Federico Caffè Centre Research Report n. 4/2001

The impact of the Euro-Mediterranean Free-trade area on the EU social cohesion and economic co-operation in the Wider Europe

Bruno Amoroso and Andrea Gallina

Bruno Amoroso is Jean Monnet Professor at the Dept. of Social Sciences,
Roskilde University and President of the Federico Caffè Centre
Email: amoroso@ruc.dk

Andrea Gallina is Research Fellow at the Dept. of Social Sciences,
Roskilde University
Email: agallina@ruc.dk

Barcelona: The turning point?

Five years have passed since the Euro-Mediterranean Intergovernmental Conference was held in Barcelona on November 27-28, 1995. Therefore, today it is possible to review and evaluate the expectations raised by the conference, the consistency of the policy proposals, recommendations and comments that followed the conference, the impacts of the policies implemented.

The extent of the expectations concerning the conference was testified by the number and the level of participants. The European Union's delegation was led by the Vice-chairman Manuel Marin; the Council of Europe was represented by the Chairman Javier Solana; the 15-member EU states and 12 third Mediterranean countries – Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey were represented by their foreign ministers, and the Palestinian Authority was represented by Yasser Arafat.

This wide participation also reflected the worries and the perception of new opportunities. Worries created by economic marginalisation and political destabilization due to the increasing pressure of globalization on these countries.[1] Opportunities created by the renewed interest of the EU in establishing a greater meso-regional co-operation.

Economic marginalisation measured by the lack of FDI, capital flight and the increasing backwardness of the region in term of technology and production. The results were the increase in foreign debt, the dramatic decline of income and employment, and the increases in poverty and migration.

Political destabilization had been provoked by the rise of new social and religious movements, and the intrusion of western countries in the area for economic and political dominance.

The perception of new opportunities can be found in the character of the new stage in the Mediterranean policy. This was emphasized by a number of statements. The Council of Europe declared that:

> "The Barcelona Conference marks the beginning of a new stage in which the security of peace, stability and prosperity in the Mediterranean becomes a collective task for all the adherents to the new Euro-Mediterranean Group. The 'spirit of Barcelona' is to inspire the continuity of this process, which is to conclude in an accord for the Mediterranean".

The importance of the conference can be found in its attempt to overcome the old tradition of the EU's Mediterranean policy over a quarter of a century which had been based on bilateral relations and the traditional policy of co-operation and aid directed towards the Mediterranean Partner Countries (MPCs). The proclaimed Euro-Mediterranean partnership and its

[1] Amoroso B., 1998.

strategy based on a three points program of (*i*) policy and security, (*ii*) economy and finance, (*iii*) social, cultural and human affairs, represents a turning point from the past policy.

However, a number of questions were raised shortly after the conclusion of the conference. In addition to a careful consideration of the many and dangerous well known regional asymmetries a critical examination of the coherence and credibility of the European project was demanded from many sides.[2]

Among the many questions raised three of them are recalled here in order to proceed with a further elaboration.

Does the Mediterranean exist?

The first question, raised by Edgard Pisani, concerns the perception of the Mediterranean from a regional and geopolitical point of view. Pisani contests the idea of the Mediterranean as a "region" and considers any perception or aspiration to create political institutions in line with the European process of integration and the European Union as dangerous wishful thinking.

In his own words:

> "It would be dangerous to consider the 'Euro-Mediterranean' concept as the expression of a searched reality. Europe is a continent and a political complex under formation, the Mediterranean is a sea made of the alliance of three Mediterranean continents each of them with a specific function and each of them indispensable for the future of the all area comprehensive of the Gulf".

> "It would be dangerous, because of an irresponsible camouflage or an uncontrolled dream, to plan the construction of an economic and political aggregation in line with the one that is developing in Europe ignoring the very different realities that surround the common sea. The countries that participated to the Barcelona Conference and that might be in the process will never create a reality comparable to the searched *para-state*. In the slowly world construction of great regions for the inter-planetary regulation the Mediterranean will never be a region. It might become an inter-region, a place of controlled tensions, there where the most difficult problems are solved and the history is formed: peaceful or conflicting, depending from the point of view and from the taken actions."[3]

This question can be answered by posing a new question: does Europe exist? The same argument posed by Pisani for the Mediterranean can be raised for Europe. Europe is not a continent. It is a virtual space invented by the 'Europeans' to escape the marginality given by their peripheral location at the Far West of the Asiatic continent. Europe is, like the Mediterranean, the meeting point of at least five main cultures: the Western European, the Mediterranean, the Nordic, the Central European and the Eastern European.

Edgar Pisani is right when he states that such agglomerates can never be reduced, or unified, in a *quasi-state* integrated form on the model of the EU. It will never work, he says. But this is the case of the Mediterranean and of the EU as well. The monocentric model of integration of the EU might have had some legitimacy during the period of the East-West division and as long as the members of the EU were mainly old industrial

[2] Bistolfi R., 1995; Balta P., 1992, ed.; Amato A., 1996; Amoroso B., 1997.
[3] Pisani E., 1995; Pisani E., 1992, in Balta P., 1992, ed..

western countries. But with the break down of the East–West division, it would be dangerous, as Pisani said, to continue with a monocentric model of integration.

The basis for a new polycentric model of European integration has been elaborated by a number of researches during the second half of the '90s and this model is much more suitable also for the Mediterranean.

