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STRENGTHENING TRANSATLANTIC COOPERATION

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Summary: Economic integration and institutional cooperation in the Euro-Mediterranean region are following diverging paths. Notwithstanding the financial and economic troubles of the euro area, prospects for European direct investments in Mediterranean countries and for Euro-Mediterranean trade flows are favorable. Institutional cooperation, by contrast, is disappointing due to the substantial impasse in the Union for the Mediterranean (UfM). Today, traditional patterns are reversed, with private actors playing the key role in promoting Mediterranean economic integration, while political initiatives languish.

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Direct Investments and Institutional Cooperation in the Euro-Mediterranean Region

by Franco Zallio[1]

Economic integration and institutional cooperation in the Euro-Mediterranean region are following diverging trends. On the one hand, the favorable prospects of economic integration promote Euro-Mediterranean cooperation. On the other hand, there is growing disappointment in institutional cooperation, in particular the Union for the Mediterranean (UfM).

Foreign Direct Investment (FDI) in Mediterranean countries has become a key factor of economic integration. Its recent performance is described in the next section, based on the annual report on FDI in Mediterranean countries just published by the ANIMA Observatory.[2] In recent years attention has focused on new foreign investors, mainly the Gulf countries and emerging Asian countries. Today, however, attention needs to be paid to a more traditional issue: the role of European investors. In fact, since 2007 they have again become the major investors in the region, a position they still maintain despite the negative effects of the international economic crisis.

FDI in Mediterranean Countries

The global economic crisis has triggered a substantial decline in FDI inflow into Mediterranean countries: EUR 39.1 billion in 2008 and 32.3 billion in 2009. This is much lower than the record figures of 2006 and 2007 (EUR 65.2 and 60.0 billion respectively), but nevertheless, in 2009 FDI still amounted to four times its 2003 level (EUR 7.6 billion). It should also be noted that in 2009 the decline in FDI towards the Mediterranean (-17 percent) was lower than the average decline registered in emerging countries (-38 percent).

As Graph 1 shows, in 2009 Europe was the main investor in Mediterranean countries, a position that it temporarily lost at the height of the oil boom in 2006 when Gulf countries' FDI flows to the Mediterranean exceeded those from Europe. Due to the sharp

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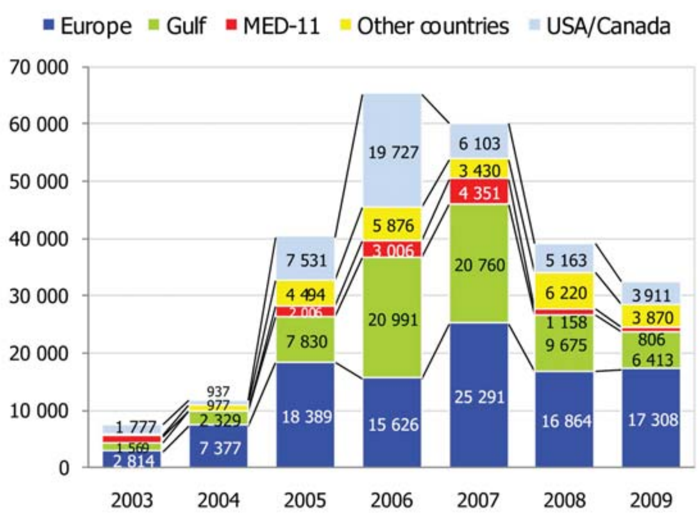
[2] ANIMA Investment Network, Investissements directs étrangers et partenariats vers les pays MED en 2009, 18 Mai 2010, http://www.animaweb.org/etudes.php.

Graph 1 - FDI Inflow in EUR million



Source: ANIMA Observatory

decline in FDI from the United States and the Gulf, in 2009 the European share was particularly high: 54 percent of total FDI inflows to Mediterranean countries. We have to return to 2004 — when inflows were much less relevant — in order to find Europe in a similarly strong position as investor in Mediterranean countries.

Between 2003 and 2009, European countries invested EUR 103.7 billion in the Mediterranean, Gulf countries invested 69.6 billion, and North American countries invested 45.1 billion, of which 40.8 billion is from the United States.

FDI inflows from other Mediterranean countries are smaller: EUR 12.7 billion in 2003-2009, equivalent to only 5 percent of total inflows. This share fell further to 2 percent in 2009. This is a very low level, which nevertheless parallels the equally low level of intra-regional trade and reflects the still very limited economic integration between Mediterranean countries.

