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Europeanisation without Europe?  
The Mediterranean and the Neighbourhood Policy

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*Europeanisation without Europe?*  
*The Mediterranean and the Neighbourhood Policy*

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## **Abstract**

The European Neighbourhood Policy (ENP) aims to be a new approach by the EU towards the Mediterranean region. The focus is now on conditionality and offering a premium for countries implementing a comprehensive pack of economic and political reforms. In the economic domain, the offer to participate in the European Single Market is seen as a strong incentive for reform in Mediterranean Partner Countries (MPC's). To some extent it can be called the 'Europeanisation' of MPC's, without EU membership. Under this approach, MPC's should upgrade their institutions and policies to put them in line with the '*acquis communautaire*', a process that in the European integration literature is called 'Europeanisation'. This paper will deal with this 'Europeanisation without Europe' approach, and will consider its sustainability in the Mediterranean. We will analyse the economic dimensions of ENP, present some of the economic implications of including Mediterranean Partner Countries in the European Single Market discipline, and will explore the usefulness of conceptualising MPC's modernization as 'Europeanisation', and its feasibility.

## **Keywords**

EU, Mediterranean, Integration, Liberalization, Policy, Trade, Services, Institutions



## Introduction

The 2003 proposal by the European Commission of a European Neighbourhood Policy (ENP), and its subsequent developments, has attracted a lot of attention from both academics and EU Mediterranean Member States (MS) officials. The academic interest is evidenced by a rapidly expanding political science literature on the topic (Emerson, 2003a; 2003b; Lannon and Van Elsuwege, 2003; Schumacher, 2004; Aliboni, 2005; Del Sarto and Schumacher, 2005; Emerson and Noutcheva, 2005). Mediterranean MS diplomats have also contributed to this debate (Sendagorta, 2004). While most authors perceive it as a positive step, there are some doubts about its viability (Comelli, 2004) and/or its long run effects over the Euro-Mediterranean Partnership as conceived in the Barcelona process (Aliboni, 2004; Johansson-Nogués, 2004). Furthermore, the initiative has received a lukewarm political reception in many Mediterranean Partner Countries (MPC's), and even open opposition from countries like Egypt. Only Israel, Jordan, Morocco, the Palestine Authority and Tunisia have shown interest in proceeding beyond current Association Agreements (AA) to participate in the European Single Market (ESM). This means taking on the obligations of the relevant ESM *acquis communautaire* and fulfilling the political and human rights conditions set by the EU.

At the same time, the US has launched an ambitious proposal for a US-Middle East Free Trade Area in 2013, the US-Middle East Free Trade Coalition, which encompasses a range from Morocco to Iran. At the time of writing, Bahrain was the last country to join a list of countries that have signed Free Trade Agreements (FTA) with the US, including Israel, Morocco and Jordan. The UAE and Oman are the next countries to start free trade negotiations with the US. This initiative may be conceptualised as the economic instrument of the Bush administration's Great Middle East Initiative (GMEI) and presents some significant differences with the EU approach. These differences cast some doubts about the possibility, or even advisability, of EU-US Middle East policy coordination (Niblock, 2003). In fact, both Arab and European leaders rejected the idea of building up a US-Arab regional initiative without consulting the Arab countries themselves, either at a government or a civil society level. Some scholars have named US emphasis on modernization and economic development the new American messianism, and doubt that the imposition of modernization and unqualified Washington Consensus economic policies is advisable for Middle Eastern countries (Richards, 2003).

EU countries also complained that the US initiative could harm their long-standing efforts to develop a fruitful partnership with Arab countries through both EMP and the EU-GCC Cooperation Agreement. On the whole, it seems to be assumed that the civilian nature of EU (soft) power is less likely to develop fears of a renewed imperialism among Arab societies than the US military backed strategy. In Kagan's (2003) jargon, Arab societies would be more receptive to a 'Venusian' Europe than to a 'Martian' US. The Wider Europe initiative is conceived as the Europeanisation of European EU borders (Emerson, 2003b), following the experience of the new Central and Eastern European MS, and has a clear institutionalist approach. As far as the soft power instruments are the same as those considered under the ENP strategy for MPC's, we can conclude that in fact ENP implies the Europeanisation of MPC's in the institutional dimension. The distinct situation is that EU accession is open to European countries, while in principle this is not so for MPC's. The latter are offered, in Prodi's words, 'everything but the institutions'. This is why we can think of the ENP strategy for MPC's as 'Europeanisation without Europe'.

To this point, this introduction has been confined to the political debate. In its economic dimension, the ENP incorporates the promise of participation in the ESM, together with increased financial cooperation. In fact, there is scant economic research on the implications of ENP that transcend a mere description of these two points, and it does not elaborate on the obvious complexities of achieving a single market even among the most economically advanced MPC's. A full single market would imply the four freedoms (goods, services, capital and labour), as well as a complex institutional framework similar to the one build up for the European Economic Area (EEA). The lack of interest by economists



with regard to the economic dimension of ENP could reflect either that in economic terms it is perceived just as 'window-dressing', or that it embodies too much voluntarism to deserve careful economic analysis. The few exceptions are some scholars in Israel working on the prospects of closer integration within the ESM (Tovias, 2003; Sadeh, 2004). There is also a limited literature on the economic dimension of Europeanisation. However, we find it useful to analyse ENP as an EU strategy consisting of Europeanising MPC's 'rules of the game', to adopt the concept developed by North (1990) to account for formal and informal institutional settings.

The paper is organised as follows. First, we briefly analyse the economic dimensions of ENP, and compare it with the EEA, the EU's most sophisticated model of deep integration with third countries. The second section deals with some economic implications of including MPC's in the ESM discipline. Third, we explore the usefulness of conceptualising MPC's Europeanisation as modernization and its feasibility. Section four concludes with some final remarks.

### **The economic dimension of the European Neighbourhood Policy**

To implement the ENP, the Commission has proposed the following method in its ENP Strategy Paper (p. 3):

...together with partner countries, to define a set of priorities, whose fulfilment will bring them closer to the EU. These priorities will be incorporated in jointly agreed Action Plans, covering a number of key areas for specific action: political dialogue and reform; trade and measures preparing partners for gradually obtaining a stake in the EU's Internal Market; justice and home affairs; energy, transport, information society, environment and research and innovation; and social policy and people-to-people contacts.

