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Gallina, Andrea

Federico Caffè Centre Research Reports Nr. 4/2006

ISSN 1396-5085

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Research Report n. 4/2006

From Partnership to Friendships: Flows and Flaws in the Mediterranean Region

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1. INTRODUCTION[1]

Anno 1995 marked the starting point of the Euro-Mediterranean Partnership (the Barcelona Process), a wide framework of political, economic and cultural cooperation between the Member States of the European Union and the Southern and Eastern Mediterranean Basin countries. The official rationale behind the Euro-Mediterranean Partnership (EMP) launched 27th November 1995 (the same day as the first crusade was launched by Pope Urban II in the French city of Clermont 900 years ago) was to strengthen the previous Renewed Mediterranean Policy (1992-1995) and move towards a multilateral approach to cooperation in the region aiming at "building a regional entity through economic, political and social advance" (Femise, 2005, p. IX).

The main political goal was to reduce the economic gap existing between the EU countries and the Southern and Eastern countries, in the hope to lessen push and pull migration factors and guarantee political and social stability. At the basis of this political design there was a strong commitment to re-create a *"Mediterranean-ness",* i.e. a Mediterranean cultural and political identity that would re-construct the bridge between the Mediterranean Europe and the Mediterranean Arab countries. The forum, conferences, publications and researches organized and produced during the second half of the nineties showed a genuine EU commitment and a dedicated participation of the Mediterranean partner countries academia and civil society in this venture.

The recent intergovernmental summit celebrating the 10 years anniversary of the Partnership, and the qualified comments that followed, have clearly shown that the expected flows (trade, investment and labor) have materialized in the opposite direction (i.e. fewer FDIs and more migration). After ten years, one can state that the profound reform and structural adjustments supported also by the EU funds have produced the opposite results. Today, even the cultural dimension of the Partnership has been defeated by an increasingly euro-centric European Union as demonstrated by the recent case of the Danish cartoons.

In 2003, in the midst of a situation of fatigue of the EMP and a new political scenario, characterized by the worsening of the crises in the Middle East, the enlargement to the East, and the US renewed interest in the region,[2] the EU tried to introduce some new driving forces in the cooperation with Third countries (Emerson and Noutcheva, 2005). The European Neighborhood Policy (ENP) is launched with the aim to support in a bilateral framework (the Action Plans)[3] a selective and strategic number of countries at the border with the new EU. This policy includes the 9 Mediterranean partner countries –Turkey is pursuing its relationship with the EU in a pre-accession framework, and Moldavia, Russia, Georgia, Armenia, Azerbaijan, Belarus and Ukraine.[4]

The ENP is based on a set of bilateral and differentiated Action Plans in which priorities in all sectors (from political dialogue to justice, trade, social policy, etc.) are jointly defined and financed by an *ad hoc* policy instrument, i.e. the European Neighborhood Policy Instrument (ENPI). In the new seven-year budgetary period 2007-2013 the EU has allocated through the European Neighborhood Policy Instrument an amount of 14.9 billion euros, i.e. 2.1 billion a year to be shared among the ten MPs and the

[1] An earlier version of this paper was presented at the conference "Bridging the Gap: The Role of Trade and Fdis in The Mediterranean", Castel dell'Ovo, Naples, 8-9 June 2006.

[2] In June 2004, the G-8 adopted the "Broader Middle East and North Africa Initiative (BMENA)", along with the US's Middle East Partnership Initiative (MEPI).

[3] In the ENP can be read: "The Action Plans will draw on a common set of principles but will be differentiated, reflecting the existing state of relations with each country, its needs and capacities, as well as common interests. The level of ambition of the EU's relationships with its neighbors will take into account the extent to which these values are effectively shared" (CE, 2004, p. 3).