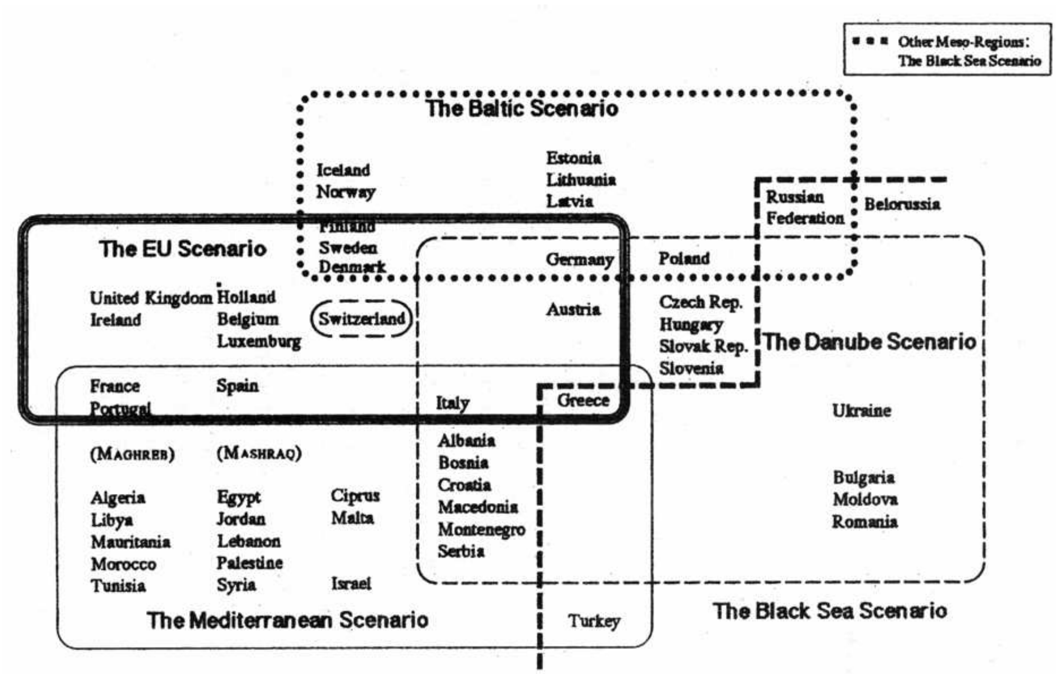
Polycentric Europe should be based on the four main meso-regions – Baltic Europe, Central Europe, EU-Western Europe, and Mediterranean Europe. It will substitute an integration strategy based on the progressive enlargement of the existing ring ("the Europe of concentric rings" an expression coined by Jacques Delors) of the European Union, with the one based on four overlapping Olympic circles integrated by a federal structure ("the four rings of solidarity").

It is a model that gives a better answer to the aim of integration by maintaining the diversity than the one that strives after standardization, in economic and in culture and institutions as well.[4]

Different approaches and political initiatives in the Mediterranean have pointed out that a special role in the process of creation of an Euro-Mediterranean region belongs to the areas situated between the main meso-regions. These areas can become either the bridges between two meso-regions or their borderline with a great deal of instability and conflict to follow. Regarding the Mediterranean region, the linking function of the Mediterranean Europe (France, Greece, Italy, Portugal and Spain) should be obvious. As well as Baltic Europe (Denmark, Sweden and Finland) for the Baltic region, and so forth.

The role of creating areas of sub-regional integration within the Mediterranean has also been underestimated. The Arab Maghreb Union (AMU) (1989) was quickly de-stabilized by the Western pressures in the region and the scarce support given by the EU. This was also the case with other similar initiatives in the region like the Council for Co-operation in the Gulf (1981) and the Council for Arab Co-operation (1989).

Figure 1



Source: ARL, DATAR, 1994.

The maintenance of cultures' diversity in the process of European integration is recalled in the main documents of the EU. This diversity is understood not only with reference to the culture or institutional diversity but also to the maintenance of the binomial *culture–production systems*. Diversity is reflected in markets as well as in production systems. Therefore, a diversified European model of integration cannot be based on standard and standardized norms (quality standards, productivity

[4] Amoroso B., 1996.

standards, markets regulations, etc.) that are introduced in the context of general liberalization measures, like free-trade areas, globalization, etc.

From co-development to partnership

The second question raised concerns the economic policy strategy that has been adopted. The European Mediterranean policy has undergone some main changes, characterized by three main phases:

(*i*) The Global Mediterranean Policy (1973-1992) establishing co-operation agreements and complementary protocols to the association agreement signed between the EC and the twelve Mediterranean countries (with the exception of Libya and Albania).[5] It is global in the sense that it enlarges co-operation beyond the regulation of trade flows, including social, technical, financial and economic co-operation. The increasing homogenization of the agreements was presented by the policy-makers as an abandonment of the fragmentation of the bilateral agreements and as the imposition of a global perspective concerning the relationships between the Community and the whole Mediterranean Basin.[6]

(*ii*) The Renewed Mediterranean Policy (RMP, 1992-1995), the main innovations of which are the introduction of horizontal financial co-operation concerning the whole group of MPCs, and the introduction in the financial protocols of measures for supporting economic reforms. For the first time the EU intervenes in the field of the structural adjustment.[7]

---

[5] European Commission, 1993, p. 3.
[6] *Ib*, p. 3.

(*iii*) The Euro-Mediterranean Partnership (EMP, since 1995). The significance of the shift from the RMP to the EMP, with attention to the implemented economic policy, is considered here.

The concept of co-operation in economic policy defined the attempt to increase and strengthen the relations among the existing partners and their present production capabilities and consumption forms. Co-operation could increase economic growth for both sides, but without questioning their respective positions and their role in development.

The new concept of co-development, introduced during the period of the RMP, emphasizes the importance of an economic growth, which is able to change the respective positions of the partners and to move production systems towards higher quality and new forms of production and consumption. The concept of co-development questioned and challenged the existing distribution and consumption patterns aiming to a more harmonic labor distribution and specialization among northern and southern countries.

It is therefore surprising that after more than a decade in Mediterranean policy during which co-development was emphasized and recalled this concept is never mentioned in the Declaration of Barcelona. Rightly it has been remarked that:

> "Partnership is the antecedent of co-development, it being an approach to relations that puts all partners on an equal footing. As we have seen, co-development goes beyond that. But even apart from its title, the Declaration's contents are still far from the level of the issues co-development raises, beginning from the goal assigned to the Euro-Mediterranean partnership – establishing a Free Trade Area (FTA)".[8]

---

[7] Amato A., 1991, pp. 34-35.

The Euro-Mediterranean Free Trade Area

The third question deals with the establishment of the Euro-Mediterranean free-trade area (FTA) introduced as the key mean for the construction of a zone of shared prosperity in the Mediterranean. The emphasis and attention put on this initiative at the Barcelona Conference must be understood in the general process of trade liberalization claimed by the triad TNCs and institutions (WB, IMF, WTO, OECD). Morocco was the first Mediterranean country to propose the introduction of a free-trade area with the EU in 1991. To escape from a relative isolation in the EU caused by the critics of its human rights' violations, Morocco became a warm supporter of liberal ideology and was very soon selected as "the World Bank best pupil". The proposal was warmly accepted by the European Union and it has since developed into a general commitment involving all the MPCs. The FTA has to be established by 2010.

