. If access by MPCs to the SEM were confined to trade in manufacturing goods, empowerment would be restricted to the executive and industrial sectors oriented towards exports. This empowerment would come at the expense of a relative loss of influence by other economic actors, such as import replacement sectors. Up to this point, the situation is similar to the one envisaged in the current Association Agreement, with the sole difference that empowerment is stronger due to *deep integration* and the greater consistency in time of economic policy. If participation in the SEM included agricultural markets without restriction, then empowerment would also benefit agricultural exports to the detriment of the traditional agricultural sector, which includes the poorest segment of MPC society. The inclusion of some degree of freedom of movement for workers would also *empower* the poor, who would find emigration easier (whether permanent or temporary, for example under mode 4 of GATS on service provision, which has been proposed by the FEMISE network of Mediterranean economic institutes) towards the EU. In principle, the inclusion of services and capital would meet with the opposition of entrepreneurs in the services sector and capital owners in MPCs, whereas services sectors oriented towards exports would welcome it to cut their financing costs.

Also worth highlighting is the impact of 'Europeanisation' on mediating institutions, in other words, the extent to which a given institutional framework may foment a veto strategy to resist change. But what academic literature tends to have in mind is the mediating effect of various democratic institutions (as direct democracy or parliamentary or presidential systems).²⁶ However, in MPCs, with the exceptions of Israel and Turkey, democracy cannot be taken for granted. Using a modified political economics model of trade policy to analyse demand for integration in the EU, among eastern European countries, Mattli and Plümper show how more democratic countries tend to demand access to the EU with greater determination: the greater the degree of democracy, the smaller the economic distortions demanded by society.²⁷

By applying this analytical framework to MPCs, we can conclude that the demands for 'Europeanisation' will be greater the greater the degree of political engagement, inasmuch as economic 'Europeanisation' means a less distorted economic environment for MPCs. Furthermore, 'Europeanisation' impacts on the nature of political institutions and thus *empowers* the actors involved in the process. In principle, democratic conditionality will offer a new set of incentives for democratisation, and therefore will increase the demands of economic 'Europeanisation' on the part of MPCs. Furthermore, to the extent that improved access to the EU markets could alter the strategy of interest groups *empowering* the sectors oriented towards exports, economic 'Europeanisation' can also reduce the level of economic distortion demanded by lobbies, and facilitate economic 'Europeanisation' without involving democratisation processes. On the other hand, empowering the Executive can reduce the government's sensitivity to the preferences expressed by the lobbies, and, in the absence of democratisation, by voters. From this standpoint, participation in the SEM confined to manufacturing trade seems unable to generate sufficient interior demand to undertake economic reform.

In contrast to the above, asymmetrical inclusion, albeit limited, of agricultural trade and labour flows could increase demands for 'Europeanisation' by MPC societies. Democratisation could also fuel demands for economic reform associated with 'Europeanisation', thus questioning the sequence established by the theory of

modernisation which leads from economic development to democratisation. This in turn would imply a more pro-active or belligerent position by the EU with respect to the need to attain greater political participation in MPCs, in line with democratic conditionality supposedly introduced by the ENP.²⁸ The only reservation is not to present it as a foreign imposition, that is to say, as political ‘Europeanisation’, so as not to trigger popular opposition. Most political engagement, as well as the reform of economic institutions, must therefore be specific to the context in which it is applied.

Another controversial issue is the extent to which ‘Europeanisation’ may be successful in transferring economic institutions to MPCs. Institutional economy teaches us that new institutions are adopted in accordance with those already existing, and this *path-dependence* could undermine efforts for institutional construction. Economies adopting formal standards from their more advanced counterparts may post different performances due to the existence of different informal regulations and execution and supervision capacities, and therefore *institutional construction* could bring unexpected consequences.²⁹ Consequently, the export of institutions has historically proved to be so difficult. In fact, path-dependence has been documented in the process of ‘Europeanisation’ in member states and candidate countries, giving rise, for example, to public administrations which do not always converge towards the pristine *Weberian* models identified with modernity.³⁰

Certainly, the capacity for transfer may be substantially greater for economic institutions than for political ones, thereby leaving some scope for economic ‘Europeanisation’, provided that it is demanded by MPCs. Fukuyama represents the institutions in line with two variables: their specificity and the number of transactions they manage.³¹ Transfer capacity supposedly increases with functional specificity and declines with the number of transactions involved. In this analysis, very specific institutions should be considered priorities in MPCs’ economic ‘Europeanisation’. This supports the approach of common political areas, and is consistent with the emphasis on convergence in specific aspects of MPCs with the community *acquis* (for example, in trade, energy and anti-trust policy).

