Executive Summary

Since the 2011 Arab revolutions, the Southern and Eastern Mediterranean countries (SEMCs) have been undergoing multiple transitions (political, social, cultural, religious, etc.). These revolutions have brought to light two main areas requiring action: the upgrading of infrastructures and the creation of jobs for the younger generation. Although the relationship between these countries and Europe is strong, it needs to be renewed. This renewal must be comprehensive and must focus on investment, joint management of energy transition, and mobility, which requires special treatment due to its human dimension. Certain measures would need to be put in place for this, for example a fund dedicated to infrastructures, bringing together all of the financial support from Europe; increased mobilisation in favour of SMEs, and management of the mobility of professionals. As far as the SEMCs are concerned, the establishment of a regional economic area will be achieved through improvement of the business climate. This will entail the modernisation of the legal framework by means of regional convergence so that the EU operators and the SEMCs have shared and mutually compatible legal tools at their disposal, as well as taking a progressive step towards the modernisation of the financial system in accordance with a schedule set out by each country.
This study was requested by the European Parliament's Committee on Foreign Affairs.

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TABLE OF CONTENTS

EXECUTIVE SUMMARY 5
INTRODUCTION 6
PART I - REPORT ON PUBLIC AND PRIVATE INVESTMENTS IN THE MEDITERRANEAN PARTNER COUNTRIES 8
1 THE EU AND THE MEDITERRANEAN PARTNER COUNTRIES: A RENEWED PARTNERSHIP? 9
   1.1 OFFICIAL DEVELOPMENT ASSISTANCE AIMED AT THE MEDITERRANEAN PARTNER COUNTRIES 10
   1.2 BALANCE SHEET OF EU FUNDING OF THE MEDITERRANEAN PARTNER COUNTRIES 12
      1.2.1 Before 2011: assistance without political conditions 12
      1.2.2 Since 2011: positive conditionality in an emergency situation 13
      1.2.3 Funding by the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) 15
      1.2.4 The predominance of France at a bilateral level 16
   1.3 CONTRIBUTIONS BY MULTILATERAL DONORS: COORDINATION IN NEED OF REINFORCEMENT 16
      1.3.1 The World Bank: a key donor for the Mediterranean Partner Countries 17
      1.3.2 The African Development Bank (AfDB): improved coordination with international financial institutions 17
      1.3.3 Assistance from the Arab and Muslim world: refocusing on the 'secure' countries 17
2 DEVELOPMENT OF PRIVATE INVESTMENTS MADE IN THE SOUTH 18
   2.1 EROSION OF THE EUROPEAN POSITION 19
   2.2 INCREASING INTEREST FROM CHINA AND TURKEY 20
3 INVESTMENT, THE DRIVING FORCE OF ECONOMIC INTEGRATION BETWEEN THE EU AND THE MEDITERRANEAN PARTNERS 23
   3.1 CONCENTRATE EU EFFORTS ON INFRASTRUCTURES 23
   3.2 STRENGTHEN PUBLIC PRIVATE PARTNERSHIPS (PPP) 24
   3.3 GUARANTEE AND STIMULATE INVESTMENT FOR THE BENEFIT OF ALL 24
   3.4 PROMOTE THE CREATION OF SMES 24
PART II – SUMMARY AND RECOMMENDATIONS IN FAVOUR OF GREATER REGIONAL INTEGRATION 25
4 INSTITUTIONAL AND FINANCIAL FRAMEWORK 25

4.1 INSTITUTIONAL AND FINANCIAL FRAMEWORK: BETWEEN ADMINISTRATIVE COMPLEXITY AND PRIMACY OF BILATERALISM 25

4.2 UNREMARKABLE SUMS OF EUROPEAN AID 26

5 POOR ECONOMIC INTEGRATION DESPITE A SIZEABLE FINANCIAL COMMITMENT 27

5.1 PRIORITY GIVEN TO TRADE, BUT WITH LITTLE IMPACT IN TERMS OF ECONOMIC CONVERGENCE 27

5.2 A STRUCTURAL WEAKNESS IN TERMS OF ATTRACTING FOREIGN DIRECT INVESTMENT 28

6 A WEAK POLITICAL AND SOCIAL DIMENSION BEFORE THE ARAB UPRISINGS 29

7 MANAGEMENT OF NATURAL RESOURCES: A RECENT PRIORITY FACED WITH FUNDING PROBLEMS AND DIFFERENCES OF OPINION 31

8 RECOMMENDATIONS 33

8.1 ALLOCATING THE FUNDS ATTRIBUTED TO THE PARTNERSHIP TO REGIONAL PROJECTS AND TRANSITIONAL COUNTRIES AND IMPROVING FUNDING CONDITIONS AND COORDINATION OF THE MAJOR PROVIDERS OF FUNDS 33

8.2 REINFORCING THE SOCIAL DIMENSION AND FOSTERING MOBILITY 34

8.2.1 Helping to implement redistribution mechanisms which are more equitable and more rational in economic terms 34

8.2.2 Helping to set up social democracy in the Mediterranean partner countries 34

8.2.3 Invest in human capital 35

8.2.4 Fostering mobility 35

8.3 CONDUCTING AN INDUSTRIAL AND AGRICULTURAL POLICY IN RELATION TO THE PARTNERS, RATHER THAN A TRADE POLICY 35

8.4 ENHANCE COOPERATION ON THE MANAGEMENT OF NATURAL RESOURCES 36

REFERENCES 38
EXECUTIVE SUMMARY

The need for funding associated with structural investment projects in Southern and Eastern Mediterranean countries (SEMCs) is considerable. The resources are there, but public resources, save for a few exceptions, are drying out, and private resources, including those from the SEMCs themselves, generally find their way into regional entities that are experiencing higher rates of growth or that are seen as lower risk.

The SEMCs are considered risky. Although the EU dedicates a portion of its external policy to them, including funding and sizeable investments, it does not consider them important. However, the financial crisis in Europe and the revolutions and transitions in the SEMCs offer an opportunity to review the terms of the partnership between them. Societies within the SEMCs are currently undergoing lengthy processes of multiple changes. The EU, which supported the transitions in the eastern countries, must support the desire for change of the populations that overthrew the dictatorships in the name of the principles and values upheld by Europe.

It would therefore seem necessary to renew the global framework for the relationship between the EU and the SEMCs, particularly in terms of investment, joint management of transitions (especially energy transition), and above all to approach the question of mobility, which requires special treatment as it impacts directly on humans, in a calm manner.

More generally, the desired outcome is improved distribution of added value through a series of measures aimed at strengthening the role of transformation of civil societies as regards the management of migration and mobility, improved integration of the countries in terms of the management of natural resources, especially with respect to energy and water, and finally, improved economic anchorage, which will enable the resolution of problems such as the funding of infrastructures and the creation of jobs. This will be achieved through the involvement of the European institutions that are funding the development of the SEMCs, and also through a coordination effort that is not currently being undertaken by any institution.

Banks and financial markets within the SEMCs must also be involved, and the legal and financial investment framework must be improved with a view to funding projects deemed strategic, which, in addition to structural investments in the fields of energy, water and transport, could also include the creation of dedicated investment funds that may also benefit SMEs.
INTRODUCTION

Since the 2011 Arab revolutions, the EU's Mediterranean Partner Countries (MPCs) have been undergoing multiple transitions (political, social, cultural, religious, etc.), which have highlighted their needs in terms of infrastructure (coastal urban areas are often well equipped, while rural areas are marginalised or even abandoned) and the creation of jobs.

In 2010, McKinsey evaluated the 'pipelines' of five-year public projects in 11 SEMCs (excluding Turkey, but including Libya), with a value of EUR 200 billion and in nine areas of activity, i.e. EUR 40 billion per year over five years. The EIB estimates the needs for the period 2010-2020 to be EUR 100 billion for the energy sector, EUR 110 billion for urban planning (water, sanitation, waste treatment, and urban transport), EUR 20 billion for logistics (ports, airports, and highways) and EUR 20 billion to support business development. In addition to this, 50 million jobs need to be created between now and 2020 to maintain unemployment rates at their current levels.

In 2009, the Milhaud Commission report\(^1\) identified that EUR 20 billion are invested annually in the EU's MPCs (EU competitions, from EU countries, and from other sources). In addition to this, it is estimated that USD 30 billion crosses the Mediterranean every year in the form of remittances. The MPCs also hold liquid assets in the form of local savings, which are principally invested in non-productive sectors (in property or in deposit accounts).

In the context of transition in the MPCs and the economic and financial crisis in the EU, it is in the interests of both parties to promote investment and transnational cash flow. The MPCs have been experiencing changes in their commercial and economic partners for several years now (Russia, China, Brazil, the Gulf States and sub-Saharan Africa). European countries are losing market share there. Although the Far East and North American Free Trade Area (NAFTA) are strengthening the integration of their economic area, however, the EU's perception is that a number of tensions are concentrated in the MPCs from both a geostrategic and a geoeconomic point of view. For this reason, the EU and the MPCs focus on specific operations, national defence and short-term opportunities.

By adopting a vision that goes beyond the simple security and migratory requirements of opening up the opportunity for an integrated economic area comprising 800 million citizens, the EU and the MPCs can become a large regional group within which the MPCs can become a point of convergence with Africa on the one hand and with the Gulf States on the other hand. To be able to achieve this, the EU and the MPCs must develop a strategic common vision for the future based on co-development and projects with real sharing of added value.

As far as the MPCs are concerned, the establishment of a regional economic area will be achieved through improvement of the business climate; this will entail modernisation of the legal framework by means of regional convergence so that the EU operators and the MPCs have common and mutually compatible legal tools at their disposal, as well as modernisation of the financial system in accordance with a schedule set out by each country. Ultimately, this area can only be created through a strong political action evidencing a strategic will to go above and beyond the current practices towards a more in-depth integration.

In this context, the 'Political, social and economic impacts of the EU's policies and relations with its Mediterranean partners' report focuses on the subject of 'INVESTMENT', both public and private, as well as recommendations for improved integration. This report highlights the changes that have been

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\(^1\) The Milhaud Commission was established under the mandate of French President Nicolas Sarkozy
European Union policies relating to its Mediterranean Partners, focusing on ‘investment’

identified within the European Neighbourhood Policy since 2011 with regard to MPCs in terms of public investment, gives indications of the positions of the other donors, and evaluates the EU’s policies towards the MPCs in terms of investment, migration and mobility, and the management of natural and renewable resources.

Finally, it offers specific recommendations to enable innovative approaches to investments, migration and mobility, and the management of natural and renewable resources to be developed to allow the MPCs to succeed in their political, economic and social transitions, and to allow the EU to renew its proposals concerning these countries while benefitting from their proximity and complementarity.
PART I - REPORT ON PUBLIC AND PRIVATE INVESTMENTS IN THE MEDITERRANEAN PARTNER COUNTRIES

The MPCs have been able to attract Foreign Direct Investment (FDI), and in some cases have managed to maintain growth rates of around 3% at the height of the economic crisis and throughout the revolutionary events. Nevertheless, the MPCs are amongst the countries most in need of investment in the world, in particular in terms of infrastructure and funding of SMEs.