The negotiations concerning the FTA started in 1993 for Morocco and Tunisia, and were concluded in July 1995 for Tunisia (to get into force from March 1st, 1998), in February 1996 for Morocco (to get into force from March 2000). In February 1997 the agreement was signed with the Palestinian Authority for the West Bank and Gaza (to get into force from July 1997). Association agreements have been signed also with Israel on November 1995 and Turkey (custom union) on March 1995. Negotiations have been concluded with Egypt and are in progress with Algeria, Syria and Lebanon.

The possible impact of these agreements on the southern and eastern Mediterranean economies in term of opportunities and risks has since been the subject of lively debate.

---

[8] Amato A., 1996.

Eberhard Rhein, director in the European Commission and well-known expert in Mediterranean policy, wrote:

> "Concevoir et mettre en place un reseau de ZLE est un chose, réussir le pari de l'ouverture économique qui en découle en est une autre. Quelle assurance a-t-on quant à la possibilité pour les PSEM de réussir le pari sur la transformation économique et la compétitivité industrielle? Ne risquent-ils pas, dan quelques années, de se trouver confrontés à une double crise, marquée d'une part par la destruction de leur fragile secteur artisanal-industriel et, d'autre part, par des difficultés de balance de paiement profondes et durable? Les scénarios prévisionnels etablis pour le Maroc et la Tunisie par la B.M. ne font-ils pas craindre le pire? D'où viendra la dynamique des exportations qui a fait si longtemps défaut, et qui est indispensable pour gagner le pari de l'ouverture?
>
> Personne n'osera avancer des réponses sûres à de telles interrogations. Les expériences historiques ne nous enseignent pas grand chose.(.......)
>
> C'est ici le véritable noeud gordien du futur partenariat. Ou les PSEM réussissent à profondément transformer et moderniser leurs secteurs industriels, ou toute la belle construction d'un espace de libre-échange euro-méditerranéen va sombrer et les PTM appelleront l'Union européenne au secours".[9]

The many questions posed here have been shadowed by the official rhetoric of the Triad organizations but have found support in other studies and evaluations. The stimulus to economic growth (GDP) as a result of the FTA should be 1.5 percent in Morocco and 0.7 percent in Tunisia.[10] Quite little, indeed!

The FTA excludes in the short term the liberalization of agriculture products and puts limits on services, the only exports that could benefit the MPCs as manufactures already enjoy them.

[9] Rhein E., 1995, pp. 28-29.

However, we should not underestimate that the expected real impact of liberalization on the MPCs economies would be their rapid modernization and productivity increase in line with international markets. An expectation that is very difficult to measure and evaluate before hand. The over mentioned optimistic assumption is not much worse than the one stating that a rapid modernization and liberalization of the Mediterranean economies might bring them to a general collapse.

The new markets dynamic introduced by globalization seems to confirm the predictability of this assumption. It has been observed: "that the only mention of structural adjustment in the Declaration of Barcelona is, once again, stated in terms of aid allocations to mitigate the costs of social disruption caused by trade liberalization" this is in line with the prevailing acceptance of the IMF and WB ideology.[11]

It is also clear that the positive assumptions are made from an ideological standpoint in favor of a development model based on exports. A view-point that considers the Mediterranean market mainly as a supplier of cheap goods to the rich markets of the north, rather than the ground for the rise of productive systems able to sustain the growth of local markets and consumption.

The support to this idea cannot be provided by the East Asian's export-led experience. First of all because, as often recalled in many studies, the East Asian model is the result of a more complex mixed model between private and public actors, market and planning economies. Furthermore, because the export-led status of these economies was achieved after long periods of import substitution.[12] Moreover, the ideas concerning liberalization completely neglect the fact that all Eastern Asian economies have developed a huge domestic market, in parallel with the

[10] Rutherford F. T. *et al.*, 1993; Ennaifer-Kebaddjian, 1994.
[11] Amato A., 1996, p. 21.

export-led push. They have created a large middle-class of consumers, while the MPCs economies should implement the FTA in a context of rigid budget restrictions that are pushing back the small welfare advances achieved during the previous decades. Finally, the East Asian financial crisis in the late 1997 has shown that the countries that were most exposed with their export and liberalization policies to the international markets are also the ones that have suffered most from the crisis.[13]

It is clear that the problem is neither to work out a self-centered development based on import substitution and high protective barriers, nor to create a strong export-led sector. The problem is rather to create a sound domestic base for the national economy, which is able to achieve a good quality and productivity level and to participate in some sector of the international labor division. The main export gain must be to extend and improve the domestic market. To imagine the increase of exports on the cost of the domestic market would be to upturn aims and means.

To deal with the period of transition toward the "complete liberalization" a number of measures have been pointed out: (*i*) increased competitiveness; (*ii*) a rise in FDI; (*iii*) expansive macro-economic policies. The Barcelona Declaration does not offer much to deal with these problems. One way could be to easy the EU's protectionist strategies in the agricultural sector eliminating the high burden on prices of Mediterranean food supply. The other way would be to introduce some modification in the behavior of the EU regarding FDI and the support to structural adjustment policies. Up to now, EU behavior is in line with the one of the triad and, therefore, certainly not in favor of the creation of a new strong, influential and wealthy meso-region.

---

[12] Turnham D., 1993.

[13] Amoroso B., 2000.

To deal with these problems would mean to re-discuss the MPCs development models as well as the EU development model. As Andrea Amato, from the European Economic and Social Council remarks:

> "The Barcelona Conference did not so much as hint at these issues. Then, too, having rejected the plank of co-development in its platform, it obviously did not even touch upon the issue of placing domestic and European investments in the context of a different intra-regional division of labor. One of co-development's key feature is the linking of EU-MPCs *intraindustrial complementariness* (by extension of the term, agriculture), which is based on a different deployment of specialization and is supposed to be a subject of detailed study and, later, backed by economic and industrial policy measures in both the EU and MPCs."[14]

The experiences of market integration and modernization

It is surprising how little reference has been made to previous historical experiences of market modernization and integration. A reference that would have helped to sort out an attitude that considers market and integration as technical matter of financing, rules and prices. This lack is even more serious when we are dealing with different markets, and not only diversity in markets terms but in historical and cultural terms.

This has been the case during the process of formation of national markets in Europe during last century. The integration has succeeded there where cultural differences were small or the resistance to modernization could be brought down by "cultural revolutions". But these operations were not always successful as shown by the cases of Italy, Spain, Great

[14] Amato A., 1996, p. 23.