But specific institutions are mainly instruments of *low politics*, whereas reform of the judiciary and public administrations (not to mention democratisation) lack both the precondition of specificity and that of managing a small number of transactions. However, this framework does not take into consideration internal demands for ‘Europeanisation’ of MPCs. By including them, even *exports* of those components that are not fundamental to the rule of law are more complicated than the ENP considers. To introduce sustainable reforms, the ownership equation must be solved in a way that satisfies social demands by MPCs, which may not coincide with governmental demands (and will very likely clash head-on therewith in some MPCs).

In the Arab world, the transplantation of European economic institutions already took place in the colonial era, but the persistence of informal rules and the presence of complementary institutions hampered the strategy of modernisation which consisted of borrowing foreign institutions as they were. Kuran’s downbeat conclusion is that ‘even if all the erroneous policies of governments in the region were to disappear today, development of a strong private sector and civilian society could take decades’.³² Consequently, even fragmentary social engineering would only be successful in the long run via convergence in formal and informal regulations (as suggested by institutional economics), and only if demanded by open societies (as evidenced by political economics). The European Commission seems aware of this need that it be the MPCs themselves who

demand convergence towards the EU's economic rules, and uses 'ownership' as a vaccine against what is often seen as a risk of spreading imperialism.

The problem with the concept of *ownership*, as with many concepts in the current jargon referring to economic development, is its ambiguity. Who really *owns* the strategies in the ENP Action Plans: MPC governments, lobbies or economic and political elites? Do poor people in MPCs have any kind of say in ENP Action Plans? Do these Action Plans lead to *participative development*? As evidenced by political economics, *ownership* is not a replacement for political engagement, let alone democracy. This ambiguity could be interpreted as a *cosmetic makeover* of traditional Euro-Mediterranean relations.

This leads us to the recent criticism raised among the academic community of the economic development of so-called second-generation reforms, which spread the need for reforms to the institutional area. Rodrik has highlighted the fact that the extended Washington Consensus (to include institutional reform) is too ambitious to be attained in the short term, that it does not set clear priorities and that it is not always advisable. In his opinion, a more pragmatic and modest approach might be preferable, including *transitory institutions* other than the western or EU recipes, but which might lead more quickly to short-term growth.³³

Full 'Europeanisation' of economic institutions in MPCs might not be feasible in the short term, will absorb already-scant human and financial resources, and could even be counterproductive if applied mechanically. As we have already pointed out, Richards also criticised the US recipe of *modernisation* for Arab countries based on similar considerations. The ENP Action Plans duly arrange priorities, but some contradictions appear when they are compared with the global development strategy of the EU. As we have seen, in the absence of democratisation, 'Europeanisation' would *empower* both the Executive of the MPC and sectors oriented towards exports. Clearly, this is not what EU development policy has in mind on requiring empowerment. In EU development policy, empowerment refers to strategies in favour of the poor, in line with the recent World Bank guidelines, the UNDP and the OECD Development Assistance Committee (DAC).³⁴

On the other hand, the Action Plans contain few references to the empowerment of the poor, except for a few generic and quite rhetorical declarations in regard to the need to fight against poverty in MPCs. There are no specific actions proposed to increase the engagement of poor people in the economy or the political process. Once again, the ambiguities of the concept of *ownership* fail to face the challenges of the region. Even when poverty is not so widespread in the region as in other developing countries (with the significant exception of Egypt), it is perhaps the central challenge for MPCs.³⁵ Negative spillovers also affect the EU in the form of illegal immigration, drug trafficking and terrorism. The poor are a significant portion of MPC societies, and if 'Europeanisation' must be demanded by our southern neighbours, the ENP cannot be implemented without taking into account their demands.

Conclusions

As we have seen in the previous section, even 'Europeanisation' of the economic institutions in MPCs, in the realm of *low politics*, is a highly ambitious political reform agenda. The ENP lacks a clear declaration as to the real meaning of 'obtaining a stake in the SEM'. Full participation in the SEM under an agreement inspired by the EEA seems

difficult for the MPCs to achieve, except Israel (whose difficulties are of a political nature, not economic). On the other hand, involvement in the SEM limited to manufactured goods would be a deceptive result which might justifiably be slammed as merely *cosmetic* and, more importantly, would be unable to mobilise sufficient demand by MPC societies of greater convergence towards EU economic rules.