These needs have been exacerbated, particularly in certain countries (Tunisia and Egypt) by the 2011 revolutions and the on-going transitions, and the fact that several donors have had to significantly reduce their involvement in these countries since 2011 as a result of the political instability that has impacted heavily on the confidence of public and private investors. The image of the MPCs worsened significantly between 2011 and 2013, adding to their reputation as a high-risk group of countries.

If the EU remains a major financial partner for the MPCs, this may be of interest to emerging countries and the Gulf States, depending on their different perspectives and strategies. Europe’s position in terms of FDI is being eroded, especially as large European groups are being disparaged in some countries (Tunisia and Egypt) as a result of their alleged collaboration with the pre-2011 dictatorships.

Figure 1. Europe and its neighbours

Data source: European Commission
1 THE EU AND THE MEDITERRANEAN PARTNER COUNTRIES: A RENEWED PARTNERSHIP?

Multilateral and bilateral international donors have been increasing their financial contributions to MPCs for several years now. Nevertheless, for the most part, these financial contributions are still falling well short of the needs of these countries. The EU is a major donor and provider of funds to the MPCs. The EU’s actions have been punctuated by various programmes and agreements based on different formulas: partnerships, associations, and even full and reinforced partnerships.

In 2011, the EU launched a process of reshaping the financial instruments that it uses to distribute aid to its neighbours, and in particular to the MPCs, in order to be able to support them during the transition process on the one hand, and to accompany the implementation of the new ‘more for more’ strategy on the other hand.

The EU’s external action, which was implemented on 7 December 2011 with the budgetary proposals, was aimed at enabling the EU to […] ‘allow the Union to fulfil its responsibility on the global stage [in terms of]: fighting poverty and promoting democracy, peace, stability and prosperity. [A] range of instruments […] support[s] developing countries as well as countries in the European neighbourhood and those that are preparing [for] accession into the EU’.

The external action is now supported by nine budgetary instruments:

− Instrument for Pre-accession (IPA): EUR 14.11 billion
− European Neighbourhood Policy (ENP): EUR 18.182 billion
− Development Cooperation Instrument (DCI): EUR 23.295 billion
− Partnership Instrument (PI): EUR 1.131 billion
− Instrument for Stability (IfS): EUR 2.829 billion
− European Instrument for Democracy and Human Rights (EIDHR): EUR 1.587 billion
− Instrument for Nuclear Safety Cooperation: EUR 631 million
− Instrument for Greenland: EUR 219 million
− European Development Fund (EDF, outside the EU budget): EUR 34.276 billion

As far as the ‘new generation’ European Neighbourhood Policy (ENP) is concerned, the budget for 2014-2020 is EUR 18 billion, 15 billion of which is earmarked for the EU’s southern neighbours. Its aim is to refocus the EU’s external action onto central points that bring together the concerns, public authorities, economic operators and civil society of the MPCs. The stated objectives can be summarised as follows:

− Put people back at the centre of development through increased cooperation on issues of mobility
− Consolidate the Rule of Law and good governance to facilitate political transition and economic reform
− Encourage partners to take ownership of proposed projects and programmes by means of positive conditionality
− Increase the EU’s room for manoeuvre in terms of crisis management at the borders

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Ensure that the financial assistance of the EU is targeted more effectively

Pool European instruments in order to make better use of them for the benefit of the member states of the EU and the MPCs.

1.1 Official Development Assistance aimed at the Mediterranean Partner Countries

The MPCs and Turkey are countries that receive Official Development Assistance (ODA). ODA in this group of countries is characterised by a large number of both receiving countries and countries providing funding. Nevertheless, while in 2008 50% of the ODA was received by just three States (Morocco, Turkey and the Palestinian Territories), since 2011 that Tunisia has joined the list of countries where donors are concentrating their efforts when compared with the period from 2008-2010.

Table 1. Net ODA in millions of dollars

<table>
<thead>
<tr>
<th>Country</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>325</td>
<td>319</td>
<td>198</td>
<td>190</td>
<td>144</td>
</tr>
<tr>
<td>Egypt</td>
<td>1 742</td>
<td>1 005</td>
<td>597</td>
<td>414</td>
<td>1 807</td>
</tr>
<tr>
<td>Libya</td>
<td>74</td>
<td>41</td>
<td>9</td>
<td>642</td>
<td>87</td>
</tr>
<tr>
<td>Morocco</td>
<td>1 451</td>
<td>930</td>
<td>993</td>
<td>1 456</td>
<td>1 480</td>
</tr>
<tr>
<td>Tunisia</td>
<td>375</td>
<td>503</td>
<td>550</td>
<td>921</td>
<td>1 017</td>
</tr>
<tr>
<td>Mauritania</td>
<td>452</td>
<td>373</td>
<td>374</td>
<td>382</td>
<td>408</td>
</tr>
<tr>
<td>Jordan</td>
<td>738</td>
<td>740</td>
<td>954</td>
<td>979</td>
<td>1 417</td>
</tr>
<tr>
<td>Lebanon</td>
<td>1 070</td>
<td>580</td>
<td>448</td>
<td>474</td>
<td>710</td>
</tr>
<tr>
<td>Syria</td>
<td>157</td>
<td>208</td>
<td>135</td>
<td>335</td>
<td>1 672</td>
</tr>
<tr>
<td>Palestine</td>
<td>2 470</td>
<td>2 817</td>
<td>2 519</td>
<td>2 442</td>
<td>2 001</td>
</tr>
<tr>
<td>Turkey</td>
<td>1 116</td>
<td>1 362</td>
<td>1 047</td>
<td>3 189</td>
<td>3 033</td>
</tr>
<tr>
<td>Total</td>
<td>9 971</td>
<td>8 877</td>
<td>7 825</td>
<td>11 424</td>
<td>13 777</td>
</tr>
</tbody>
</table>

Data source: OECD extracts of ODA data

At a global level, two donor states represented 25% of regional ODA in 2008: France and the United States. In 2012, the United States was followed by three European countries in terms of ODA: Germany, the United Kingdom and France.

Figure 2. Summary of ODA in 2012

Data source: OECD

Figure 3. EU ODA 2011-2015

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1 Milhaud Report (2010)
European Union policies relating to its Mediterranean Partners, focusing on 'investment'

Data source: Publication of preliminary data on Official Development Assistance, 2012; European Commission - MEMO/13/299 03/04/2013
At a European level, between 2011 and 2013, France and Germany remained the principal providers of ODA, particularly towards the MPCs. Spain has drastically reduced its ODA contributions as a result of the severe economic and financial crisis that the country is experiencing. Other countries, such as the Netherlands and Luxembourg make contributions within the scope of consolidated European external policies.

In general, the concentration of ODA between 2010 and 2013 reveals the degree to which the donor countries are engaged in each country concerned. The choices of donor countries are often motivated by their desire to safeguard their own political and economic interests. Therefore […]’30% of the official assistance received by Tunisia is contributed by France. By the same token, the United States provides 35% of the ODA received by Egypt, and 51% of that received by Jordan’4. Moreover, ODA benefits social sectors, while […]’direct support for production (industry and agriculture) is generally minimal’.5

1.2 Balance sheet of EU funding of the Mediterranean Partner Countries

The EU and the European Investment Bank (EIB) are the most significant multilateral donors to the MPCs, while the Agence Française de Développement (French Development Agency - AFD) is the largest bilateral donor.

**Box: Intervention instruments of the EU for development funding to the MPCs**

- The EU's principal intervention instruments are:
- The European Neighbourhood Instrument (ENI);
- The Facility for Euro-Mediterranean Investment and Partnership (FEMIP) managed by the EIB and since 2008 also through the Neighbourhood Investment Facility (NIF).

ENPI credits are primarily allocated to bilateral actions, i.e. to each country’s cooperation projects. The credits are also allocated to two ENPI regions (South and East), as well as to regional and cross-border initiatives and mechanisms.

*Data source: European Commission*

1.2.1 Before 2011: assistance without political conditions

**For the period from 2007-2013,** the ENPI comprised **EUR 12 billion.** Between **2007 and 2013,** FEMIP held a budget of **EUR 8.7 billion** to fund loans guaranteed by the EU, and **EUR 2.2 billion** for those not guaranteed by the EU, intended for the development of companies and the funding of infrastructures. The NIF, which targets the funding of infrastructures, had a budget of **EUR 700 million** for the period from **2007-2013.** The Member States have been asked to gradually match the Community contribution in order to maximise the leverage of loans granted. At the end of 2009, projects totalling **EUR 4.3 billion** were able to be funded thanks to a contribution in the order of **EUR 74.8 million** from the NIF.

By way of comparison, the Instrument for Pre-accession Assistance (IPA), which benefits potential acceding countries, including Turkey, holds a budget of **EUR 11.5 billion.** MPCs with more than **200 million** inhabitants received **EUR 887 million,** or **EUR 4.3/inhabitant/year** through the ENPI in 2009 compared with **EUR 921 million** for the countries benefiting from IPA and which have **87 million** inhabitants, i.e. **EUR 10.5/inhabitant/year.**

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1 Milhaud Report (2010)
In summary, this policy conforms to the 'business as usual' approach, i.e. the conventional execution of multi-year programmes defined in a fairly mechanical manner with each neighbouring country to the south, establishing the east-south divide that underpins European policy regarding its neighbours: the east being favoured by Germany, and the south by France, Italy and Spain, which have economic interests there.

1.2.2 Since 2011: positive conditionality in an emergency situation

In spite of the criticisms levelled at the reaction of the EU to the Arab uprisings, the EU’s budgetary leap to aid the MPCs is very real, even if it does largely fall short of their needs. Indeed, on 8 March 2011, the EU proposed 'a partnership for democracy and shared prosperity with the Southern Mediterranean'. The EU has initiated projects such as the SPRING programme (Support for Partnership, Reform and Inclusive Growth), the Civil Society Facility, a support mechanism for civil society, and the Erasmus Mundus programme. The cost of these programmes totalled EUR 350 million in 2011 and 2012.

Following on from this initial communication, the EU proposed 'a new response to a changing Neighbourhood' in a communication of the same title. It corresponds to the redrafting of the ENP, basing it on three objectives: (i) a deeply-rooted democracy, (ii) partnerships for the population, and (iii) inclusive development and growth.

This strategy also known as the ‘three Ms’: Money, Markets, and Mobility is aimed at restoring confidence and relaunching the Euromed partnership. It introduces positive conditionality, which proposes an increase in EU assistance to the efforts and progress made by the MPCs to strengthen the rule of law.

Therefore, with respect to Tunisia, the EU has promised to provide more support if and when Tunisia has a genuinely elected constituent assembly. European actions, which are out of touch with the emergency situations in the MPCs, […]’correspond (in reality) to the conventional and communitarised mechanisms and tools of the EU’s external actions, regardless of the region or the country concerned6.