Britain, etc. After more than a century and despite the many efforts regional disparities and different markets still exist in these countries.

The European Union as well should reflect on its own experiences. Regional and national disparities within the EU remain high and the strengthening of the EU market competitiveness in the context of globalization has rather increased than weakened problems like regional disparities and poverty. The case of Germany where all the "obstacles" to integration were removed and no means were saved in the re-unification effort are there to show than markets might be more than numbers and money.

To avoid the deepening of the gap between the EU and the MPCs, transitory measures to liberalization have been introduced in the EMP. However, the short time span (10 years) during which these measures should produce their effects does not seem consistent with the problems they aim to solve.

Firstly, it should be considered that during the transition period MPCs will have a dramatic fiscal loss from lost tariff revenues. For Morocco by the end of the transition this will total of more than 13 percent of the budget revenues, equivalent to more than 3 percent of GDP. In Tunisia it is estimated that as much as 68 percent of trade taxes will be lost, amounting to a loss of total government revenues of nearly a fifth.[15]

Secondly, the integration measures predicted for the EMP are concentrated on the north-south link while horizontal integration of markets is supported in a very marginal way. The result will be an increasing asymmetry among Mediterranean markets and increasing competition among MPCs to achieve better deals with the EU, especially in the agricultural sector, compromising the future of a south-south

[15] Economic Research Forum, 1997, p. 38-39; in Holland S. 1999, p. 11.

partnership, necessary to complement the EMP and to create horizontal integrated markets.

Furthermore, within MPCs markets and production systems vary substantially and remarkable differences exist in terms of wealth, productive specialization and trade links. GNP per capita ranges from 1000-1200 USD of Egypt and Syria and 3000 USD of Turkey and Lebanon, to 16000 USD of Israel. About half of the population in Egypt, Syria, Morocco and Algeria, leaves in the countryside and is employed in the agricultural sector, while the other countries have a higher share of urban population, that means different patterns of consumption and production.

In the region countries such as Algeria, are highly dependent on oil and their industrial sector is organized accordingly. Other countries export mainly agricultural products, in particular fruit and vegetables.[16] Staple foods are imported, since in many countries cereal yields per hectare are comparable to those of the industrial Europe, with the exception of Turkey that is a net exporter of cereals.

On the trade side, the Maghreb countries present a trade structure that is strongly oriented towards the EU, on both imports and exports, while the Mashreq countries have more diversified trade partners and the relationships with the EU are weaker. The manufacturing sector is a small share of the total industrial value added. With the exception of Israel, the pattern of specialization is oriented towards traditional low technology sectors, such as textiles, footwear and wearing apparel. In the oil countries the “heavy” industries and refineries account for the larger share of the industrial sector.

[16] Gomez y Paloma S., 1992; Gallina A., 1998.

These general considerations mean that MPCs are not a homogeneous unity and strong asymmetries exist not only with the EU but also within the MPCs.

Structural characteristics of MPCs markets

Besides the horizontal asymmetries in the region, the difficulties to be faced for integrating the markets are worsened by the general internal situation that characterizes each country:

1. The proportion of the population under fifteen will shrink in the next 10-15 years; consequently the proportion of the population of working age will grow more quickly than the total population. This entails migration and a dramatic need for job creation. Over the next forty years, the North African countries will need to create about 100 millions jobs just to maintain the present hardly tolerable ratio of unemployment and under-employment.[17]
2. The structural adjustment measures have reduced the purchasing power of the population, increased social inequality and poverty. This has resulted in increased social tension in several states of the region, notably Egypt, Morocco and Jordan.[18] Furthermore, the shrinkage in private consumption affects the volume of the local supply. The quantitative reduction of the demand is linked with the qualitative differentiation of the pattern of consumption towards imported goods that contributes to replacing local goods.

---

17 Amoroso A., 1996, Part IV, Romero, p. 9, in Holland S. (1999).
18 George S., 1996.

3. The duo liberalization-export-led strategy prescribed by the structural adjustment plans gives preference to the upgrading of modern suppliers, generally controlled by foreign capitals, and forces local demand and production to reach higher market segment. This means that the production is deflected towards different markets and local markets are left with lower quality products or without products.
4. The composition of imports from the EU is increasingly made up consumption goods, which put increasing competitive pressure on the local industries during the initial stages of complete liberalization.[19]
5. At the same time, the marginalisation of the local producers pushes them towards the informal sector. The figures show a striking increase of employment in the informal sector in MPCs,[20] to which importance for social stability and economic growth is now to be acknowledged. This implies that a re-structuring of markets towards less institutionalized forms is taking place, despite the attempt of the authorities to reduce the informal sector. It also underlines the existence of increasing demand of goods from lower segments and a very high entrepreneurial dynamism.
6. The local demand for goods and services is thus supplied by an underwood of micro and family enterprises (MFEs), which are family based and with low ratio of capital investment.[21] The MFEs sector is responsible in many countries of the region for 20-25 per cent of the GDP and for 30 to 40 per cent of employment,[22] excluding the informal sector. They represent not only a productive structure but also a social system which reproduction is based on a fragile interconnection of

[19] Chevalier A. and M. Freudenberg, 1999, p. 4.
[20] Economic Research Forum, 1998, p. 133.
[21] Amoroso B., 1999b; Gallina A., 1999.
[22] Economic Research Forum, 1998, p. 133.

social practices, cultural values, and power structures. Thus, demand and production are strongly connected and shape each other.

7. Despite the general presence of clusters of enterprises in the same sector, the level of specialization is very low, firms producing the same finished goods for the same market. Competition-with-the-neighbor is not a treat, and proximity instead means exchange of know-how and information about markets and new technology in a complete "shared environment".[23]
8. Markets are therefore shaped like the traditional *souq*, where purchasing, selling, production and consumption are social and socializing functions, strongly influenced by family and interpersonal relationships. This means also that opportunistic behaviors are limited and information about prices is generalized.

These elements depict a complex picture of the economies of the southern countries that is impossible to avoid. Local suppliers and local markets do not represent a romantic vision but an important source of income and stability. The growth of working population and thus of migrants put the stress on the importance of the local endogenous production systems and markets. Due to these structural characteristics, the structural adjustment and uncontrolled liberalization of EU imports hinder the development of MPCs markets and production systems. Besides, the tools for establishing an incisive inter-industry co-operation, enabling a gradual modernization of the manufacturing sector of MPCs, are still weak.

