

# EU AND THE MEDITERRANEAN REGION: A FUTURE DILEMMA?

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Statistical evidence suggests that (i) during the last three decades globalization has brought about contradictory results for “less developed” countries seeking to catch up with the more advanced ones, some — most notably in Asia — have grown, whilst others — such as Africa — have not fared so well; (ii) technological change has progressively accelerated the substitution of labour by capital.

*Globalization seems to have had contradictory results for countries seeking to catch up.*

The main actors in globalization are the Trans National Corporations (TNC), which have been very powerful in recent decades (1), and have contributed significantly to the dramatic increase of the international trade flows as well as of Foreign Direct Investment on a world scale. Yet, economic and financial figures reveal that industrialized and post-industrialized economies have been increasing their mutual economic interactions — *triadic globalization*, ie. among EU, USA and Japan (Amoroso, 1996; Gomez y Paloma, 1993) — reversing the old mod-

## ABSTRACT

There is a strong tendency in current policy towards the construction of supra-national institutions such as the Euro-Mediterranean Free Trade Area, due to be established by 2010. At the same time there is evidence to suggest that economic disparities affecting the Euro-Mediterranean space — and corresponding differences in techno-economic systems — may jeopardize the implementation of these processes and widen existing gaps. These prospects imply that current socio-economic profiles, including demographic and migration gradients, of *entities* — eg. EU Member States as well as Southern and Eastern Mediterranean Countries — which are involved in the process will be radically affected. In this light the role of technology and its prospects for reducing economic disparities could play a central role in forthcoming policies in the Euro-Mediterranean context.

## RÉSUMÉ

*On assiste à une forte tendance de la politique actuelle vers la mise en place d'institutions supranationales telle que l'Aire de Libre Marché Euro-Méditerranéenne, envisagée pour l'année 2010. En même temps, on peut avec juste raison envisager que les disparités économiques qui atteignent l'espace Euro-Méditerranéen — et les différences au niveau des systèmes techno-économiques — pourraient entraver la réalisation de ces processus et élargir les différences existantes. Ces perspectives impliquent que les profils socio-économiques actuels, y compris les gradients démographiques et migratoires, des entités — à savoir, les Etats Membres de l'U.E. ainsi que les pays Méditerranéens du sud et de l'Est — qui participent à ce processus seront radicalement affectées. De ce point de vue, le rôle de la technologie et ses perspectives pour réduire les disparités économiques pourraient jouer un rôle central dans les politiques futures dans le contexte Euro-méditerranéen.*

el according to which the less industrialized world attracted investments from the industrialized one on account of both its abundant and cheap labour and its raw materials. The resulting *marginalization* consists of the progressive exclusion of less industrialized economies from certain very profitable phases of economic activity.

In the case of the Euro-Mediterranean space these developments have consisted of growth accompanied by only moderate job creation in the EU in the late eighties (UNDP, 1993) and unemployment without growth in most Southern and Eastern Mediterranean Countries (SEMC), eg. per capita GDP growth decreased from 2.8%-yearly average 1960-1970-to — 0.8%-yearly average 1990-1994 (2) — in Egypt; the

same downward trend affects most of the biggest SEMC, ie. Algeria, Tunisia, Morocco and Turkey (Bensidun and Chevalier, 1996, p53). At the same time unemployment has increased sharply all over SEMC since the 1980s, eg. it reached about 20% in the aforementioned SEMC countries in 1993-1995 (Bensidun and Chevalier, 1993, p20).

*Supra-national regions dominate the international policy agenda. The intention being to create “virtuous cycles” of growth to offset the negative impacts of globalization.*

At the same time, at institutional level the international policy agenda is pervaded by a wave of proliferating supra-national institutions embracing meso-regions, eg. Independent Community States, Union du Maghreb Arabe, NAFTA, Mercosur etc. In line with this process, EU policy is implementing actions intended to set up

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(1) Nowadays, in many cases the economic size of a Trans-National Corporation is bigger than that of a Country, e.g. at the beginning of the 1990s General Motors (GM) turnover was roughly double then Algerian GDP, i.e. one among the biggest south-east Mediterranean economies-GM turnover was 96,640 Millions ECU in 1990 (*Panorama of the EC industry 1993*, Eurostat, Luxembourg); Algeria GDP was 48,700 Million USD in 1992 (*Atlasco*, Paris, 1994). This quantitative relation may legitimate the question of a *structural imbalance* today existing between private economy and public national bodies.