The redrafting of the ENP is reflected in the supplementary allowances for the years 2011-2013, and the announcement of the replacement of the ENPI by the ENI, which from now on will be the instrument through which the EU administers its relations with its neighbours for the period from 2014-2020, and for which the EC is giving EUR 15 billion to its southern neighbours.

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6 Bastien Nivet ‘The European Union and the Arab Spring: an inadequate transformation tool?’ 2011-2013
Table 2. EU funding in favour of the MPCs (in EUR million)

<table>
<thead>
<tr>
<th></th>
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<td>Southern region</td>
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<td>151.5</td>
<td>194.70</td>
<td>171.10</td>
<td>233.30</td>
<td>296.50</td>
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<td>978.70</td>
<td>1 061.80</td>
<td>836.0</td>
<td>1</td>
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<td>7 099.80</td>
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Data source: author, using data from the European Commission

Figure 4. Distribution per country 2007-2012

Table 3. Investments 2007-2013 (in EUR million)

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<th>2007-2010</th>
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<td>Libya</td>
<td>18.00</td>
<td>60.00</td>
<td>0.00</td>
<td>78.00</td>
</tr>
<tr>
<td>Morocco</td>
<td>654.00</td>
<td>580.50</td>
<td>80.00</td>
<td>1 314.50</td>
</tr>
<tr>
<td>Palestine</td>
<td>1.57</td>
<td>937.70</td>
<td>0.00</td>
<td>939.27</td>
</tr>
<tr>
<td>Syria</td>
<td>130.00</td>
<td>129.00</td>
<td>58.40</td>
<td>317.40</td>
</tr>
<tr>
<td>Tunisia</td>
<td>300.00</td>
<td>390.00</td>
<td>150.00</td>
<td>840.00</td>
</tr>
<tr>
<td>Southern region</td>
<td>343.30</td>
<td>288.00</td>
<td>0.00</td>
<td>631.30</td>
</tr>
<tr>
<td>Total</td>
<td>2 708.97</td>
<td>3 385.50</td>
<td>498.40</td>
<td>6 592.87</td>
</tr>
</tbody>
</table>

Data source: author, using data from the European Commission
This 'budgetary leap' was not enough to re-establish the image of the EU in the eyes of the populations of the MPCs. This was evidenced in a study carried out by the Turkish Economic and Social Studies Foundation in 2011. According to the results of this study, […] '78% of Arab populations saw Turkey as the country that is offering them the largest amount of support, and, in spite of a slight fall, Turkey remained the country about which 69% of those surveyed had a favourable opinion one year after the Arab Spring'.

1.2.3 Funding by the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD)

To accompany the transitions within the MPCs, the EIB has released an extra EUR 4 billion, and the EBRD has been granted authorisation to increase its geographical range to incorporate its southern neighbours.

The EIB invests in the MPCs through FEMIP, which was created in October 2002. Between 2002 and 2011, FEMIP invested EUR 13 billion, and through its operations was able to collect an additional EUR 35 billion of capital from international financial institutions, bilateral agencies, and the private sector. It devoted more than EUR 27 million to helping existing institutions to integrate themselves into local financial markets and granted a total of EUR 102 million for technical assistance operations aimed at reinforcing knowledge and expertise within the MPCs. Finally, it supported 2 300 SMEs, resulting in the creation of 30 000 jobs.

Figure 5. Regional distribution of EIB investments in 2011 in EUR million

The EBRD has not yet launched any projects in the MPCs; however it has opened representative offices, notably in Morocco and Tunisia. Its action still needs to be evaluated in the medium term, bearing in mind that transition experiences differ from country to country.

Even though its on-going efforts are important for the funding of infrastructures, the fact remains that the EIB is an investment bank and not a development institution. The approaches taken in its involvement cannot, in their current state, satisfy the needs, particularly in terms of assisting in the implementation of infrastructure projects. In order to achieve this, the actions of the EIB via FEMIP must form part of the complete financial architecture with a fund specifically dedicated to infrastructure (see...

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7 Sabiha Senyücel Gundogar, Mensur Akgün (2013) The Perception of Turkey in the Middle East, 2013, Arabic Version
the recommendations below). Indeed, satisfaction of the funding needs of the MPCs will be achieved by putting in place a group of coherent instruments that will provide the functions of identification, funding and guarantee for the projects, and training of the teams that will manage said projects. This aim does not address the moral or ethical considerations, it is born predominantly out of economic necessity, as much for the MPCs as for the countries of the EU.

1.2.4 The predominance of France at a bilateral level

At a bilateral level, France’s investments are the most significant and are essentially managed by the AFD, whose level of investment in the MPCs amounted to **EUR 1.1 billion** in 2009. The vast majority of the AFD’s global investments are dedicated to Turkey, Morocco and Tunisia, and for the most part, its activities involve funding of the private sector by means of the ARIZ fund and the Investment Facility to Support the Economic Development of the Mediterranean (FISEM).

Since 2011, the AFD has strengthened its position as top bilateral donor to the MPCs, leading to investments of **EUR 1.109 billion**, of which **EUR 915 million** came from the AFD and **EUR 182 million** from Proparco.

Morocco, Tunisia and Turkey remain the countries in which the AFD is concentrating its actions, with EUR 503, 186 and 185 million respectively, meaning that these three countries receive a total of **86% of the AFD’s total authorised funding for the region**. The areas of activity involved are infrastructure, agriculture, the social sectors, the environment and the productive sectors.

Although it is not as heavily involved in funding at a bilateral level within the MPCs, Germany has taken steps to bolster transitions in Arab countries. It has agreed a ‘Transformation Partnership’ with Egypt and Tunisia for the years 2012 and 2013. This partnership aims to set up specific cooperation projects between German organisations and the beneficiary countries. In terms of resources, the German Federal Government has set aside an additional **EUR 100 million** for the 2012-2013 period to aid the transformation process in the Maghreb countries. German cooperation targets the sustainable development and energy sectors, and Germany is focusing its efforts on selected countries that it sees as a priority and deems to be secure, such as Morocco and Tunisia.

Finally, joint initiatives to better target investments, streamline the project approval process and better spread the risk have now been institutionalised. The AFD, KfW and the EIB have signed an agreement to ‘harmonise their methods of involvement in the area and co-finance projects’.

European countries also invest in the MPCs through sovereign investors. The CDC is involved by means of the InfraMed Fund ([www.inframed.com](http://www.inframed.com)), an investment fund for long-term investment in new urban infrastructures, energy and transport in the Maghreb and the Mashreq. With a budget of EUR 385 million, it was launched in 2009 by the Caisse des Dépôts (France), the Cassa depositi e prestiti (Italy), EFG Hermes (Egypt) and the Caisse de dépôt et de gestion du Maroc. Since its launch, the Inframed Fund has financed three projects: Iskenderun Port in Turkey, the Egyptian Refining Company in Egypt, and Tafila Wind Farm in Jordan.

1.3 Contributions by multilateral donors: coordination in need of reinforcement

Funding available at a multilateral level is for the most part provided by three donors in favour of three countries in the region. Indeed, Turkey, Egypt and Morocco are the three countries that ‘attract 53% of the available assistance’ and the EU, the EIB and the World Bank (WB) are the principal donors who

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1 Isabel Schäfer (2013) IEMed Mediterrane Yearbook
3 See above
European Union policies relating to its Mediterranean Partners, focusing on 'investment'

provide 60% of the total assistance. The multilateral donors have experienced many difficulties in supporting the MPCs due to political instability and as a result of some of them having their sovereign credit ratings downgraded, resulting in them concentrating their activities in stable countries such as Morocco.

1.3.1 The World Bank: a key donor for the Mediterranean Partner Countries

The WB has invested a total of EUR 4 billion in the region, including Turkey, for the period from 2008-2010, this amount having been shared between energy (25%), private sector funding (25%) and water and transport (25%). The International Finance Corporation (IFC), a subsidiary of the WB dedicated to private funding, particularly in the industrial sector, has invested EUR 860 million, split between own funds and loans in 2009.

In 2011, the WB began to broaden its base of development stakeholders in the projects that it was funding by involving civil society through three areas of action: (i) supporting the political transition by strengthening governance by means of transparency and responsibility, (ii) inclusion of disadvantaged groups through socio-economic integration, and (iii) the creation of jobs, particularly for women and young people.

The amount of funding provided by the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) was USD 1.51 billion in 2012, to which USD 56.4 million in special funding was added for the Palestinian Territories. For the year 2013, the WB’s funding total was allocated to 16 projects, USD 1.8 billion of which was provided by the IBRD and USD 249 million by the IDA.

In addition, the World Bank invests in the region through two funds: (i) The Global Environment Facility (GEF) through a programme entitled 'Sustainable Med' launched in 2009, which has a budget of USD 800 million, and (ii) the Clean Technology Fund, which is aiming to provide USD 750 million of project funding within the framework of the Mediterranean Solar Plan.

1.3.2 The African Development Bank (AfDB): improved coordination with international financial institutions

The AfDB invests in Algeria, Egypt, Libya, Morocco, Mauritania and Tunisia. Since 1966, the AfDB has invested a total of around 17-18 billion Units of Account in these countries in the form of cumulative loans and grants. In December 2011, the portfolio of the AfDB Group in North Africa comprised 102 projects that had been approved and were underway, with a total net value of 5 billion UA. Since 2011, the AfDB has refocused its strategy in North African countries by bringing its actions more in line with those of its donors, particularly within the framework of the IFI Co-ordination Platform, which forms part of the Deauville Partnership. As a result, the Bank, which has learned from its mistake of concentrating all of its actions on the major economic aggregates, is now benefiting from a more partnership-based approach by targeting the productive sectors and the upgrading of infrastructures.

1.3.3 Assistance from the Arab and Muslim world: refocusing on the ‘secure’ countries

The majority of Arab and Islamic development funds and regional financial institutions are located in the Gulf States: Saudi Arabia, Kuwait and the United Arab Emirates. These institutions participate in the economic development of the MPCs with a variety of approaches. They have been varying their

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11 See above
12 IBRD loans and IDA credits are publicly guaranteed debts. The IBRD lends at market rates. Credits from IDA are at concessional rates.
13 For precision, in March 2012, 1 UA = USD 1.579.
institutions since the 1990s and have been gradually reorienting them towards infrastructure and key sectors such as the energy sector.

In 2008, the Islamic Development Bank (IDB) granted soft loans of EUR 567 million focused on Tunisia, Morocco and Turkey, to fund, in particular, infrastructure, human development, and private sector projects. The Arab Fund for Economic and Social Development (AFESD) provided EUR 400 million of funding for projects during 2008, with a clear preference for the energy sector.

'In general, the Maghreb countries, particularly Morocco and Tunisia, have the constants that tend to attract funding from Arab and Islamic funds: an open economy and a clear wish to attract foreign capital.'14

In 2011, in the wake of the Arab revolutions that also affected certain Gulf States (Bahrain), the member states of the Gulf Cooperation Council (GCC) refocused the assistance granted by their institutions and funds on countries that they deemed to be stable. They offered a partnership to Morocco and Jordan, which is allowing them to benefit from an announced budgetary assistance of USD 5 billion15 for the period from 2012-2017, aimed at projects most notably in the field of infrastructure.