A closer look to the structural characteristics of the sector that will be most exposed to the process of liberalization will enable us to understand the areas in which the north-south cooperation policies can

---

[23] Gallina A., 1999b.

provide a sustainable framework of intervention. However, the knowledge about the effects of Euro-Mediterranean inter-industry cooperation is still limited and further research is needed.

The renewal of the productions systems and Inter-firms cooperation

As a precondition to the establishment of the FTA a development strategy for the MPCs private sector has been conceived within the economic and financial section of the Barcelona Declaration. This includes a set of actions, such as Med-partenariat, Med-interprise, BC-Net (Business Cooperation Networks) and BRE (Bureau de Rapprochement des Entreprise), Euro-Info Correspondence Center, Business Center. Since 1995 Mediterranean companies can also participate to Europartenariats. These instruments aim to strengthen the competitiveness of the Mediterranean Partners' SMEs through the establishment of partnerships with European SMEs that should transfer capital, know-how and technology.

In all, since the end of 1992, more than 4000 companies from the Mediterranean Partners have been able to meet targeted counterparts from the European Union to discuss methods of cooperation ranging from distribution, sub-contracting, transfer of know-how and equity participation, to the constitution of joint-ventures.[24]

Despite the high number of participants from both the EU and the Mediterranean countries, few partnerships have been established.

---

[24] Euro-Mediterranean Partnership, *Information Note*, Business-to-Business Linkage Instruments, http://www.euromed.net/.

This cooperation framework can represent an important tool for enhancing the exchange of know-how and improving the marketing and technical skills of the Mediterranean companies if they could respond to:

i. The demand of a growing population with pattern of consumption different from those supplied by global firms; and,
ii. The structure of the manufacturing sector existing in most of the countries.

Some of the structural aspects concerning the MPCs industrial sector are recalled in the following section.

Small and MFEs in the Mediterranean countries

Research carried out for the Italian Economic and Labor Council by the authors on the Mediterranean production systems has documented the role played by the manufacturing sector in the MPCs and has attempted to show the potentialities of north-south cooperation in this field as a strategy for development. The focus of the research was to underline the needs of the manufacturing sector and of the socio-economic context in which it is embedded with an approach that from the bottom could extrapolate the limits and potentialities of the production system.

If in Europe SMEs and MFEs are important factors of the socio-economic life, in the Mediterranean they represent the production base on which social and economic stability depends upon. The relationship existing between employment and MFEs is so deep that they play a strategic role in the stability of both the formal and the informal sectors. The economic structure of MPCs presents historically a scarcity of large enterprises and they have a different nature compare to the European, due to the fact that the national bourgeoisie have played a modest role in the economic life of Mediterranean countries. This role has been replaced by the military economic apparatus and by few large transnational. These processes, together with the reduction of the public sector with its role of jobs and income creator, can lead to foresee an increasing role of the MFEs in the region.

MFEs can be divided into three main categories: retailing, services providers to other enterprises, manufacturing. It is in particular on the latter branch that we will focus our attention.

The manufacturing MFEs with less than ten employees represent in Egypt 95 percent, in Jordan 93 percent, in Lebanon 88 percent, in the Occupied Territories of the West Bank and Gaza 89 percent, in Tunisia 42 percent, and in Morocco and Israel 50 percent of the total industrial units. Their contribution to the employment varies between 20 and 45 percent and to the GDP between 10 to 25 percent. Within the manufacturing sector the concentration of MFEs is stronger in the traditional sectors, such as textiles, wearing apparel, agro-food, leather and shoes, wooden furniture and articles, etc. The characteristics that they have in common are the low level of capital investment, the use of family manpower, informal credit, use of low technology, a family-based management, and low intra-firm division of labor.

Therefore their productive strategy is based mainly on the use of local and endogenous inputs, even though in several countries of the region there is a high dependency from imported raw materials. Firms' existence is also due to a network of close relationships and of a specific technical knowledge, which enable the creation of "relational capital" and accumulation of know-how.

Innovation in the manufacturing sector of MPCs

The investigation on the structural aspects of the manufacturing production systems enabled us to identify some of the "bottlenecks" and "strategic assets" they have, on which policy implications for the sector and for the north-south co-development model can be drawn. In particular, if a process of integration with markets with different productive structures will occur, there is a need to identify the way the traditional sectors of MPCs can be modernized without 'fractures'. This presupposes a knowledge of the technological and technical capabilities possessed and of the types of innovations that are needed to upgrade the sector maintaining a balance between the various elements that characterize the production systems, the territory, and the population. This type of analyses takes also into account the institutional, cultural and social context that should adopt, absorb and redistribute the effects of technological change.

Many of the problems faced by MFEs in the daily productive routine are related to lack of infrastructures and provisions such as electricity and telephone or to lack of adequate spaces. These can be tackled by governments' policy formulations. Other problems are related to the adaptation to new competition and to decreased demand for their goods following the reduced purchasing power of the population. To shed some light on the way these enterprises operate can contribute to understand how they react to changing conditions and where modernization of the techniques is needed.

The high utilization of local resources and the concentration in labor intensive branches can lead us to imagine these firms as a backward, immobile and impermeable form of organization. In the case of the study on the MPCs production system the rethinking of the paradigm and conceptual frameworks that we are used to apply to the analysis of the European experience is a necessary exercise.

The first striking element is that in small firm in the MPCs innovation is a continuous process and with an incremental nature. It does not regard the organization of the firm in particular, since it represents a quite stable form. Innovation constitutes mainly of incremental adaptation to new materials and to new techniques and it is based on the utilization and development of intangible factors, such as personal relations and tacit knowledge. The change carried by the process is functional to the production systems and does not create unbalances in the use of local resources. Therefore, it is easy to find firms working with the same technology since more than fifty years. This does not pose any problem to their capacity and the product supplied can still be sold on the local market.

But the system is not isolated and external pressure increases over time. The existence of highly developed informal socio-economic networks supply the lack of a developed formal system of innovation and reduces market failures and asymmetric information. Through social networks, a process of interactive learning and the creation of a “shared local environment” in which access to resources and information with very low barriers is guaranteed. In this way the sustainability of the firm is achieved and competition is replaced in many cases by co-operation, with the unity of the “community” of producers maintained instead of fragmented by process of exclusion.