The most attractive economic figure explicitly included in the ENP is 'obtaining a stake in the EU's Internal Market'. It is not clear in the Commission's documents what does it really mean, and what degree of participation in the ESM it will imply. The ENP Strategy Paper (p. 14) conceives it as 'based on legislative and regulatory approximation, the participation in a number of EU programmes and improved interconnection and physical links with the EU.' Furthermore, the Strategy Paper conceives the ENP as an extension of the Barcelona Process' (BP) AA, which potential would not have been yet realised: for the Commission (2004, p. 7) ENP objective is to 'enable the EU and its partners to attain the full benefit of the structures which are in place.' Moreover, the ENP 'will be implemented through the Barcelona process and the AA with each partner country' (op. cit., p. 6).

Anyway, in principle, participation in the ESM could be the kind of economic breakthrough that some authors think is being demanded by the EU and the US in the political domain (Aliboni, 2004). Increased financial cooperation is just a quantitative matter, and the infrastructure issue is seen as both complementary and subordinate to participation in the ESM. By contrast, the creation of a Euro-Mediterranean Single Market, a strategy already put forward in the Valencia Action Plan, would suppose a significant qualitative step. In fact, the challenge may well be a too ambitious one for most MPC's, perhaps with the only exception of Israel. For the Wider Europe, Emerson (2003b) has proposed an EU-Russian like set of common European policy spaces, listing three of them under the economic dimension: a pan-European economic area, a European monetary area, and a European infrastructure and network area. Applying this scheme to MPC's will imply to set a reform program for decades, and a huge financial effort by the EU to provide the physical and institutional infrastructures needed for the functioning of such a single market.

In the monetary field, there are some interesting initiatives with a functionalist taste, like the Eurosystem Workshops with MPC's, where European Central Bank (ECB) officials meet MS and MPC's central bank governors. However, these initiatives are formally independent of both the BP and the ENP: 'They are events initiated by central banks for central banks. They fill a gap in the network of institutional relations with and within the Mediterranean.' But the scope for Euro-Mediterranean monetary cooperation is limited when compared with the Wider Europe dimension. There are some

areas of possible cooperation, like easing the transfer of workers remittances, but MPC's 'euroisation' is prevented by the degrees of freedom these countries need in managing their exchange rates. Some MPC's are highly dependent on climate hazards or energy prices, while others maintain sizeable economic relations with the US. In spite of some nominal convergence, there is very limited real convergence and a lack of business cycle synchronisation between the two regions (Torres and Siegfried, 2004). Even proposed transitions from the current exchange rate mechanism based upon a basket of currencies (with an increasing weight for the euro) to a soft anchoring of MPC's currencies to the euro (Cales, 1999; Rizzo, 1999), seems difficult in the short run. So, EU-MPC monetary cooperation could be limited in the near future to low-profile technical issues and central bank officials 'socialization'.

Within the ENP strategy, the Council has proposed in successive CAGRE meetings (mainly 6 June 2003) some directions for the implementation of the ENP. These were endorsed by the 2003 Salonika Council and are included in the ENP Strategy Paper. Included on the list of economic incentives is integration within the EU transport, energy and telecommunications networks. Proposals of a Euro-Mediterranean energy ring could develop into a Euro-Mediterranean common policy space, as can be seen in the objectives set out by the Commission's communication (2003c) *On the Development of Energy Policy for the Enlarged European Union, its Neighbours and Partner Countries*. These objectives are to enhance the security of energy supplies of the European continent, strengthen the Internal Energy Market of the enlarged European Union, support the modernisation of energy systems in partner countries, and facilitate the realisation of major new energy infrastructure projects. This strategy continues the task initiated in 1995 by the Euro-Mediterranean Energy Forum to secure supplies to Europe and implement an energy free trade area surrounding the entire Mediterranean.

The ENP also address the deficiencies of transport infrastructures, both at the South-South and North-South level, as explained in the Commission's communication (2003d) *Development of a Euro-Mediterranean transport network*. The ENP strategy concerning transport will build upon the Euro-Mediterranean Transport Forum created in 1998 in order to conduct regional cooperation in the transport sector. The strategy envisages a network of multimodal corridors (the trans-Mahgreb multimodal corridor and the double corridor of the Eastern Mediterranean), reflecting the specific characteristics of the Mediterranean basin, where multimodal transport with maritime and air links predominates.

In the financial cooperation domain, increased funding is a long-standing demand by both MPC's governments and Euro-Mediterranean scholars, and it has been recognized by the ENP on a conditional basis. The strategy lies in the simplification of the cooperation framework, following the precedent of the FEMIP instrument (*Facilité Euro-méditerranéenne d'Investissement et de Partenariat*), introduced after the 2002 Barcelona Summit. Its results have fostered the eventual creation of a Euro-Mediterranean Bank to ease the financial difficulties of small and medium enterprises in MPC's. However, the mixed experience of the BERD, and MS political strife about its headquarters location have delayed its approval, with the Commission expected to take a decision by 2006. But the most innovative financial proposal is the New Neighbourhood Instrument, which calls for a differentiated and gradual cooperation in order to, among other objectives, facilitate MPC's future integration in the ESM. Until the approval of the new EU financial perspectives (2007), its implementation will consist on a better coordination of existing financial instruments (PHARE, TACIS, INTERREG, CARDS, MEDA, BEI, FEMIP) to match the financial demands of individual Neighbourhood Programs.

For our purposes, however, we will focus on the single market issue, leaving aside the financial cooperation component of the Commission proposal, as well as the monetary and infrastructure dimensions. These appear in the EU documents as complementary elements of an overall strategy towards the completion of a functioning single market: the core issue is then the prospects for MPC's gradual participation in the ESM. Unlimited access to EU markets through MPC's participation in the ESM is a step towards 'deep integration'. The most sophisticated model of 'deep integration' achieved by the EU is the EEA Agreement, uniting EU MS and the three EEA EFTA states (Iceland,

Liechtenstein and Norway) into one ESM. The ESM is governed by the rules of the *acquis communautaire*, covering the four freedoms (free movement of goods, capital, services and persons) and competition rules. As a result, over 80% of the *acquis communautaire* is adopted in the internal legislation of EFTA countries.

