

# **The Political Economy of the Euro-Mediterranean Partnership- A Double Edged Strategy**

**By**

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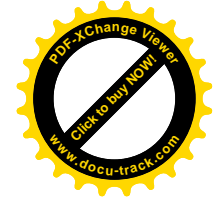
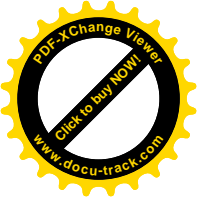
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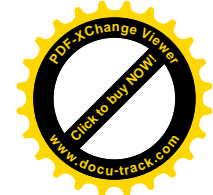
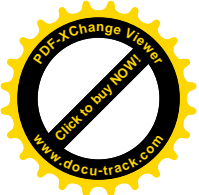
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## List of Acronyms

AMP – Arab Mediterranean Partners

EC – European Community

EMP – European Mediterranean Partnership

ENP – European Neighborhood Policy

EU- European Union

FDI – Foreign Direct Investment

FTA- Free Trade Agreement

FTZ – Free Trade Zone

GSP – Generalized System of Preference

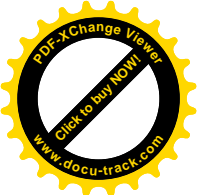
IPE – International Political Economy

LDC – Least Developed Country

MENA- North Africa and Middle East

GMP – Global Mediterranean Partnership

WC – Washington Consensus



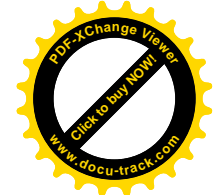
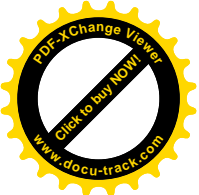
*'Barcelona is dead; long live Barcelona'*

Tobias Schumacher

## **CHAPTER 1: INTRODUCTION**

The European Union is an important donor and key player in promoting development, aid and financial and governance assistance, in North Africa and Middle East (MENA) region. Its presence in the region is traced throughout history due to colonialism, establishing political and economic relations with South and East Mediterranean Countries. The relevance of Europe goes beyond the economic dominance; the political and cultural exchanges throughout history have raised the significance Europe represented to Mediterranean countries. Concerning development of MENA region, EU has strongly influenced the performance of Arab Mediterranean Partner's (AMP) economies through policy instruments, financial assistance and 'good governance' programs becoming a dependent variable to the economic performance of the region. The intrinsic nature of policies toward development in Mediterranean basin, enacted from EU have been of economic nature promoting pro market fundamental reforms, where primacy of market reforms superseded social and political reforms, developing an oriented market based concept of development.

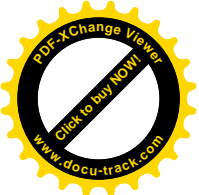
EU's developmental approach has been prone to criticism because market fundamentalism reforms have instead raised unemployment, the gap between rich and poor, north and south, has not increased the foreign direct investment (FDI) to boost long term economic growth due among poor economic infrastructure for investment, political instability, rise of military conflicts and negative perceptions of MENA region after the 9/11 attack. The political and economic relations between EU and MENA region was formalized by the sign of Barcelona Declaration. The main objective of agreement was to bring political stability and economic reform through the establishment of a free trade area in the Mediterranean basin. Hence



EMP's purpose was to bring the region closer to EU in terms of institutional and economic convergence.

The main objective of the paper is to shed light over the policy design and implementation of free trade agreement under the economic and financial cooperation the EU has launched with MENA countries. It tries to answer the question EU has met its prior objectives from initial stage like create a more sustainable socio economic development, economic growth and creation of social safety net or have failed to. This paper is founded on the assumption that there is a huge discrepancy between the overall policy objectives of the partnership and accomplished results, depicted in the case of Morocco. It argues that the design of policy objectives and implementation is oblivious of differences of each AMP partners, their socio economic indicators, political system, GDP, employment but instead treats it as homogenous region. It will verify that to achieve economic and financial development through establishment of free trade agreements (FTA) first EU must be cognizant of socio economic conditions, power relations, political structures, material and immaterial endogenous factors like political, social, cultural, and human and culture of production. The Barcelona conference is labeled a 'genuinely European project', where pursuit of EU's external economic policies suggest that Euro-Med approach has rather promoted the Union's commercial interests rather than establishment of economic development at nation or region level (Gomez, 2003a: 62). Instead this relationship has reinforced the historical asymmetry, reinforcing the leading role of EU on imposition of policies and deepening the economic dependency of AMP toward EU economies even though the overarching means of this partnership declares to it is joint ownership and cooperation.

The research has qualitative nature and draws on secondary literature mostly. A great reference is given to policy documents, white papers, published annual reports published



from EU, and articles from think tanks and research institutes specialized for study of the region and books.

The paper outline is composed of chapter 2 that takes a closer look to socio economic in MENA countries followed with another section on history of relations with Europe, the evolvement of European Mediterranean Policy, observing its main components and policy objectives. Chapter 3 will offer a more abstract vision of the economic liberalization policies between EU and MENA region, bringing two contrasting views of two different schools of thoughts. Chapter 4 brings a concrete example of implementation of economic liberalization policies in Morocco, elucidating the questions about adaptability of policy objectives in current case of Morocco with the actual economic indicators. Chapter 5 will draw conclusions by modestly attempting to provide an explanation to doubts raised at start.

## CHAPTER 2: AN OVERVIEW OF SOCIO-ECONOMIC ENVIRONMENT OF MENA REGION AND THE EUROPEAN MEDITERRANEAN PARTNERSHIP

This chapter will give some basic information about the actual socio economic development of Mediterranean states, their economic system, social norms, political culture, and their interaction. After a general overview of the context, it will explicate main components of Euro-Mediterranean Partnership Initiative, its main goals, assaying its outcomes at the time span of a decade and questioning on the adequacy and adaptability of these objectives.

### 2.1 Current trends of Mediterranean countries<sup>1</sup>

From developmental perspective, Mediterranean countries are middle to low income countries. As the data from European Investment Bank (2009: 1) shows, the average GDP of MENA region is 2100, ten times lower than EU, the income per capita stretches from USD 1000-4000. A highly growing population is accompanied with high illiteracy levels, dominant trends among the female population.

Table 1: Basic indicators

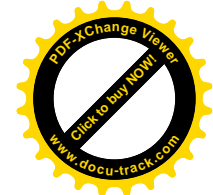
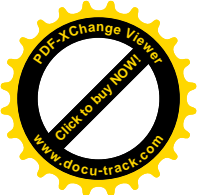
	GDP 2001 (Billion USD)	GDP per capita 2001 (USD)	Population 2001 (million)	Average population growth per annum 1995- 2000 (%)	Adult illiteracy rate 1998 (%)		Poverty (% of population)*	Recorded Unemploy- ment (%) <sup>2</sup>
					Total	Female		
Algeria	55.3	1800	30.7	2.0	35	46	15.1	30.0
Egypt	83.0	1300	64.0	2.1	46	58	52.7	7.6
Israel	110.4	17160	6.4	2.5	4	6	n.a.	8.8
Jordan	8.7	1670	5.2	3.4	11	17	7.4	15.0
Lebanon	17.0	3870	4.4	2.9	15	21	n.a.	8.5
Morocco	33.0	1130	29.2	1.8	53	66	7.5	21.7
Syria	18.4	1070	17.2	3.0	27	42	n.a.	20.0
Tunisia	19.6	2020	9.7	1.5	31	42	10.0	15.6
Turkey	139.9	2100	66.5	1.6	16	25	18.0	7.1
<b>Total</b>	<b>485.2</b>		<b>233.3</b>	<b>2.0</b>				

Sources: EIU, IMF, World Bank, Moody's, FEMIP estimates

\*Based on \$2 per day PPP measure

(Sources: European Investment Bank, 2009: 1)

<sup>1</sup> The data above about actual trends and statistics in Mediterranean countries are retrieved from European Investment Bank, Femip paper EUROPEAN INVESTMENT BANK (2009) The Economic Situation of the Mediterranean countries.



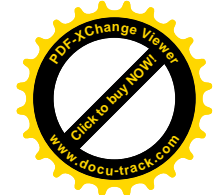
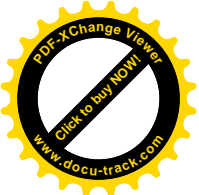
The economic growth of the region is unstable and fluctuating. Moreover the events of 9/11 affected tourism and the region's attractiveness of FDI's. Algeria and Syria's economic growth fell short in 2001 when oil prices dropped. The fall of prices affected as well remittances from migrant workers in Gulf States from countries of origin like Jordan and Egypt. The overall progress in medium terms have been characterized of slowdown of growth raising unemployment. In 1980's they market high fiscal deficits and external debts. Market oriented policies followed in order to reverse the economic decline these countries were foregoing, to bring growth and stability in the region. After the Mediterranean countries formalized trade liberalization with EU, and the first official assistance of MEDA I was disbursed to each AMP, the policy outcome remained grim. The period from 1996-2001 the per capita growth in short term 1.4 % average per year, but still much lower compared to the growth rate of EU from FTA, increasing further the gap between north and south. This growth did not affect the improvement in living standards, keeping unemployment high to almost 20 % in each Mediterranean partner. As well poverty levels did not improve, but instead remained as high as prior the EMP was enforced, ranging from 7 % -50 %.