At the same time the typical structure of the small firm in MPCs can create situations of “lock-in” and negative attitude towards external sources of information and knowledge. The deep gap between the institutions working for industrial development and the underwood of small industries does not help to reduce the resistance of the firms towards the introduction of measures that affect them directly.

The ways in which the opening up of the “absorption attitude” by the producers and the maintaining of the system’s coherence can be managed if different levels of integration between local public authorities and private groups of interest are supported. It can contribute to creating cohesion and solidarity between the environment’s different elements as well as to enhance collective values and rules.

A central asset is the stock of tacit knowledge owned by the producers and by the workers employed. To make this factor available for the community living on that specific production system means to integrate social informal networks and community of producers.

The same applies to the problems related to vocational and professional training schemes. Greater emphasis should be given to the importance of the “infra-mural” informal system. The professional training schemes and the “infra-mural” informal system should interact with each other. The first system can supply the second providing the skills related to newer development in design and materials. Once acknowledged the importance of this sector for the socio-economic stability of the region and for the process of Euro-Mediterranean co-development, greater efforts for further research in this sector should be established.

The theoretical dispute on free trade

The effects of the Euro-Mediterranean FTA on inter-trade flows, production and economic growth have been documented extensively by several authors[25] and by the extensive documentation produced by specialized networks.[26]. For the moment, only the manufacturing sector is at the center of the process of liberalization, since the "agricultural file" is still closed.

From these studies it emerges that despite the preferential agreements, Mediterranean exports did not adapt to changing world demand and European import demand in particular.[27] The main element is the colonial pattern of trade that characterizes the region (one-way trade). Mediterranean countries export mainly primary products and consumption goods to the EU and import intermediary, mixed and equipment goods.

Intra-industry trade is particularly relevant in the new industries in which MPCs have started to export (electrical and electronics). Textile industry is responsible for a large part of Mediterranean exports, but the high domestic protection has caused a profound dichotomy between exporting enterprises and those selling on the domestic market. The export sector has been controlled by European enterprises, which were interested in importing the low-quality segment of the production.

Deeper integration may, thus, partly reactivate the process of a "natural" specialization of countries, and agglomeration economies cannot be excluded. At the same time it has been pointed out that beside the positive effects produced by the growth of two-way trade, providing interesting industrial links between the European and the Mediterranean enterprises a number of problems arise. The OECD estimated that 60 percent of industrial firms in Morocco and Tunisia would not survive

[25] The conference of the World Bank, OECD and ERF and the VI Annual ERF conference, held in Cairo during February and October 1999 have produced extensive research material and empirical findings on this subject. To recall some: Chevalier A. and M. Freudenberg, 1999; Buiges P. and C. Martinez-Mongay, 1999; Hoekman B. and D. E. Konan, 1999. See also Hoekman B. and S. Djankov, 1997.

[26] The Mediterranean Institute in Marseille, The CNEL Mediterranean Report in Italy, and the Economic Research Forum in Cairo.

[27] Garson J. P. 1999; Chevalier A. and M. Freudenberg, 1999, p. 21.

against freely imported, competing European products.[28] The study concludes saying that this will not occur if appropriate technological and marketing improvements are made by 2010,[29] but the type of improvement that should be introduced are not specified.

Concerning the growth aspects too, the evidences provided by the statistical elaboration of the analysts are not very convincing of the benefits the liberalization can bring.

During recent years, the debate on regional trade agreements and multilateral trade agreements has been largely nurtured by policy-makers and academic economists.[30] In particular, the World Bank and the OECD have played an influential role carrying out extensive research on the topic of liberalization and regional trade agreement.[31] What emerges from these studies is the increasing complexity in the relation between multilateral liberalization, regional trade agreements and the polycentric new regionalisms.

The traditional classification of regional integration agreements in FTA, Customs Union, Common Market and Economic Union is becoming more complex than before. Even an FTA, the most "shallow" type of agreement, can go much further in the process of integration if parallel measures are included in the agreement, as for example the right of establishment, standardization and harmonization or imposing strict controls on rules of origin. At the same time, custom unions, such as Mercosur, cannot constitute very integrated areas if the establishment of the common external tariff is not accompanied by a complete internal liberalization of trade and factors. Thus, a better classification of regional

---

28 OECD, 1997.
29 *Ib.*, p. 16.
30 See for example the contributions on the journals World Economy and the World Bank Economic Review.
31 Oman C., 1994; Schiff M. and A. Winters, 1998.

trade agreements should be according to the type and number of issues included in the co-operation frameworks.

The "depth" or "intensity" of the regional agreements is in fact an important issue since deeper integration is generally perceived as a treat to multilateral trade liberalization.[32]

In practice, the worries of the "multilateralists" are not justified because new regional trade agreements are shallow and are limited to the establishment of FTA and generally do not go more beyond the GATT. This means that they do not represent a serious treat to multilateralism, and since "trade is quite free in the major trading nations, few regional liberalization are capable of creating important anti-liberalization forces (the exceptions are likely to be South-South FTAs)".[33]

The debate on liberalization and regional trade agreements among policy-makers suffers from the vice of sharing the same goal, therefore it became a technical issue. Whether through the WTO or through free trade areas, the objective is to achieve an un-discriminated and uncontrolled global market, in which is believed that standardized goods and homogeneous production systems, eliminating diversities, can achieve a better allocation of resources.

The analysis of the "diversities", in the sense of how production systems are organized, the influence of cultural bounds on consumption patterns and institutional setups, and the diversities in the social needs of given communities, poses the stress on the need to have a different approach to markets integration. The economic policies and measures advocated by the "polycentric model" respond to this need. The feasibility of such approach can be re-conducted to two main considerations: on the one hand, integration between areas with marked socioeconomic gaps

---

[32] See the discussion in Baldwin, 1997.

[33] *Ib.*, p. 866.

needs to have transitory regulatory frameworks enabling an appropriate "*mise-a-niveau*" of the economic sectors with which integration will occur. This means that innovation and transformation of production systems, both industrial and agricultural, should be gradual and contextualised. On the other hand, social and macroeconomic considerations should be introduced in order to avoid de-stabilizing effects and induce an endogenous growth that is based on the gradual adaptation of society and markets to the different context. This requires an institutional building that overcomes the national boundaries and is oriented towards a meso-regional dimension. Again, the case of the AMU should be looked carefully from this perspective.