[4] Furthermore, the ENP is situated in a deeply modified context for the Mediterranean Partners. In 1995, there were 15 EU member states and 12 MPs, in 2004 there were 25 EU members, 3 candidates and 9 MPs. As for the Neighborhood Policy, it involves 25 EU members, 3 candidates and 6 potential candidates, plus 16 neighbors of which 9 are MPs. Furthermore, there are not particular historical or cultural ties among the neighbors or a geographic and demographic similarity.

seven new neighbor countries, i.e. about 5 euros per capita (for the MPs this is a lower amount compared to the previous MEDA funds).[5]

Besides the plethora of debates and rhetoric the ENP introduces a new concept –the "Ring of Friends"- which raises some doubts and confusion over how linking together these different countries and on the precise division of labor between the ENP and the EMP (Fernández and Youngs 2005). This perplexity has given raise to different interpretations: for the Danish conflict and peace researcher Ulla Holm, the ENP is more a post-enlargement strategy than a development framework (Holm, 2005), for the Italian scholar Bruno Amoroso it can be seen as an imperialist strategy based on "divide et impera" in which the single countries opportunisms are used to destabilize the region (Amoroso, 2006). Some have also argued that the neighborliness can create some possible deeper integration effects (Fernández and Youngs 2005).

Yet, for the Mediterranean countries the ENP has reduced the scope for multilateral actions, increased the scope for bilateral tracks and introduced a new type of conditionality in the receipt of EU development aid, meaning that in order to get a "stake" in the internal market EU neighboring countries (including the Mediterranean countries) must harmonize their policies to EU standards and regulations in all areas (from trade to judicial) and demonstrate to "share" European values.

The new situation created in the Mediterranean Basin will most likely reinforce the competition between countries and weaken regional integration efforts. At the same time, it can offer the platform to devise bilateral co-development projects in specific fields (for example labor migration and technology transfers), but this is more a plea than an evidence.

This paper is divided in 5 sections. Section two addresses the evolution of the Mediterranean region and its main socio-economic indicators, particularly focusing on the Southern and Eastern countries in the last ten-twenty years. Section 3 presents some economic results of the Barcelona Process, highlighting the trends of the main flows in the Euro-Mediterranean region. Section 4 focuses on the labor market needs of the Mediterranean partners and increased migration. Section 5 identifies some potential areas of co-development that can be pursued within the new policy scenario created by the ENP.

2. THE MEDITERRANEAN LOGOS AND A WIDENING GAP

For long time in history, the Mediterranean represented a unity, not only geographically but also economically, a place for exchanges that during Philip the II (XVI century) was a hegemonic world-economy (Braudel, 1985). Despite the long period of decline caused by the discovery of the West Indies, the Southern and Eastern Mediterranean remained unified politically and economically under the Ottoman Empire until the creation of the British and French protectorates in the early 1920s.

The recent history of the Mediterranean –say since the post-colonial period- has put the region in the peripherical ring of the international division of labor. This has exacerbated the degrees of specialization of Southern and Eastern countries in low value added production (such as raw material, i.e. phosphate and oil, and agricultural products) and reduced the scope for industrialization.[6] Late in the mid-1980s, following the structural adjustment policies imposed by the international financial organizations, industrialization in small and large scale has been oriented towards export markets, especially European. Today, the further liberalization of trade on a global scale in the low value industries (as textile and garment) has drastically reduced the competitive factors in the export markets. The cost of labor in Tunisia

[5] During the first five years of implementation of the Euro-Mediterranean Partnership the EU has allocated 3.4 billions euros in development assistance (ca. 680 million euros per year) and the European Investment Bank (EIB) another 4.8 billion for loans (about 900 million euros per year). In the second period, 2000-2006, the Mediterranean development funds (MEDA Program) increased to 5.3 billion and the EIB 6.4 billions in loans and 1 million for transnational projects.

[6] The lack of an industrial bourgeoisie in the Arab Mediterranean countries and the strong presence of a military apparatus have contributed to the creation of a "*rentier*" society, strongly committed later on to expand export based development policies.

and Morocco is 5-6 times that of the cheapest countries, i.e. Bangladesh and China (Federico Caffè Centre, 2005).

