

The Euro-Mediterranean Partnership and the Challenge of Development

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Twenty years after the 1st Euromed Civil Forum and the launch of the Euro-Mediterranean Partnership, what assessment can be made of this project from the economic point of view? On the path followed thus far, the Euro-Mediterranean Partnership has achieved some very positive results, but it is still far from attaining the goal of shared development in the region. This article offers a reflection on this subject, considers the essential aspects involved in the challenge of a human development and brings together the lessons that should be learnt from the recent Spanish economic crisis.

In November 1995 I had the honour of participating in the 1st Euromed Civil Forum held in Barcelona after the ministerial summit that launched the Euro-Mediterranean Partnership. Specifically, I formed part of the forum called “Trade without Borders” and I was secretary of the session entitled “Competitive products in Mediterranean trade”. I recall the enthusiasm of those debates among the participants from the northern and southern Mediterranean. There was a general belief that the creation of a free trade area would yield very positive effects in the development of the region in the mid and long term, but the need to guard against its possible negative effect on certain sectors was also emphasised. Therefore, it was recommended that trade liberalisation be accompanied with adequate financial support aimed at softening social costs and facilitating structural adjustments.

Twenty years later, what assessment can be made of this project and what are its main challenges for the future? The aim of this article is to contribute a reflection on this question, mainly emphasising the challenge of economic development. A reflection that will take into account some lessons that can be drawn from the recent economic crisis experienced in Spain.

Assessment of Trade Liberalisation

The analysis of the impact of trade liberalisation processes on the economic growth of emerging countries has been an issue widely debated by economic literature. In these countries, trade liberalisation has been the alternative to the import substitution industrialisation

strategy adopted during the 1950s and 1960s, whose limitations became patent in the 1970s. During the 1980s, the economic recession caused by the oil crisis, the high interest rates in the United States and the debt crisis very negatively affected the economic growth of most emerging countries. However, these factors had a far lesser effect in those countries that, as in Southeast Asia, had adopted a strategy of openness to international trade.

This scenario created an environment favourable to the adoption of a model of growth based on greater confidence in the performance of the market, the promotion of exports and the liberalisation of imports. This new strategy, known as outward orientation, gained followers both in academic circles and in international organisations related to economic development, and also inspired, to a large extent, the agenda of the Euro-Mediterranean Partnership launched in 1995.

However, the studies undertaken also indicate that the effects of trade liberalisation on economic development are not automatic and uniform in all countries. For this reason, this strategy should be applied prudently and gradually, taking into account the conditions and mechanisms that can ensure the best results in each specific case.

The main goal of the Euro-Mediterranean Partnership has been to achieve a space of shared development between the two shores of the Mediterranean, but it seems clear that this goal is still far from being accomplished today. Its attainment undoubtedly demands greater effort from both the EU and the governments of the southern countries.

The Euro-Mediterranean Partnership was articulated from the outset through a dual mechanism: a) a bilateral mechanism, through the Association Agreements between the EU and each of the southern Mediterranean countries; and b) a regional mechanism, through dialogue and certain regional cooperation

projects. The Partnership has had three fields of action: a) political and security; b) economic and financial; and c) social, cultural and human. In the economic field, the two aforementioned instruments have been used: a) the progressive establishment of a free trade area between the EU and each of the countries of the region; and b) the establishment of a financial cooperation by the EU to facilitate the institutional reforms and the development of the southern Mediterranean countries.

From 2004, the launch of the European Neighbourhood Policy (after the enlargement of the EU towards the East) strengthened the Euro-Mediterranean Partnership strategy in relation to the bilateral mechanism. In this respect, the southern Mediterranean countries have been offered a closer link with the EU, in exchange for more progress in their institutional reforms. To this end, Action Plans have been negotiated that are now being applied in some countries of the region, although not all.

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Finally, from 2008 it was agreed to implement the project of a Union for the Mediterranean to complement the Euro-Mediterranean Partnership. This project has especially sought to influence the regional mechanism (by fostering projects in the fields of energy and energy security, the environment, civil protection, transport and education) and has strengthened the institutional fabric (with the creation of a Permanent Secretariat).