In the following section, the importance of the EU perseverance in including other clauses and not only market liberalization into the process of integration is highlighted.

The re-launch of the Barcelona process and the redefinition of the role of the Free- trade area.

The need: "to ensure coherence in the stages of the European construction"[34], to question: "the socio-economic and, therefore, socio-politic coherence of the project"[35], the existence of: "a certain strategic ambiguity" on the political and cultural plan[36] have been stated by many authors analyzing the Barcelona process. To contribute to this discussion, it is important to start from a critical consideration of the basic elements that characterize the EU overall strategy, from which aims and means can be deducted.

---

[34] Bistolfi R., 1995, p. 14.
[35] *Ib*., p. 16.

The basic elements of this strategy rely in the politics of “economic and social cohesion” in the EU and “economic co-operation in the wider Europe”.

“Economic and social cohesion” became part of the Treaty of Rome in 1986 with the aim: “to decrease the gap among the development levels of various regions and the late backwardness of the less favored regions, including the rural areas”. The same problems were already mentioned in the Treaty of 1957. The new Treaty intended: “to create a completely new ‘common’ policy provided of specific instruments and by a precise position in the priorities of the community values, and entirely oriented to the promotion of the Community’s “harmonic development” involving all aspects”.[37] From the Treaty of Rome in 1957 to the Treaty of Maastricht in 1992 two main principles have dominated the European construction: free competition and economic-social cohesion. Two principles that contain the main value of the welfare state construction: efficiency and quality.

Therefore, it can be stated that the process of European Integration has been inspired by a European model of society based on the “social market economy”. By this understanding, free competition and social economic cohesion are not conflicting in a true market situation because the lack of the first undermines the functional principles of the second.

The two main instruments brought into use to achieve the aim of “convergence” have been the Community’s Social Policy and the Regional Policy, later on transformed into the Structural Funds.

An evaluation of the situation in the European Union with regard to the “economic social cohesion” was elaborated in 1997. It was stressed that the widening of the Community from 6 to 15 with the relative increase of its population from 175 to 365 millions has occurred together with a

---

36 *Ib*., p. 18.

37 Triulzi U., 1999, p. 226.

widening of the existing social and economic gap among member states. Beside the traditional backward areas like Mezzogiorno of Italy, one fourth of the population is situated in regions with a GDP per capita corresponding to two third of the Community's average. This implies also that great part of countries like Italy, Spain, Portugal, Greece and Ireland have an un-exploited production capacity.

Despite the important sums invested in these areas, it seems that neither corrective redistribution policies nor efforts to move production activities from north to south, or to direct part of the production structure of the south towards the markets of the north, have produced significant results.[38]

It is possible that improvements in infrastructure and education, new niches in service activities could produce some positive results. But it is obvious that the dimension of the problems to be faced in term of income and employment inequalities require the recognition of the importance of the new markets existing around the EU, the Wider Europe. The implementation of all possible co-development mechanisms between the production structure of European "backwards" regions and the new markets of the East and South, seems to be the most appropriate and sustainable answer to the problem.

To move in this direction with a new approach from the traditional one based on dogmatic and inter-passive believe on liberalization and competition requires new studies about the nature, behavior and dynamic of the new markets. The problem is clearly not the one of adapting these markets to our production and consumer structures but to analyzing their needs, functioning and potentialities. Co-development between the north and the south cannot be based on empty concept of solidarity but with

[38] *Ib.*, pp. 318-319.

specific contents that can only be deducted by an in-depth analysis of their functioning.

Conclusions and implication for future research

The proposal put forward by this contribution takes into account the macroeconomic dimension represented by the income, employment, needs gaps on one side, and the microeconomic dimension represented by the needs of thousand production units represented by SMEs and MFEs.

In the context of the increasing liberalization, a double strategy is necessary: on the one hand to sustain and improve the conditions of SME/MFEs in order to increase their adaptability to changing market needs. These enterprises have a tremendous stabilization effect on these economies and any measure that might destabilize them must be considered as economic terrorism. On the other, due to the dimension of problems related to unemployment, the huge needs to be satisfied in these countries and regions cannot be solved alone by SME/MFEs sector. The maintenance of the enterprise is possible there where a family structure or other close social relations are still alive. But, the increasing urbanization and rural migration has caused a huge number of young people and rural workers to live in towns and in situations completely de-linked from their previous social network or belonging.

Therefore, there is a need to introduce new forms of socioeconomic networks. This can take the forms of production units and initiative based of medium and big size enterprises, grounded on participation and co-participation, and able to recreate in a greater production environment and in a new context of solidarity and productivity the “enterprise spirit”.

The material basis of this new co-development between enterprises in the north and enterprises in the south must be found in studies that highlight the creation of value added in the chain of production under different environments. These studies must point out the bottlenecks that create losses because of production inefficiencies or because of monopolistic position of other enterprises or institutions.
These situations can be verified in the following areas of activity:

i The supply channels of raw materials;
ii The process of transformation of raw materials;
iii The supply of capital equipment;
iv The various stages of transformation within the same production systems or within production systems in the same territory or in other territories;
v The access to consumer markets and export channels;
vi The administrative setup, the infra-structures, the juridical apparatus, and the policies concerned with the sector;
vii Horizontal and vertical intra- and inter-firms co-operation.

The studies of the value added chain should also take into account that the single enterprise does not constitute an entire chain but it is only a segment of that. The same chain is made of a constellation of enterprises, belonging to different sectors and of different size. This type of analysis can identify the factors that can contribute to develop the co-operation between enterprises, and between them and the surrounding environment in which political actors and consumers interact. It can also contribute to identify the modes of creation and appropriation of the value added and its accumulation in the territory or its outflow towards external contexts.

To be explained the Mediterranean production systems needs different criteria in comparison to traditional analysis based on the competitive advantages. Nevertheless, the question of identifying the evolutionary path enabling to valorize in a productive way the existing strong social relations and the correspondent efficiency criteria without destabilizing the positive cohesion factors is still open.

This Mediterranean world of production, careful in avoiding every form of waste, linked with sentiment to its machineries and know-how, proud of its productions and customers, is an ontological and sentimental reality that highlights all the sadness of those predicating increases in productivity and process and product innovation, not to satisfy the necessity of the producers or customers but to achieve objectives that are quantifiable but abstract to man.

List of References

Amato A. (1996), The European Union and a New Mediterranean Policy, in Amoroso B. and Gomez y Paloma S. (1996) From Eurocentrism to Polycentrism–The Challenge of Globalization, Federico Caffè Centre, Roskilde.

