EU-MENA Partnership Agreements; Competition for FDI and Sustainable Growth

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Abstract

Many developing countries see regional integration with developed countries (North-South integration) as a short-path to economic development through foreign direct investment (FDI). Both theoretical and empirical researches support that North-South integration brings FDI to the southern country. In this paper, we investigate the case of the European Union (EU) and the Middle East and North Africa (MENA) association agreement and study the FDI strategy in the region. We conclude that with the accession (and expected accession) of other FDI- rival countries into the EU, lobbying heavily on FDI as a development strategy is a risky policy. We suggest that achieving a sustainable growth necessitates however, a domestic investment strategy improvement. Partnership agreements with the EU can be used as a tool to speed up reforms in MENA and remove South-South integration hindrances

***Key words**: EU Enlargement; MENA, FDI competition; Domestic Investment*

1-Introduction

The European Union (EU) has worked firmly to deepen and intensify its commercial relationship with its neighboring developing countries. In 1991, the EU has subscribed its first European agreement with Hungary and Poland; in 1995 a custom union with Turkey was ratified and similar agreements with Morocco and Tunisia gave birth to Euro-Mediterranean Agreement. Those agreements represented the basis of a wider integration process that involved a wider partnership with both Eastern Europe and Mediterranean countries. Among these countries, it is widely believed that foreign direct investment (FDI) offers one assured path to economic development. It is also believed that establishing a free trade area (FTA) agreement with a developed region (EU) guarantees FDI inflows in the developing country.

Literally, regional integration may take several forms: north-north integration when it occurs between developed countries, south-south integration, when two or many developing countries are involved or north –south integration which is a new wave of regional integration when one or many developing countries try to make a free trade agreement with a developed country or a region. The third form happen generally when both developing and developed countries are neighboring countries. In relation with that; there has been a growing acknowledgement of the role that FDI can play in stimulating economic growth and development in the process of integration. Moreover, theoretical and empirical findings have been supporting that north south integration benefits more the small country by bringing foreign capital, technology transfer and income increase in the small country.

Small countries join FTA because of the expected various economic benefit from it. Venables (1999) examined how benefits and costs of FTA are divided among member countries. He argued that developing countries may be better served by north-south than by south-south free trade agreements, because north-south agreement increases their prospects for convergence with high income members of the FTA. Moreover, the traditional theory of international integration (Robson; 1987) identifies a number of effects that result from geographically discriminatory trading arrangements. Those effects are both static and dynamic ones. Static effects can be summarized on trade creation and trade diversion effects Viner (1950). Dynamic effects are related to the opportunities given by the integration such as better exploitation of economies of scale and the productive efficiency gains resulting from the intensification of competition. These effects create a stimulus to investment through enhancing the locational advantages of production inside the integrating region. Kindleberger (1966) has argued that ***investment creation*** is due to the trade diversion effect caused by the regional integration and ***investment diversion*** as a response of trade creation between the member countries. Baldwin et al. (1995) suggest that the creation of the single market program may have led to investment diversion in the European nations that did not participate in EU (: European Free Trade Association countries EFTA.), and investment creation in the EU nations in particular the two small countries: Spain and Portugal. Between 1980 and 1989 accumulated OECD FDI inflows were more than four times as large as during the 70s. The new EU members attracted a huge share of this investment: Spain accounts for 5.6% of total OECD inflows in the 80s and even 8.6% between 1990 and 1992 compared only to 3.7% in the 1970s. (OECD, data).Breton (1996) found also that the EU single market program led to a significant increase in investment by EU firms in other EU countries in the late 1980s.

Empirical studies on effects of regional integration on capital within the integrating region are many .Dunning (1992) has noted that the creation of the single market in EU was an incentive for American FDI within the countries forming the European Community and noted also that there was a diversion of the flows of the American investment from the non EC countries of Western Europe, particularly the United Kingdom to the member states of the European community. Yannopoulos (1990) has made the same conclusion showing that in 1964, the value of US direct investment in the six members states of the community has more than trebled in comparison to the year of the establishment of the community in 1957. The European single market was also an incentive for Japanese direct investment to be implemented more in Europe. V.N. Balabrasubramanyam and David Greenway (1992) have showed that Japanese FDI has increased as a consequence of the 1992 program.

The aim of this research is to study the FDI strategy in the Middle East and North Africa (MENA)[1] countries that have signed a partnership agreement with the EU. Despite the reform efforts undertaken in the last decade in many countries, the region is still experiencing a stage of economic stagnation and marginalization in the global economy; in FDI inflows in particular. Beside that, new challenges are awaiting MENA countries due to the recent and future EU enlargement policy to the other countries in terms of FDI policy, and FDI development strategy. We are interesting in whether or not FDI policy can still be considered as a development strategy to these countries. Should they await more FDI when the new EU is enlarging to other developing countries [2] mainly the eastern enlargement?