<table>
<thead>
<tr>
<th>Arab grants to Morocco</th>
</tr>
</thead>
<tbody>
<tr>
<td>In 2013, a grant of USD 1.25 billion was granted to Morocco by the Kuwait Fund for Arab Economic Development (KFAED) and the Kuwait Ministry of Finance for projects in the fields of education, health, housing, agriculture and port infrastructure. With 20.6% of the total, Morocco is second only to Egypt amongst the countries that receive this assistance (in the form of cumulative loans and grants) from the KFAED.</td>
</tr>
<tr>
<td>Data source: leconomiste.ma</td>
</tr>
</tbody>
</table>

Many believe that the Gulf States have hidden agendas whereby this significant level of budgetary support will be used to fund the upkeep of the monarchies that guarantee it. It allows them to increase their level of investment in a region in which they want to expand their influence. 'The Gulf States feel the need to have their own network to protect their own interests and security, as they can no longer rely on their traditional Western allies [since the revolts in the Arab world]16. In this context, 'Jordan and Morocco’s membership […] aims to reinforce this network in return for economic advantages for these two countries'17.

2 DEVELOPMENT OF PRIVATE INVESTMENTS MADE IN THE SOUTH

The share of world FDI received by the Mediterranean Partner Countries (with the exception of Israel18) is not sufficient to respond to their needs, particularly in terms of the creation of jobs and upgrading of infrastructures. 'The flow of FDI to the Mediterranean region (with the exception of Israel) represents less than 5% of world FDI'19. According to the UNCTAD, this share fell from 3.3% in 2008 to 2.6% in 2012.

This shortfall can be explained on an economic basis by the volatility of FDI, the economic and financial crisis that is affecting Europe, and the inability of the MPCs to be seen as attractive on a long-term basis.

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14 Radhi Meddeb (2010)  
15 Siteweb du CCG  
16 Mohamad Masri, researcher at the Centre for Strategic Studies of the University of Jordan 11 May 2011  
17 Mohamad Masri, researcher at the Centre for Strategic Studies of the University of Jordan 11 May 2011  
18 According to Israel’s Central Bureau of Statistics, 2013 was a very good year in terms of attracting FDI, which amounted to USD 12 billion. This figure has increased by 26% in comparison with 2010 (USD 9.5 billion). The vast majority of FDI in Israel is aimed at purchasing companies, setting up new companies, or acquiring stakes in existing companies.  
It is especially due to the failure of the Euromed integration project that would enable these countries to develop their attractiveness as a large regional group, by giving them greater depth and allowing the EU to benefit more from their dynamism and resilience in times of crisis.

Table 3. Share of global FDI received by the MPCs

<table>
<thead>
<tr>
<th></th>
<th>Total for MPCs</th>
<th>World total</th>
<th>MPC %</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI 1995/2005</td>
<td>10 978</td>
<td>741 045</td>
<td>1.48%</td>
</tr>
<tr>
<td>FDI 2007</td>
<td>55 748</td>
<td>2 099 973</td>
<td>2.65%</td>
</tr>
<tr>
<td>FDI 2008</td>
<td>54 867</td>
<td>1 720 873</td>
<td>3.19%</td>
</tr>
<tr>
<td>FDI 2009</td>
<td>32 437</td>
<td>1 114 189</td>
<td>2.91%</td>
</tr>
</tbody>
</table>

Data source: UNCTAD database, 2010

The contribution made by European investors remains significant, however the European position is being eroded under pressure from new players, leaving room for these new players.

2.1 Erosion of the European position

Between 2000 and 2007, the MPCs had made up lost ground as regards FDI. This catching up process was partly due to a diversification of the origins of this FDI. Now, the European countries are not the only ones investing; the Gulf countries, Turkey and Asia are increasingly present, both to satisfy local markets and to export. There has also been a move upmarket in production in the MPCs, increased use of research and innovation, and local staff are accepting lower rates of pay than in Europe. In 2008 and 2009, due to the global financial and economic crisis, the flow of FDI decreased. It fell dramatically between 2011 and 2013.

The principal investors in the MPCs are European. However, they allocate barely 3% of their foreign direct investment to MPCs, compared with an average of 20% for US or Japanese firms in their respective southern regions. The stock of FDI from the EU-27 to MPCs was 2.2% in 2008, 3.6% in 2010 and 3.3% in 2012 representing for that year EUR 1.7 bn. As regards the flows of EU-27 FDI to MPCs, they represented 6% of the total non-EU outflows in 2008 and 4.8% in 2012.

Figure 6. Stocks and flows of European FDI in the south and east Mediterranean economies
In fact, a large number of European investors deserted the MPCs following the Arab revolutions due to what they saw as slow and unpredictable periods of transition. Their perception of long-term investment in those countries as risky was reinforced. According to the 2012 report by the Mediterranean Investment and Partnership Observatory, ANIMA-MIPO, ‘FDI and international partnerships [to the MPCs] rose again in 2012’, ..., the capacity for resilience of these countries was confirmed: with EUR 37 billion of FDI announced in 2012 (or an increase of 36% compared with 2011), the MPCs are returning to the levels achieved before 2008 and the financial crisis. However, the number of projects has decreased slightly to 645 (-10% compared with 2010) – which suggests that on average larger projects than in previous years were launched.

**Table 4: FDI by country 2003-2012**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>2,958</td>
<td>3,232</td>
<td>3,868</td>
<td>2,440</td>
<td>2,376</td>
<td>1,263</td>
<td>3,502</td>
<td>649</td>
<td>1,502</td>
<td>4,495</td>
<td>25,375</td>
</tr>
<tr>
<td>Egypt</td>
<td>874</td>
<td>1,611</td>
<td>4,752</td>
<td>14,394</td>
<td>17,251</td>
<td>3,680</td>
<td>6,411</td>
<td>9,595</td>
<td>5,038</td>
<td>7,684</td>
<td>71,290</td>
</tr>
<tr>
<td>Israel</td>
<td>716</td>
<td>1,256</td>
<td>6,188</td>
<td>14,209</td>
<td>3,730</td>
<td>3,517</td>
<td>2,450</td>
<td>4,379</td>
<td>4,954</td>
<td>6,318</td>
<td>47,718</td>
</tr>
<tr>
<td>Jordan</td>
<td>807</td>
<td>708</td>
<td>869</td>
<td>3,653</td>
<td>2,578</td>
<td>1,002</td>
<td>1,925</td>
<td>1,039</td>
<td>1,082</td>
<td>1,155</td>
<td>14,819</td>
</tr>
<tr>
<td>Lebanon</td>
<td>325</td>
<td>569</td>
<td>744</td>
<td>3,499</td>
<td>279</td>
<td>1,058</td>
<td>200</td>
<td>595</td>
<td>64</td>
<td>207</td>
<td>7,540</td>
</tr>
<tr>
<td>Libya</td>
<td>322</td>
<td>423</td>
<td>374</td>
<td>5,453</td>
<td>4,569</td>
<td>1,629</td>
<td>259</td>
<td>344</td>
<td>674</td>
<td></td>
<td>14,047</td>
</tr>
<tr>
<td>Morocco</td>
<td>3,281</td>
<td>3,710</td>
<td>1,566</td>
<td>4,102</td>
<td>2,455</td>
<td>2,258</td>
<td>2,627</td>
<td>1,710</td>
<td>1,163</td>
<td>2,335</td>
<td>25,207</td>
</tr>
<tr>
<td>Palestine</td>
<td>10</td>
<td>80</td>
<td>61</td>
<td>8</td>
<td>309</td>
<td>21</td>
<td>1</td>
<td></td>
<td>491</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Syria</td>
<td>104</td>
<td>144</td>
<td>2,795</td>
<td>4,362</td>
<td>1,530</td>
<td>3,036</td>
<td>1,048</td>
<td>2,062</td>
<td>141</td>
<td></td>
<td>15,223</td>
</tr>
<tr>
<td>Tunisia</td>
<td>207</td>
<td>183</td>
<td>976</td>
<td>2,219</td>
<td>2,165</td>
<td>947</td>
<td>827</td>
<td>1,965</td>
<td>1,202</td>
<td>1,486</td>
<td>12,178</td>
</tr>
<tr>
<td>Turkey</td>
<td>577</td>
<td>779</td>
<td>12,962</td>
<td>15,209</td>
<td>15,177</td>
<td>15,630</td>
<td>7,396</td>
<td>13,057</td>
<td>11,695</td>
<td>12,705</td>
<td>105,188</td>
</tr>
<tr>
<td>MED</td>
<td>9,860</td>
<td>11,683</td>
<td>35,145</td>
<td>64,523</td>
<td>53,002</td>
<td>37,272</td>
<td>28,036</td>
<td>35,313</td>
<td>27,184</td>
<td>37,061</td>
<td>339,078</td>
</tr>
</tbody>
</table>

*Data source: ANIMA-MIPO*

The ANIMA-MIPO observatory states that Europe, which represents 45% of the projects in terms of numbers, is seeing its dominant position facing competition from the emerging countries. Their position appears to have fallen from 45% to 26% of sums invested in the MPCs. In 2012, they invested EUR 10 bn, whereas the emerging countries announced projects of more than EUR 1 bn, in particular in Turkey or Algeria. The aim of the EU is to encourage European businesses, by means of policies drawn up in agreement with the MPCs, to invest more in the South and trigger industrial co-development (see recommendations below) to avoid the erosion of the European position and the creation of a gap with the emerging countries.

### 2.2 Increasing interest from China and Turkey

The leadership of the BRICS countries (principally Russia, India and China) in the MPCs began in 2012. In that year, the BRICS countries became the largest investors in the south Mediterranean with a total of EUR 10.7 billion, or 28% of investments announced.

China’s interest in the MPCs depends on whether they are situated in the Maghreb or the Machrek. Their involvement in the Syrian situation reflects their wish to assert themselves as a global power with positions that on the whole comply with the principle of ‘non-intervention in internal affairs’ which governs their foreign policy. In the Maghreb, while applying the same principle, they are pursuing the
objectives of the 'go global policy', or 'open door policy', by which they raise financing for their booming public enterprises.

Trade between China and the Mena [Middle East and North Africa] region reached USD 145.46 billion in 2010\(^{22}\). The flows of FDI from China to North Africa represent 15% of the flows of FDI from China to Africa\(^{23}\). The purpose of China's interest in the North African countries, with their strong historical links, is to obtain energy supplies. The beginning of a Sino-Algerian axis has enabled Chinese companies to benefit from several contracts in Algeria. Algeria has awarded 50 Chinese companies construction contracts with a value of USD 20 billion, thus becoming the largest market for Chinese construction companies.

China has taken the decision to create programmes of economic and commercial cooperation with some MPCs. These programmes which have been set up with Algeria and Egypt are evidence of China's will to meet an increasing local demand for a variety of manufactured products and to offer Chinese companies platforms so that they have easier access to the European market while benefiting from the agreements signed by those countries with Europe.