So, how can incentives be implemented for MPCs to demand economic ‘Europeanisation’? Political economics analysis suggests that an increase in political engagement may trigger support for economic ‘Europeanisation’ in MPC societies, but only if it is not perceived as a resurgence of past colonial models. It also shows that a mere touching up of the Barcelona Process would only *empower* the Executive and lobbies geared towards exports, and would therefore be clearly insufficient to sustain consistent reform of economic institutions and policies. Limited and asymmetrical inclusion of agriculture and the movement of workers could act as a more powerful catalyst for social demand in favour of economic and institutional reform proposed in the ENP Action Plans. A more comprehensive inclusion of poverty in the Action Plans is also necessary, which in turn implies giving a greater *say* to the poor in political decisions. Greater political engagement seems indispensable to obtaining more information in regard to the preferences of MPC societies.

In any event, a political reform agenda strictly in line with the Washington Consensus and extended to include a rapid institutional reform seems neither feasible nor advisable at this time. In the domain of first generation reform, general liberalisation of services and the capital account seems too risky, whereas in the second generation (institutional reform), creativity seems more in order than mere replication. Exporting EU institutions to MPCs is not a mechanical process. As evidenced by recent literature on economic development, institutions are context-specific and path-dependent. The same economic rules yield different results in terms of economic performance, since they may entail divergent informal rules, complementary institutions and varying capacities of application. Consequently, the simplistic recipe of ‘*Europeanisation-as-modernisation*’ is not feasible, nor probably advisable, even in the economic field.

If we consider in addition to the weaknesses of the EU’s Mediterranean policy the skill of economic elites in MPCs in developing survival strategies, we will understand why ten years after the Barcelona Conference little progress has been made in opening up the societies on the southern shores of the Mediterranean. It is true that macroeconomic stabilisation has made notable headway, but structural and microeconomic reform remains stagnant.³⁶ This may be explained to a great extent by the fact that macroeconomic stabilisation does not imply transferring initiative to the market, whereas microeconomic reform does imply transferring economic power from the State (and governments) to civilian society. The risk of the ENP, therefore, lies in the fact that instead of empowering civilian society it could actually strengthen, once again, MPC elites. Greater specification of the modernisation model driven by the EU therefore seems a necessary consequence, specifically interaction between its political and economic spheres.

Acronyms

FTA: Free Trade Area
EBRD: European Bank for Reconstruction and Development
EEC: European Economic Community
DAC: Development Assistance Committee (OECD)
EEA: European Economic Area
EFTA: European Free Trade Area
ENP: European Neighbourhood Policy
FEMIP: Facility for Euro-Mediterranean Investment and Partnership
DFI: Direct Foreign Investment
SEM: Single European Market
GDP: Gross Domestic Product
MPCs: Mediterranean Partner Countries
SMEs: Small and medium-sized businesses
EU: European Union
UNDP: United Nations Development Programme

¹ Communication from the Commission to the Council and the European Parliament, *Wider Europe - Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours*, Brussels, 11/III/2003, COM (2003) 104 end; and Communication from the Commission, *European Neighbourhood Policy Strategy Paper*, Bruselas, 12/V/2004, COM (2004) 373 end.

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³ Aliboni, R. (2004), 'Promoting Democracy in the EMP: Which Political Strategy?', EuroMeSCo Papers; Johansson-Nogués, E. (2004), 'A 'Ring of Friends'? The Implications of the European Neighbourhood Policy for the Mediterranean', *Mediterranean Politics*, vol. 9, nr. 2.

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⁵ See, for example, Iván Martín (2003), 'La nueva Política de Vecindad de la Unión Europea, ¿una oportunidad para relanzar las relaciones España-Marruecos?', Elcano Royal Institute, ARI nr. 137.

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⁷ North, D.C. (1990), *Institutions, Institutional Change and Economic Performance*, Cambridge University Press.

⁸ Aliboni, *op. cit.*

⁹ Welcome remarks by Jean-Claude Trichet at the Euro-Mediterranean Seminar 'Eurosysteem and Mediterranean country national banks', Naples, 15/I/2004, at <http://www.ecb.int>

¹⁰ Torres, R. and N. Siegfried (2004), 'Review of Developments in Euro-Mediterranean Economic and Financial Relations: Assessing Convergence', paper presented at the *Eurosysteem Workshop with the Mediterranean Countries' Central Banks*, Frankfurt.

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¹³ Sadeh, *op. cit.*

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