In the end, after the aforementioned evolution, the Euro-Mediterranean Partnership has undoubtedly had notable benefits but has not achieved a clear success in the essential objective of promoting the economic development of the southern Mediterranean countries. As

a result of the Association Agreements established, there have been positive effects in the fields of trade and investment, but not yet on the scale that would be necessary to bring about a vigorous and sustainable development process in these countries (Jordán, 2010).

In order to stimulate this development, the European Union has also offered financial cooperation to the southern Mediterranean countries (Jordán and Pedrajas, 2010), and they have applied institutional reforms and improvements in their governance framework. But this has all occurred unequally and quite inadequately to strengthen the objective of development. Moreover, these countries have advanced very little in the process of openness and cooperation.

The Challenge of a Human Development

Given that the goal of the Euro-Mediterranean Partnership is to achieve shared development throughout the region, we should ask ourselves what we mean by development. Undoubtedly, the academic community today has reached a fairly broad consensus on this concept, which goes beyond the concept of economic growth. According to J. E. Stiglitz, A. Sen and J. P. Fitoussi (2013), Gross Domestic Product (GDP) is a good measure for following the evolution of a country's economic activity, but it is a very incomplete indicator of the levels of social progress. According to these authors, among the key facets of the welfare and quality of life of a country are the following: a) level of material life (income, consumption and wealth); b) health; c) education; d) personal activities (including work); e) the political voice and governance; f) social connections and relations; g) the environmental surroundings (present and future conditions); and h) physical and economic insecurity.

The mechanisms that stimulate the economic development of a country are not easy to identify or apply, but history shows the crucial character of the institutions and the economic policy, and the reciprocal action between state and market is essential (World Bank, 1991). It is not simply a question of choosing between one and the other, but of finding the best combination possible between market efficiency and social commitment. On the one hand, competition (internal and external) is fundamental to stimulate the entrepreneurial spirit and technological progress. On the other, an intervention by the state is needed to create an adequate legal and regulatory framework, and to carry out actions where the market fails or proves deficient, such as investment in infrastructures and human capital, microeconomic stability, provision of basic public services and protection of the environment.

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In any case, the institutions play a crucial role in the process of prosperity or impoverishment of the different countries, as noted in a recent study by D. Acemoglu and J. Robinson (2012). According to these authors, inclusive and open institutions, with effective rules to organise political and economic relations, pave the way for the economic development of a country. Meanwhile, in contrast, extractive institutions, which focus power and benefits on a social minority, condemn any society to failure.

In short, political institutions are a determining element of the economic and social development of any country. Pluralist and sufficiently centralised political institutions interact with economic institutions that create the incentives necessary for people to save, invest and innovate. In contrast, political in-

stitutions that consolidate the power of those who benefit from economic extraction about the possibilities of a country's development. The solution to this failure is to transform the institutions (political and economic) of an extractive nature into others of an inclusive character. This is undoubtedly a difficult but not impossible task.

Lessons from the Economic Crisis in Spain

The previous section does not seek in any way to give a lesson on development to southern Mediterranean countries, but rather to reflect on certain essential aspects of the development process for any country, including those in the North. In Spain, specifically, in recent years we have experienced an extremely harsh economic crisis, from which it is worth extracting appropriate lessons to sustainably reorient our development process. Next I will formulate some ideas on this, in case this experience can also be of interest to any other country.

Indeed, Spain has recently experienced the worst economic and social crisis since it abandoned an autarchic development model in the late 1950s (Jordán, 2013). The country has seen its per capita income reduced between 2008 and 2014, while levels of unemployment and poverty have increased notably. This is the second structural crisis known by our country since it opted for a model of growth open to international trade in the 1960s. The first took place between 1974 and 1985, when the rise in the price of oil severely struck the Spanish economy while the country was advancing in political transition from the dictatorship to democracy. The Spanish economy took quite a time to recover the path of growth. Major institutional reforms were needed, made possible by a considerable political, economic and social consensus. Finally,

Spain's entry into the European Community in 1986 and a positive change in the international situation favoured the economic recovery for the country in the second half of the 1980s.