Not being a customs union, trade policy towards third countries is still being formulated at a national level. In addition to internal market legislation, the EEA includes so-called ‘flanking and horizontal policies’ to smooth the functioning of the ESM. These additional policies include important economic issues such as research and development, the environment, consumer protection, tourism, small and medium-sized enterprises, information and audio-visual services. The EEA EFTA States participate in EU programmes in these fields and have a voice on them (‘policy shaping’) through participation in the so-called comitology mechanism governing the EEA. Its common rules are continuously updated by adding new EC legislation. But ESM incompleteness in some important domains for MPC’s should be noted (Gould, 2004). For instance, the EEA does not cover the EU’s Common Agricultural Policy or the Common Fisheries Policy. It contains provisions on various aspects of trade in agricultural and fish products, but they are not fully included in the ESM. Difficulties in implementing the ESM in the services and labour chapters also illustrate the complexities of achieving a full single market (Vahl, 2005).

This challenging task is conducted by a complex institutional arrangement conceived in two pillars (EFTA and EU) with certain joint bodies for decision-shaping, decision-making and dispute settlement. Among the joint bodies, the EEA Council, composed by EU and EEA EFTA foreign ministers, provides the political orientations to the Joint Committee, who is responsible for the management of the Agreement, and where decisions to incorporate Community legislation are taken by consensus. The Joint Committee generally meets once a month, and is made up of ambassadors of the EEA EFTA States, European Commission representatives and EU MS. The Joint Committee is assisted by five subcommittees (which are in turn reported by several working groups): 1) free movement of goods, 2) free movement of capital and services including company law, 3) free movement of persons, 4) horizontal and flanking policies, and 5) legal and institutional matters. The EEA Joint Parliamentary Committee follows EEA developments, and representatives of the EEA Council and the EEA Joint Committee appear regularly before it. Other institutions are the EEA Consultative Committee, made up of EFTA Consultative Committee and EC Economic and Social Committee members.

This design is so complex that its extension beyond Europe may be rather limited, at least in the short run. Another ‘deep integration’ model is the Swiss one. In 1992, Switzerland decided not to participate in the EEA. From 1994 there have been several negotiations over a vast range of specific sectors, like the free circulation of people, air and terrestrial transport, scientific and technological cooperation, agriculture, public procurement, environment, cooperation against fraud, and an agreement for the free trade of services. Both the EEA and the Swiss case seem appropriate for developed, rich economies with substantial institutional capacities and financial resources. However, the Commission’s (2004) ENP proposal is almost equally ambitious (even accounting for its ambiguity) for MPC’s, especially when considering its initial economic and institutional conditions. Let’s assume that a MPC other than Israel is willing to adopt the ENP framework. The ENP Strategy Paper suggests, among others, the economic reforms listed in box 1.

### **Box 1: Economic reforms suggested by the ENP Strategy Paper**

- the gradual elimination of non-tariff barriers to trade,
- the development of appropriate infrastructures,
- convergence with the Union's industrial laws and regulatory structures,
- legislative approximation, capacity-building and modernisation in the area of customs,
- measures to ensure the security and safety of goods,
- convergence with EU standards for sanitary and phyto-sanitary controls,
- improve administrative capacity to ensure levels of food safety that enable access to EU markets,
- legislative approximation in company law, accounting and auditing rules,
- a comprehensive prudential regulatory framework, and independent supervisory bodies in the financial sector,
- further liberalisation of capital movements and simplification of MPC's FDI regulatory framework,
- reducing administrative barriers to the development of business,
- strengthening of the functioning of the judicial system,
- increased levels of protection of intellectual and industrial property rights,
- regulatory convergence and improved market access in public procurement,
- to enforce competition through independent competition authorities,
- legislative approximation on anti-trust as well as State aid regulations, and
- to modernise and increase transparency in the tax system.

Clearly, the reform agenda presented in box 1 aims at the economic Europeanisation of MPC's, an issue that we will deal with in a coming section. The next section, however, deals first with the economic and technical implications of including MPC's in the ESM discipline.

### **Obtaining a stake in the EU's Single Market**

The economic reforms put forward by the ENP Strategy Paper and summarised in box 1 constitute an impressive economic reform agenda for most MPC's. As we have already noted, there are some ambiguities in the Commission's proposal of 'obtaining a stake in the EU's Internal Market'. But the means to achieve such a stake are clearly defined: legislative convergence towards EU's *acquis communautaire*. This is why we conceptualise the ENP for MPC's as a policy agenda aiming at the Europeanisation of MPC's *formal* economic institutions. In addition to technical, human or financial difficulties to include MPC's in the ESM, we have to consider its political economy and institutional implications, an issue that we will address in the next section of the paper. This section is devoted to the analysis of some economic problems and opportunities that entail including MPC's in the ESM.

Let me begin with the general and obvious difficulty: the gap between MPC's (other than Israel) and EU levels of economic development. Even if obvious, it may be helpful to remind it, because many EU economic institutions are the result of economic development as much as they are the cause. The economic conditions for a viable implementation of the four freedoms and the competition policy, which characterizes the ESM, are barely matched in most MPC's. This can be clearly seen in the ENP Country Reports. For instance, the Morocco ENP Country Report highlights, among many others, the

obstacles identified in box 2, while the ENP Proposed Action Plan EU-Morocco suggests the policy reforms listed in box 3.

### **Box 2: Obstacles to participation in the ESM identified by the Morocco ENP Country Report**

- Prices are not liberalised for a number of basic products (petrol, vegetable oil, sugar and flour),
- The government indirectly influences prices through state-owned enterprises,
- The state has a monopoly on phosphate mining and tobacco marketing and remains involved in the provision of a number of other goods and services,
- Public management is characterized by administrative formalism and poor accountability,
- Regulations and bureaucracy remain burdensome and corruption is perceived to be widespread,
- Government procedures are not always transparent and efficient,
- Obstacles to FDI remain in some sectors (mobile telecommunications, agriculture, insurance...),
- Personal payments, transfer of interests, and travel payments are subject to limits, documentation requirements, and approval for some cases,
- Anti-trust regulation procedures are not credible,
- There is no uniform state aid regime comparable with that of the EU.
- The financial system remains controlled by government ownership of financial institutions, and public specialised banks presents a low compliance with banking prudential regulations.
- The Casablanca stock market is still hampered by a high concentration of capital, and a lack of new securities, liquidity and depth.
- Sanitary and phyto-sanitary rules does not fully comply with international requirements,
- The TRIPS agreement cannot be enforced due to the lack of implementing decrees,
- National preference may be applied to public contracts,
- FDI face complicated procedures for business registration and regulatory lack of transparency,
- Monopolies are widespread in the transport and energy sectors

As can be seen in box 2, for a country like Morocco the diagnosis carried out by the Commission itself shows several obstacles to be removed before full participation in the ESM could even be envisaged. The economic policy prescriptions eschewed in the Proposed Action Plan EU-Morocco (box 3) are even more challenging when taking into account the starting point. The ENP Tunisia and Jordan Country Reports and Action Plans offer a similar assessment and policy agenda. Not to mention the situation in the ‘political issues’ section of both reports, which includes relevant aspects for the economy, for instance those related with property rights protection or the judicial system reforms. MPC’s economic realities make it difficult to see how such an ambitious reform program could succeed in addressing all the above-mentioned difficulties. This reform agenda may be suitable for middle-income countries, but most MPC’s are low human development countries confronted with other, more immediate developmental challenges. Capital accumulation is insufficient to foster growth, illiteracy is rampant, health figures are poor, rural poverty is high, and demography put further under stress the ability of governments to provide basic public services. In short, financial and human resources are scarce to face such a pressure towards the competing priorities identified by the Action Plans.