\(^{23}\) AfDB Economic Report 2012
Table 5: Contracts awarded by Algeria to Chinese companies

<table>
<thead>
<tr>
<th>Year</th>
<th>Project</th>
<th>Chinese capital</th>
<th>Contract value in USD</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>Railway link between Tissemlit and Bouhgzoul (western Algeria)</td>
<td>China civil engineering Construction Corporation (CCECC)</td>
<td>553,8 million</td>
<td>on going</td>
</tr>
<tr>
<td>2009</td>
<td>151 km railway line between M’sila and Bouhgzoul (western Algeria)</td>
<td>CCECC (joint venture with Infrarail-Algeria)</td>
<td>544,7 million</td>
<td>on going</td>
</tr>
<tr>
<td>2009</td>
<td>Railway link between Tiaret and Saida (western Algeria)</td>
<td>CCECC</td>
<td>808,6 million</td>
<td>on going</td>
</tr>
<tr>
<td>2007</td>
<td>GSM-R system to cover the 220 km line Tabia-Mechria</td>
<td>Huawei</td>
<td></td>
<td>on going</td>
</tr>
<tr>
<td>2010</td>
<td>170 km electrified double track between cities of Bordj Bou Arréridj and Thénia</td>
<td>CCECC (joint venture with an enterprise from Canada - Dessau and from Turkey - Ozgun Constructions</td>
<td>38,8 million</td>
<td>on going</td>
</tr>
<tr>
<td>2010</td>
<td>Railway line linking Relizane-Tissemsilt</td>
<td>CCECC (joint venture with Infrarail-Algeria)</td>
<td>1,2 billion</td>
<td>Withdrawn by the Algerian government (regranted to Spanish FCC)</td>
</tr>
</tbody>
</table>

The investors from the Gulf states have stabilised at over EUR 9 billion, taking up building and banking projects and showing a desire to support countries which represent safe investments.

A new notable development is the positioning of Turkey as a provider of FDI to those countries. In fact, ‘Trying to reduce its dependency on the European Union, diversify its partners and find new markets, Turkey has taken its sales offensive to the Arab countries of the Middle East. In the decade from 2002-2012, Turkey’s trade with the Arab countries of the Middle East multiplied by 9, rising from an amount approaching USD 4.7 billion to USD 46.3 billion, and the share of Arab countries in Turkey’s trade rose from 5 to 12%’.

They launched a similar offensive in the Maghreb. In 2011, the total amount of Turkish investment in Tunisia was around USD 510 million. Morocco and Tunisia signed a free trade agreement (FTA) on 7 April 2004, which came into force in 2006. In June 2013, 75 Turkish companies were working in Morocco with an investment volume of USD 3.2 billion.

The slowdown in the Turkish economy has had no effect on a strategy involving the presence of Turkish companies in the MPCs, particularly in the Maghreb. Thus, ‘in the absence of regional integration…, Turkish diplomacy, proving its adaptability and pragmatism, has developed bilateral relationships in the

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24 Mansouria Mokhefi (2013)
25 Mansouria Mokhefi (2013)
26 Mansouria Mokhefi (2013)
European Union policies relating to its Mediterranean Partners, focusing on ‘investment’

Maghreb, set up on a case by case basis, depending on the partner and the particular interests at stake 27.

3 INVESTMENT, THE DRIVING FORCE OF ECONOMIC INTEGRATION BETWEEN THE EU AND THE MEDITERRANEAN PARTNERS

In a multipolar world, only countries which build strong regional groupings of developed countries and countries with lower levels of development are successful. NAFTA, Mercosur, and Asean +3 are consolidating their positions in the world by building on this model. In this context, Europe and the MPCs should work more on their economic and social integration, for a number of reasons:

- Europe must identify growth drivers due to its demographic slowdown and weak productivity.
- Given the emerging powers (Brazil, India, China) and the serious crises affecting some Eurozone countries, Europe could be faced with a weakening in its ability to influence international regulations.
- For their part, the MPCs cannot individually find solutions to the economic and social emergencies they have to face.

The ‘CONVERGENCE’ study completed in 2010 by IPEMED [Institut de Prospective Economique du Monde Méditerranéen – Institute for Economic Forecasting for the Mediterranean] demonstrated that the investments of major European groups in activities with a low added value are gradually supplemented by the development of integrated productive systems on different sectors with both weak and strong technical components. Companies have been involved since the early 2000s in activities with a high added value which, if they attain a critical mass, should lead the MPCs into a virtuous cycle of development that will also benefit the EU. The European companies would then retain their competitiveness in both industry and services whereas the MPCs would see their economic level rise considerably. The complementary nature of North and South could thus be exploited through win/win partnerships.

3.1 Concentrate EU efforts on infrastructures

The investment requirements in the SEMCs are enormous. Different studies calculate the funding requirements for infrastructures in the MPCs at around USD 150 billion to USD 200 billion within five to fifteen years. The funding of infrastructures should be the subject of a particularly concentrated effort by the EU. Through FEMIP the EU could set up an Investment and Export Guarantee Fund (IEGF) by calling on capital from the Gulf countries as part of a triangular operation, to ensure profitability for these investors while capturing part of the financing which they will make available to the MPCs.

The objective of the IEGF is to fill the gaps in existing guarantee schemes, domestic or international, which generally do not combine (MIGA is a competitor of Coface, etc.). Furthermore, these guarantee schemes are not regionally oriented, enabling them to share the risks over several States, particularly for common projects; they do not have the resources to react to crisis situation and are thus unable to set in place fixed rate investment convertibility guarantees.

As regards exports, clearly a fund is necessary as the MPCs require an instrument to cover their export risks, whether they are exporting to the North or the South. For their part, the European countries have to protect their investments, whether this is against the political risk, the exchange risk, the risk of non-payment by the country where the investment is made, or non-payment for the enforcement of an

27 Mansouria Mokhefi (2013)
arbitration award. It is therefore proposed that these two requirements for covering risks are joined together, by setting up an investment and export risk fund.

3.2 Strengthen Public Private Partnerships (PPP)

Another way of meeting funding requirements, particularly for infrastructure projects, could be to give more support to the MPCs to set up harmonised legal frameworks for PPP. The EU, through the EIB which provides expertise to those countries in these matters, could propose a specific initiative involving PPPs to generalise and standardise procedures, learning from the good practice developed in Europe, help MPCs to identify reasonably-sized pilot projects, in which the economic profitability is clearer and above all reproducible, and give them expert help on how to encourage users to join, as those users often associate PPPs with privatisations, an increase in prices and the disengagement of the State in public services.

3.3 Guarantee and stimulate investment for the benefit of all

The question of investment protection and guarantee is central as it cuts across all aspects and allows conditions to be set up to deploy investments based on sharing the added value. It is essential to work towards clarifying the legal framework of investments in the MPCs as that is what would enable European businesses to envisage a higher volume of investment in those countries. The EU, which has integrated Eastern European countries, can bring in its expertise by proposing to protect the path of the domestic and international investor. A harmonised legal system to protect investments should enable these countries to improve their attractiveness. First of all, it would be advisable to concentrate efforts to simplify the investment protection scheme solely on the category of strategic investments – long term structural investments affecting several countries – while attempting to promote the longer term harmonisation of the domestic legal systems in those countries.

3.4 Promote the creation of SMEs

The MPCs are classified amongst the largest geographical areas in the world where the self-financing rate of businesses is high (more than 2/3). The local banks in the MPCs concentrate on the short term, are focused primarily on large companies and require guarantees, which discourage SMEs. As SMEs create a significant number of jobs, a strong initiative should be taken to create them and increase their number under conditions that are satisfactory to domestic and international investors.

One possible initiative is to set up a fund grouping together financing from several funders (EIB, Caisses des Dépôts, AFD [French Development Agency], Gulf Fund, local Banks) to support the creation of businesses, particularly in clusters. Here again, the objective is to concentrate resources for the sake of efficiency but also to link the creation and development of businesses to the desire for land use planning and regional development.
PART II – SUMMARY AND RECOMMENDATIONS IN FAVOUR OF GREATER REGIONAL INTEGRATION

4 INSTITUTIONAL AND FINANCIAL FRAMEWORK

4.1 Institutional and financial framework: between administrative complexity and primacy of bilateralism

The Euro-Mediterranean partnership aims to strengthen trade between the Union and its southern periphery and from the outset has favoured the economic route, as economic liberalisation was seen as a condition for a move towards political links. This partnership is based on the signature of association agreements (currently in force in all of the countries except Syria) involving free trade with Europe in an industrial context as well as a political and social dialogue, and varies depending on the country, as they negotiate the priorities of cooperation and associated aid bilaterally with the Union. The first two signatories, Tunisia and Morocco, followed by Jordan which already had industrial free trade with Europe, have obtained the right to candidacy for advanced status which in time will allow them to join the internal market. The functioning of the partnership relies on a complex institutional framework in which two aspects coexist: bilateral – embodied in the conclusion of association agreements – and multilateral.

Since 2003, this partnership has been based on the European Neighbourhood Policy which provides the framework for financial cooperation between the European Union and its immediate periphery. The Neighbourhood Policy also applies to the South through the Union for the Mediterranean (which includes all the countries bordering the European Union), concentrating on regional projects involving several countries and cofinanced by its members. The Mediterranean partners are also eligible for the thematic Community programmes accessible to third countries but also to cooperation instruments reserved for Member States or for candidate countries which have been adapted for the region: this applies in particular to Erasmus (student mobility) and Tempus (management of higher education), technical assistance programmes in the form of administrative exchanges to improve the management of public institutions and new rural development programmes inspired by pre-accession instruments. In addition to these grant aid programmes, there are subsidised loans from the EIB which has set up the FEMIP and since 2012, loans from the EBRD for countries in transition (Egypt, Jordan, Libya, Morocco and Tunisia). Finally, the Mediterranean partners are eligible for the Union’s Macro-Financial Assistance programme, subject to an agreement with the International Monetary Fund (IMF), from which Egypt, Jordan and Egypt have benefited.