The remaining EUR 25.1 billion is mostly composed of FDI inflows from emerging and developing countries. China — in contrast to its trade flows — does not currently play a dominant role among emerging countries. In 2003-2009 it was only the 16th largest foreign investor, with EUR 4 billion. The international economic crisis, which has reduced FDI from other countries, has allowed China to gain ground: in 2009 it became the 10th largest investor. Chinese investments in the Mediterranean are still lower than those of all major European and Gulf countries, and the FDI from the United States. It should also be noted that in 2003-2009 China was preceded by India (4.3 billion) — which has pursued more diversified investments in the Mediterranean, from energy and steel to service outsourcing — and is followed closely by Russia (3.8 billion).[3]

Ignoring for the time being FDI of emerging countries, whose total value still remains limited, it is useful to compare European FDI with that of the United States and Gulf countries. European FDI exhibits two major features:

- It has a smaller size and thus reflects a bigger presence of small and medium enterprises and a stronger propensity to partnerships, especially in the Maghreb. U.S. FDI is larger and is concentrated on fewer priority sectors, while FDI from the Gulf is even larger and is much less oriented towards engaging in joint ventures with local investors.

- As Table 1 shows, European FDI is spread evenly across the whole region, in the Maghreb as well as in the Mashreq and in the non-Arab countries (Israel and Turkey). Investments from the Gulf are, however, mainly concentrated in the Arab Near East (which has

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[3] Brazil has so far carried out few investments in the Mediterranean. Its role could, nevertheless, increase thanks to the free trade agreements that MERCOSUR has implemented with Israel, those that it is negotiating with Egypt and those that it is planning to negotiate with other Mediterranean countries. For the role of new actors in the Mediterranean, see Rajan Menon and S. Enders Wimbush, "New Players in the Mediterranean," German Marshall Fund of the United States - *Mediterranean Paper Series*, May 2010.

absorbed 61 percent of the total in 2003-2009) and Turkey. U.S. FDI is mainly concentrated in Israel and Turkey.

Table 1 - Origin of FDI inflows into Mediterranean countries in 2003-2009 (billions of EUR)

From / To	Europe	Gulf countries	USA & Canada	Mediterranean countries	Other countries
Maghreb	27.3	15. 5	6.6	7.5	3.3
Mashreq	25.2	42.7	5.9	4.6	12.8
Non Arab countries	51.2	11.4	32.6	0.5	9.0
Total	103. 7	69.6	45.1	12.7	25.1

Source: ANIMA Observatory

The Impasse in Euro-Mediterranean Institutional Cooperation

After a long pause following the winter 2008/09 war in Gaza, the UfM, which was founded in 2008, had shown some signs of recovery in early 2010, at least in terms of its operational mechanisms after the appointment of its Secretary General, Ahmad Masadeh from Jordan. However, the formation of the Netanyahu government in March 2009 and the reactions from Arab countries have once again brought the UfM into a substantial impasse. An initial negative sign was clear in April with the Euro-Mediterranean Ministerial conference on water, which failed to adopt a common strategy following a terminological dispute on the definition of the Occupied Palestinian Territories. In May, fearing a possible boycott by Arab countries, the second UfM Summit, previously scheduled for June 7-8, 2010, was rescheduled for November. The decision was inevitable given the level of regional tensions, as later shown by the assault of the Israeli navy on ships carrying humanitarian aid to Gaza and the reactions it provoked. In this context, the prospects for a UfM relaunch are modest; even the new deadline of November will be difficult to meet. Its evolution will mainly depend on the fundamentally external factor of the development of proximity talks between Israelis and Palestinians.

From a political standpoint, the transition from the Euro-Mediterranean Partnership — a process that took place under the auspices of the EU and where the European Commission played a central role — to the Union for the Mediterranean — an intergovernmental process that Mediterranean countries "co-own" — has rendered Euro-Mediterranean cooperation more difficult. From an economic standpoint, this co-ownership should at least in theory facilitate the implementation of major projects within the UfM such as the Mediterranean solar energy plan, maritime and land highways, reducing pollution in the Mediterranean, and the Mediterranean Business Development Initiative. However, as seen in the case of the water strategy, it is illusory to isolate economics from politics. On the contrary, the UfM political impasse is likely to affect large planned economic projects, which are struggling to go beyond programmatic conferences and feasibility studies.

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The difficulties underpinning the new UfM also affects a possible "macro-regional" approach to Euro-Mediterranean cooperation. The EU is in fact promoting a macro-regional approach in several areas, tested for the first time in the Baltic area (for which the EU adopted a macro-strategy in

2009) and now to be extended to the Danubian area. Many have suggested bringing this approach to the Mediterranean. This hypothesis, however, has not found support even among those EU Member States bordering the Mediterranean. The January-June 2010 Spanish Presidency of the EU has ended without any public debate on a macro-regional strategy for the Mediterranean. Moreover, Italy is promoting a macro-regional strategy for the Adriatic-Ionian region, which should deepen the cooperation already underway since 2000 through the Adriatic-Ionian Initiative, including Albania, Bosnia-Herzegovina, Croatia, Greece, Italy, Montenegro, Serbia, and Slovenia. With the exception of Serbia, all these states are also members of the UfM, so a macro-region in the Adriatic-Ionian would de facto cast away the hypothesis of a macro-region including all member countries of the UfM.