To overcome this *impasse*, studies such as those carried-out in the early 1990s (FAST, 1991; Amoroso, 1991; 1993, Balta, 1992) have attempted to reconstruct the hypothesis that the Mediterranean Basin is a "meso-region", i.e. something between the *economy of the world* –the market of the universe- and the *world-economy,* which is according to Fernand Braudel "the economy of a portion of the planet to the degree that forms an economic *whole*"[7], in which similar levels of specialization, but different levels of technological capability, could be exploited in order to co-develop the production systems for the satisfaction of existing and the emerging needs and markets. This policy design has gained consensus in the nineties and was reflected in the EU Mediterranean policies and discourses on a *Wider Europe* aiming to create a balanced regional integration strategy including North-South and South-South dimensions.[8]

However, in the real implementation of policies the EU endorsed in the Barcelona Process a way of thinking strongly biased by a neoliberal agenda. The Ricardian principle of comparative advantages dominated the decisions to where and how allocate the development funds, and this in a less favorable context than that of Ricardo's Portuguese wine and English wool. The Euro-Mediterranean trade regime was -and still is- asymmetrical and foreign direct investments have failed to materialize, except from the privatization of some (good) public companies.

The gaps between the two shores have not been reduced, the South-South integration has not been achieved, complementarity in trade, limited investment flows, and migration flows split the Mediterranean Meso-region along a North-South and an East-West axis. Today, a demarcation line can be drawn between those countries that are highly dependent on oil (Jordan, Syria, Egypt, Lebanon), that is to say that are dependent more on the fluctuations of the economies in the Arab Gulf countries and less on that of Europe; and countries that are more dependent on trade, migration and aid from Europe (Morocco, Tunisia, Algeria, Turkey) and less on the Arab Gulf countries.[9]

Furthermore, the recent introduction of the ENP bilateral approach is sinking any attempt to return on the meso-regional path and instead continues on the path of additional fragmentation of the region. The concept of Wider Europe has been wiped out in the official discourses and the 'ring of partners' substituted with a strategic 'ring of friends'. This process resembles very closely the U.S. policy towards Mexico within the NAFTA scheme: a paternalistic imposition of trade regimes, followed by the control over the economic, productive and labor resources, borders control, privatization of good public companies, and the de-localization of manufactured production (the *maquila* industries), together with a guaranteed reserve of oil and gas. The Arab Mediterranean countries become the backyard of Europe and the Mediterranean Sea becomes the Rio Grande.

The implementation of a "free trade area" and neoliberal policies in the region has produced negative social impacts such as the boost of the informal economy, an increased rural exodus, and new pockets of urban poverty.