In the 1990s, Spain prepared to accede to the European Monetary Union, which it did in 1999, and experienced a long period of economic growth until 2007. The effort of macroeconomic convergence created a climate of stability and low interest rates that promoted economic growth in Europe as a whole. However, each European country exploited this expansive economic phase differently.

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In this period Spain received enormous volumes of external funding, but instead of taking advantage of it to carry out a transformation (productive and institutional) necessary to respond to the growing challenges of the global economy, the country opted for a model of growth dependant to a large extent on construction and the property sector. This made it very vulnerable and paved the way for the later suffering from the serious economic crisis of recent years.

Aurelio Martínez and Vicente Pallardó (2013) have analysed the "capital sins" that Spanish society committed in this period: the voracity with which the private sector consumed external resources, creating an enormous debt that has drastically burdened families and companies; the lack of prudence and professionalism of the banking sector in its financial operations; and the lack of planning and control of the public administrations in the use of tax revenues.

The emergence from the serious structural crisis recently suffered in Spain demands a combination of action at a European scale and

at a national scale. On the one hand, the EU is completing the monetary union with greater economic union, and this should result in a more determined stimulation of the economic growth of the most fragile countries. Moreover, Spain must activate a set of structural reforms to improve the performance of its economic and social model. The fields where such reforms are most needed are: education; investment in research, development and innovation; labour relations; justice; the political and administrative organisation of the state; the fiscal system and the sectoral and business structure.

Approaching such reforms is certainly not easy, in Spain or any other country. First, a change of mentality is required from the different political, economic and social agents, which must accept the need for a collective effort to overcome the deep-rooted problems of the country. This should be followed by a political and social consensus to undertake the reforms agreed. And this, in my opinion, is our main challenge.

Conclusions

The Euro-Mediterranean Partnership has had a positive impact until now, albeit insufficient, in the development of the southern Mediterranean countries. Undoubtedly, it is essential to make further efforts to achieve the goal of a shared development between the north and south of the region. The EU must increase its financial aid to the southern countries to support their necessary economic and institutional reforms. The processes of modernisation must not be seen in these countries as something imposed from Europe, but as essential changes to reach major levels of human development; changes that involve improved standards of governance, transparency and equity. These countries must also advance in dialogue and cooperation with each other.

Development is a process of improving the levels of freedom and social welfare of a country in a context of environmental sustainability. The academic community has today reached a fairly broad consensus on the concept of development and on a series of indicators suitable for measuring it. The debate continues, however, in terms of the most appropriate policies to drive the process of development, both nationally and internationally.

One of the key controversies focuses on the right combination of the market and government intervention. In recent times, a somewhat extreme neoliberal point of view resulted in an exaggerated dominion of the markets and in the public powers' loss of capacity to act in the economy. However, the emergence from the recent crisis is demanding, among other measures, better regulation of the markets. Moreover, the existing disorder in the international system is calling for the transformation of a strictly economic globalisation into a social, political and cultural globalisation. In any case, the institutions play a key role in the process of prosperity or impoverishment of any country, and only with inclusive and open institutions can we advance in the process of development.

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The case of Spain offers an interesting experience of how a country emerged from backwardness and managed to drive its modernisation and social progress over time. First, the turn towards a model of growth open to international trade in the 1970s, and later the transition towards democracy and integration in the European Union in the following dec-

ades, set the foundations to achieve a notable level of development in the first decade of the 21st century. However, the serious structural crisis recently experienced by Spain also teaches many things.

Between the mid-1990s and mid-2000s, the option for a model of growth highly dependent on construction and the property sector was an extremely serious strategic error. It made the country more vulnerable and unbalanced. Moreover, the basic political agreements that governed the construction of democracy were broken and the quality of the institutional system notably weakened.

Consequently, overcoming the crisis requires a wide-reaching national policy. On the one hand, Spain must reorient its model of development to confront the challenges of the global environment, and this requires greater commitment to strengthening its productive base, education, vocational training, research, land planning and environmental quality. Moreover, Spain must improve the quality of its democracy and its institutional system, achieving higher levels of dialogue and political, economic and social consensus.

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