(2) It should be borne in mind that the period 1990-94 was a recession.

the Euro-Mediterranean Free Trade Area by 2010.

All these institutions —which are being constructed and run by national and international public bodies —as far as they are forms of mutual protectionism among groups of countries, have been created with the more or less explicit purpose of promoting a “virtuous” economic cycle within the weakest economic pole and *a fortiori* minimizing negative effects of triadic globalization. In this context it is essential to explore the recent orientations underlying EU Mediterranean policy which have been outlined in the EU Council Conference of Cannes (*Conseil du 8 mars*, 26-27 June 1995) and epitomized in the Barcelona Conference and its following Declaration (Barcelona Conference, 27-28 November 1995.)

The challenge underlined in these documents is to define a multilateral framework dedicated to creating a “common space of shared prosperity”, peace and security, which is the prerequisite for a wider political, socio-economic, human and cultural dialogue (*Speech by Manuel Marin*, Euro-Mediterranean Conference, 1995) between the EU and the 12 SEMC —from Turkey to Morocco, excluding Libya —aiming to promote both sustainable growth and stability right around the Mediterranean basin.

This space of co-operation has been defined as the *Euro-Mediterranean Partnership*, and it is based on three main pillars: (i) dialogue on policy and security, (ii) economic and financial co-operation, (iii) human and cultural exchange (Barcelona Declaration, p 9, 10,11).

*The Euro-Mediterranean partnership is based on (i) dialogue on policy and security, (ii) economic and financial co-operation, (iii) human and cultural exchange.*

Despite the wide spectrum of topics approached in the *Partnership* the actions which will mostly affect the future socio-economic and political dynamics in the Euro-Mediterranean context are expected to be (i) the progressive liberalization of the movement in capital, goods and services, ie. the Euro-Mediterranean Free Trade Area (FTA) by 2010, (Barcelona Declaration, pp. 9, 11, 13) (ii) the increasing mobility of selected labour force, eg. young people, officials, students, professors, entrepreneurs, businessmen and sportsmen, all around the basin (ibid. *Programme de Travail*, pp. 16, 19, 20). As a consequence, the implementation of these actions raises new questions as to their repercussions for local economies and societies.

An overview of the main socio-economic profiles of the Euro-Mediterranean space may help in sketching the broad context of the Euro-Mediterranean playing field.

## THE EURO-MEDITERRANEAN GAP: SOCIO-ECONOMIC PROFILE

The Euro-Mediterranean context is characterized by relatively broad disparities from the economic, social and demographic standpoints. The economic level is the most obvious issue which separates the EU from the SEMC.

Although the population of the EU and SEMC are of the same order of magnitude, the ratio between the per capita Gross Domestic Product (GDP) of these two groups of countries is about 20 to 1. GDP has limitations as a means of expressing the potential of an economic system, ie. (i) it includes only the exchanged goods and services which appear on the official accounts, and does not include the *informal economy*, ie. exchanged goods and services outside of the official economy as well as those produced for self-consumption<sup>(3)</sup>; (ii) GDP per capita does not give any information about the income distribution, making statistics potentially misleading; (iii) straightforward comparison of GDP per capita of different countries gives a inaccurate impression of their relative living standards as it does not take into account their relative purchasing power.

*Even on the basis of adjusting GDP to overcome its limitations as a means of comparing the economic situation of widely differing countries, considerable gap still exists between the EU and the SEMC.*

This obstacle has been overcome by adjusting GDP per capita on the basis of the cost of living in each of the different countries, thus scaling it to the US equivalent, ie. GDP per capita using purchasing power comparison. Although this reduces the disparity between the EU and the SEMC are smoothed, the gap between EU and SEMC averages remain very high, with ratio of about 4 to 1<sup>(4)</sup>.