**Box 3: Economic reforms priorities as identified by the ENP Proposed Action Plan EU-Morocco**

- To improve the competitiveness of the Moroccan economy,
- Agricultural policy convergence to create the conditions for an agricultural FTA,
- To assure a balanced pattern of regional development to fight against urban and rural poverty,
- Implementation of the AA concerning the free movement of goods,
- Modernization of the customs services, and harmonization with international and EU norms,
- To pursue the harmonization of the Moroccan legislation on industrial products with international and European practices and regulations,
- To improve sanitary food security for consumers and to facilitate agricultural trade with the EU,
- To pursue liberalization efforts concerning foreign investment,
- Progressive liberalization of trade in services, and gradual liberalization of the capital account
- To implement a tax system and fiscal institutions according to international and European standards
- To implement the obligations concerning competition of the AA and to develop a body of legislation and control compatible with those of the EU
- The respect of the *acquis communautaire* on state aid
- To assure consumer's protection level similar to the one prevailing for the EU
- To develop a competitive public procurement procedure in accordance with the article 41 of the AA,
- Development of contacts between the Commission and the institution of external audit of state finances,
- To improve the environment for the development of competitive enterprises and investments,
- To pursue the development of a national transport policy, including the development of infrastructures
- Gradual integration within the EU electricity market and in the regulation of electronic communications
- To promote a good environmental governance and to improve education systems

Even the ENP Country Report on Israel highlights obstacles like the existence of monopolies and state-owned companies in some sectors (in spite of the 1990's move towards privatisation), lack of uniform state aid surveillance and updated phyto-sanitary laws. Some Israeli scholars (Sadeh, 2004) have also shown some divergences in EU and Israel ESM-related institutions. They are however minor obstacles when compared with those identified by the ENP Country Reports for Tunisia, Jordan or Morocco. The main difficulties for Israel stand on the 'political issues' chapters of the ENP Israel Country Report. Tovias (2003, p. 3) has argued that while Israel accession to EU would be rejected due to the Israel-Palestinian conflict, 'access to the Single Market is practically devoid of political significance.' This is certainly true when comparing Israel's eventual EU membership (although Italy has publicly supported it) with EEA participation, but in any case political divergences permeates even the most technical economic issues. For instance, a long-standing demand by Israel consists on the amendment by the EU of the present protocol on rules of origin for the application of diagonal accumulation for MPC's. But the EU makes it conditional to an arrangement on the settlement-originated products, illustrating how the Israel-Palestinian conflict pervades EU-Israel economic relations.

Besides the current economic divergences of EU and MPC's economies, we have to consider another set of difficulties. The first one is the burden for most MPC's of adopting the ever-growing body of the *acquis communautaire* at the domestic level. That may well exceed its current and future institutional capabilities. The recent emphasis of the economic literature on 'governance' has highlighted that most MPC's lag behind in the institutional development domain (UNDP, 2002;

Kauffman et al., 1999). ENP Country Reports (other than the Israel one) also highlights wide institutional gaps, and public service reform is a traditional issue in EU development cooperation with MPC's. But confronted with the challenges of adopting and implementing ESM *acquis*, MPC's public service reform becomes a priority. Twinning and technical cooperation may promote convergence by means of socialization, but a comprehensive endogenous reform seems unavoidable. Moreover, the EEA is a 'moving target'; so institutional and public capabilities will require a sustained effort in order to provide the needed financial and human resources to match EEA obligations. Keeping pace could turn as challenging as catching-up.

Second, the degree of institutionalisation of the EEA also requires a substantial amount of human and financial resources from EU partners to maintain the dense network of experts and officials involved in an eventual EEA-like process of policy-shaping, decision-making and dispute settlement. The EEA is governed by a human capital intensive committology system, which could absorb most MPC's human resources, leaving the MPC's domestic institutions deprived of scarce high skilled officials. This is more so when compared with the current Barcelona Process low degree of institutionalisation. It is difficult to foresee how to manage the transition from the simple Association Committees and sub-committees currently in place under the Barcelona Process to the EEA institutional setting eschewed in the previous section, with its EEA Council, Joint Committee and subcommittees, Parliamentary Committee and Consultative Committee. Moreover, such a degree of institutional entrenchment and interdependence will require substantial political capital from both the EEA countries and MPC's. We will come back to the ENP's political economy dimension in the next section.

In third place, variable geometry will entail the fragmentation of the Euro-Mediterranean FTA and weaken already fragile sub-regional integration initiatives. The Euro-Mediterranean FTA has been criticized from its inception for further fragmenting the Southern shore of the Mediterranean, at least from a trade perspective (Alonso-Gamo, Fennell and Sakr, 1997; Tovias, 1997a, and 1999; Vasconcelos, 1999). Other authors have introduced some nuances on the grounds of limited trade potential among MENA countries and political economy factors (Fischer, 1993; Ekholm, Torstensson and Torstensson, 1996; Escribano and Jordán, 1999). The EU response to prevent the perverse effects of a 'hub & spoke' system was to promote sub-regional integration within MPC's. These efforts were to proceed along the New Middle East initiative for the Mashrek region and the Arab Maghreb Union in the Western Mediterranean. Both of them failed, mainly due to political factors, to the point that even 'normalization' (as proposed for Israel-Arab trade by Tovias-1997b) of trade relations has proven impossible to achieve.