A Widening and Worrisome Gap

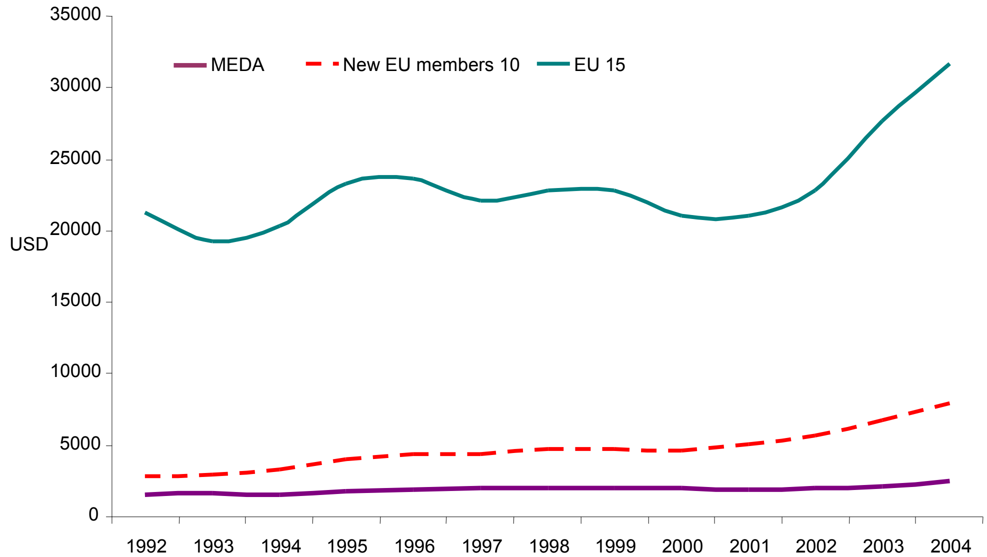
Despite the limits that GPD per capita presents as indicator of growth, it still provides a reasonable indication on the evolution of the economy. In its assessment of the first ten years of Barcelona Process, the Network of socio-economic institutes specialized on Mediterranean issues "Femise" noted that "when the Barcelona process began, the EU's partners, the MPs, were slightly above the lower bracket of intermediary revenue countries, apart from Israel which had a per capita income close to high revenue countries. This situation has not evolved very much since then; at the end of this period the Mediterranean

[7] Braudel, 1977, p. 81; Gallina, 2003.
[8] In policy documents published in March 2003 and May 2004, the title 'Wider Europe' was discarded in favour of European Neighbourhood Policy Emerson and Noutcheva, 2005, p. 7.
[9] Even if Algeria is an oil producer country, the historical relationships with Europe place her in the second group.

Partners (MPs) were still below the average of intermediary revenue countries (US$ 4780 for MPs v. US$ 5800) (Femise, 2005, p. vii). Whereas it is true that Euro-Mediterranean Partnership is not the sole responsible of this trend, it is neither a source of celebration.

The economic gap between the EU and the MPs is growing steadily (figure I). Since the early nineties the gap in GDP per capita has increased between the EU countries and the MPs, while has decreased between the EU and the ten new member states.

Figure I - Evolution of GDP per capita, MEDA, New EU members and EU 1, US dollars, 1992-2004.