Another pessimistic data comes from influx levels of FDI. The high gross domestic investments have been sustaining but not in same proportion of growth in labor force estimated to be the highest among all regions. Notwithstanding the financing incentives to attract foreign direct investments has been fostered by EU, yet the region has lagged behind to achieve it, because of the slow pace of reforms and the political instability and military conflicts in the Middle East, have damaged the investor's confidence to empower private sector.

## ***2.2 The Socio-Economic Context of AMP'S***

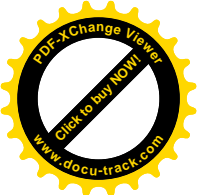
The Arab states that participate in the Barcelona process are treated as an homogenous entity shaped but instead immense differences characterizes them in terms of GDP, external debt





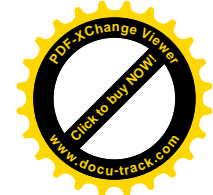
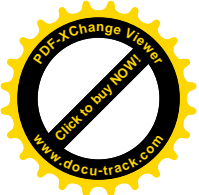
burden, inflation rate, population, richness and availability of natural resources shift from one country to another, etc. The political and economic structures are different including size and role of private sector and the degree of liberalization and application of macroeconomic stabilization package. The Arab states that participate in EMP are not rich in natural resources apart Algeria but region is characterized of regional migration of labor due to high salaries and wages deriving from rich oil states of Gulf. There are three different classification derived from oil states, which represent pivotal importance to regional economic growth. The first grouping of states are the gulf region who are members of OPEC as oil producers, whose economies are ruled by oil production and main concern of ruling elite is to maximize oil prices and extract rents at global level. The second group constitutes OPEC oil exporters, large states where only Algeria as member of EMP is part of it. These economies are as well dependent on oil but yet as well concerned to diversify their economy apart from oil. The third grouping includes only EMP states (Egypt, Morocco, Jordan, Yemen and Lebanon) except Yemen which is non EMP partner. They are diversified economies 'whose oil exporting sectors are either relatively small or non-existent, but which are still relatively reliant on oil markets either directly as exporters or indirectly for regional export markets for traded goods or labor through worker remittances and capital inflows from richer regional oil exporting countries' (Dasgupta et al., 2004: 15).

The focus will be on countries that are EMP partners, but the reference will be done as well to states of first category as part of regional economic exchange which affects both economies. Oil is a commodity managed primarily by state through domestic and regional exports. Its importance ranges not only to oil producing countries but also non rich oil states whose other sectors of economy are affected like migration of labor contributing to increase of inflow revenues and export of traded goods. Thus some scholars label it 'political commodity' albeit the notion is prone to debates (Luciani, 2005: 80).



In non rentier states, the latter extracts its revenues from society through collection of taxes known as production states because state funds itself through taxes, in rentier states the government extracts incomes derive from external sources from domestic rents, thus it does not need taxes being independent from society with no opportunity for the latter to scrutinize state's duties. The incomes from external resources are not invested in production but in allocation of domestic resources from food to health care, transforming them into *distributive or allocation states*. The distributive role of state consists in allocation of revenues accumulated from abroad to welfare programs and sectors related to alimentation like subsidies on food, providing free education or health care to satisfy citizens serving as well as form of bribing to keep them submissive and reduce any claim of transparency toward government.

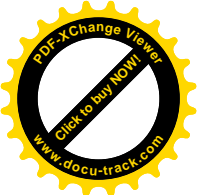
There is a circulation of revenues from rich oil states toward non rich oil states, through influx of private constituting official budgetary transfers from Gulf States to non oil states, members of EMP (Schlumberger, 2000: 248). To qualify as 'rentier state' the destination of rents are external actors beyond nation state, extracting surpluses of rents from external sources. The second criterion is that the revenues accrued by the rent reach the governments as ultimate recipient and not citizens (Luciani, 2005: 91). Hence the Gulf States are called 'rentier' states because they derive most of nation revenues from rent of natural resources toward external actors. The AMP are 'second order rentier states' or 'semi-rentier' who fall short of natural resources but a part of their revenues derives from extraction of natural resources from rentier states. The revenues obtained from rents have not gained access toward the private sector but instead is the government the beneficiary of this system. This regional economic system could create a 'rentier mentality' (Beblawi, 1990: 85) where governments are less prone to receive revenues from domestic taxation more extreme in case of 'rentier states', allowing tax evasion or with minimum tax rate in semi-rentier states. During the



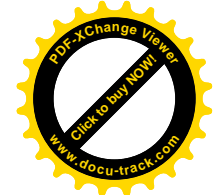
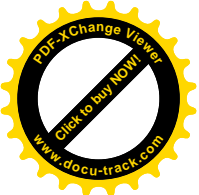
1970's and 1980's when there was an influx of external resources, an overexpansion of state bureaucracy, strong states and big governments became the largest and ultimate employer (Lavialle, 2007: 9). The allocation of domestic resources meant also favoritism of a particular clan as strategic actors who mutually reciprocate and reinforce the existing patterns of state-society relations. It has legitimized rent seeking in state's relations toward external resources as well domestically, reinforcing a system which produces itself systematically. Its sustaining principle is not reward on meritocracy but of loyalty and devotion toward ruling elites, establishing patron and clients relations. The political systems of many Arab states are distinguished as authoritarian regime and the beginning of rent system reinforced the regime since the chances of pressure from below are low. In the MENA region, states like Algeria, Egypt and Syria were under a patrimonial rule the relationship is that of patron-client where the ruler is viewed as owner of state apparatus and the main allocation tasks of government are done in order to have control over masses. Even in cases of monarchies with western mode of governance, the authoritarian degree has been conserved and reinforced.

This system fails to make governments more accountable or democratic toward its citizens. Due to a system where governments as main benefactors favor and reward small elite in private sector whose gains are not based in meritocracy but instead ownership and access to resources governments, have become the most powerful economic agents with economic instruments and power to allocate funds to sectors they consider as pivotal to its citizenry and economy.

In terms of economic reforms, the semi-rentier states like Jordan, Morocco, and Tunisia have lagged behind. This has not been achieved despite slight progress in short term after application of reforms; still the overall achievement has been slow pace raising dissatisfaction toward international donors. Many AMP's embraced Pro-Western reforms following Washington Consensus package of reforms in liberalization of economy and international



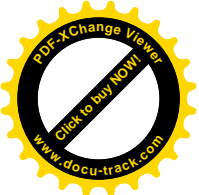
trade, privatization, de regulation, attempting to become internationally competitive and attractive to FDI, yet they failed to obtain benefits. Successful economic reform imply a large and competitive private sector which delivers public goods and takes over production tasks that the state can not perform, being attractive to compete at domestic and international level. Two main elements for successful private sector is enforcement of rule of law and competition. Arab states characterized as distorted markets score on lack of efficiency and not functioning rule of law. Efficiency of private sectors in AMP countries represent another phenomenon compared to democratic countries. In western countries, efficiency is bound to productivity and resulting in profits and gains. In AMP's gains are not always associated with productivity but through personal connection with state bureaucrats who facilitate viability of enterprises bypassing formal application of law. Unequal treatment toward private sector conditioned by personal connection with elites de motivates many entrepreneurs' especially foreign companies who are not locally connected to influential leaders remaining outside of a club of privileged entrepreneurs due to unfair competition. As result, 'access to the market for newcomers, to information on market conditions, competition based on innovation or productivity and rule of law are limited or ruled out for sociopolitical reasons'(Schlumberger, 2000: 251). The biggest barriers to sustainable development is the patron client relationship between state and society, characterized of favoritism to small elites to maintain hegemonic rule of governors, the informal network which determines 'who gets what' not based on merits but rather political connections, the rise of islamist fundamentalism and political instability in Middle East, limit the attractiveness of these markets to attract more FDI and adapt to international standards, remaining cross roads between east and west rather than a cohesive entity. The hesitation from ruling elite to embrace economic reform comes as fear to loose power and control, creating a vicious cycle where prevails lack of economic reform lack of legitimacy and democracy, limited pressure for political openness from below, bring to an



end a more stronger authoritarian system upholding political stagnation without democracy. The prevailing socio economic patterns have become resistant to external influence, with economic liberalization not having any influence in them. They are embedded in the mentality of conducting business and constructing daily relations. Rent seeking is considered a societal norm, a family based social values prevailing over merit based system of norms with patronage and neo patrimonialism 'shaping political rule as well as social structures and economic interaction in Arab states (Schlumberger, 2000: 252). In the upcoming section we will analyze the EU's Mediterranean Policy and examine whether EU has already considered these factors when addressing market based reforms to Arab countries.