Since one of the main pillars of the Euro-Mediterranean Partnership is the opening of the Free Trade Area, the Euro-Mediterranean trade balance has been examined in order to verify in terms of trade the level of economic differences between the EU and SEMC (**figure 1 and 2**).

The trade balance —the sum of exports and imports — has been normalized to GDP in order to take into account the different economic weight of the two groups of countries. This makes it possible to sketch out a number of points: (i) the EU has a relatively level trade balance, ie. imports are quite well counterweighted by exports to other groups of countries, among which the

<sup>(3)</sup> This share accounts in some regions for up to 30% of GDP.

<sup>(4)</sup> Moreover, Israel, Cyprus and Malta show a figure very close to that of southern EU countries i.e. Spain, Portugal and Greece.

SEMC represents its main export partner; on the other hand, the SEMC trade balance is totally negative; (ii) despite the fact that trade in both the EU and the SEMC depends heavily on their top major trading partner —about 40% of their respective trade bulk —the trade dependence of the SEMC on their top trading partner, ie. the EU, is five times greater than the corresponding figure for the EU, ie. trade with Japan —in other words, the EU is five times more important *vis à vis* the SEMC than Japan *vis à vis* the EU.

The sectoral structure of the Euro-Mediterranean trade deserves analysis (**figure 3.1**).

The overall trade balance between the EU and SEMC is characterized by net energy imports vs net exports of manufactured goods; other industries such as agro-food and minerals are less significant. The main export from Algeria and Egypt toward the EU is energy, while Turkey, Morocco, Tunisia export mostly manufactured goods (**figure 3.2**), and a process of specialization of the textile/clothing sector is apparent, which marked comparative advantages are leading to geographical and sectoral concentration —Tunisia, Morocco and to a lesser extent Turkey are at the forefront of these phenomena among the non-Triad countries.

*Manufactured goods have taken an ever more important place in the SEMC economies, often specialising in particular sectors.*

The sectoral composition of SEMC exports has changed over the last two decades. In 1970 SEMC exported essentially agro-food products (41%) and energy (40%); the first oil-price shock caused the rise of the energy share of exports, while the following drop in the oil price has took the energy share back to previous levels (39%). On the other hand, manufactured goods have progressively eroded the previous

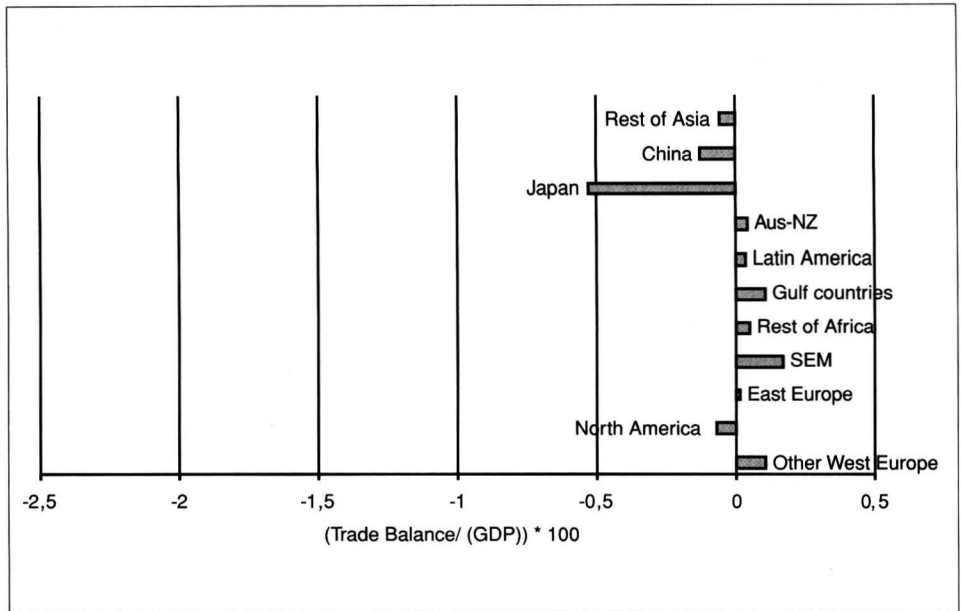


Figure 1 - EU Trade Balance normalized to GDP (1992).