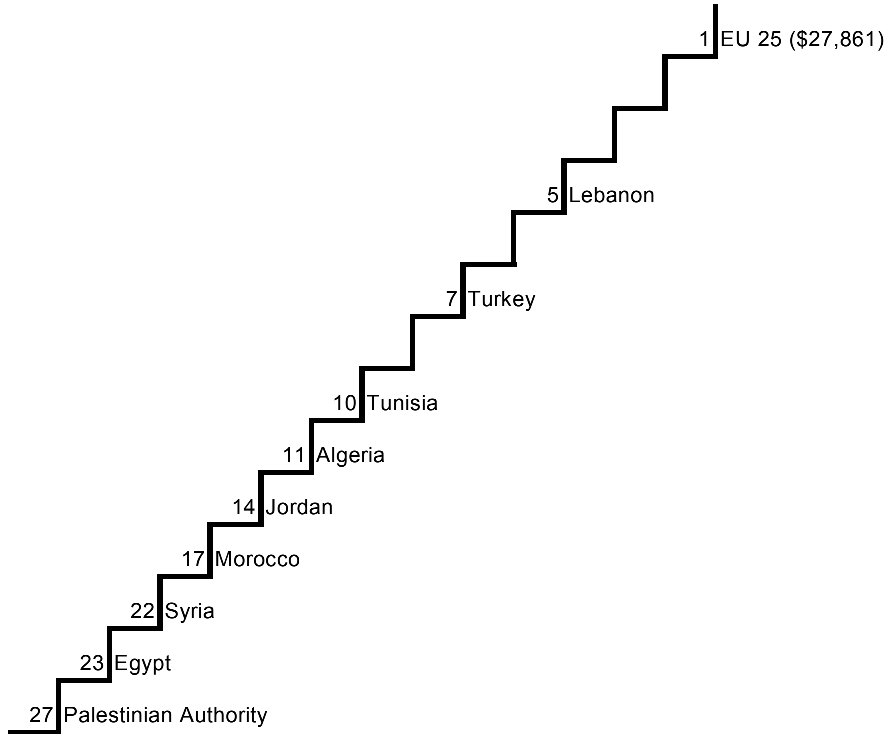


Source: author's elaboration on UNCTAD Handbook Statistics Online at http://stats.unctad.org/Handbook/ReportFolders/ReportFolders.aspx, accessed on the 21 April 2006. Data are for Algeria, Egypt, Morocco, Tunisia, Jordan, PA, Syria, Turkey. Data for Lebanon not available.

In 2004, the EU 25 member states average GDP per capita (in current prices) of about $28,000 was between 27 times that of the Palestinian Occupied Territories and 5 times that of Lebanon (figure II).

It should be noted that a positive sign has been recorded in some social indicators. In the MPs, the Human Development Indicator (HDI) has registered a positive trend in the last 25 years. The index shows a constant growth between 1 to 3 percent annually. Nonetheless, MPs are found in the medium lower end of the HDI rank, between nr. 81 (Lebanon) and nr.124 (Morocco). Other indicators such as rate of illiteracy and access to water have registered over the region a positive improvement in the last decade. Yet, many countries in the region still have between a tenth and a fifth of the population living below the national poverty line.

Figure II - Economic Step between EU 25 and MPCs, GDP per capita current $, 2004.



Source: author's elaboration on UNCTAD statistics Yearbook 2005, Accessed on the 22 April 2006.

3. TRADE AND INVESTMENT FLOWS: AN ASYMMETRIC RELATIONSHIP

The last ten-fifteen years of structural adjustment, industrialization and development policy in the Southern and Eastern Mediterranean have been very instructive for scholars and policy makers. At least three theoretical assumptions have been denied. Firstly, the assumption of an existing causal relationship between economic and political liberalization has proven to be incorrect (Fernández and Youngs 2005). Secondly, the assumption that economic liberalization would lead to an increase in foreign investments has also proven to be incorrect. The specialization model in the region (agriculture or gas and oil) is not an attractive factor for foreign investors. Thirdly, in the case of trade, the assumption that tariff dismantling has a positive effect on growth has also proven to be incorrect (Femise, 2005). This is true only if other conditions are present simultaneously -such the level of capital accumulation, the level of education of the labor force and the presence of a competitive industry, and an institutional setting that provides the necessary buffer during the transition according to the local conditions.

During the last decade, the economies of the Mediterranean partner countries have faced several difficulties due to the process of liberalization of trade in manufacturing sector, especially in textile and clothing, which can have outweighed the benefits from migration (Federico Caffè Centre, 2005). Early estimates by OECD (1997) already showed that 60 percent of industrial firms in Morocco and Tunisia would not survive against freely imported European products.[10]

[10] OECD, 1997. Also, on the effects of the *mise-a-niveu* (modernisation) programs sponsored by the EU in Tunisia, see Chourou, 1999.

Following the liberalization, the trade balance is characterized by a substantial trade deficit (especially with the EU) compensated only in part by migrant workers' remittances and revenues from tourism (Table 1).

Table 1 - MPs Trade Deficits (in US$ Billion)

		1990	1995	2000	2003
With the EU	Total trade	-5,971	-24,437	-20,038	-12,076
	w/out oil	-15,621	-32,508	-36,644	-29,08
	Manufactured goods	-15,352	-29,078	-34,437	-26,392
With the RoW	Total trade	-13,917	-21,85	-23,923	-22,262
	w/out oil	-13,842	-18,489	-21,147	-16,302
	Manufactured goods	-9,804	-10,496	-10,625	-5,353

Source: Comtrade - Calculation: Institut de la Méditerranée, Femise, 2005, p. 30.