The EU's Commission reaction seems to recognize that MPC's sub-regional virtual integration (Vasconcelos, 1999) can't be pursued at the expense of EU-MPC's bilateral 'deep integration'. For some authors, the ENP may have deliberately abandoned the sub-regional dimension of the Barcelona Process, at least in the Middle East (Johansson-Nogués, 2004; Aliboni, 2004). To be fair, concerning economic integration such a sub-regional dimension has always been one of the weakest links of the Barcelona Process (Escribano, 2000). Anyway, there is no doubt that the 'differentiated approach' that inspire the ENP will erode the already weak incentives it offered for sub-regional integration. The ENP Strategy Paper and the Action Plans rhetorically calls for increased MPC's sub-regional integration, but apart from the support to the Agadir initiative and emphasis in sub-regional level infrastructures, few instruments are identified in this document capable to promote it. Furthermore, proper specification of the way by which the Agadir initiative may benefit from sub-regional infrastructures, say a highway linking Morocco and Algeria (whose borders still closed), is absent in ENP documents.

Fourth, the EEA incorporates a budgetary instrument, the so-called EEA Financial Instrument, devoted to reduce the economic and social disparities among European regions, allowing the granting of supplementary aid to development projects in EU 'Objective One' regions. This recognises the need of cohesion structural funds in the completion of a functioning ESM, something that will be difficult to obtain in spite of stronger financial commitments by the EU under ENP, given the EU current

budgetary constraints and the hard bargaining expected for the next financial perspectives. The experiences of the Iberian and Eastern enlargements also show that structural funds, or the expectation to gain access to them, were a powerful incentive for poorer countries to accept the rules of the internal market game. The ‘all but the institutions’ proposal clearly precludes access to structural funds by MPC’s, then leaving the ESM carrot as the sole consistent economic incentive to be offered by the EU to the MPC’s.

Finally, there are sectors like agriculture and services for which it is not clear that full inclusion in the ESM would have positive net effects for MPC’s. Concerning agriculture, some studies have shown that EU-MPC’s reciprocal and symmetrical agricultural liberalization under an eventual multilateral opening may infringe more costs than gains for MPC’s (Lorca et al., 2000 and 2004; García Alvarez-Coque, 2002). Moreover, agriculture is not included in the EEA: the CAP-related *acquis communautaire* is not adopted by EEA EFTA countries, and agricultural trade proceeds through specific trade agreements, much in the same way as happens with the last EU-Morocco agricultural trade agreement. So, the stake in the ESM will clearly not automatically include free access to EU agricultural markets, a central issue for many MPC’s. Even EEA treatment for MPC’s agricultural exports seems difficult to achieve, because agricultural trade by EFTA EEA countries is rather limited and remains subjected to similar agricultural policies and cost structures than those prevailing in the EU. By contrast, the agricultural sector represents a significant share of GDP, exports, and more importantly labour for MPC’s, while its cost structures are quite different, being competitive in Mediterranean agriculture but unable to compete in continental products. So it is not clear how participation in the EEA could help in dismantling the agricultural bottleneck MPC’s face when trying to access EU markets.

Liberalization of services is another complex issue. For instance, Richards (2003) warns that an across-the-board services liberalisation might well be a disaster for MENA countries. Several public services still being provided by the public sector, so a compelling liberalization-deregulation process only makes sense if those sectors were to be privatised (Muller-Jentsch, 2005). But candidate companies, foreign and national, perceive its attractiveness closely related to its market power position. Moreover, the privatisation of public companies in the absence of a transparent and accountable framework may end with the same results obtained in former communist European countries: the *ancien regime* elites controlling newly privatised companies. In addition, liberalization of some services, like energy, insurance and banking implies critical decisions concerning the creation of Euro-Mediterranean markets for those services. For instance, financial services liberalization will add pressure for the liberalization of the capital account, an advise that has been revised after the Asian crisis for developing countries (Stiglitz, 2002), and one of the few economic plagues that MPC’s other than Turkey have not suffered (yet).

All these difficulties have to be taken into account, but so should be done with the benefits. Participation in the ESM is a powerful economic and political signal. It could ease the problems faced by MPC’s in acceding to EU markets. Trade problems may be solved by a ‘deep integration’ strategy consisting in the harmonization of standards and trade rules, so reducing transaction costs (Brenton and Manchin, 2003), even if the agricultural issue would remain subjected to ‘special treatment’ under an EEA-like approach. Equally important, the consistency of MPC’s economic policies would be improved. But being important, this applies mainly to the trade arena, not to the freedoms of trade in services, capital and labour. This is why the Action Plans follow the common policy spaces approach (Emerson, 2003a and b). At the current economic situation, MPC’s (other than Israel) the sectors ready to be included under such a common policy spaces approach seems rather limited. Trade in manufactured goods is a clear candidate, and energy could be another candidate within the services sector.



In the short-medium run, however, even completion of AA will not be a sufficient condition to proceed over the services, capital and labour dimensions of the ESM. The ENP has been conceptualised either as a ‘Barcelona plus’ strategy (Jerch, 2004) or a ‘EU minus’ proposal (Prodi’s ‘everything but the institutions’). In the economic arena the Prodi imaginative formula seems watered-down to a ‘EEA minus’ approach, with the peculiarity that the only EEA substantive aspect remaining is trade in manufactured goods, while after the ‘minus’ sign will follow most elements of a single market relevant to MPC’s (agricultural trade and labour flows) and EU MS (capital and services). Another way to conceptualise ENP for MPC’s is to consider it an extension of the Europeanisation concept towards the EU Mediterranean periphery, at least in the economic domain. The following section is devoted to this task.

### **The ‘Europeanisation-as-modernization’ prescription for MPC’s**

The international political economy of regionalism shows how international economic relations may have political externalities, and how the domestic political and economic processes influence the outcomes at the international policy level. But regionalism is a bi-directional process, with integration outcomes influencing its member’s institutions and policies. In recent years some political scientists have recur to the concept of ‘Europeanisation’ to analyse the impact of European integration on MS and candidate countries policies and institutions. In doing so, they draw on the Europeanisation literature started by Ladrech (1994) pioneer work on the French case. The concept has been mainly applied to changes in MS and candidate Eastern countries domestic institutions by the political science literature. But it has also been applied to countries like Ukraine (Wolczuk, 2004) and Switzerland (Fischer, Nicolet and Sciarini, 2002) that are neither EU MS nor EU candidates.