### ***2.3 The Genesis of EU Mediterranean Policy***

The political and economic relationship between the EC/EU and the south east Mediterranean countries dates back from 1960s, after the sign of Treaty of Rome in 1957, but the historical importance this region has represented for the Community dates even further from previous periods of colonization. Thus an historical evolution of the interaction between these two blocks is dispensable to understand the dynamics of multilateral and bilateral relations evolved between the two regions. Hence, it was in the 1970s when the Community that time, originated a strategy for the region, a new policy framework known as the Global Mediterranean Policy, composed of 'Cooperation Agreements' consisting of aspects related to financial, technical and social, intending to expand the geographical possibility and scope of interaction (Gomez, 2003a: 30). In early 70's EC applied a developmental plan by launching the Generalized system of Preference (GSP) to least developed countries (LDC) on non reciprocal duty free entry for manufactured and semi manufactured industrial goods with limited quota for certain agricultural products (Knio, 2007a: 1). Intrinsically at the basics of cooperation agreements was instead establishment of a free trade area allowing free movement of goods among the two regions, intending to increase European exports assuming

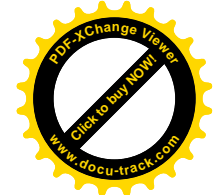
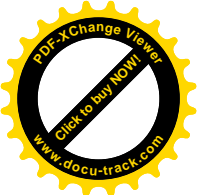


increase market competition to Arab countries becoming attractive to European companies and further investments but that did not occur. Cooperation agreements granted Mediterranean countries one way free entry to 'manufactured and semi manufactured industrial goods to the Community, partial tariff exemptions on certain agricultural goods, limited amount of financial aid and financial assistance through long term interest-rates loans from European Investment Bank (EIB)' (Knio, 2009: 79).

Nonetheless there was recognition that free trade let aside would not be the driving motor of development in the region but instead the policy should entail other prerequisites concerning technology transfer, environmental, financial and technical cooperation (Gomez, 2003a: 30).

Yet the Global Mediterranean Partnership failed to address the differences between the two regions in terms of industrial and agricultural development, deepening the historical asymmetry characterizing the two regions. The notion of free trade fell through due to maintenance of preferential treatment and liberalization, hence allowing differentiation among Mediterranean country on a case of case basis (Gomez, 2003a: 33). In the late 80's and early 90's, EU approach to development was conceived as market based reform with a shift from a non reciprocal trade relations to complete reciprocity (Knio, 2007a: 1). The market measures that portrayed the EU Mediterranean Policy was exemplified when in 1975 a consent on 'market organization measures' was reached, on purpose to safeguard the most sensitive sectors of European economy, entailing tariff concession from 30-100 % where only 86-89 % of it covered agricultural products, with a small reduction per tariff for Tunisia and Morocco, reaching 30-40 % of their imports (Gomez, 2003b: 34).

Restrictive measures were also applied to most vital sectors in need of export for Mediterranean partners to boost up their economy like marine products and exotic fruits. Limitations terms of trade that deepened the relationship asymmetry was stretched to sectors where conditions were dictated by the Community, where Arab countries had an overall



advantage compared to its European counterparts. Textiles is a sector where Morocco, Tunisia, and Egypt are advances in terms of production and quality, nonetheless it remained a banned sector from the free trade agreements being subject to export constraints, damaging the economy these countries, whose main revenues derive from trade and exports (Gomez, 2003a: 35). Thus the guiding principle of European members was liberalization of trade only of those goods and services that do not threaten European domestic producers, raising the leverage in negotiation process in favor of EU and exacerbating the historical asymmetry of two blocks. Since the genesis of historical relations trade represents the fundamental of Euro-Mediterranean relations, through safeguarding the same patterns of import and export conditions as in the past. This policy reveals lack of interest from European member to be a factor of progress and contribute to economic development of Mediterranean economies, but instead it reinforced and preserved the economic dependency inherited from the colonial past, reinforcing the North South pattern of relationship.

## ***2.4 The European Mediterranean Partnership (EMP) – Policy Goals and Implementation***

In the late 80's Northern Africa and Middle East countries were facing economic backlash with high external debts due to drop of oil prices, fall of world commodity prices and further there were lack of adequate domestic policies to address these deficiencies. In the table below, the data represent high external debts, reaching almost to half of nation's GNP (Gomez, 2003c: 44). In the early 90's the Maghreb region<sup>2</sup> was under fiscal discipline due to structural adjustment programs imposed by IMF, aggravating domestic economies, with unpopular austerity measures in order to pay back creditors with cuts on government spending, deteriorating the countries to civil unrests. The economic repercussion

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<sup>2</sup> The Maghreb states are Algeria, Morocco and Tunisia.

Mediterranean basin, the raise of external debts, austerity measures, the political turmoil with lack of stability arising in military conflicts in Middle East by the Gulf crises in the 90's, high unemployment and population growth with potential to upsurge into illegal immigration alarmed the European political leaders, realizing that actions needed to be taken toward the Mediterranean basin. It not only reflected the failure of such a strategy from structural adjustment programs from IMF and World Bank, but also it reflected a failure of Cooperation Agreements to serve as engine of economic growth through trade.

Table 2.

Country	1980 Debt/GNP (%)	1989 Debt/GNP (%)	1980 Debt/Exports * (%)	1989 Debt/Exports * (%)
Cyprus	25.0	47.0	49.0	82.0
Maghreb	47.2	74.9	150.1	237.9
Malta	8.8	20.7	9.1	24.3
Mashreq	52.0	102.7	110.0	229.3
Turkey	34.3	53.8	332.9	189.8

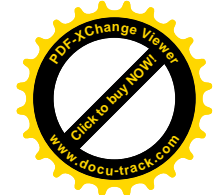
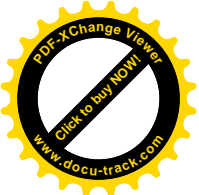
Sources: World Bank (1996) *World Debt Tables*; Ayari, C. (1992) *Enjeux Méditerranéens: Pour Une Coopération Euro-Arabe*, Paris: CNRS, p. 199.

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Against political upheavals occurring next to European shores, there was a recognition among European member that instability in the Mediterranean basis would convert into destabilizing factor for neighboring European countries itself, as well the poor economic performance with deterioration with growing unemployment, food shortages and balance of payments, the European Union (EU) that time decided to establish a new framework for its relations with south east Mediterranean, to reinvigorate a new view to forming a 'partnership' with creation of a free trade area and 'cooperation' entailing an equal treatment as partners including all sectors of economy from energy policy to food provision. The membership of Central Eastern European countries in the EU, and their further development through funds and financial

<sup>3</sup> GOMEZ, R. (2003c) Old Wines in New Bottles? The Renovated Mediterranean Policy and the Euro-Mediterranean Agreements. *Negotiating the Euro-Mediterranean Partnership. Strategic Action in EU Foreign Policy?* Hampshire and Burlington, Ashgate Publishing Company.

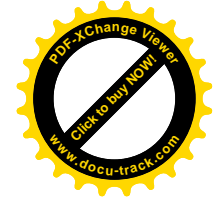
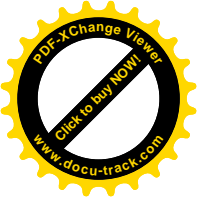




instruments rose fears of growth of this region at the expense of south. Thus the EU had to offset its leading policy that time toward Eastern block through a comprehensive framework for the south. Three main events have affected the viability of EMP a) the terrorist attacks of 9/11 and the global attack against terrorism b) the increase of illegal immigration coming from the coastline of Mediterranean countries reaching toward EU countries c) the enlargement of 2004, by expanding the EU borders toward the East (Aliboni et al., 2008: 8).

The Euro-Mediterranean conference was held in Barcelona, in 27 and 28 November 1995, bringing together Ministers for Foreign Affairs of the 15 EU Member States of that time and the following 12 Mediterranean non-member countries (MNCs): Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, the Palestinian Authority, Syria, Tunisia, Turkey and Lybia as observer (European Commission, 1995)<sup>4</sup>. The Barcelona Process as also known, portrayed a sophisticated approach of the MENA region, envisaging a mutual relation of two regions founded on of joint ownership, dialogue and co-operation, to establish 'peace, security and shared prosperity' (European Commission, 2005). At first stance it may appear an attempt to reverse the asymmetry and discrimination that characterized the historical links raising expectations of Arab leaders that through this agreement would bring economic growth and mutual benefits for both camps. The main instrument to EMP was the Association Agreements substituting the cooperation agreements, more ambitious in quantitative and qualitative terms with demanding conditionality. The main financial instrument was 'MEDA'

<sup>4</sup> The 'Barcelona Declaration' came into being at a conference held in 1995, between 15 EU members represented by Ministers of Foreign Affairs with other 14 Southern and Eastern Mediterranean countries, signed in Barcelona. The Euro-Mediterranean Partnership is the final agreement reached with the consent among all present governments that gives life to regional and bilateral relations between Northern Africa and Middle East with EU. The Mediterranean countries consist of the Maghreb states (Algeria, Morocco, and Tunisia); (Cyprus, Malta and turkey as three non Arab partners; and the Mashriq region (Egypt, Israel, Jordan, Lebanon, the Palestinian Authority and Syria). Cyprus and Malta are no longer members of EMP because they joined EU during the Eastern Enlargement in 2004. Libya is also a country geographically located in the Mediterranean but not member of the partnership, instead with the status of observer. Also Turkey and Israel are treated exclusively, due to Turkey's candidacy status, reached through negotiations to join the EU, and Israel being categorized as semi developed country is excluded from MEDA funds. See for example, EUROPEAN COMMISSION (2005 ) The Barcelona Process. For more [http://ec.europa.eu/external\\_relations/euromed/barcelona\\_en.htm](http://ec.europa.eu/external_relations/euromed/barcelona_en.htm), SCHLUMBERGER, O. (2000) Arab Political Economy and the European Union's Mediterranean Policy: What Prospects for Development? *New Political Economy*, 5.



funds which offer technical and financial means to support the implementation of political and economic reforms. The EU reserved bilateral agreements with each of Mediterranean Partners (MP).