These trends confirm the analysis of Chevalier and Freudemberg that the composition of imports from the EU will be increasingly made up of consumption goods, which in turn will put increasing competitive pressure on the local industries during the initial stages of complete liberalization.[11] Opposite, for the EU producers the expected negative effect of liberalization in the fresh fruit and vegetables exports has been widely mitigated by the introduction of production calendar and an arsenal of non-tariff instruments.[12]

Trade between the EU and the MPS is very asymmetrical since the EU imports from MPs represent about 50% of their foreign trade, while the EU exports towards MPs represent only a little 6% of the EU total foreign trade and less than 5% of EU imports (table 2).

Table 2 - MPs and NMS (New Member States) shares of EU imports (oil products excluded) (extra EU-15)

	2001	2002	2003
MP	4,4%	4,7%	4,9%
NMS	11,0%	12,0%	13,0%

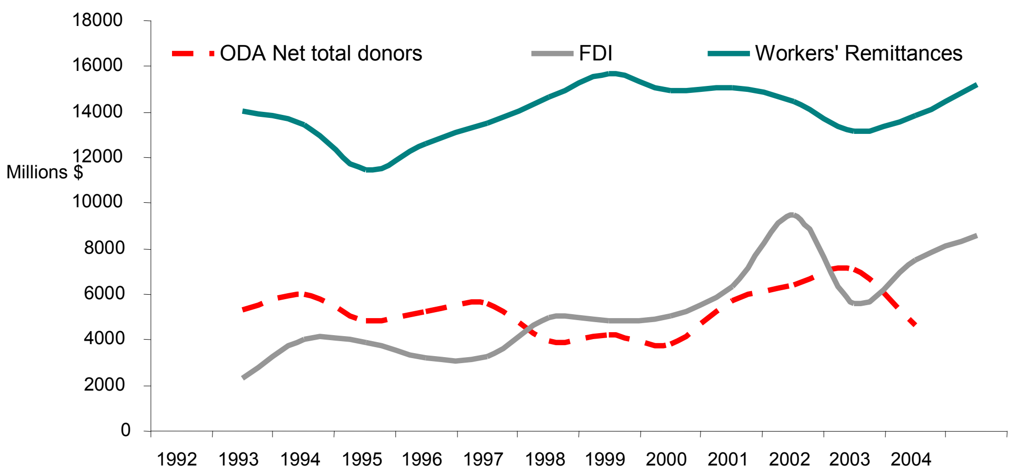
Source: Comtrade - Calculation: Institut de la Méditerranée, Femise, 2005, p. 32.

Asymmetries can be recorded also in FDIs. In 2002, the MPs received an amount of FDI equivalent to 2.8 per cent of the total FDI of the EU towards the rest of the world. A very small percentage compared to the 5 percent registered by Mercosur countries and 17.5 of the new member states (Gallina, 2005a). Furthermore they have been erratic and mainly motivated by privatization and not Greenfield investment (Figure III).

Worldwide, MPs share of FDIs to developing countries has decreased constantly from 15.8% in the early 1980s to less than 5% in the mid 1990s, with an average of 3.5% (Femise, 2005). Other investments, such as portfolio investments are virtually inexistent.

[11] Chevalier A. and M. Freudenberg, 1999, p. 4.
[12] These are technical norms (quality, labelling etc…), as well as norms concerning animal and vegetable hygiene, norms concerning food and environmental safety (Femise, 2005).

Figure III – FDIs and other financial flows in the Arab Mediterranean countries, million $



Source: author's elaboration on UNCTAD Handbook Statistics Online available at: http://stats.unctad.org/Handbook/ReportFolders/ReportFolders.aspx, accessed on the 21 April 2006. FDI and Workers remittances data are for Algeria, Egypt, Libyan Arab Jamahiriya, Morocco, Tunisia, Jordan, Lebanon, Palestinian Territory, Syrian Arab Republic, Turkey. ODA data do not include Algeria and Libya.[13]

Geographically, FDIs from the EU are mainly originating from France, UK and Holland. In relative terms Portugal is the country with the highest level of FDI in the Mediterranean as compared to its total outflows (9 percent) (Quefelec, 2004). FDIs in the region remain concentrated in few countries (Algeria, Egypt, Turkey, Israel and Morocco account for more than 50% of the FDI) and sectors (oil, and privatization of public enterprises in strategic sectors) does not encourage foreign investors to come in these countries. Indeed, some North African countries are becoming net exporters of capital, due to the payment of the debt contracted (for ex. Algeria).