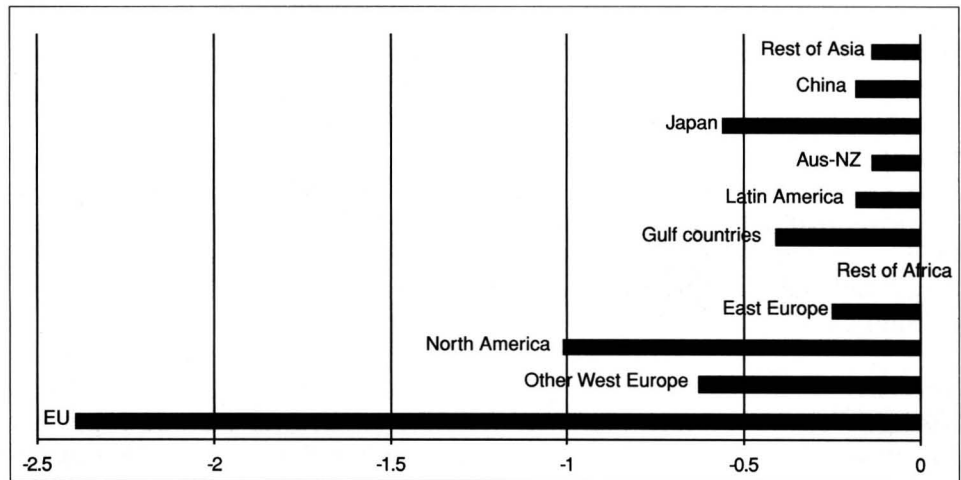


Figure 2 - SEMC Trade Balance normalized to GDP (1992).

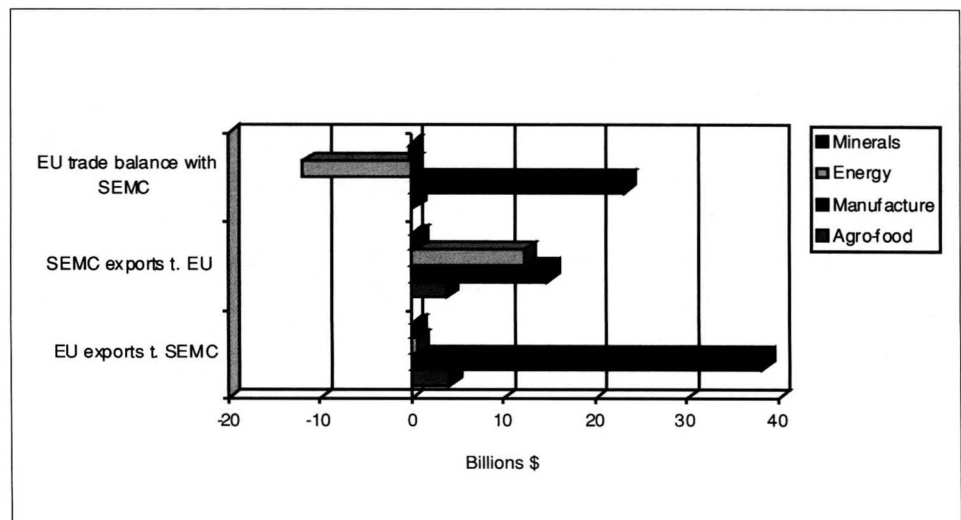


Figure 3.1 - Euro-Mediterranean trade in 1992.