The Barcelona conference, marked the start of a long process, known as the Barcelona process, designed to build a multilateral framework for cooperation and dialogue in three dimensions of the partnership (Keukeleire and Macnaughtan, 2008: 275);

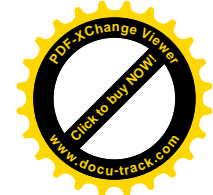
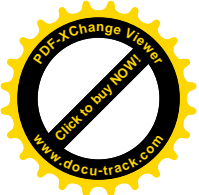
- The Political and Security partnership
- Economic and Financial Partnership
- Social, Cultural and Human Partnership

The objectives of the Barcelona Declaration<sup>5</sup> promised to achieve;

- *The political and security basket* 'establishment of a common area of peace and stability through political and security dialogue, develop the rule of law and democracy in their political systems, respect for human rights and fundamental freedoms, strengthen cooperation in preventing and combating terrorism, fight against organized crime and drugs, refrain from developing military capacity ;
- *The economic and financial cooperation basket*, construction of an area of shared prosperity, through gradual establishment of a free-trade area seeking to promote shared economic opportunity through sustainable and balanced socio-economic development, promising assistance on promotion and development of the private sector, upgrading of the productive sector and to the establishment of an appropriate institutional and regulatory framework for a market economy in order to mitigate the negative consequences arising from the structural adjustments program, transfer of technology;
- *The social, cultural and human affairs basket*, development of human resources, promote understanding between cultures and exchanges between civil societies, intercultural dialogue

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<sup>5</sup> [http://ec.europa.eu/external\\_relations/euromed/barcelona\\_en.htm](http://ec.europa.eu/external_relations/euromed/barcelona_en.htm)



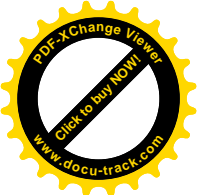
between cultures, religions and people, and facilitating exchanges between civil society and ordinary citizens, particularly women and young people' (Appendix Barcelona Declaration, 1997: 179).

The first basket revolves which revolves around respect for and compliance with universal principles of rule of law and human of rights, additionally with non proliferation of nuclear, chemical and biological weapons. It is a new component in the EU Mediterranean policy, lacking from previous cooperation agreements. This chapter has been criticized for containing solely 'few concrete steps toward political implementation of goals set, representing not more than a lip service to democracy and rule of law' (Schlumberger, 2000: 254)

Also at security levels, the collapse of peace process in Middle East represented a failure from EU countries. Arab leaders mistrusted EU countries for being politically aligned towards Israel and not applying sanctions, against the utilization of nuclear policy toward Palestinians, even more supporting them through confidence-building measures weakening the defense capability of Palestinians (Keukeleire and Macnaughtan, 2008: 277).

The EU's economic approach embedded in the economic and financial basket II, revolves around the 'creation of a shared area of prosperity' to be realized through a free trade zone (FTZ) by 2010, including as well development in areas of industry, energy, environment, etc. At its heart is establishment of FTZ through Association Agreements between the two regions. Many of resources are allotted bilaterally through financial instrument 'MEDA Program' (*Mésure d'Adjustement*) which is part of chapter II. The MEDA I program was established from 1995-1999 invested €3.435 billion for financial cooperation, while MEDA II from 2000-2006 donated €5.350 billion (Knio, 2007b: 4). The MEDA regulation revolves around these measures (Schlumberger, 2000: 254):

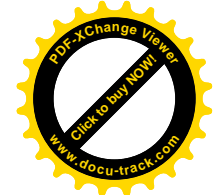
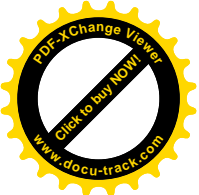
- structural adjustment facilities
- economic transition and private sector development



- loans for investments in production and infrastructure
- promotion of social sector programs to stifle the negative consequences of economic liberalization

The creation of FTZ makes up the most pivotal pillar of economic and financial cooperation basket assessed as means to foster long term sustainable development and economic growth by attracting more FDI, backed through social programs to mitigate the social costs economic liberalization entails. Its implementation focuses on:

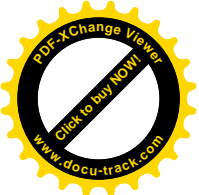
- Policy formulation based on principles of market economy
  - a) Eliminate tariff and non-tariff barriers to trade in manufactured products
  - b) Liberalize trade in agricultural products through reciprocal preferential access among the parties
  - c) liberalize trade in services in compliance with GATS agreement
- Initiate economic adjustment by:
  - a) modernizing economic structures
  - b) promotion of private sector
  - c) upgrade the production sector
- Initiate social adjustment by:
  - a) modernizing social structures
  - b) mitigate negative effects
  - c) programs for most vulnerable population
- Initiate institutional adjustment by:
  - a) Setting up institutional regulatory framework favorable to market economy
- Foster of technology transfer



(European Commission, 2009: 12, Appendix Barcelona Declaration, 1997, Zaafrane and Mahjoub, 2000)

Economic and financial cooperation since it manifests direct linkage with FTA, stresses the support for domestic savings and foreign direct investment (FDI), in order to create an environment that induces private investment and sound macroeconomic management as crucial to financial cooperation and dialogue.

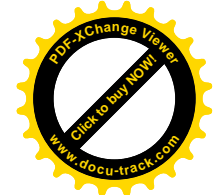
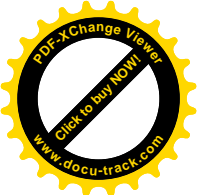
The social, human and cultural affairs basket is a former missing link in the previous EU Mediterranean policy, represents among others an attempt to bring ‘democratization from below’ granting subsidies to civil society to promote human rights, democracy, freedom of expression, public awareness on political, socio economic rights, raising the risk of exposure to government’s failure in public (Schlumberger, 2000: 255). This is an uneasy task since affects sensitive topics that confront straight ahead government with public segments raising the transparency of authoritarian Arab leaders making them vulnerable to transparency and accountability. This chapter entails exchange between civil societies of both regions concedes to European Commission to invite organizations without prior consent of southern Mediterranean governments, questioning the success of this policy knowing the blurred lines between public and private, state and society in these countries. Many of Arab civil society are not independent but ‘government-led’ whose independence would result in loss of political control (Schlumberger, 2000: 256). Many of these projects brought instead participation of elites rather than mass population to whom these projects were addressed to. The only civil society groupings were the ones stylized in western fashion of advocacy and governments refused fund for capacity – building among non governmental organizations at nation and regional level. The Mediterranean countries behaved in reluctance toward openness of civil society toward western world through exchange programs, because that would have a ‘destabilizing’ effect in their societies and political system (Keukeleire and



Macnaughtan, 2008: 278). The overall design of this policy is not realistic since its formulation would be efficient in democratic societies where non governmental organizations voice independently from state apparatus on behalf of vulnerable groups in society. There is not such democracy in the Arab world it transforms civil society prone to state capture reaffirming same political leaders who are behind organizations allegedly represent society. The Mediterranean Process has completely failed in regard, not only it did not meet the goals of socialization of civil society between the two regions but instead since the implementation of EMP more hostility has risen between West and the Arab world, and EU has seemed incapable to counter react to the growing distrust (ibid.).

## ***2.5 Conclusion***

The EMP has not been successful in its endeavors to meet its objectives on three basket levels. First it has not succeeded to make Mediterranean political regimes more open and accountable; instead it has reinforced the prevailing authoritarian rule. The EMFTA have also failed to achieve long term sustainable development reflects incapability of EU's foreign policy to address the endogenous factors in its policy design and realistically address it. So far it has been oblivious of domestic conditions at economic and social level. The third chapter has been inefficient because the ruling elite preserves its power by avoiding pressure for democratization from below.