The complexity of this structure has led to a lack of clarity and difficulties for the UfM and the European Commission in allocating their responsibilities. It establishes the primacy of the bilateral framework in which three quarters of the funding is concentrated. This bilateralism is favoured by the Mediterranean partners and is reinforced by the heterogeneity of the countries in the area and the continuing unresolved conflicts between them, in particular the Israeli-Palestinian conflict. It is also the result of difficulty in the communitisation of the policies of Member States, particularly as regards migration but also as regards energy. It is therefore not surprising that as competence lies exclusively with the Community in trade matters, it was that area that was favoured by the European negotiators. Finally, this framework of cooperation is not coordinated firstly, with the bilateral aid of Member States, and secondly, with the other international funders which have a strong presence in the region (in particular the United States and the Gulf Monarchies), despite the Deauville Partnership.
4.2 Unremarkable sums of European aid

Every year since 2007, the Mediterranean region has annually received more than EUR 1 billion of European aid in the form of grants under the European Neighbourhood Policy (2007-12 average), and more than EUR 1.6 billion of European aid in the form of loans from the EIB (2007-13 average). This aid is supplemented by the various thematic funds that have been set up to assist Mediterranean partner countries. However, excluding the support provided to the Palestinian territories, which predominantly takes the form of humanitarian aid, the countries in the Mediterranean basin are still receiving far less assistance than those in Eastern Europe (EUR 3.20 per inhabitant per year, compared to the equivalent sum of EUR 4.40 provided to countries in Eastern Europe under the European Neighbourhood and Partnership Instrument). This gap is made even wider still when the total amount of aid (both thematic and regional) granted to the two regions every year is considered: EUR 4.20 per inhabitant in the South, compared to EUR 7.90 per inhabitant in the East (between 2004 and 2010).28

European aid also amounts to much less than bilateral aid, whether provided by Member States (France alone contributes EUR 1 billion of public aid for development, for example) or other donors, in particular the United States. For several years now, the kingdoms in the Gulf have been focusing their attention on aiding the development of the region, which is best illustrated by the huge sums of money given to countries that entered into transition following the Arab uprisings (Egypt, and to a lesser extent Tunisia), which dwarf the amounts provided under the macro-financial assistance schemes set up by the EU in partnership with the IMF. The countries in the Gulf Cooperation Council have also committed themselves to supporting the region’s kingdoms, in terms of both finance and infrastructure. In addition, multilateral donors, such as the WB, the AfDB and the IDB, have contributed greatly to assisting countries in the region, especially in terms of developing their infrastructure, where the amounts of money involved are far greater than for the EU.

The Arab uprisings appear to have shocked the EU into action, however, with its aid budget having increased dramatically since 2011. It has now undertaken, during the 2014-20 period, to increase the funds given over to the Neighbourhood Policy by more than 60 %, and to set aside two-thirds of these funds for Mediterranean partner countries, which would work out at EUR 1.7 billion a year in aid. It has also strengthened the thematic programmes that benefit the region (democracy, rural development, Erasmus, etc.). Moreover, the EBRD believes that it will be able to lend EUR 2.5 billion a year to countries in the region, which would represent a significant increase over the loans currently being provided by the EIB.

As opposed to the aid provided by bilateral and multilateral donors, which is focused predominantly on four countries, namely Egypt (in the case of the United States), Morocco, Tunisia and Turkey, European aid is more evenly distributed from a geographical perspective, with a significant amount being provided to each inhabitant in Palestine, for which it is the principal donor. As regards the other countries in the region, Morocco and Egypt receive the most aid in absolute terms, but in relative terms, when population size is taken into account, it is the countries with smaller populations, such as Jordan, Libya and, to a lesser extent, Tunisia, that receive the highest amount of aid per capita. Turkey, for its part, is arguably in the best overall position, since it also receives pre-accession funds. In addition, European aid more often consists of grants for projects and infrastructure, rather than loans.

In total, the Mediterranean region received around 10 billion dollars of public aid for development projects each year between 2008 and 2012, which works out at close to EUR 4.00 per inhabitant per

28 EuropAid (2013), Evaluation of the European Union’s Support to two European Neighbourhood Policy Regions (East and South), Final Report Volume 1, Brussels: European Commission, June
year, and there has been a sharp rise since 2011. Since both bilateral and multilateral aid are provided with similar priorities in mind (supporting the private sector, infrastructure, the protection of natural resources, and, since the onset of the Arab uprisings, democratic governance and inclusive growth), it is more important that they are well coordinated. However, to date only slight improvements have been made in this respect, despite initiatives such as the Deauville Partnership.

5 POOR ECONOMIC INTEGRATION DESPITE A SIZEABLE FINANCIAL COMMITMENT

The main objective of the Euro-Mediterranean partnership is to increase and enhance commercial trade and the trade of capital between the two shores of the Mediterranean. It also seeks to achieve greater regional integration through its South-South dimension, which involves establishing a more integrated and extensive market in the South, capable of stimulating trade and investment. Huge amounts of aid have been given over to economic cooperation. However, very little progress has so far been made in better integrating the region. Economic cooperation has not led to the establishment, in the immediate vicinity of the EU, of a dynamic trade area with Europe, and this failure may be attributed not only to weaknesses in Community policy but also to the neighbouring countries themselves, for instance due to their geopolitical difficulties. Overall, Mediterranean partner countries have not seen their income levels converge with those in Europe, or any improvement in their economies that are liable to help them make up ground.

5.1 Priority given to trade, but with little impact in terms of economic convergence

The creation of new business through the establishment of an industrial free trade area has above all benefited the EU by stimulating Community exports to Mediterranean partner countries, whose balance of trade remains, to a great extent, in the red. The Mediterranean partner countries account for very little of Europe's trade, with their share stagnating at 3% (or 5% if Turkey is included in the EU custom union). They have suffered from competition stemming from countries having lower labour costs as well as from Russia in the energy market, even though their shares of the agricultural market have gone up. Likewise, while Europe remains the key trading partner for the economies in the Southern and Eastern Mediterranean, its market share has been dented by other partner countries in the last ten years, especially from the developing world (China and Turkey).

Economic integration between the Southern and Eastern Mediterranean partner countries themselves has also made very little headway. Customs barriers (whether tariff or non-tariff) remain in place, and this, coupled with the lack of any cross-border infrastructure, is discouraging trade and stifling further investment (both national and overseas) due to the small size of the markets. This inherent weakness is more down to the fact that the economies of the region do not complement each other, are not very diversified and are focused on competing market segments, both in terms of sector (tourism or textiles) and in terms of product range (low or medium added value), than it is down to trade barriers. Consequently, the regional trade agreements that have grown more widespread in recent years (such as the Agadir Treaty29 and GAFTA30) have had little impact and, in the case of the Agadir Treaty, have even appeared to have diverted flows of trade to countries that had not signed up to them.

Economic liberalisation and cooperation have neither boosted the economies lying to the south of the EU nor reduced their reliance on rentier economics, the social inequalities of which sparked the wave of Arab uprisings that are still sweeping across this part of the world today. The low technological content

29 This treaty, which establishes free trade between Egypt, Jordan, Morocco, Palestine and Tunisia, came into effect in 2007
30 The Greater Arab Free Trade Area, which brings together members of the Arab League, was established in 2013
of the goods exported from the Mediterranean partner countries reveals both a productive specialisation that is not at all innovative and stagnation in terms of innovation in manufacturing processes (technological content is more inclined to decrease over time). As a result, the number of jobs being created by growth is still not enough to accommodate those seeking to enter the job market, especially graduates with tertiary-level qualifications whose numbers far outweigh the jobs that are actually available, most of which require low or average qualifications.

In the past, in both the North and the South, much emphasis was placed on trade policies, even though trade is initially based on actual productive specialisations and economic cooperation. Simply increasing trade could not, by itself, prevail over an improvement requiring a long-term investment, based on a strategy for directing public and private funds to a select number of flourishing sectors. Increasing the number of commercial agreements has even had some negative effects, since there is now a multitude of border regulations with definitions that do not correspond very well with each other, thereby increasing the administrative difficulties for exporters, depending on where they are sending their goods.

From this perspective, it is by no means certain that the predicted liberalisation of the agricultural and service sectors, and even the prospect of accessing the internal market, will lead to higher growth and employment than in the past. Instead of contributing to a convergence of incomes, these factors have actually led to a diversion of trade, highlighting the fact that the Mediterranean partner countries are setting their sights on other regions in the world besides Europe. The gains in well-being (i.e. quality of life) resulting from trade liberalisations, whether multilateral or bilateral/regional, are generally lower than 1% (CEPII). On its own, the potential for creating trade is not enough to have a dramatic impact; instead, it needs to be accompanied by policies seeking to attract investment, transfer technologies and consolidate those sectors that are gradually modifying their specialisations to encompass goods and services with greater added value.

Consequently, while Euro-Mediterranean economic cooperation has admittedly allowed the economies of the Southern and Eastern Mediterranean to integrate better into the international arena and has achieved some fine results in terms of infrastructure, it is still struggling: i) to stimulate innovation, which is crucial for increasing the number of jobs created by growth; ii) to reach the SMEs that predominantly make up the economic fabric of the Mediterranean partner countries; and iii) to bring their procedures up to speed, especially those relating to standardisation, in order to enable them to access European and world markets.

Finally and perhaps most importantly, the Euro-Mediterranean partnership has so far had a very poor track record in terms of convergence of incomes. The GDP per capita (purchasing power parity) in all of the region’s economies, except those in Turkey and Lebanon, is currently less than 30% of the average European GDP per capita.

5.2 A structural weakness in terms of attracting foreign direct investment

As well as encouraging trade, the second economic priority of the Euro-Mediterranean partnership has been drumming up investment. To do this, it has essentially followed the path taken by the FEMIP. However, its ability to attract investment has so far been limited. Just as with commercial trade, the Mediterranean partner countries carry little weight when it comes to the external investments made by Europe. While they may have gone up more, both in terms of flows and stocks, than the FDIs made in the rest of the world, the FDIs made by the EU in the countries on the other side of the Mediterranean

still account for only 3% of the total stocks and 5% of the total flows of FDIs leaving the EU (outside the Community territory). This proportion is structurally weak, and lies in stark contrast to the amount of FDIs made in the other major regions of the world: on average, 20% of the investments made by American and Japanese firms are made in their respective ‘Souths’.

While most of the FDIs made in the Southern and Eastern Mediterranean economies still originate from Europe, the continent is being caught up by investors from other countries and regions, most notably the Gulf, emerging countries in Asia, and Turkey. This relative decline in European investment preceded the financial crisis that hit Europe and the uncertainty that gripped the region following the Arab uprisings, both of which deterred many risk-averse investors, who were also facing falling levels of demand in both Europe and the rest of the world. When FDIs started to once again be made in the Southern Mediterranean in 2012, the BRICS countries (mainly Russia, India and China) were among the first to invest in the region that year, contributing a total amount of EUR 10.7 billion, equivalent to 28% of the investments that were made public.\textsuperscript{32} China lies at the forefront of this group of new investors, with 15% of its flows of FDIs being directed to North Africa. The kingdoms of the Gulf lie a long way behind in terms of the amounts they currently invest, in stark contrast to the pre-crisis period, which shows that they still have some reservations concerning the geopolitical situation in the region. Finally, Turkey, which has increased the number of economic agreements it has with Mediterranean partner countries, is the third rising force amongst these emerging investors.

This relative failure shows the low level of attention that European companies are paying to the region, which the European partnership has not been able to rectify due to the structural weaknesses of these economies. While commerce is not enough on its own to spark increased trading with economies that are not very diversified and remain focused on sectors with little added value, foreign direct investments can likewise ‘come to the rescue’ and ensure final success. In this sense, their influx is conditioned by endogenous growth forecasts. In China, the influx of foreign direct investment has been accompanied by an unprecedented increase in domestic investment, which accounts for over 45% of GDP, compared with just under 30% in the Mediterranean partner countries\textsuperscript{33}.