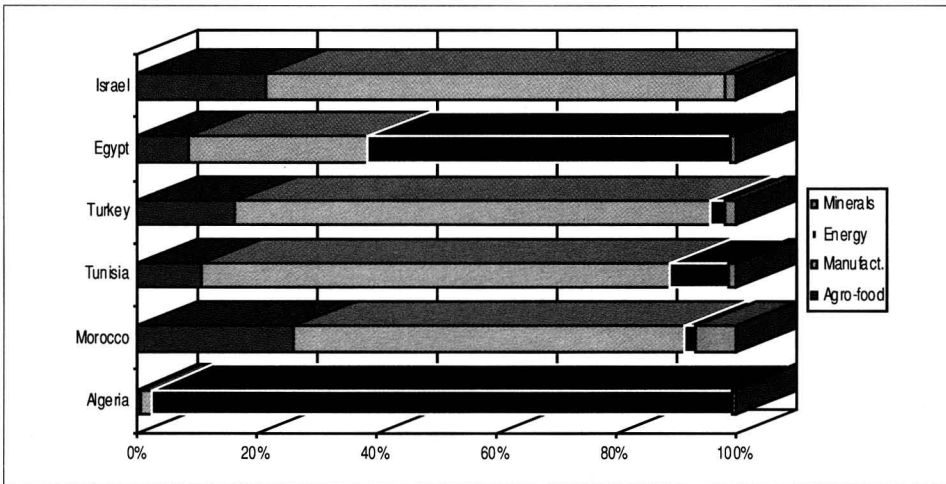


Figure 3.2 - Sectoral composition of main SEMC exports to the EU (1992).

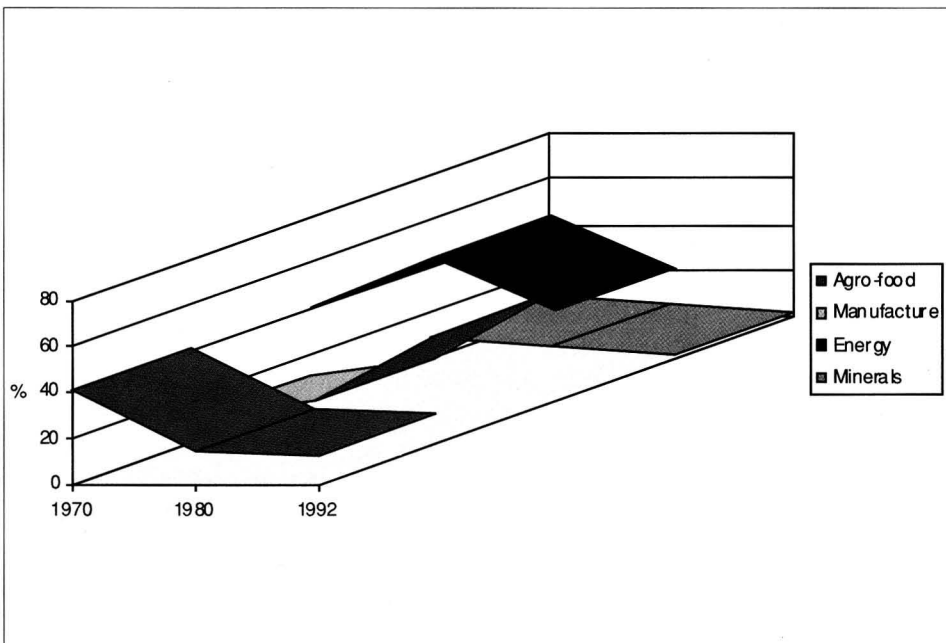


Figure 4 - SEMC export to words the EU.