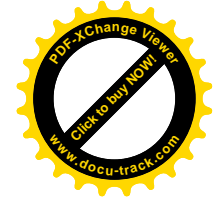
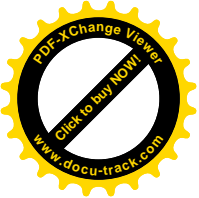


## CHAPTER 3: THEORETICAL UNDERPINNINGS OF INTERNATIONAL POLITICAL ECONOMY (IPE)

This chapter lays the theoretical foundations for the analysis of this research. It attempts to get deeper understanding of the nature of neoliberal reforms, the winners and losers. By bringing into it schools of thought from different camps it will attempt to unveil in an abstract way how reality can be understood differently and how important historical structures are and the individuals that reside in it.

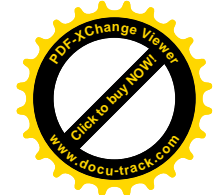
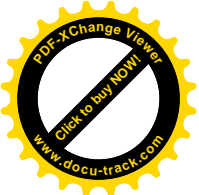
### *3.1 The Politics of Neoliberal Reform – Who are the winners?*

Neoliberalism is actual ideology where market domination precedes society, calling for minimalist state, maximum role for markets, ‘running society as adjunct to market’ in words of Polanyi, extracting power control, constructing blocks between state and market, between political and economic realm, to allow market dynamics being rules by its inherent natural laws, and a strong state to enforce rule of law, protection of property rights, maintain market domination over society (Macewan, 2005: 172). The politics associated with neoliberal projects are distinguished for its radical reform package known as Washington Consensus, consisting of promotion of free markets, trade liberalization, currency devaluation, privatization, restrictive fiscal policy, reduction of government spending (Hobden and Jones, 2001: 213). Even though these policies represent harsh measures that may result unpopular to policy makers, losing credibility and re-election chances, yet developing countries have not hesitated to undertake such a challenge. The reduction in welfare programs, embarking on free trade agreements and trade liberalization, drop of revenues from previous import tariffs, boosted imports of manufactured goods, reliance from export of raw materials, reveal the limited number and category of benefactors from such measures, as easy as the capitalists and entrepreneurs, the motors of private sector.



The free trade agreements proposed by WC are introduced as pivotal for economic growth of developing countries, but the products of hegemon or the hub are promoted at cheaper price globally. The state's revenues are dependant on export of raw materials, even though FTA foresee exchange of manufactures goods, it is accepted that industrial goods of developing countries can not compete with developed countries production. Additionally devaluation of currency depreciates in global market the prices of raw materials. Even though the evidences about the asymmetry between the real beneficiaries of neoliberal reforms, yet poor countries do not exclude themselves for what could result detrimental in long terms. Is it because FTA have shaped the global political economy order, being the orthodoxy, thus countries can not afford to be left aside. Even if poor countries leaders conduct a cost benefit analysis the conclusion is obvious that FTA, abolition of custom tariffs will bring more negative externalities to domestic producers and consumers, loss of revenues rather than benefits. Marxists argue that a better understanding of neo liberalism is pivotal to recognize the real winners from losers. The acceptance and dissemination of neoliberal agenda is itself in the interest and profits of developed countries achieved through soft power and modern tools of coercion. What is viewed and assessed as the orthodoxy, is solely 'an indication of hegemonic power' of world leaders (Hobden and Jones, 2001: 215). How hegemons like EU pursue it is through dissemination and infusion of international norms that democratic countries adhere to like 'good governance' 'rule of law', 'democracy', being the moral values accepted universally, becoming almost dominant ideologies imposed toward poor countries. Robert Cox, a critical IPE proponent states that 'successive dominant powers in the international system have shaped a world order that suits their interests, and have done so not only as result of their coercive capabilities, but also because they have managed to generate broader consent for that order even among those who are disadvantaged by it (ibid).

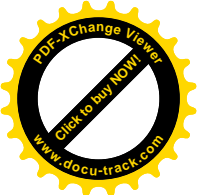




### 3.2 Contributions of IPE to the debate

To understand the relation between economic and political liberalization political economy offers a holistic approach to state vs. market debate compared to rationalists whose instrumental rationality serves to analyze the behavior of actors, where actor's preference and choices make the ultimate unit of analysis (Higgott, 2008: 3). According to liberals states the role of states is to minimize market failure and provide welfare gains. Realists view states among other actors internationally; stressing that states must provide higher gains compared to their international counterparts (ibid.) IPE's value added is the attempt to analyze world order going beyond ideologies, having its core analysis the relations between markets and state, or politics and economics.

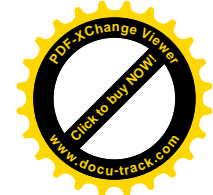
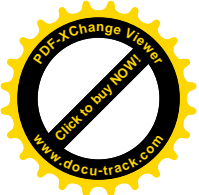
'In the absence of the state, the price mechanism and market forces would determine the outcome of economic activities; this would be the pure world of economist. In absence of market, the state or its equivalent would allocate economic resources; this would be the pure world of political scientist' (Gilpin, 1987: 8 in Higgott, 2008: 3). Both sciences left alone separated from each other, provide an actor based approach which focuses on actor choices whose preferences are fix and these choices occur in a fix conjectures, like markets or political processes. The political science vs. economics constitutes two major domains of state, where none of them should prevail or prioritized. From the perspective of world system analysis, Polanyi views them as interwoven, where one can not cope without the other (ibid.) His view of market stretches from a contextualized place of exchange of goods, which fluctuate due to forces of supply and demand, and the other view of markets is that of economic exchanges undergoing through the control of political and social forces. It refers to policies at state level, where economy is not a dissected are of state but instead government's contribution is demanded. According to Polanyi the two main functions of markets are reciprocity and redistribution. Reciprocity implies the forms of exchange while redistribution



marked by a hubs and spokes system, and the market lost its ability to redistribute resources (ibid). Political Economy is concerned with 'historically constituted Frameworks or structures within which political and economic activity takes place, standing back from fixity of present questioning how existing structures came into being, how they may be changing and induced to change' (Cox, 1995: 32). Political Economy glances at historical events, forces that generated structures, explores at actor's shaping political processes through political decisions, how transition to change and historical structures resistant to adjustment entangle and provide embryonic subsystems and transformation.

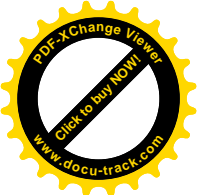
The neoliberal ideology materialized in policy measures of WC, is founded on the essence of liberalism where market is inherently capable to allocate resources, where market set the level of development.

The new shift to critical IPE with scholars like Cox, manifest more of a structural orientation in their analysis. Its contributions derive from scholars like (Prebisch, 1959; Cardoso and Falleto, 1979), world systems theorists (Wallerstein, 1979) and later Marxists such as Robert Cox (1987) and Stephen Gill (1993; 2002) (Higgott, 2008: 4). According to Cox, political economy is concerned not solely with political reform and economic restructuring but it establishes the structures where these activities take place. The division between political and economic has been artificially drawn in many policy designs, and that separation has brought but nothing then failure of implementation since it has been oblivious of overall structures that have sustained the system. In the classic political economy coming from liberal approach, the political and economic were seen as self sustaining domains where each of them had regulating mechanisms to uphold itself.



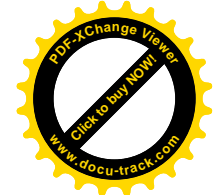
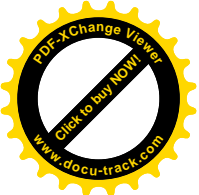
### 3.3 *Liberalism vs. Critical IPE*

The majority of liberals believed in free trade and forces that control market from operating by its own laws was viewed as attempt to stagnate economy. Socialism was viewed as attempts of political control subdue market forces and through regulations and economic planning. Market fundamentalism policies entail state policy under supervision of market and expansion at economic openness through trade liberalization and exchange of goods and services at transnational and global level. The formation of world markets through openness of domestic markets, deregulation of finance, privatization of state owned assets, free trade, removal of non tariff barriers, embarking on international trade and economic exchange of goods and services, is expected to increase domestic welfare the ideal world market. The drivers of world system transformation are political actors who shape global order 'states and state actors are probably the most important single category of agent in the globalization process the primary source of the state's own transformation into a residual enterprise association' (Cerny, 2007: 258). For liberals, free trade contributed to maximization of national utility because of removal of trade barriers, which increases movements of goods among countries and allows optimal utilization of world scarce resources, because free trade maximizes economic growth and fosters competition by using efficiently labor and capital (Gilpin, 2001: 198). The gains from FTA results in expansion of firm market from domestic to world market that will reduce per unit production cost, elimination of monopoly power caused by foreign competitive pressure forcing domestic firms to sold their outputs at a lower price level, and consumer's gain due to increased product varieties and lower price level, as consequence free trade in international trading system allows countries to enjoy the highest level of utility and maximum welfare (Frieden and Lake, 2000: 15).