Europeanisation is defined by Ladrech (1994, p. 69) as a process reorienting policies as a result of adapting to EU dynamics. Other scholars complement this passive concept (known as ‘reception’) with the term ‘projection’, to describe the proactive choice of MS to profit from the enhanced opportunities that EU provides. Green, Caporaso and Risse (2001) define it as ‘the process of change at the domestic levels of policies, preferences and institutions originated by the adaptation pressures generated by the European integration process.’ Olsen (2002) distinguishes between different possible uses of the concept, including two meanings directly related to external relations: Europeanisation as changes in external boundaries (enlargement), and Europeanisation as finding a place in the international order. Interestingly enough, the ENP recur to the concepts of ‘best practice’ and ‘benchmarking’ for assessing the economic progress to be attained by MPC’s, a jargon that characterizes the Lisbon open method of policy coordination (Hodson and Maher, 2001) that embodies the new pattern of Europeanisation. For our purposes, we will limit the applicability of the concept to the economic policy agenda of the ENP for MPC’s, conceptualising it as ‘Europeanisation without Europe’.<sup>1</sup>

Some observers (Sendagorta, 2004) have underscored the need to avoid any colonial connotation that could raise opposition to the initiative. To be sure, the Commission’s *European Neighbourhood Policy Strategy Paper* explicitly avoids any imperialistic connotation by introducing the ‘ownership’ concept from the recent economic development literature:

Joint ownership of the process, based on the awareness of shared values and common interests, is essential. The EU does not seek to impose priorities or conditions on its partners. The Action Plans depend, for their success, on the clear recognition of mutual interests in addressing a set of priority issues. There can be no question of asking partners to accept a pre-determined set of priorities.

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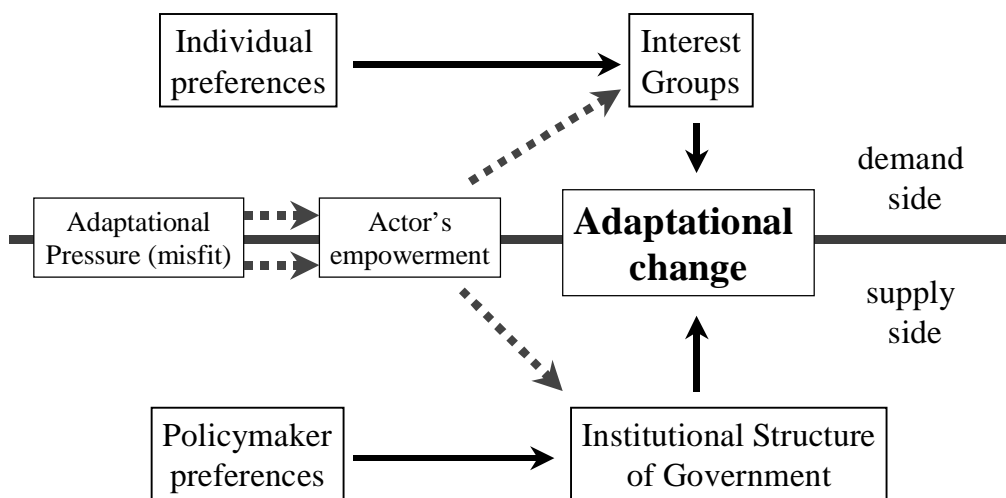
<sup>1</sup> A review of the Europeanisation literature is out of the scope of this paper. However, the abuse of the ‘Europeanisation’ concept, and its under-specification, explains why scholars have often resorted to ‘contradiction in terms’ concepts for their work, like ‘Europeanisation of a Non-EU Country’ on Swiss immigration policy (Fischer, Nicolet and Sciarini, 2002), ‘Integration without Europeanisation’ for Ukraine (Wolczuk, 2004), or even ‘Europeanisation against Europe’ for the rise of anti-Euro political activism in the UK (Vassallo, 2003).

In doing so, the EU also try to signal a different strategy from the one proposed by the US' GMEI and its nation building, social engineering strategy. Nevertheless, some scholars (Aliboni, 2004) see the ENP as an 'arrogant' approach when compared with previous EU initiatives for the Mediterranean region. While this may be so in the political arena, the economic elements of the ENP are perhaps less prone to arouse nationalistic concerns.

The Europeanisation of MPC's economic policies and institutions is a complex issue, which calls for a comprehensive approach integrating political economy, institutional and development economics, as well as a deep knowledge of MPC's economic and institutional structures. In this respect, the present section objective is far more modest than to develop a detailed framework for the ENP considering all these theoretical elements. It only aims at presenting some general insights that could be useful to understand ENP's implications for MPC's economies.

The economic Europeanisation of MPC's may be seen as an *à la* Putnam (1988) two-level game, linking international and domestic dimensions, which tend to empower the executive who is in control of international negotiations. From a political economy perspective, the international supply level consists on the EU offering a stake in the ESM to MPC's, while MPC's governments demand it as a result of domestic, second-level, bargaining. This second level may be depicted by figure 1, with MPC's governments supplying Europeanisation by way of adopting selected pieces of the *acquis communautaire*, according to policymakers' preferences and institutional structures in MPCs. On the demand side, MPC's non-governmental actors demand convergence towards the *acquis communautaire* through the aggregation of individual preferences by interest groups and political participation.

Fig. 1: A Political Economy of Europeanization



For MPC's the assessment is more complex and has to be made conditional upon the actual meaning of 'having a stake in the ESM'. If MPC's access to the ESM is to be confined to trade in manufactured goods, empowerment will be limited to the executive and export-oriented manufacturing sectors. This empowerment happens at the expense of the relative loss of influence of other economic actors, like import substituting sectors. To this point, the situation is similar to the one under the existing AA (Del Sarto and Schumacher, 2005), with the only difference that empowerment is stronger due to deeper integration and increased time-consistency of economic policies. If participation in the ESM is to include agricultural markets, then empowerment also benefits export agriculture at the expense of the traditional agricultural sector, which includes the poorer segment of MPC's societies.

Inclusion of freedom of persons will also empower the poor, who will find it easier to migrate towards EU countries. In principle, according to the Stolper-Samuelson and Rybczynski theorems, inclusion of services and capital will face strong opposition from domestic businessmen in the service sector and capital owners, whilst export oriented sectors will favour it in order to lower their cost functions.