Only the option of extending the "5 +5 Dialogue" (Algeria, France, Italy, Libya, Malta, Mauritania, Morocco, Portugal, Spain, and Tunisia) into a macro-regional strategy in the western Mediterranean remains viable. This initiative started in the 1990s as an informal forum for political dialogue, and has gradually expanded to be now structured around various sectors (defense, education, environment, homeland security, migration, tourism, and transport), with mixed but significant results. Therefore a possible EU macro-regional approach applied to the Mediterranean could have a sub-regional setting in the Adriatic and in the western Mediterranean. This could help to promote a "variable geometry" strategy, but it might also lead to a further weakening of the Union for the Mediterranean.

Conclusion

The UfM impasse contrasts dramatically with the favorable prospects of economic integration in the region highlighted by the substantial FDI inflows and favorable commercial prospects.[4] It is not surprising that much of the recent strong criticism of the UfM comes from organizations that represent the Euro-Mediterranean business world.

Representatives of the private economic sector and of organizations that promote economic relations in the region, meeting in Barcelona on 3-4 June at the Mediterranean Economic Leaders Summit, endorsed a critical declaration against the Union's impasse. "The UfM has so far not lived up to its high expectations, following its launching in 2008. After two years, the UfM is still focusing mainly on the input side, e.g. structures and responsibilities, instead of the output side. … Furthermore, the cancellation of the Political Summit of the Heads of State and Governments of the UfM planned for 7-8 June 2010 is a disappointment and a further sign that the UfM is not performing in a way that will bring benefits to the Euro-Mediterranean zone."[5]

> The weaknesses of institutional cooperation should not harm the development of economic integration.

The Declaration also called for a systematic involvement of the private sector in shaping the UfM and for measures to improve the competitiveness of the region, including the completion and deepening of free trade. Concerning the Mediterranean Business Development Initiative (the UfM project focusing on small and medium enterprises), the Declaration calls on governments to focus not only on access to finance but also to consider the equally important issues of entrepreneurship, training, and promotion of partnerships for technological development.

The UfM's impasse and the criticisms it raises should encourage a cautious, if not skeptical, evaluation of the prospects for Euro-Mediterranean economic integration. However, the weaknesses of institutional cooperation should not harm the development of economic integration that is supported by the growing economic interests binding the shores of the Mediterranean. Even taking into account the financial and economic troubles of the euro area, European FDI in the Mediterranean countries is favored by geographical proximity (reducing energy costs and logis-

[4] See a previous Brief in this Series, *Beyond Free Trade: Mediterranean Economic Integration After the Crisis*, June 2010.

[5] *Barcelona Euro-Mediterranean Business Declaration 2010 — Taking the initiative, shaping the Union for the Mediterranean*, Barcelona 4 June 2010, http://www.eurochambres.eu/Content/Default.asp?PageID=1&DocID=2516.

tics), the moderate cost of labor, the improving economic environment in the south (higher GDP growth and lower bureaucratic and regulatory obstacles), and lower cultural, linguistic, and legal barriers compared to Asian emerging countries. It is important to note that these factors also promote FDI from European small and medium enterprises.

So, after decades in which institutional cooperation efforts were met with a substantial lack of interest from the private sector, today we are in the opposite situation. It is now the autonomous development of economic relations that promotes economic integration, and representatives of the private sector are the ones urging diplomacy to overcome the current impasse in the UfM.

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Paralleli's mandate is to contribute to the creation of a Euro-Mediterranean area of freedom and of economic and social development. The institute acts at the local, national, and international level with the aim of meeting the needs of the North-West region of Italy concerning its relations with the other sides of the Mediterranean Sea. The activities of the Institute fall within the process of Euro-Mediterranean partnership initiated by the European Union with the 1995 Barcelona Process and currently undergoing a major relaunch through the "Union for the Mediterranean," since July 2008. Paralleli intends to contribute to the reinforcement of political relations, economic cooperation, cultural exchange, and human flows between the European and the South-East Mediterranean countries. Its main objective is to promote dialogue at cultural, social, and political level between the societies of the Mediterranean countries, with the aim of encouraging and improving economic relations between them, with a particular focus on the dimension of sustainability and co-development. For this reason, the institute has decided: to involve civil society in the development of Euro-Mediterranean relations; to create and to support networking in the Mediterranean area; and to increase the value of research in order to suggest truly effective policies to local, national, and international actors.

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