The shatter of national border and interconnectivity between states through urge of free markets, has transformed the relation not only between states and global order but also domestically between state and citizens, viewing society subdued by market forces. But as Polanyi ( 1944: 57) contradicted the neoliberal depiction of market over ruling to state and society 'instead of economy being embedded in social relations, social relations are embedded in economic system' (Macewan, 2005: 171). Liberal theories and economic analysis had fallen short of considering structural power as in state-society relations, inherent in 'structures of knowledge, production, finance and security' and in state's structural power are embedded asymmetrical relations between state and non state actors, that enshrine privileged actors on the expense of others (Higgott, 2008: 10). Constructivism emphasizes inter subjective nature of world, where material world does not exist but instead it is the interpretation individuals infiltrated through personal perceptions and knowledge that defines reality. These perceptions are constituted throughout accumulated knowledge, values and social norms that derive from the position, class and social status of the actor. The focus is individual's perceptions, but it does not reach beyond the constitutive factors that have shaped actor's perception of world.

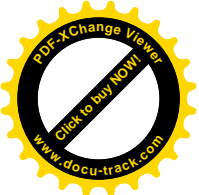
According to Cox, whom reference will be done, belong to neo Marxist camp, and notorious contributor of critical IPE, the latter instead explicated the structures evolved collectively by human action over time. Despite constructivism where its understanding revolves around actor's perceptions, critical IPE questions the factors that influence actor's view of world. Actors can not escape from historical change because structures consist of configuration of forces and power asymmetry that exert pressure and constraint on agency, which may either resist or comply with it but not disregard it. The relation between structures and actors is double sided, one dimension is relation between actor-structure rapport that yields structural



change and another is the actor's actions that occur within a fixed system of preferences given the existing structures (1995: 33). Structures are depictions of reality, defining different sectors and areas of life of people like institutions of family, church, jobs, reproducing reality through repeated actions, words, this reality comes into being constituting the 'parameters of existence' the framework of our position in society, and structural change comes as result of inherent tension, contradictions, point of conflict and alternatives and every historical structure engender contradictions and contrasting point that create change (1995: 34).

### ***3. 4 Conclusion***

This chapter drew on two schools of thoughts who offer contradictory explanations about the world order with specific in the nature of policies that countries embark upon because of international pressure. The neoliberal ideology comes from liberal tradition where market forces should be unleashed act based on its laws of demand and supply, with society being subdued and not a barrier to market to function by itself and with presence of strong state that enforces rule of law and protects property rights to reduce transaction costs. The school of thought that contradicts some of liberals' assumptions critical IPE offers a critical perspective on reality and how it can be changed. It brings attention to role of historical structures, where change is outcome of conflicts, the confrontation of conflicts yields change. Structures also form actor's choices, perceptions of reality and the significance to be paid to structures is pivotal to consider certain actions that aim to transform reality.

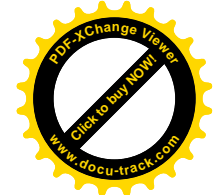
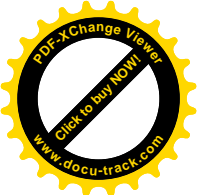


## **CHAPTER4: AN ANALYTICAL FRAMEWORK FOR ECONOMIC LIBERALIZATION IMPACT IN MOROCCO - A DOUBLE – EDGE STRATEGY**

This chapter will shed light in the Economic and Financial Chapter of EMP, in case of Morocco, with special focus in FTA. First it will envisage the socio economic conditions that prevail in Morocco, the establishment of relationship with EU and the impact that FTA have had in Morocco being aware of its prevailing structures. In order to assess whether the MAP has met its policy goals and providing in long term economic growth and sustainable development, the chapter will analyze the immediate effects that implementation of FTA after the enter into force of Association Agreements, as free trade stands for the most pivotal part of second basket, economic and financial cooperation.

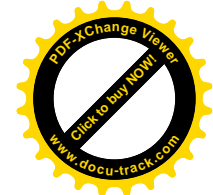
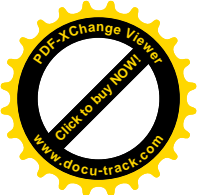
### ***4.1 EU – Morocco Relations***

Morocco is immaculate example of political, social and economic reforms in MENA region and the biggest recipient of aid from EU under the ENP framework through substantial and political support. Morocco is one of first countries to sign cooperation agreement with EU dating back from 1996. It is an example of high adaptability toward EU's bureaucratic system and flexibility in the MENA region. During the MEDA I phase, Morocco received € 630 millions, and is the second top recipient of funds under MEDA II, with € 426 million officially disbursed within National Indicative Program (Schmid, 2003: 26). Morocco is perceived by international donors as most reliable, stable partner state in the region (ibid). The main pillars of cooperation with Morocco consist in institution building, migration management and trade exchange. While in the agenda of morocco government, economic liberalization is supposedly placed as first objective the government must be involved with no explicit goal about political liberalization, implied as being accomplished in tandem after



opening up of markets. This reflects the priority that EU has given to its policy concerning MENA region where the technicality of conditionality reveal the economic nature behind the strategy. EU's purpose to assist financially has been envisaged through a gradual move toward FTA's but failed to meet needs of domestic producers and society. The trade concession made between EU governments with MENA countries unveil losses in terms of cuts in tariff revenue and increased costs arising from foreign currency expenditure on imports' (Gillespie, 1997: 3). Still the EMFTA should not be assessed exceptionally but under the framework of EMP overall goals that cover all chapters. The main aspects of the partnership and when referring to Morocco are 'strengthening of democracy, respect for rule of law and human rights, sustainable economic and social development, measures to combat poverty and promote greater understanding between cultures' (Martín, 2004: 422).

Morocco yet remains a developing country, with high levels of poverty and prevailing stagnation at social and human development index. The economy remains unstable and most of incomes derive from agriculture sector highly dependent on climate condition. From its independence in 1956, the country's development strategy was based on import-substituting industrialization and agriculture production with tariff barriers and highly protective, and for more than 2 decades trade and industrial goods were subject of high tariffs and quantitative restrictions in imports (Currie and Harrison, 1997: 47). In the 1970's expansionary fiscal policies found the way to high public spending mostly financed through high levels of foreign borrowing and incomes from exports. The raise of debt in late 70's made brought a crisis of balance of payments the government initiated stabilization package under guidance of IMF but another failure to repay creditors in early 1980's obliged the government under consultation with international organizations decided to liberalize the import regime undertaking severe structural adjustment programs to develop further financial and private sector. The trade reform requested elimination of tariff imports, reduction of custom duty and



other several restrictions. The main aim of trade reform was reduction of quota from 41 % in 1984 to only 11 % of all imports in 1990 and the most successful policy in to reduction of tariffs concerned manufactures sector with drastic falls from 165 % to 45 %, marked slight increase of imports (Currie and Harrison, 1997: 48).

### ***4.3 Social and Economic Impact of FTA in Morocco***

Morocco is the second country that kicked off the EMFTA process. The social and economic impact of free trade is related to social and economic conditions of the country after the implementation has occurred. The impact of social and economic conditions in his study Martin, (2004) assessed by monitoring these variables<sup>6</sup>:

- Employment
- Employment Conditions
- Income of Poor
- Public Social Expenditure (in health sector, education, social safe net)

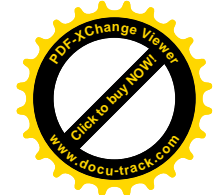
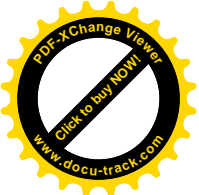
The abrupt effects of FTA in Morocco in time span of 12 year of transition are alleged to be:

- Reduction of state revenue in proportion to amounts of exports headed to EU
- An increase of manufactured and industrial goods from EU due to import tariff dismantling due to increase of national demands and substituting local producers, with risks of affecting negatively trade balance by raising trade deficits with EU. As well not being an oil rich country the balance sheets do not look prosperous as well disadvantage in private sector competition due to lack of infrastructure to compete and underdeveloped industry
- Reduction of prices of imported consumption goods by raising the purchasing power parity of consumers.

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<sup>6</sup> The results of data for each variable drawn are retrieved from a qualitative study with elements of quantitative economic analysis of MARTÍN, I. (2004) The Social Impact of Euro-Mediterranean Free Trade Areas: A First Approach with Special Reference to the Case of Morocco *Mediterranean Politics*, 9, 422-458.