6 A WEAK POLITICAL AND SOCIAL DIMENSION BEFORE THE ARAB UPRISINGS

Efforts have been more limited on a political and social level than on an economic level, and the results remain disappointing.

Before the Arab uprisings, the political and democratic dimension was marked by resistance to Arab authoritarian regimes and by a lack of interest shown by Europe, which wanted to maintain stability in the region. Following the regime changes and the political transitions (which are still ongoing), the number of accompanying reforms has escalated. However, Europe is still struggling to adopt a clear and coherent policy to support the democratic process, as shown by its powerlessness in the Syrian conflict and its lack of any meaningful response when Egypt once again fell under authoritarian rule. It can nevertheless be considered that the new financial commitments that have been made in favour of democratic transition show a willingness to take charge of the political transformations currently underway. These financial commitments are needed to restore people’s faith in the EuroMed partnership, which has been greatly damaged by the support shown to dictators in the past and by the low levels of solidarity shown by Europe to the refugees fleeing from the conflicts and political instability besetting the region. From this perspective, the positive conditionality introduced by the

\textsuperscript{32} Anima Investment Network Study No 65, October 2013, emerging countries investing in the Mediterranean
\textsuperscript{33} 41% in Algeria, 19% in Egypt, 18% in Jordan and Palestine, 35% in Morocco and 25% in Tunisia, Eurostat 2012
'more for more' approach, which makes increases in amounts of European aid subject to the efforts made and results achieved in consolidating the rule of law, is capable of strengthening adhesion in the wake of the Arab uprisings.

From a social perspective, the promotion of exchanges (whether cultural or educational) has not featured high on the list of priorities. The region is, however, more integrated in terms of people than it is in terms of assets or capital, due to migratory flows, tourism and the intensity of the relationships that have been forged between people on both sides of the Mediterranean, and within the region itself. Some 6 million citizens originally from Southern and Eastern Mediterranean countries, mainly from Turkey and French-speaking North Africa, now live in Europe (this figure not including citizens with dual nationality or those who have adopted the nationality of the country to which they have emigrated), while a further 3 million people from the region have moved to neighbouring countries in North Africa or the Middle East. These exchanges have not been utilised at all well, save for a few flagship initiatives (such as the inauguration of the Euro-Mediterranean University, or the setting-up of the Anna Lindh Foundation), even though the Arab uprisings served as a reminder that the circulation of ideas and people went hand in hand with greater homogeneity in terms of lifestyles and of social and democratic aspirations. Nevertheless, in the wake of the Arab uprisings, the emphasis has been placed on student mobility (Erasmus mundus) and cooperation with higher education establishments (Tempus), but helping lesser-qualified people to circulate more freely and adapt their skills through increased mobility between North and South is still the poor relation in the Euro-Mediterranean programmes.

In general, the Euro-Mediterranean partnership has not placed job creation and the emergence of social democracy on its list of main priorities. The Arab uprisings served as a reminder that inclusive growth was the key to stability. The very nature of these uprisings, which were sparked by social and territorial inequalities, must be placed more at the heart of Community policies. The launching of the SPRING programme and the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) is proof that such a reorientation is taking place, but the relatively low number of such programmes could well prove insufficient to cope with the extent of the challenges that need to be overcome.

Lastly and most importantly, when it comes to social issues, the Euro-Mediterranean partnership is greatly hindered by the absence of any freedom of circulation, which limits the impact of the initiatives that it has undertaken. The European immigration policies concerning the region have so far failed to take advantage of the ways in which the two land masses separated by the Mediterranean complement each other: Europe has an ageing population and thus an increasingly smaller workforce, while on the southern banks of the Mediterranean, a great many young people are now entering the job market, and with more qualifications than in the past. Even though a selective policy concerning qualified and highly skilled immigrants has been introduced (the European Blue Card), this has not resulted in a greater circulation of people with qualifications, since Member States have held on to their sovereign powers when it comes to immigration, which means that Community instruments are not widely implemented. For the same reasons, it has not proved possible for Europe and its Mediterranean partner countries to put in place a joint procedure for managing workers' needs. The comprehensive approach seeking to balance the three pillars of immigration policy, namely keeping illegal immigration under control, ensuring mobility and developing the countries from which the immigrants come from, has placed great emphasis on the security side of things. Moreover, most of the funds set aside by the Euro-Mediterranean partnership for security-related issues have been allocated to controlling borders, to the detriment of mobility. It also appears essential that the two sides find some common ground as regards asylum. The Mediterranean partner countries are in fact receiving more and more refugees from neighbouring countries and sub-Saharan Africa. Here too, by adopting a heightened security approach in the wake of the Arab uprisings (with the setting-up of Eurosur), Europe has gone in a different
direction. From this perspective, it is by no means certain that the new mobility partnerships that are due to be discussed with the Mediterranean partner countries will not incorporate the same hard-line approach, to the detriment of the circulation of people. However, mobility is fundamental to exchange and the improvement of human capital, and is the vehicle through which values and lifestyles may converge.

Therefore, within the context of the financial commitments that it has already agreed upon for the 2014-20 period, the European Union needs to redefine its priorities to favour employment, human capital and mobility, redistribution, and guidance given to countries undergoing democratic transitions. In this respect, full priority must be given to the regional schemes and the countries that have adopted processes of reform.

### 7 MANAGEMENT OF NATURAL RESOURCES: A RECENT PRIORITY FACED WITH FUNDING PROBLEMS AND DIFFERENCES OF OPINION

The Mediterranean Basin faces major environmental problems, relating to economic growth and population growth, particularly in relation to the urban population, as well as the consequences of global warming. According to the Intergovernmental Panel on Climate Change (IPCC), the Mediterranean is one of the regions, along with Eastern Asia, Africa and the Caribbean, in which the impact of climate change is the most severe (increase in temperatures, reduction in rainfall and rise in sea level). These negative effects are added to the existing difficult agroclimatic conditions in the south and east of the Mediterranean. Economic growth and the population growth in North Africa and the Middle East exert significant pressure on coastal areas, increasing waste production, demand for water, air pollution, pressure on arable land and loss of biodiversity. Restricted availability of water resources already places inhabitants of North Africa and the Middle East in a situation of water poverty or water scarcity and the exploitation index for renewable resources is over 90% or even in excess of 100% (Libya, Jordan). Yet water and land resources are of strategic importance to the south and east Mediterranean economies, some of which are still heavily agricultural (Morocco, Turkey) and in which tourism is one of the principal economic sectors, with high consumption of water (and land). As a result of climate change, the combination of reduction in water resources and the loss of arable land will cause a decline in yields of the principal crops and negatively affect hydroelectric potential, whilst the artificialisation of the coasts, destruction of the countryside and biodiversity together with heat waves could be detrimental to the attractiveness of the south and east Mediterranean region, to the benefit of other destinations.

This climatic threat requires the growth in demand for water to be limited through water saving initiatives and by improved management of existing stocks, but this cannot overcome the need for increased supply in certain countries which can only be met by desalination of sea water, highly costly in financial and energy terms. It also calls for an initiative to limit greenhouse gas emissions. Such limitation involves i) expansion of gas, which releases less greenhouse gas than oil (the primary source of energy in the region); ii) energy efficiency programmes, notably in construction, and iii) through the development of the renewable energy which is abundant in the region, as a result of its exceptional amounts of sunshine and its wind speed. Finally, pollution must be prevented in the Mediterranean in order to retain the region’s potential for tourism and biodiversity reserves.

These factors have been decisive in commitment to the Mediterranean on the part of the European Union, which has invested heavily in this field of cooperation, previously dealt with primarily under the United Nations environmental programme (Plan Blue). Protection of the environment and of natural resources therefore plays a key role in the UfM priority programmes through projects such as the depollution of the Mediterranean and the Mediterranean Solar Plan. Bilateral cooperation under the
European neighbourhood and partnership instrument has also come to play a part alongside FEMIP in funding infrastructures (cf. seawater desalination plant in Gaza).

Water management has absorbed most of the funds allocated to cooperation in relation to the environment, through programmes devoted to Sustainable Water Integrated Management-SWIM, de-pollution of water (Horizon 2020) and the exchange of know-how (Euro-Mediterranean Information System on Know-How in the Water Sector - EMWIS). Notwithstanding this investment, the “Mediterranean water strategy” proposed by the EU for the Mediterranean in 2008 has not achieved either political consensus on water governance or the adoption of a regional policy on water demand in the region. This strategy has encountered several obstacles: i) difficulty in demonstrating the profitability of the projects, which often involve a high proportion of technical assistance; ii) the profusion of initiatives and players in the water sector which increases the difficulty in reaching political consensus on this issue; iii) national water resource management structures, which continue to lack coordination across transversal issues (water resource management is dissociated from the principal user sectors, energy and agriculture). Finally, the cooperation policy continues to focus too heavily on supply with little emphasis on demand (savings, re-use of waste water, pricing system). Community and bilateral funding allocated to the water sector in the south and east Mediterranean countries continues to be used principally for the funding of extensive water access and sewerage systems at the expense of government support and access to basic services for the poorest people.

In relation to energy, the emphasis has been, after the Mediterranean electric ring facilitating north/south and south/south trade, on the development of renewable energy and, to a lesser extent, on gas infrastructures. In this context, the leading project is undoubtedly the Mediterranean Solar Plan which aims to achieve additional renewable energy production capacity of 20 GW in the south and east Mediterranean economies by 2020. In order to achieve this aim, production capacity as well as transport capacity of electricity from renewable sources needs to be developed, requiring enhancement of national interconnections and networks. Euro-Mediterranean investors have now made commitments to production (Desertec) and transport (Medgrid). Businesses of the Member States remain the principal stakeholders in these projects which require substantial funding and in which profitability will be deferred. However, no firm projects have yet materialised. Desertec has lost two of its principal German manufacturers, while Spain has entirely blocked implementation on the basis of potential competition with its own Mediterranean solar power sector.

In terms of energy, the north/south and south/south complementarity between the countries exporting hydrocarbons and the importing countries also advocates more extensive regional integration. The creation of an energy community, called for by the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy in March 2011, now forms a key aspect of the Euro-Mediterranean Cooperation policy. Notwithstanding the programmes implemented to encourage both projects and regulation (Med Reg to facilitate cooperation between energy regulators and EAMGM to support development of a regional gas market), cooperation is still hampered by differences of opinion, firstly i) between Europe whose main concern is the security of its supply and the Mediterranean partners focused on their own development and, secondly ii) between Member States whose cooperation is hindered by the preservation of their sovereignty in relation to the energy mix and supply. Generally, the failure to communitise energy policies is a permanent obstacle to the establishment of a common Euro-Mediterranean policy, each Member State defending its sovereign choices in the matter, in the absence of coordination. From the standpoint of the Mediterranean partners, the pricing of energy, subsidised as in the case of essential products, remains an obstacle to the profitability of renewable energy which is more expensive to produce than fossil resources.

