

The relaunch of the Barcelona process

Message of the Mediterranean Commission
adopted by the Paris Central Council (3 June 2005)

1. On 27 November this year the *Barcelona Process* will be ten years old. Along with the *Euro-Mediterranean Partnership*, which stemmed from it, and its financial instrument the *MEDA Programme*, it was intended to form a framework for the concerted and mutually supportive development of the Mediterranean countries. ELEC has supported the process in various ways:

- ◇ by setting up the *Mediterranean Commission* in 1996, which has since met regularly;
- ◇ by adopting a resolution on the European Dimension of the *Euro-Mediterranean Partnership*, at the Barcelona Central Council (20 June 1997);
- ◇ by publishing the same year a *Cahier Comte Boël* on the same subject;
- ◇ by organising, since 1997, six *Mediterranean Conferences*, held three times in Barcelona, (1997, 1998, 2000), and then in Palma de Mallorca (2001), Tunis (2003) and Naples (2004), which explored different aspects of the partnership.

2. On its inception in 1995, the Barcelona Process faced three major challenges:

- ◇ continuing regional conflicts throughout the Mediterranean region;
- ◇ economic under-development in the southern Mediterranean countries;
- ◇ the danger of increasing Islamic fundamentalism in these countries.

To respond to these challenges it pursued three main objectives:

- ◇ a political and security-related objective, aimed at establishing a common area of peace and stability, and particularly at contributing to resolving the Israeli-Palestinian conflict;
- ◇ an economic and financial objective to construct a free trade area by 2010 and to ensure the prior conditions in which free trade could truly become a factor in the progress of the southern Mediterranean;
- ◇ a social, cultural and human objective, to encourage understanding between cultures as well as exchanges between the civil societies of the countries involved.

It was supplemented in April 2002 with the *Valencia Action Plan* which, on the economic plane, launched the *Agadir Process* designed to encourage trade and economic integration in the south and east of the Mediterranean, and, on the financial plane, created within the European Investment Bank the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) in order to promote investment in these countries, specifically by SMEs.

3. On the eve of the tenth anniversary of the Barcelona Process, the results are, on balance, rather discouraging:

- ◇ To be sure, the process has allowed a dialogue to take place between the governments of different countries, and the political partnership between north and south Mediterranean has undoubtedly been strengthened.
- ◇ Perhaps more importantly, the civil societies of these countries have been able to establish relations with each other, and increase their awareness of the stakes. In its

1997 resolution, ELEC stressed the importance, for encouraging private investments, of "developing institutions and non-governmental organisations that will facilitate the growth of personal, professional and cross-sectoral relations which, building up mutual trust at company level and in the workplace, will foster an awareness of common interests". In this regard, ELEC wishes today to congratulate ASCAME (the Association of Chambers of Commerce and Industry of the Mediterranean), which is now several hundred members strong.

- ◇ However, economically speaking, it is undeniable that despite the Barcelona Process, the gulf between the north and south Mediterranean has only increased. This is most strikingly observed in the almost continuously increasing disparity between per capita income in those countries in the MEDA programme (excepting Cyprus, Israel and Malta) and that in the three least wealthy countries of the EU-15 (Greece, Portugal and Spain). This gap and the high levels of unemployment predominant in the southern Mediterranean are the main forces driving external migration in the area.
- ◇ Finally, in spite of the Agadir Process, which was initiated in 2002, economic integration in the southern Mediterranean remains weak, and trading between Mediterranean third countries still represents less than 10% of their trade with the EU.