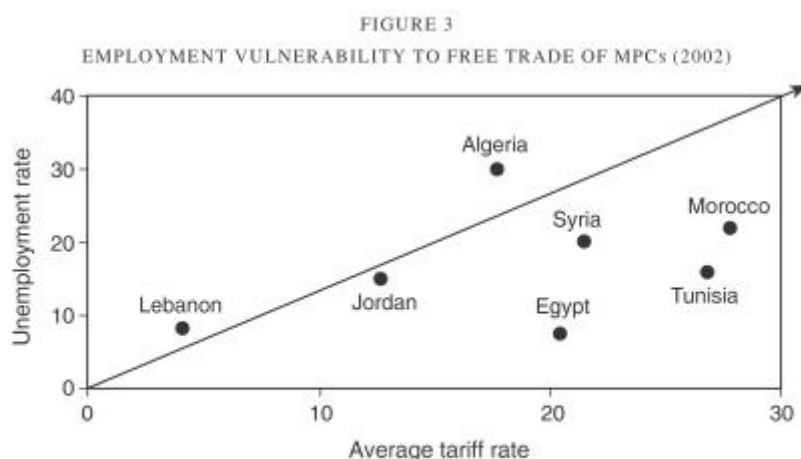




- Reduction of Employment opportunities because local firms will be unable to compete with European companies

(Martín, 2004: 426)

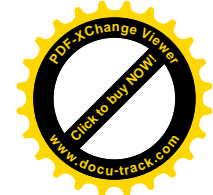
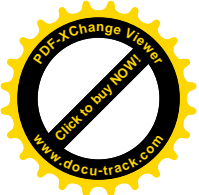
Following his findings, we will see how each indicator has been impacted after the implementation of FTA with Morocco. Regarding *employment*, the boost of manufactured imports with tariff dismantling will drop salaries and wages because of substitution of locally manufactured goods, affecting badly local producers. The net impact of EMFTA on employment will be negative at the first stage not only in private sector but as well in public administration because the government has losses in revenues, undergoing pressure of reduction of labor in state owned companies and private sector (2004 : 428). Theoretically countries that undergo similar transformation are supposed to compensate for this loss through creation of new jobs in private sector as results of benefits from tariff free access to European markets, but this is not likely to happen in Morocco because the new agreement does not offer new trade preferences or opportunities for those countries from previous cooperation agreements in 1970s – 80s, thus no increase in FDI is not calculated to happen. The adjustment of labor may occur through absorption of excessive labor by state in public administration or infiltrated by informal economy, reducing the disposable incomes of people. A long unemployment is associated immediately after the launching of reforms. The more protectionists a country used to be in import tariffs before embarking tariff dismantle the more likely will suffer of high unemployment. In Maghreb countries like Tunisia and Morocco due to their previous protectionist policies (as table below shows) the trade liberalization has been higher; the impact has been more detrimental.



Source: Data for unemployment rates are taken from the European Investment Bank [2002] and the average tariff rates are from the European Commission, DG Trade Market access database, <<http://mkacddb.eu.int/>>.

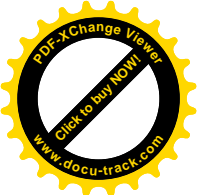
(Martín, 2004: 429)

The liberalization of agriculture sector represented one of most important objective during establishment of EMFTA in 1995 (European Commission 2000). Agriculture is a sector where MENA countries have lead, comprises one of largest production sectors in economy whose export of would boost up the economy and most important, Mediterranean partners enjoy a considerable advantage compared to EU agricultural products. Even though EU promised liberalization of agricultural products in 1995, after more than a decade, but it did not occur because of protectionist measures inside EU, due to protectionist measures of agriculture sector in the internal market (CAP). Agriculture sector receives subsidy which make the 45 % of EU's budget and it adds less than 10 % to EU's annual budget revenue (European Commission 2008). Another restriction in liberalization is textile production where Morocco and other MENA countries have advantage being highly specialized and competent compared to EU producers for being highly competitive. EU has set strict quotas to textile market and the loss of preferential access to European textile markets affecting revenues since the 'textiles and clothing make up more than 25% of total exports of Morocco (Martín, 2004: 435).



*Wages and Income* is second aspect affected by market liberalization. The rise of competition between domestic producers with EU giant companies exerts pressure through substitution of permanent workers with temporary ones. The deterioration of public debt, balance of payments and government's tight monetary policies because of stabilization programs impacts negatively real income. Being a semi-rentier state with a large personalistic network and powerful 'wasta' system, the employment will not be based on a merit based system but rather on social mobilization. Also the fall in real wages causes a partial substitution of qualified employment for unqualified employment (2004: 431). According to Morocco government data, the loss of tax revenues have been progressive, 'for the 2003 the loss has been estimated at more than €225m for one year, higher than financial assistance received from MEDA II which was €142m for same year, while the financial aid for 2002-2004 amounts €426m, every additional year the tariff dismantling until 2012 will cause €50m of tariff revenue loss for Morocco.

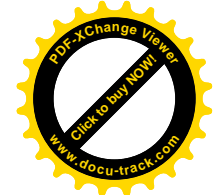
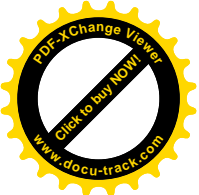
The third indicator is *prices of consumer's good*. At first hand, an improvement in living conditions because of higher imports impacts reduction of prices, raising the disposable incomes of consumers. Yet there are two further implications, first the consumption of imported goods from EU to AMP are more accessible to middle and upper class, excluding poor to profit from price reduction. Second implication is due to crisis of balance of payments and tight monetary policy, the local currency will devalue opposed to Euro and losing terrain being counter effect not only to reduced prices of consumer goods to price competitiveness due to influx of goods and trade liberalization. The devaluation of currency might be bigger than reduction of import prices, with an inelastic demand for imported goods; it takes a loss of real income having citizens to pay for higher local currency prices (2004: 432).



Social costs of structural adjustment programs are higher, which calls for special attention from government through government programs in *public expenditure*. But Morocco had crises of balance of payment for more than two decades and increase of public debts making and there are strong disincentives to raise government expenditures thus governments due to international pressure are prone to cut state expenditure or through increase in tax revenues. Morocco has undergone a fiscal discipline because the loss of import receipts raised the budget vulnerability to free trade and being a big bureaucracy, where state is largest employer with 40 % of total public expenditure is channeled to wages in public sector, has a high exposure to losses from embarking upon free trade, making cuts in public spending indispensable (2004: 433). 'Public food subsidies were cut to 2 % of GDP, reduction in jobs to 11000 against predictions of new job creations (2004: 438)

*Poverty and Living Conditions* are linked to unemployment which has increased and living conditions have deteriorated in large rural population because of lack of investment in private sector and social infrastructure. MENA region as well other developing countries in Latin America have suffered detrimental effects with regards to high poverty rates and deteriorated living conditions as a consequence of free trade agreements. After the implementation of EMPFTA in Morocco the fall of real wages, huge gap in income inequality and unemployment, the polarization in society has risen, and morocco households have become poorer (2004: 235). The effect of structural adjustment programs have been felt since 1983, with measures in tightening public finance. As well the number of people living in relative poverty rose by 2/3 in 1990s, increased from 13 % to 19 % in time span 1991-1999 (Martín, 2004: 438).

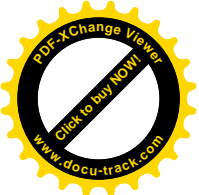
The main factors in semi-rentier states toward *Growth* are oil, migrant remittances, agriculture and partly tourism but Morocco is not rich in natural resources. In general the growth estimates after implementation of free trade agreements ranges from 2-3 % of GDP growth



but that has not been the case because first the EMFTA has not been extended to all goods where agricultural goods are excluded access to EU markets, and a sharp increase in FDI to offset the high unemployment caused by trade liberalization, deterioration of balance of payments and limited progress in technology to boost up the productivity of domestic industry. The main motivation to enter an Association Agreement with EU was the access to FDI unfortunately the expectations prior to implementation of policies have been largely overestimated to real FDI levels which are predicted to be negative. The main reason feasible to diminishing FDI is the political instability, rising of fundamentalism and overall negative perceptions of the region, since after 9/11 (2004: 436).

#### ***4.4 Has EU met its Policy Objectives?***

The EU Free Trade Agreements with Arab partners have damaged the overall economies of the region and has not contributed to cushion the social externalities generated from it. Morocco is one of Mediterranean countries with high unemployment, budgetary deficits, high government revenues from free tariff import and high government losses overall exceeding the amount of EU funds addressed to invest. In the Barcelona declaration EU stated that establishment of free trade agreement will successfully offset the negative impact of structural adjustment through delivery of financial assistance. The funds from MEDA I and II, not only have been negative, the losses from tariff revenues because of implementation of free trade agreement have been higher than the financial assistance, let alone social programs to mitigate the negative impact of trade liberalization. An important policy objective that attracted Arab partners embarking on FTA was to qualify for FDI. Under the Economic and financial cooperation section, the attractiveness of FDI as outcome of embarking on FTA had high stake for MENA countries since it directly would boost up their economies. This assumption is based on economic exchanges taking as its unit of analysis on fix frameworks of society, ignoring the political and social factors as dependent variables to creation of a

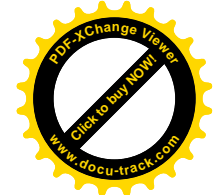
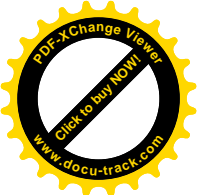


stimulating environment toward FDI. The actual rise of FDI has been due to political openness with EU ruling system to adopt policies that lead to convergence of institutions.