Fischer, Nicolet and Sciarini (2002) also highlight the impact of Europeanisation on mediating institutions. They refer to the extent to which a given institutional setting may favour a veto strategy in order to resist change, but what they have in mind are different democratic institutions (like direct democracy, parliamentary or presidential systems). In MPC's other than Israel and Turkey, democracy cannot be taken for granted. Mattli and Plümpner (2002) rely on a modified trade policy political economy model to analyse the demand side of EU integration in Eastern European countries. They show how more democratic countries are expected to demand EU accession in a more determined manner. Their argument may be easily explained with figure 2, where  $U_l$  and  $U_v$  are the utility functions of lobbies and voters, respectively. The figure plot lobbies' and voters' support of the government as a function of market distortions ( $d$ ). Lobbies' support increases with market distortions, while voters' support decreases when distortions rise.<sup>2</sup>

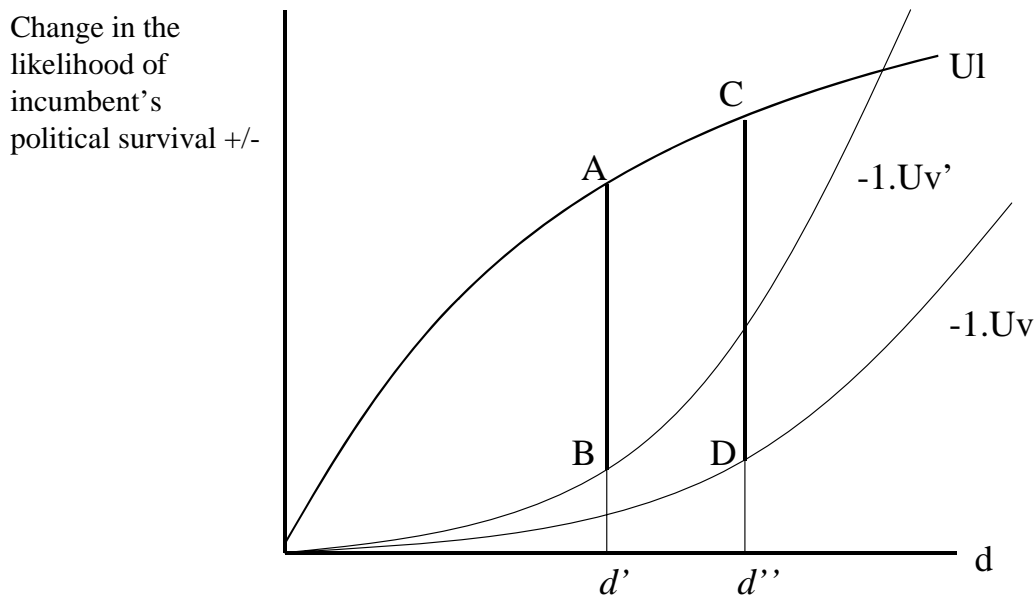
An opportunistic government optimises its chances of political survival by maximizing its political support (AB or CD). The nature of political institutions determine the slope of the voters' utility function:  $U_v$  represents less democratic political institutions that implies lesser governments' sensitivity to changes in voters' support, while  $U_v'$  reflects more democratic institutions that make governments more responsive to voters' support. So, the higher the level of democracy, the lower the degree of economic distortions demanded by societies. When applying this analytical framework to MPC's, we can conclude that Europeanisation demands will be stronger the higher the level of political participation, as far as economic Europeanisation means for MPC's a less distorted economic environment (to some extent we use 'd' as a proxy for economic Europeanisation). But as Fischer, Nicolet and Sciarini (2002) correctly argue, Europeanisation influences the nature of political institutions and empowers the actors involved in the process. In principle, democratic conditionality will offer a new set of incentives for democratisation, then shifting voters' utility function from  $U_v$  to  $U_v'$ .

Additionally (but not showed in figure 2), as far as improved access to EU markets may alter interest groups strategies empowering export oriented sectors, economic Europeanisation may also shift lobbies' utility function downwards, then reducing the equilibrium level of economic distortions (and easing economic Europeanisation) without democratisation. On the contrary, the empowerment of the executive may reduce the responsiveness of the government to lobbies', and in the absence of democratisation, voters' revealed preferences. From this perspective, a model of Europeanisation limited to trade in manufactured goods seems unable to generate sufficient domestic demand for economic reform. By contrast, even limited asymmetrical inclusion of agricultural trade and labour flows may increase MPC's societal Europeanisation demands. Democratisation could also increase economic reform demands associated with Europeanisation, questioning the modernization school sequence of economic development leading to democratisation. This in turns calls for a more proactive stance by the EU concerning political participation in MPC's (Jerch and Lorca, 2002), in line with the democratic conditionality supposedly introduced by the ENP. The only nuance is not to present it as a foreign imposition, that is, as political Europeanisation, in order not to raise popular opposition. Increased political participation, as well as economic institutional reform, should then be context specific (including increased dialogue by the EU with moderate political Islam movements-Aliboni, 2004).

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2 Voters' support is multiplied by  $-1$ , so its positive slope reflects decreased support when distortions increase.

Fig. 2: Demand for Europeanization



Source: Mattli and Plümpert (2002)

Another contentious issue is to what extent Europeanisation can be successful in transferring economic institutions to MPC's. Institutional economics shows that new institutions are adopted according to existing ones, and that path dependency may pervade institutional-building efforts. As North (1994, p. 366) has rightly noted, 'economies that adopt the formal rules of another economy will have very different performance (...) because of different informal norms and enforcement.' This is why historically exporting institutions have proven so difficult (Owen, 2002). Path dependency has been documented in the Europeanisation processes of MS and candidate countries. Börzel (1999) shows how Europeanisation permeated decentralization in Germany and Spain through existing domestic institutions, giving different results. In the field of public administration, Goetz (2001) points out that Europeanisation in Eastern European countries has result in a 'latinization' of bureaucracies rather than convergence towards pristine, modern Weberian models.

True, transferability may be substantially higher for economic institutions than for political ones (Fukuyama, 2004), then leaving some room for economic Europeanisation whenever this is demanded by MPC's. Fukuyama (op. cit., ch. 1) plot institutions according to two variables: its specificity and the number of transactions they manage. Transferability is supposed to increase with functional specificity and to decrease with the number of transactions involved. Then, highly specific institutions should rank high in MPC's Europeanisation priorities. This supports the 'policy spaces' approach, and is consistent with the emphasis in concrete, accountable MPC's convergence towards *acquis communautaire* in highly specific domains (for instance in trade, energy and competition policy fields). But highly specific institutions are mostly 'low politics' instruments, while judicial and public administration reforms (not to mention democratisation) lack both the specificity and reduced transactions pre-conditions. But this framework do not accounts for domestic demands of Europeanisation in MPC's. Exporting even the not so fundamental components of rule of law is then more complex than the ENP considers. To make reforms sustainable the 'ownership' equation must be solved in order to match societal, not governmental demands.