4. In the Barcelona Process underlying strategy, the free trade zone, whose target date is 2010, was to act as a catalyst for Mediterranean third countries, on prior condition that their businesses be brought up to standard and their economies sufficiently diversified for free trade in the zone to have lasting benefits for all partners. European enterprises were called upon to play a decisive role in bringing local business up to date by investing in the southern Mediterranean. In its 1997 resolution, ELEC stated: "Private investment effectively involves a transfer of know-how, technology and capital, all of which are vital for modernising the productive sector and for improving competitiveness. It will thus make a significant contribution to economic growth and job creation". Two of ELEC's Mediterranean Conferences (Palma in October 2001, and Tunisia in 2003) were devoted to this issue, and they gave rise to the publication of the study *Private Financing of Investments to Third Mediterranean Countries* by Professor Joan Rosselló Villalonga.

5. On this particular point also, a review of the overall success of 10 years of the Barcelona Process is disappointing, as the conferences and the abovementioned study indicate: even if, since 1997, the proportion of direct foreign investment in total investment has increased considerably in Mediterranean third countries, these countries have absorbed a diminishing share of the total flow of capital invested by OECD countries in developing countries. This is particularly true for investments coming from the EU-15, which have been overtaken in the past few years by those from the United States. There are a number of reasons for this disappointing performance:

- ◇ the relative competitiveness of Mediterranean third countries to attract foreign investment has deteriorated, particularly taking into account new competitors: the new Member States of the European Union, the south-east Asian countries, China and India;
- ◇ an important factor in this decreasing attractiveness seems to be the weakness of public administration structures: the excessive red tape which encumbers the setting up of new businesses, widespread encroachment of bureaucracy on economic activity, judicial systems which lack precision and transparency;
- ◇ another factor is the lack of education and training and a relative scarcity of skilled workers, which can hold back service sector development;
- ◇ in addition financial systems seem unsuitable, particularly for SMEs: indeed, international or specialized European financial institutions, (almost the only ones to offer long-term finance), generally only do so for SMEs via local commercial banks, who are required to take on the business risk; they therefore tend to demand

guarantees which SMEs are generally unable to provide. Up to the present, FEMIP (*Facilité euro-méditerranéenne d'investissement et de partenariat*) has mainly financed large infrastructure and environmental protection projects;

- ◇ finally, the limitations of local financial institutions must be emphasised. With very few exceptions, they do not succeed in directing domestic savings in potentially more profitable ways, as they tend to favour more secure investments such as public debt securities and shares in public enterprise projects.

6. Following these disappointing observations, and in view of the 2010 free trade zone deadline set out in the Barcelona Declaration, ELEC calls for a new and rapid impetus to be brought to all levels of the process started in Barcelona ten years ago. It also calls for a significant improvement by 2010 of the conditions that will enable the free trade zone to be of benefit to all Mediterranean third countries. This means, for these countries:

- ◇ that field studies of local successes should be used as object lessons, to discover what conditions determine success and how this might be successfully reproduced elsewhere, whether this be in terms of attracting direct foreign investors, business creation, education and training initiatives, or SME financing;
- ◇ that MEDA funds should be focused on setting up a system which encourages private initiative, and one which includes a better legal system, a more efficient public administration system, more effective infrastructures, and a more suitable financial system;
- ◇ that maximum use should be made of the relevant existing bodies within civil society, such as professional associations, chambers of commerce, higher education establishments, regional and local authorities; the development of partnerships between these various bodies should also be encouraged;
- ◇ that financial instruments and guarantee mechanisms more suited for the needs of private enterprise should be put in place, particularly for SMEs; that FEMIP should focus more closely on the needs of the latter; one could, in this connection, contemplate or reconsider the creation of a geographically focused financial institution, as well as the setting up of a guarantee agency which might be funded, for instance, by a targeted utilization of part of the debt claims on those countries being waived by industrialized countries;
- ◇ that through training, and through giving a new impulse to the social, cultural and human objective of the Barcelona Process, a more entrepreneurial culture should be encouraged.

Acknowledging the importance of this last point, ELEC's Mediterranean Commission has decided to devote its next Mediterranean Conference to the subject of "Education, training and technology as the driving forces of economic and social development in Mediterranean third countries". This meeting will be held on Monaco on April 28 and 29, 2006.