The failure of EU's policy design to make south east Mediterranean markets attractive to FDI's is because the functioning of two regions is that of hubs and spoke. It is much easier for investors to invest to the hub, who is EU, where barriers to investments in terms of infrastructure, technology, industry are inexistent, and is easier penetrate to Arab economies via EU rather than as foreign investor, outside of the social network and having to invest in social mobilization and informal network. The main reason is the intra regional commercial barriers between countries and criticisms toward EU for not pushing free trade agreements at regional level are present.

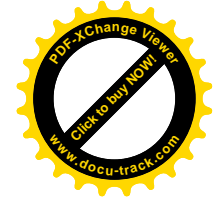
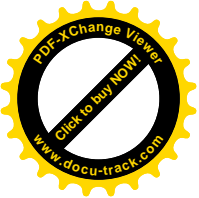
The trade relations between EU and Arab region have been market by high asymmetry historically reinforced, transforming EU into the hegemon. It has imposed the terms of agreements and increases the trade dependency of MENA countries have toward EU. The EU has offered unlimited access of manufactured products and industrial goods to Arab markets. In the Barcelona Declaration, EU states willingness to liberalize its agricultural market, for AMP's to allow free tariff access of agricultural goods, but EU failed to liberalize its agricultural market. Agriculture is among the largest sectors that contribute to state revenues and non reciprocal preferential agreement reduced expected growth. In case of Maghreb countries like Morocco, textile market another very competitive sector, has not had access to EU markets because it negatively affects European producers and consumers.

Analytically the EU's Mediterranean Policy suffers from contradictions concerning the free market type of reform and the structural conditions not being able to accommodate properly the new opportunities like competitiveness of private sector in a semi-rentier type of state where economic exchanges, employment and access to resources is not a merit based system.



It is the succession of 'wasta' system that has created societies that co-exist in system of values very different from liberal values and norms like human rights, rule of law, as respected in EU. The EU's approach not only has treated Arab countries as identical in terms of socio economic indicators and has disregarded in the Barcelona Declaration factors like the political culture, the social norms and values, the political system and relations of power in the system. The EU approach is driven by choices of agencies, which is the ruling elite and not adapted to structures that historically have developed authoritarian rule and liberalization of economy, would still remain the luxury of a small elite, privileged by rulers to have access in the market. Richard Youngs have states that 'EU's more critical deficiency was its adherence to an overly vague assumption that economic reform would eventually filter to political change in the absence of any detailed engagement capable of analyzing or effecting such spill over' (Schmid, 2003: 11). Ideationally, EU's exported model of development is drawn from its experience, where economic integration served as spill-over effect cross sectorally at later stage led to political integration. Still this approach did not prevent many Asian countries to pursue their economic growth without political openness and democratization of political regimes. Why in our case would the Arab countries undertake such reforms that would jeopardize their existing system of power relations? Already the policy is constructed by wrong assumptions because its entry point is that democracy can come into existence through economic growth.

In terms of political reform to bring political stability, and openness, not mentioning ten years later what EU has obtained is 'modernization of authoritarianism' of 'development of authoritarian pluralism'(Aliboni 2004:12 in Gomez, 2003a: 276). The EU's recognition of socio, political and economic conditions Arab countries have undergone has been rhetoric because during its implementation reforms are conducted at superficial level, preserving the same conditions as prior.

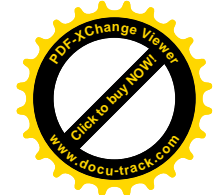
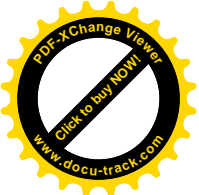


The EU has not met its objectives, partly for non compliance during implementation phase; empirically the data reveal the loss in state's revenues, high unemployment, lower nominal wages and incomes, restrictive fiscal policies with cuts in government spending, higher poverty levels and lower economic growth, reveal that MENA region illustrated by Morocco have opened up their market at expense of economic and state dysfunction, where flaws during implementation phase increased the negative effects of structural adjustment reforms. Almost all objectives first protect first the interest of nation states, and after might bring slight positive change in Arab countries. EU has not met its objectives and the slow economic performance of AMP region is due to lack of considerations from EU about the feasibility of these policy objectives being aware of their functioning political and market system.

#### ***4.4 Conclusion***

This chapter portrayed the relationship of EU with Morocco and the impact that EMFTA have had in it. Morocco is among the most solid frequent partner compared to other Mediterranean partner countries but yet Europe's big ambition to make feasible the overall policy goals stated in the Barcelona process have not been met. EU countries instead of aiming to challenge the old political system of prevailing authoritarian rule and patronage, have preserved the conditions, matured them to sustain the operating system and breeding stagnation further, providing aid in exchange of consensus. Another interpretation of the current impact of partnership as the hidden intentions of ruling elite to extract solely aspects that preserves the status quo and pursue their own strategic objectives. Most of political reforms in Morocco have been unplanned, and superficial, while the authoritarian power structures have been unaffected by reforms.

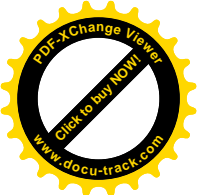




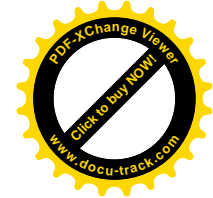
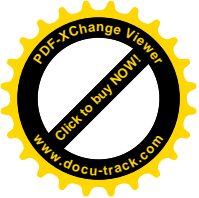
## CHAPTER 5.0: CONCLUSION

The EU Mediterranean strategy is defined by Gomez (2003) as ‘old wine in new bottles’ revolving around the strategic interests of member states first through measures like protectionism of sensitive sectors to protect domestic consumers on expense of AMP countries. It has paid no attention to measures on poverty reduction, tackle of high unemployment, let alone measures to combat social problems as result of structural adjustment. A rational analysis of outcomes of partnership, shows that the effects of EU’s approach have not been able to stimulate economic growth neither reshuffle the whole economy to adapt it to market demands and make it competitive globally. Instead, EU Mediterranean policy through its power asymmetry exerted in the region is nothing more than a modernized neo colonial project that reinforces the old patters like raising trade dependency to EU markets that have destabilizing effect in Mediterranean partner countries. The limited number of FDI reveals the truth, that external trade has not been successful to diversify domestic markets. The domestic ruling parties have utilized the bilateral relations to undertake solely partial economic reforms to protect their political status and power, and EU have honed the degree of power asymmetry between state-society inside the country and deteriorated the pervious distribution of power.

The EMFTA was a push from outside for Mediterranean countries to join the club. The expectations at the Barcelona conference from Arab leaders were high but outcomes proved to be disappointing and even detrimental. It has deteriorated the social conditions of largest part of population, especially the poor and it has given rise to Islamic movements and since they have been able to meet some of needs of people, being recognized as efficient to allocate resources and legitimate.

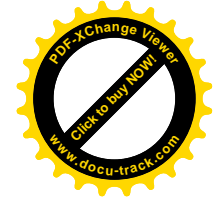
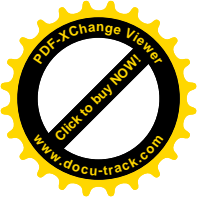


EMP has manifested huge flaws but still remains a policy prone to new adaptations; the architecture of its design has been inefficient to allocate resources properly and not sensitive to population in Mediterranean area. The new Barcelona framework as an attempt to reinvigorate the process has addressed former failures but still has long way to go. Further progress can be made if participants reconsider former assumptions that formed the policy objectives and adapt it to current reality in Mediterranean partner countries. Barcelona Declaration has become a symbol of historical connections between two regions and in order for this process to succeed structural transformations will be needed in order to thrive and this time accomplish for real ‘ peace, stability and prosperity’ .



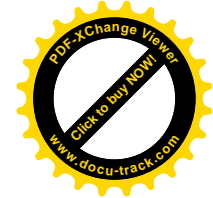
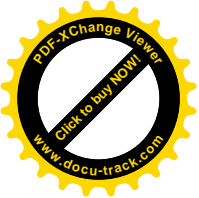
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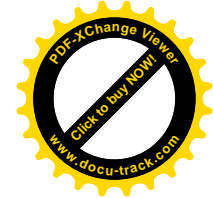
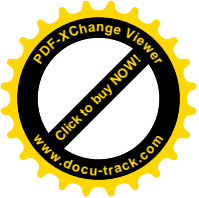
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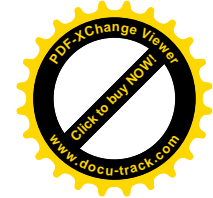
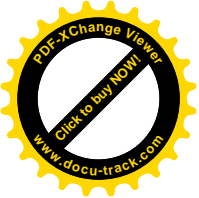
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