Apparently, the often identified issues such as lack of transparency and public accountability, the limited size of national markets, the low rate of return from foreign investments in the region –the lowest in the world, and inadequate physical infrastructures coupled with an increasing drain of skilled labor has contributed to discourage foreign investors. The basis for FDI of certain importance, i.e. the size of national or regional markets, is a difficult objective to achieve within the ENP.

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[13] Total ODA/OA net: Total donors. Total donors is the sum of the three following donor types:
- DAC bilateral donors: the Development Assistance Committee (DAC) is the committee of the OECD which deals with development cooperation matters. It consists of 23 member countries;
- Multilateral donors (i.e. AfDB, IBRD, IMF, UNDP);
- Other donors: the non-DAC bilateral donors (i.e. Hungary, Lithuania, Turkey).

4. LABOR FLOWS AND CAPITAL-RICH UNDERDEVELOPMENT

After goods and investments, migration represents the third important flow in the region. Even though this is an issues increasingly treated as a problem of security, the importance for a renewed meso-regional cooperation should not be underestimated.

The MPs represent a traditional area of major emigration, especially of semi-skilled and unskilled migrant workers (Fargues, 2005, p. 19). The demographic structure and the weaknesses of the economic reforms in the MPs, migration flows are only expected to grow. The proportion of the population under fifteen will shrink in the next 10-15 years; consequently the proportion of the population of working age will grow more quickly than the total population. This entails migration and a dramatic need for job creation. Over the next ten years, optimist estimates calculated that the MPs will need to create about 35 millions jobs just to maintain the present hardly tolerable ratio of unemployment and under-employment (Femise, 2005, p. 2).

Migration from the Mediterranean is mainly composed of semi-skilled or unskilled workers finding occupation in construction, industry, agriculture and the service sector, namely the occupations that no longer attract the European labor force (Fargues, 2005, p. 19), and are still among the more vulnerable groups to unemployment (Garson, 2005).

However, new professional profiles with higher levels of education are migrating as result of lack of job opportunities in the home country. They find occupation mainly in countries with a more flexible labor market and migration policy (UK, USA and Canada and less in Spain and Italy). According to Baldwin, the proportion of this phenomenon is increasing at such pace over the last two decades, that the emigration of highly skilled professionals from North Africa has become of great concern and enterprises are starved of skilled and motivated staff (Baldwin-Edwards, 2005).

However, migration represents a blessing form many countries. According to the study by Page and Adams on a panel of 74 countries, a 10% increase of the migrant population would lead to a decline of 1.9% of people living under the international poverty line. Similarly, the study found that a 10% increase in the share of remittances in a country GDP will contribute to a decline of 1.6% of the population living under the international poverty line of $1 per day (Page and Adams, 2003, pp. 20-22).

In the region workers' remittances are two to three times higher than FDIs flows and peaking at $15 billions they were about four times larger than total overseas development aid in 2004. While the role of remittances for long term human capital development (through households' investments in education and health) and short term poverty alleviation is undisputed, as well as their equilibrating effects for the balance of payment, their multiplier effect for the local economies are limited (Gallina, 2006; Glytsos, 1993). In the MPs there is a situation of capital-rich underdevelopment, i.e. an enormous amount of savings that cannot be used because the infrastructural and structural deficiencies in the region.