Overall, the renewable energy potential of the Mediterranean partners remains poorly exploited: their share in the energy mix of these economies is below 1%. Similarly, there has been little increase in Euro-
Mediterranean energy trading. However, there is clearly complementarity between Europe, the third energy consumption market in the world, and Mediterranean suppliers who possess 4.7% of the world's natural gas reserves and 4.6% of the oil reserves\(^{34}\), concentrated in Libya and Algeria and to a lesser extent in Egypt. Yet Algeria and Libya only account for 10% of European gas and oil imports (the two primary energy sources accounting for 60% of European energy consumption), after Russia and Norway which are the principal suppliers to the European Market\(^{35}\) but ahead of the Middle East (Saudi Arabia) and Africa (Nigeria). The proposed diversification of European supply in the move against Russia, following the events in Ukraine, could change the situation and encourage an increase in trade requiring additional investment and infrastructures.

8 RECOMMENDATIONS

The Euro-Mediterranean partnership is entering a new dimension with two priorities set for the period 2014-2020: the creation of deep and comprehensive free trade areas to allow the gradual economic integration of the countries on the southern shore of the Mediterranean into the internal market. (four States – Egypt, Jordan, Morocco and Tunisia – are undertaking negotiations with a view to a deep and comprehensive free trade agreement being signed with them); the negotiation of mobility partnerships, using the model in place for the eastern partnership, proposing a relaxation of visa procedures and the implementation of Common Agendas on Migration and Mobility in exchange for increased border control and controls on illegal immigration (including through readmission agreements).

These initiatives are in some respects a legacy from the past. Consequently they take little account of the changes occasioned by the Arab revolts and the outcome of previous policies. In this respect, they need to be adapted in order to move from a commercial approach to become genuine industrial policies and give political and social priority to the region, with the efforts being focused on transitional countries.

8.1 Allocating the funds attributed to the partnership to regional projects and transitional countries and improving funding conditions and coordination of the major providers of funds

The financial commitment to allocate 2/3 of the neighbourhood policy financial package to the Euro-Mediterranean partnership should be maintained, at a time when the Ukrainian crisis might suggest that the funds should be refocused on the eastern partnership.

The European added value, in relation to bilateral or multilateral providers of funds, resides in the promotion of common interests and regional projects which have been weak compared with bilateral aid. From this point of view, it is necessary to allocate a higher sum to common projects and extend their thematic scope. This package should be managed by the UfM which qualifies for this task on the basis of its partnership dimension and focus on definite projects. This division of tasks between the bilateral, reserved to the Commission, and the regional, reserved to the UfM, would have the benefit of clarifying the institutional arrangements and facilitating recourse to the Community funds of the UfM.

The refocus on regional projects needs to be coupled with a stronger multilateral dimension through the association of more distant partners, from Africa in particular, and improved coordination of international providers of funds.


\(^{35}\) Dreyer A. (2012), Trade policy in the EU’s neighbourhood, Paris: Notre Europe, May
Africa could be more closely involved in the Euro-Mediterranean partnership in relation to mobility (Mediterranean countries receiving a high proportion of African migrants), infrastructures (some of which, like the trans-Saharan, could contribute to the region’s attractiveness), climate diplomacy and the security dimension, particularly in the Sahel.

The amounts at stake in terms of infrastructures (between EUR 150 billion and EUR 200 billion) and budgetary support at a time when the financial imbalances of the Mediterranean partners are widening necessitate improved coordination of international providers of funds. The latter are heavily involved in the funding of infrastructures (WB, AfDB) and in budgetary support (the Gulf monarchies).

- In terms of infrastructures, the EU through FEMIP could set up a guarantee fund for investment and export (FGIE) calling on the capital of the Gulf countries within the framework of a triangular operation with a view to ensuring profitability for these investors.
- Improved multilateral coordination would also reinforce the macro-financial assistance mechanism providing transitional aid in the case of serious difficulty but also implementing coordinated budgetary aid of higher amounts. The Deauville partnership is undoubtedly the forum for such discussion and cooperation.
- Lastly, the funds allocated to business creation in the region could be better coordinated between multilateral and bilateral providers of funds. The setting up of a fund collecting the finance from various providers (EIB, Caisses des Dépôts, AFD, Gulf Funds, local banks) supporting business creation would be a contributory factor.

Lastly, the “more for more” strategy needs to be reinforced with emphasis on the allocation of aid to the transitional countries. Countries experiencing conflict or undergoing difficult transitions should receive differentiated treatment in terms of humanitarian aid and assistance for fragile States and with reconstruction. From this perspective, the western Mediterranean region should receive greater attention and the partnership should focus more closely on the sub-regional authorities which, as in the case of the 5+5 dialogue, promote cooperation in all fields (water, health, security, etc.).

8.2 Reinforcing the social dimension and fostering mobility

The strong social dimension of the Arab revolts requires a portion of the funds to be reallocated in favour of this objective. There are four vital priorities in this regard:

8.2.1 Helping to implement redistribution mechanisms which are more equitable and more rational in economic terms

This includes unemployment insurance, mechanisms in relation to return to work and training for jobseekers and reduction of informality. To achieve this, the transfer of know-how with Europe in relation to administrative cooperation could be significantly increased. These countries also need to be helped to focus more closely on their system for providing assistance to the poorest in order to gradually reduce subsidies for essential products which have low redistributive capacity, and are detrimental to the development of a policy for saving natural resources (the low pricing of water and energy encouraging consumption of such resources).

8.2.2 Helping to set up social democracy in the Mediterranean partner countries

Cooperation in favour of setting up a social dialogue in the Mediterranean partner countries must be accompanied by cooperation which is not solely administrative (as is already the case in relation to twinning with Tunisia for example) but also includes the social partners. Generally, there is a need within the Euromed partnership to reinforce multi-stakeholder arrangements, including businesses and social partners in the dialogue: this is true particularly in the fields of mobility and water. In relation to
migration, this would also allow a purely administrative and security-based approach to be replaced with an approach centred on economic mobility, to the benefit of both parties.

8.2.3 Invest in human capital

Initiatives designed to encourage the qualification of individuals are essential and must not focus exclusively on higher education. They could include: i) the creation of a common base; ii) setting up a Euro-Mediterranean network of vocational training courses and recognition-accreditation of skills and diplomas, iii) increasing student mobility by setting a target number of students from Mediterranean partner countries in European universities, alongside a scholarship system.

Exchanges of vocational training between businesses from the north and south also need to be increased. For this purpose, Euro-Mediterranean professional networks should be encouraged to take part in initiatives seeking to increase the capacity of the Mediterranean partner countries in certain sectors by permitting professionals from such networks to be trained and employed in EU countries for a fixed period under the aegis of the professional network in question.

8.2.4 Fostering mobility

A number of mechanisms facilitating mobility could be implemented in relation to mobility partnerships with a view to safeguarding the paths of migrants:

- The creation of a residence permit which is "permanent" over a 10-year period would facilitate circular migration; returns would not result in a loss of the residence right.
- Making it easier to obtain visas for trade in services (authorising temporary migration for services under contract and projects co-funded by the UfM) in order to bring the proposed liberalisation of trade in services into effect.
- Facilitating access to the employment market for students and jobseekers from south and east Mediterranean countries present in Europe, in relation to Member States, by adapting the two directives on students and jobseekers.
- Withdrawing visas for stays of less than one month, following the example of the policy adopted for the eastern partnership.
- Granting full freedom of movement with long-term status for the highly qualified.

8.3 Conducting an industrial and agricultural policy in relation to the partners, rather than a trade policy

The economic policy in relation to the region must extend beyond the purely trade dimension and prioritise improvement of the productive bases and job creation. A true industrial and agricultural policy needs to be implemented in relation to the Mediterranean. Such a policy should set itself objectives in terms of job creation, allowing projects to be selected on the basis of their potential in this regard. It could adopt the following priorities and approaches:

- Allowing European structural funds to provide assistance to European States which invest in countries due to gain access to the internal market. The Industrial Pact presented at the European Council in February 2014 would also gain from incorporating this approach.\(^3\)
- Proposing a specific initiative in relation to public-private partnerships in order to generalise and standardise procedures, based on the good practices developed in Europe, and to help the

Mediterranean partners to identify pilot projects of a reasonable size, having more obvious profitability.

- Simplifying the investment protection regime in relation exclusively to the category of strategic investment – long-term structural investments affecting several countries.
- Accelerating the transfer of knowledge, skills and technology by fostering the emergence of clusters and of Euro-Mediterranean research on sectors with potential or offering significant employment opportunities (information technology and communication technology for services, agricultural techniques and energy efficiency, health, etc.)
- Providing further support for rural development (tangible and intangible distribution chain infrastructures; management and technology training) with a view to developing activities stabilising rural populations.
- Supporting social business initiatives having a strong rural dimension in certain countries (Morocco) which also have the benefit of combating rural poverty.
- As SMEs are a major source of job creation, a strong initiative should be implemented for creation and expansion of such enterprises on terms which are acceptable to nationals and to international investors.
- Engaging a Mediterranean certification process, initially covering services and agriculture, with a Mediterranean label guaranteeing health quality (establishment of a health agency) and environmental quality for farming, and a level of skill and quality of service for the provision of services.

8.4 **Enhance cooperation on the management of natural resources**

As the Mediterranean partners are faced with extreme climatic vulnerability and with the need to make an energy transition, there is a requirement for increased cooperation in these areas.

The relative failure of the Euro-Mediterranean Energy Community and the mitigated progress in terms of coordination in relation to water must not be a disincentive. From this perspective, closer cooperation with the Maghreb, in both these fields, is worthy of exploration. In relation to energy, this could result in the energy charter being extended to these countries. In relation to water resources, it would appear essential to give support to the ongoing development of the "Water strategy for the Western Mediterranean" initiated by the Spanish and Algerian governments which could result in the creation of a multi-stakeholder water agency. Economy in management of the resource must also be prioritised, although a policy of supply should also be pursued (within the framework of the infrastructure policy).

Moreover, a genuine energy efficiency strategy needs to be established between the European Union and the Mediterranean partners based on objectives quantified by sector (construction, industry), using the work of the Mediterranean networks such as MEDENER. Such a strategy does not replace the need for a discussion on the gradual withdrawal of energy price subsidies. The grant of subsidies to businesses in the south and east of the Mediterranean or of loan or guarantee subsidies for businesses gaining certifications such as ISO 14 001 or ISO 5000, or to buildings complying with the HEQ or BBC standards, could be considered in order to encourage good practice. Partnerships between industrial enterprises, training institutes and research centres within science parks, clusters or centres of excellence devoted to renewable energy and energy efficiency should be encouraged and supported financially through the neighbourhood policy.

Lastly, the Mediterranean partners should be involved in climate diplomacy. Organisation of a conference to set up a "Europe-Maghreb-Africa" climate strategy, following the UfM conference on climate change due to take place in Athens in May 2014, could therefore ensure the success of Europe's
stance on climate change and see the launch of a coordinated initiative with the partner countries on the south coast of the Mediterranean and the African countries.
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