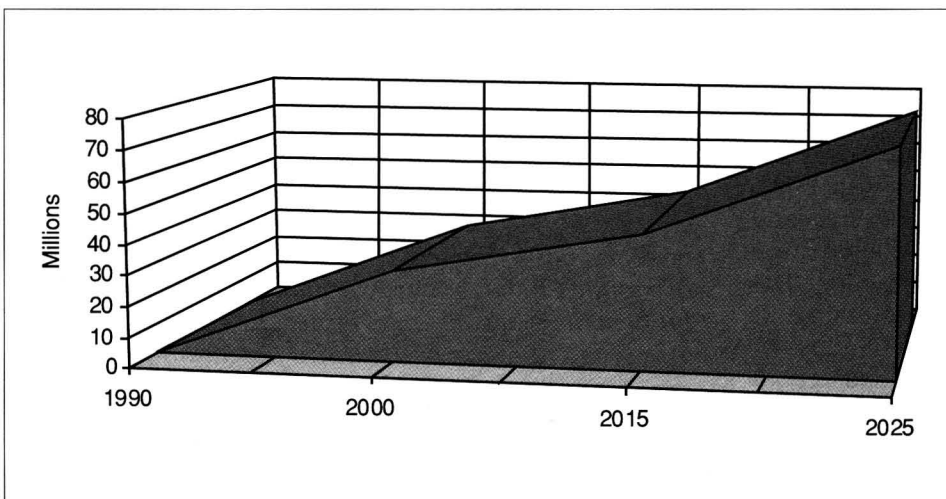


Figure 5 - Increase of the labour force supply in SEMC.

share of agro-food products, now representing half of the SEMC exports (figure 4) (Bonazzi, 1997, p36).

*The agri-food sector has been losing importance in Euro-Mediterranean trade, some SEMC countries becoming net importers. Nevertheless, the EU remains an important market for selected, high-added value foods.*

In fact, the agri-food sector has been losing importance in Euro-Mediterranean trade, and this happened together with the increase of the food dependence of most SEMC. During the last 20 years only Turkey and Morocco have been able to maintain a positive food trade balance, while all the other SEMC have become highly dependent on food imports. This dependence has been quantified by normalizing SEMC Agro-food Trade Balance on the related agro-food trade (agro-food TB)<sup>(\*)</sup>, eg. Egypt, Algeria and Syria passed from markedly positive to strongly negative values of this indicator.

This evolution has been determined by a confluence of various factors including demographic growth, different technological levels, competition from the main world producers (including EU), lack of agriculture-oriented national policies and little technological advance or transfer.

The agro-food deficit of the SEMC depends more on the rest of the world than on the EU. Nevertheless, the EU is a very important market for the selected, high added value Moroccan, Israeli and Tunisian agro-food products, especially citrus fruits. These products have been tailored by the SEMC to meet the demands of the EU market, but they have to face all the instruments of protection intended to guarantee preference to community produce. In fact, in the case of fruit and vegetables the SEMC products are in

(\*) TB = [(Exp-Imp)/(Exp+Imp)] \*100.

competition with those of Mediterranean EU countries, especially following recent improvement in access by some of them to the EU market —Greece, Portugal and Spain. It is very important to highlight that the agri-food sector —despite its declining importance relative to other industries in terms of trade —still plays a very important socio-economic role in the SEMC, which is strongly labour-intensive and accounts for a large share of jobs, most of which are concentrated in agricultural production. In fact agricultural population in SEMC comprises 40% of the total SEMC labour force —25 million jobs in 1991 —which is very much higher than the corresponding EU figure of 6%. Additionally, agriculture accounts in SEMC for a significant share of GDP (about 9%) excluding the *informal* agricultural economy that in some regions accounts for an additional share estimated to be of up to half of the overall agricultural production.

*Agriculture in the SEMC is highly labour-intensive and accounts for a large share of total employment.*

It is important to underline that among the SEMC, Turkey and Egypt are the giants in terms of agricultural jobs, accounting together for about twice the total agricultural labour force of the EU with some 18 million of agricultural workers in 1991 (Bonazzi, 1997, p47). Moreover, these two countries are expected to become the two demographic giants in the Mediterranean, together accounting for about 180 million people at the horizon 2025 (European Commission, 1994). This clearly must alert Euro-Mediterranean policy agenda on the dimension of the social issue involved in SEMC agricultural activities.

## THE OUTLOOK

The opening up of the Euro-Mediterranean Free Trade Area is supposed to gradually liberalize trade between the EU and most SEMC countries, which are characterized by a marked gap in terms of labour productivity especially in the agricultural sector, where the ratio is about one to ten (Bonazzi, 1997, p46). This raises important questions about the perspective of the Euro-Mediterranean space in terms of socio-economic and demographic dynamics. The experience of the creation of the NAFTA free trade area space is enlightening. The removal of agricultural tariffs under these agreements has boosted imports of cheap food from the US: this development benefited only Mexico's higher classes —less than 10% of the population—but it has made the future uncertain for millions of small-scale farmers who cannot compete with the foreign producers nor afford the imported food. According to the National Union of Regional Autonomous Peasant Organization —a Mexi-



can *campesino* umbrella group, —up to 80% of rural Mexican producers are caught in this bind (Renner, 1997).