The true challenge however, is to maintain the remittances flow while creating conditions for a sustainable and balanced improvement of the country's socio-economic conditions. And to ensure long-term economic stability, governments must do more than guarantee that remittances will be used for development purposes, and actually develop investment opportunities for the said remittances. In this area, European Mediterranean countries receiving the largest inflow of migrants from specific countries have all the opportunity to develop co-development projects. As today, there is no single project sponsored by the EU supporting local development through an active engagement of the diasporas.

5. CONCLUSIONS

The last ten years optimism on the future of the Southern and Eastern Mediterranean countries have gradually faded and replaced by a dark pragmatism. The Barcelona Process has come to a blind alley and with that the hope of re-assembly the Mediterranean mosaic as the region that Fernand Braudel has taught to appreciate, love and study to generations of historians, economists, geographers and political scientists.

The region becomes again a mosaic in which competition prevails on cooperation, nationalism on regionalism, bilateralism on multilateralism and euro-centrism on poly-centrism.

The fact the EU development aid becomes conditional reflects an imperialistic attitude towards the neighbors. To get a stake in the internal market countries must show their ability to learn, apply and understand the "common values" defined by the EU. The ring of friends is therefore a set of rings in which good friends will be treated better than bad friends. The EU new backyard will not have the illusion to get in the EU club. The ENP is not an enlargement policy, but is a post enlargement strategy ("all but institutions") (Holm, 2005). The polycentric approach that appeared with the Mediterranean Partnership faded away with the concentric approach of the ENP.

The Southern Mediterranean Basin countries economies are largely characterized by micro and family enterprises, a large informal sector and are strongly dependent from either agriculture or gas and oil, which capacity to create new jobs is very limited. Therefore, a shock on external prices (energy and raw material) or an internal shocks produced by bad harvests can have dramatic effects on the local labor markets.

Asymmetric trade liberalization and the competitive pressure that followed on the fragile production system of the Mediterranean partner countries, coupled with a limited and erratic flow of European foreign direct investments have exacerbated the gap between the EU and Mediterranean Partners.

Migration becomes the most important low, more than trade, tourism and foreign investments, in generating revenues. However, the developmental impact of remittances and of the measures that can be implemented to facilitate the successful utilization of money from abroad depends upon both the initial conditions under which people go abroad, the conditions in which the receivers of remittances live, the source country institutional framework, and the socio-economic conditions of the migrants living abroad. To fill-in the (missing) link between remittances and local development, increasing attention must be given to these aspects in the analysis.

Bilateral development assistance may see co-development policy frameworks using migrant workers remittances as a panacea to reduce their own commitments. However, while individual transfers are frequent but very limited in size (200-300 euros/month), and hence their mobilization for large projects seems unrealistic, a mobilization of the Diasporas can stimulate larger flows, collective in nature, and more accessible to be invested in development projects. The extent, effects and impact of these collective processes is undergoing evaluation in Latin America but not much information is available for other regions.

The Mediterranean countries are today before a new bifurcation. To work to get a stake in the EU Single Market and continue on the roads to reforms, or chose a Mediterranean economic model which is based on the integration of southern markets, trade and investments exchanges with emerging countries such as Brazil, China and South Africa, and strengthen the existing links of solidarity existing with the diasporas abroad.

The structure and institutions of the Mediterranean economies cannot bear another wave of structural adjustment. Each year the labor market of the Mediterranean Partner countries needs to provide jobs to 4-5 millions new jobs. The industrial sector has a very limited innovative capacity and is highly dependent on the purchasing power of the population. Another cut in public employment would lead to the dismissal of hundreds of thousands workers. In the textile sector only, liberalization of trade has inflated the informal sector which is already at the survival threshold. Again, the question is who will get the benefit from a "stake in the single market"?

The European Mediterranean countries can re-define the cooperation in the region along new directions, as for example the 5+5 initiative launched by the French government. Yet, until the logic of security will prevail over that of solidarity there will be little scope to re-assembly the mosaic in a real meso-region.

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