In the Middle East, however, the transplanting of European economic institutions already took place in the colonial period, but the persistence of informal norms and complementary institutions

made it impossible to modernize by a mere borrowing of foreign institutions (Kuran, 2004). Kuran's pessimistic conclusion (p. 89) is that '[e]ven if all the misguided government policies in the region were to disappear today, strong private sectors and civil societies could take decades to develop.' We should nevertheless avoid falling in cultural determinisms: Southern Europe has been able to escape from the Weberian Catholic trap, and the Turkish case defies the Muslim-democracy incompatibility thesis. Moreover, even if we were inclined to introduce culture in the economic development equation, we simply do not know how to do it, at least in its practical dimension (Klitgaard, 1997).

So, even fragmentary social engineering may only succeed in the long run through convergence in both formal and informal rules (as institutional economics suggests), and only if it is demanded by open societies (as political economy shows). The Commission seems aware of this need for MPC's demanding convergence towards EU economic rules of the game, and uses the 'ownership' vaccine against what it is often perceived as a risk of imperialism contagion. The problem with the ownership concept, as happens with many concepts of today's economic development jargon, is its ambiguity. Who really 'own' the strategies in the ENP Action Plans: MPC's governments, lobbies, or economic and political elites? Do MPC's poor have any 'voice' in the ENP Action Plans? Are they conducive to 'participatory development'? As the political economy framework shows, 'ownership' is not a substitutive for political participation, not to talk about democracy, but rather old wine in new bottles (or window-dressing) concerning Euro-Mediterranean relations.

This led us to the recent criticisms that so-called second-generation reforms have raised among the economic development community. Rodrik (2003, ch. 1) has claimed that the extended Washington Consensus (that includes institutional reform) is too ambitious to be accomplished even in the medium run, that it does not set clear priorities, and that it is not always advisable. A more pragmatic and modest approach may be preferable, including 'transitional institutions' that, like the Chinese ones, diverge from the Western or EU prescription, but can be more conducive to rapid growth in the short run:

'[M]odest changes in institutional arrangements and in official attitudes towards the economy can produce huge growth payoffs. Deep and extensive institutional reform is not a prerequisite for a takeoff in growth. That is the good news. The bad news is that the required changes can be highly specific to the context' (Rodrik, op. cit, p. 16)

So, full Europeanisation of MPC's economic institutions could not be feasible in the medium run, will absorb scarce human and financial resources, and even be counterproductive if applied in a mechanical manner. Richards (2003) has also criticized the American 'modernization' prescription for Arab countries on similar grounds. Prioritisation is rightly contemplated in the ENP Action Plans, but some contradictions arise when comparing it with the overall EU development strategy. As we have seen, in the absence of democratisation, Europeanisation would tend to empower both the MPC's executive and the export oriented sectors. But clearly this is not what the EU development policy has in mind when calling for 'empowerment'. In EU development cooperation, empowerment mainly refers to pro-poor strategies (Commission, 2000), in line with the World Bank (2000), UNDP (2000) and DAC (2001) advice following Sen's (1999) capacities approach.

But there are few proposals in the ENP Action Plans concerning the empowerment of the poor, apart from some generic and rather rhetorical statements on the need of fighting poverty in MPC's. There are not concrete actions to be pursued in order to increase poor participation in the economy, nor in the political process. Again, the ambiguities of the 'ownership' concept are unable to deal with the challenges faced by the region. Even if poverty is not so widespread in the region than in other developing countries (with the important exception of Egypt), it is perhaps the central challenge faced by MPC's. Its negative spillovers also affect EU MS in the form of illegal migration, drug trafficking, and terrorism. What is missed in the ENP Action Plans is a more comprehensive understanding of the impact its proposed measures will have on poverty. The poor are a significant part of MPC's societies, and if Europeanisation is to be demanded by our Southern neighbours, it cannot be done without taking its demands into account.

## Final Remarks

As we have seen in the previous section, even the ‘low politics’ Europeanisation of MPC’s economic institutions is a very ambitious policy reform agenda. The ENP economic approach lacks a clear statement of what really ‘obtaining a stake in the ESM’ means. Full participation in the ESM under EEA-like agreements seems very difficult to attain for MPC’s other than Israel. On the other hand, limited participation in the ESM to manufactured goods would be a deceptive result that would justify the ‘window-dressing’ imputation, and more importantly proved the inability to mobilize sufficient demand from MPC’s societies for convergence towards EU economic rules.

How, then, does one provide incentives to MPC’s that demand economic Europeanisation? Political economy analysis suggests that increased political participation may trigger support from MPC’s societies, but only if it is not perceived as a revival of past colonial models. It also shows that a ‘Barcelona plus’ approach would empower just the executive and export oriented interest groups, then being clearly insufficient to sustain a consistent policy and institutional economic reform. Even limited and asymmetrical inclusion of agriculture and movement of persons could act as a more powerful catalyser of societal demands for economic and institutional reforms as eschewed in the ENP Action Plans. A more comprehensive inclusion of poverty in the ENP Action Plans is clearly needed, what in turns calls for giving the poor more ‘voice’ in policy-making. Increased political participation seems then unavoidable in order to have more information on MPC’s revealed preferences.

In any case, a full-extended Washington Consensus policy reform agenda do not seem advisable at this point. In the traditional domain, an across-the-board liberalization of services and capital accounts seems too risky, while in the second generation, institutional reforms, creativity seems more appropriate than mere replication. Exporting EU economic institutions to MPC’s is not a mechanical process. As the recent economic development literature shows, institutions are context specific and path dependent. The same economic norms give different results in terms of economic performance, because we have to account for diverging informal rules, complementary institutions and enforcement capacities. So, the ‘Europeanisation as modernization’ mechanical prescription is not feasible, nor probably advisable, even in the economic arena.

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## Acronyms

AA: Association Agreements  
BP: Barcelona Process  
EEA: European Economic Area  
ECB: European Central Bank  
ENP: European Neighbourhood Policy  
ESM: European Single Market  
FDI: Foreign Direct Investment  
FEMIP: *Facilité Euro-méditerranéenne d'Investissement et de Partenariat*  
FTA: Free Trade Agreements  
GCC: Gulf Cooperation Council  
GMEI: Great Middle East Initiative  
MPC's: Mediterranean Partner Countries  
MS: Member States

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