Amato A. (1991), Le Politiche della CEE per i paesi del Mediterraneao: dall'Eurocentrismo alla cooperazione regionale, in Amoroso B. (1991).

Amoroso B. (2000), Economics and Politics in the East Asian crisis, in Masina P. (2000) Rethinking Development in East Asia: from Illusory Miracole to Economic Crisis, Curzon Press, Richmond.

Amoroso B. (1999b), V Rapporto sul Mediterraneo. Economie Mediterranee. Sistemi Produttivi locali tradizionali e di nuova formazione. Cooperazione Sud-Sud e Nord-Sud, CNEL, Rome.

Amoroso B. (1998), On Globalization, Macmillan, London.

Amoroso B. (1997), edited by, Il contributo italiano alla costruzione dello spazio Euro-Mediterraneo, Ed. Lavoro, Rome.

Amoroso B. (1996), The Mediterranean Region, Federico Caffè Center, Roskilde University, Denmark. Fast Project.

Amoroso B. (1991), Primo Rapporto sul Mediterraneo, Nuove prospettive di cooperazione economica, tecnologica ed istituzionale, Federico Caffè Centre, Roskilde University, Roskilde and CNEL, Rome.

Baldwin (1997), The Causes of Regionalism, World Economy Vol. 20, N. 7, November 1997, Blackwell Publishers, Oxford UK and Cambridge MA.

Bistolfi R. (1995) ed., Euro-Méditerranée. Une région à construire, Publisud, Paris.

Balta P. (1992) (ed.), La Méditerranée Réinventée, La Decouverte, Paris.

Buigues P., C. Martinez-Mongay (1999), EU-CEECS Free Trade Agreements and the Euro-Mediterranean Partnership. Are there any Domino Effects? Paper presented at the ERF Sixth Annual Conference "Regional Trade, Finance and Labour", Cairo, 28-31 October 1999.

Chevalier A., M. Freudenberg (1999), The Nature of the Euro-Mediterranean Trade and the Prospects for Regional Integration, Paper presented at the ERF-OECD-World Bank Workshop on "The Dynamics of New Regionalism in MENA: Integration, Euro-Med Partnership Agreements & After", Cairo, 6-7 February 1999.

Ennaifer-Kebaddjian (1994), Etude prospective de l'impact su l'économie tunisienne de la mise de la mise en place d'une zone de libre échange entre la Tunisie et l'Union européenne, Comete Engineering, Tunis.

ERF (Economic Research Forum for the Arab Countries, Iran and Turkey) (1998), Economic Trends in the MENA Region, ERF, Cairo.

ERF (Economic Research Forum for the Arab Countries, Iran and Turkey) (1997), Economic Trends in the MENA Region, ERF, Cairo.

Euro-Mediterranean Partnership, Information Note, Business-to-Business Linkage Instruments, http://www.euromed.net/.

European Commission (1993), The Mediterranean Policy, EC, Luxembourg, p. 3.

Gallina A. (1999), Economie Mediterranee: Ricerca sui Sistemi Produttivi Locali, Parte IV, Medio Oriente, in Amoroso B. (1999) (ed.).

Gallina (1999b), Innovation and Diffusion of Knowledge in Micro and Small Enterprises, Background Paper at the ERF Sixth Annual Conference "Regional Trade, Finance and Labour", Cairo, 28-31 October 1999.

Gallina A. (1998), Small Enterprises and Endogenous Development in the Mediterranean, Federico Caffè Centre Research Report No. 2/1998, Roskilde University, Roskilde.

Garson J. P. (1999), Regional Economic Integration, Employment & Migration in the Mediterranean Basin, Paper presented at the ERF-OECD-World Bank Workshop on "The Dynamics of New Regionalism in MENA: Integration, Euro-Med Partnership Agreements & After", Cairo, 6-7 February 1999.

George S. (1996), La Dette Exterieure des Pays du Bassin Méditerranéen, CNEL, Rome.

Gomez y Paloma S. (1992), Mediterranean and Baltic Essay on Contemporary Agricultural Systems, Center for Sydeuropæiske Studier, Roskilde University, Roskilde.

Hoekman B., D. E. Konan (1999), Deep Integration, Nondiscrimination and Euro-Mediterranean Free Trade, Paper presented at the ERF-OECD-World Bank Workshop on "The Dynamics of New Regionalism in MENA: Integration, Euro-Med Partnership Agreements & After", Cairo, 6-7 February 1999.

Hoekman B. and S. Djankov (1997), The European Union's Mediterranean Free Trade Initiative, World Economy, Vol. 19, N. 4, July 1997, Blackwell Publishers, Oxford UK and Cambridge MA.

Holland S. (1999), The Euro-Mediterranean Agreement. An Alternative Agenda, Federico Caffè Centre, Research Report N. 1/1999, Roskilde University, Roskilde.

OECD (1997), The EU and the Maghreb, OECD, Paris.

Oman C. (1994), Globalisation and regionalisation: the challenge for developing countries, OECD, Paris.

Pisani E. (1995), Préface, in Bistolfi R. (1995).

Pisani E. (1992), En quête d'un avenir, in Balta P. (1992), (ed.).

Rhein E. (1995), Le Pari Euro-Mediterraneen, in Bistolfi R. (1995).

Rutherford F. Thomas *et al.* (1993), Morocco's Free Trade Agreement with the European Community: A Quantitative Assessment, Working Papers, World Bank, Washington.

Schiff M., Winters A. (1998), Dynamics and Politics in Regional Integration Arrangements: An Introduction, The World Bank Economic Review, Vol. 12, N.2, May 1998.

Triulzi U. (1999), Dal mercato comune alla moneta unica, Edizioni SEAM, Milano.

Turnham D. (1993), Emploi et dèveloppement. Un nouveau Bilan, OECD, Paris.

Submission of research papers and manuscripts for publication should be sent to:

Prof. Bruno Amoroso
Federico Caffè Centre
Dept. of Social Sciences, HUS 22.1
Roskilde University
P.O. Box 260, DK-4000 Roskilde, Denmark

Note for the authors:

The research report must be submitted in Windows 98, two copies on paper and one on diskette or via email, single spaced, font 14 Times new roman. Normal length is between 5000-7000 words (incl. tables and references)
E-mail address: amoroso@ruc.dk