*The shift from crops for home consumption to cash-crops for export has undermined the ability of many countries to meet internal demand.*

Through a similar process a drop in international cereal prices has been brought about through generous subsidies in developed countries —comparable to the juxtaposition of two production systems with a high gap in labour productivity —and this has provoked the substitution of cereals by export vegetable and fruits in dry irrigated valleys of many other Latin America countries. The upshot of this has been the inability of many countries to meet their internal demand for basic food grains, while the production of higher added value crops has grown steadily. This has also had environmental repercussions: these crops make inefficient use of natural resources, in particular soil and water. Thus the distortion caused by international market constraints has had severe consequences for the natural resource stocks (Syers *et al.*, 1996, p488). Finally in both cases the social consequences have been similar: the benefits of liberalization depends on how many displaced workers find jobs in other areas and, more importantly, the redistributive mechanisms that are in place.

*The social consequences of the liberalization process have tended to be that only a small share of the population benefits whilst it undermines the economic subsistence of much of the agricultural population.*

Just as in the above mentioned Latin America cases, SEMC economies may be severely affected by FTA implementation in all industries where the current high labour productivity gap *vis à vis* the EU will persist, (ie. between traditional and labour intensive agricultural

production systems (Renner, 1997)). In fact, the actions outlined by the Euro-Mediterranean FTA could exacerbate the lack of competitiveness of traditional, labour-intensive agricultural production systems in the SEMC, and consequently render them even more fragile. This could aggravate the already ongoing phenomenon of rural depopulation in many SEMC, among which Turkey and Egypt are likely to be the most affected in terms of job losses in agriculture, on account of their lowest agricultural labour productivity.

*Climate, low labour productivity and land-ownership patterns militate against agricultural efficiency in SEMC countries.*

More generally, low labour productivity in SEMC agriculture is due both to environmental and socio-economic factors, ie. (i) a very small land fraction is under cultivation because of relatively difficult climatic and soil conditions compared to those in Europe and, furthermore, the irrigated surface is small compared to the crop needs—which again depends upon the dryness of the climate; (ii) fragmentary small-holdings on the one hand and over-concentrated estates on the other, both make farms and firms distant from their optimal size for efficiency (judged in terms of the input combination which maximises the productivity of a given economic process). These dynamics are expected to be reinforced by the growth of the overall labour force supply in the SEMC, where at least 75 million people will enter the job market by 2025 (figure 5), when there will be at least 20 million legal migrant workers around the Mediterranean.

*Use of appropriate technology can clearly play a key role in bringing the SEMC up to par.*

Looking at it from this point of view technology—ie. the pattern in which human societies organize production systems, utilizing capital, labour, natural resources and physical techniques—can clearly play a pivotal role in bringing different levels of agricultural labour productivity existing between the EU and SEMC up to par, ie. by the use of *appropriate* technology. Accordingly, the prospects for technology transfers all around the Mediterranean region as a supporting tool in a global process of re-structuring the Common Agricultural Policy (which, in any case, is not permanent and unchangeable) would be highly desirable, thus contributing to including it in a broader context of agricultural Euro-Mediterranean policy. On the other hand, the opening up of the FTA in the Euro-Mediterranean space may further enhance SEMC exports towards the EU in certain manufacturing sectors, some of which have been increasing their competitiveness during the last twenty years thanks to the somewhat smaller productivity gap existing between many SEMC and EU indus-

tries, eg. textiles in Tunisia Turkey and Morocco. In this light political strategies to promote (i) agricultural labour intensive activities—that can attenuate the food dependence and curb rural depopulation—and (ii) selected manufacturing industries—that could be competitive in the free market context foreseen by the Euro-Mediterranean Free Trade Area—would be desirable. ●

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