After successfully growing from 6 to 25 members, the European Union is now preparing for the next enlargement. As regards, the 3 remaining candidate countries, Bulgaria and Romania hope to join by 2007, whereas MENA countries see this target too far or absolutely unachievable. *How should the MENA- countries react toward the enlargement in terms of FDI policy?* We try to answer this most currently debated question*;* therefore the next section explains the economic relationship between the EU and the MENA countries. The third section deals with the EU enlargement and FDI competition; the fourth section studies tow policy implications. Section five concludes

[1] The focus in this paper is mainly on the eight Arab countries: Morocco, Algeria, Tunisia, Egypt, Jordan, Syria, Lebanon, and West Bank and Gaza; the other MENA countries have special cases given that Israel is a high-income country ; Cyprus and Malta have acceded to the EU in May 2004, and Turkey will start accession negotiation on October 2005

[2] The number of EU member states increased by ten on 1 May 2004. The new members are Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia, bringing the total number of EU members to 25. Accession negotiations with Bulgaria and Romania are continuing. Turkey is a candidate country with which accession negotiations will start on October 2005

2- EU-MENA Economic Relationship

2.1 Overview of MENA countries

The MENA region is composed of small economies. With an overall population of around 170 millions. Its size varies considerably between Mediterranean countries. The overall population totals around 170 million. It represents 45% of the EU population. Egypt's population amounts to around 65 million, which is more than twice that of the second most populous country, Algeria. The latter, together with Morocco and Syria, belongs to the middle-sized countries. The third group consists of Tunisia, Jordan, Lebanon and West Bank and Gaza, where the populations are below 10 million. The populations of MENA have grown very rapidly, 2.2% on average per year in the 1990. In the 90s, population growth rates in some countries started to decline. The strongest deceleration in annual population growth rates since 1995 was recorded in the three Maghreb countries (Morocco; Algeria; Tunisia) and Jordan (between 0.4 and 0.8 percentage points). All other countries have managed at least to broadly stabilize their growth rates (World Bank report, 2000)

The aggregate GDP of the Mediterranean countries amounted to EUR 730 billion in 2001 (World Bank, 2001). Table 1 shows the real GDP growth in MENA countries during the period of the nineties until 2002. Mediterranean countries growth performance was characterized by an average growth rate of 4.1% per year in the last decade (EU: 2.0% on average per year). This needs to be considered against the background of relatively high population and labor force growth rates (2.2% and 3.0% on average per year, respectively). The regional GDP growth rate reached a low in 1993 with a rate of 2.3%, when recessions hit Algeria (macroeconomic imbalances, low oil prices, external payment crisis) and Morocco (droughts, gulf war) and low growth occurred in Tunisia and Egypt. Macroeconomic stabilization efforts, some progress in structural reforms and more favorable commodity prices lifted the average growth rate above 5% in the period 1994-96 before falling back towards the 3% level at the end of the decade. Individual country performances varied significantly during the 1990's, ranging from 1.2% per year in Algeria to 5.6% in Lebanon and Syria. Furthermore, substantial volatility in growth rates could be due to dependency on oil and agricultural production.

In 2001 economic growth in the MENA region slowed markedly (table 1), mainly as consequence of low global growth, increased regional security problems and domestic policy factors in some countries. Overall real GDP growth in the MENA declined from 4.3% in 2000 to 1.8% in 2001. This downturn stemmed predominantly from the sharp GDP fall in Israel, mainly caused by the deterioration of the security situation (which also severely affected West Bank and Gaza) and the global crisis in the high-tech sector. Egypt's GDP grew more slowly on the back of weaker domestic and international demand and lower investment. These declines in two of the three largest economies in the region were not fully offset, neither by higher growth in Morocco (driven by private consumption and an exceptional expansion of agricultural output), nor by the mild upswing in Lebanon.

Since 2001, the average regional growth rate in the region was lower. The region has suffered from a number of external shocks. In addition to sluggish international demand for their exports (oil revenues mainly), the events of September 11th 2001 weighed heavily on growth in several MENA countries. In particular, its impact on tourism and economic activity has been felt in Morocco, Tunisia and Egypt, where growth rates decreased noticeably furthermore, violence in the Middle East continues to have a negative impact on some other countries particularly Gaza & West Bank, Jordan & Lebanon .

Table 1: Real GDP Growth in MENA countries (in millions Euro or USD)

	Algeria	Egypt	Israel	Jordan	Lebanon	Morocco	Syria	Tunisia	WB&G
1995	3.8	-	8.7	6.4	6.5	-6.6	5.8	2.4	-1.5
1996	3.8	5.1	4.5	2.1	4.0	12.2	4.4	7.1	-0.1
1997	1.1	5.5	3.3	3.1	4.0	-2.2	1.8	5.4	5.7
1998	5.1	6.0	2.7	2.9	3.0	6.8	7.6	4.8	7.9
1999	3.2	5.7	2.6	3.1	1.0	-0.7	-2.0	6.1	7.2
2000	2.4	4.2	7.2	4.0	-0.5	2.4	2.5	4.7	-6.4
2001	2.1	2.6	-0.9	4.2	2.0	6.5	3.5	5.0	-15.7
2002	3.1	2.8	-1.0	4.5	1.5	4.5	3.0	1.9	-15.7

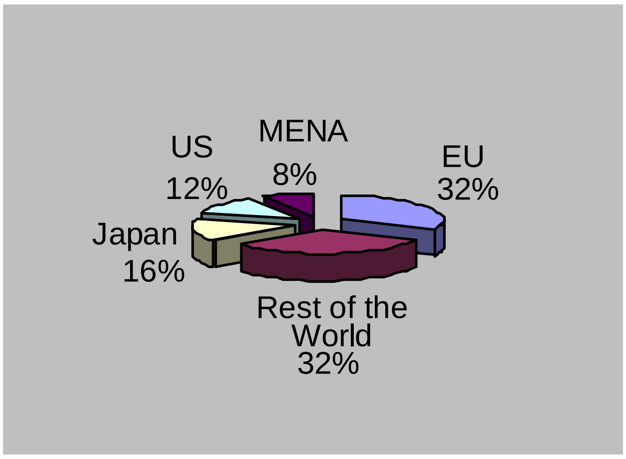
Source: IFS. DRI-WEFA National Authorities

2-2Trade features of MENA

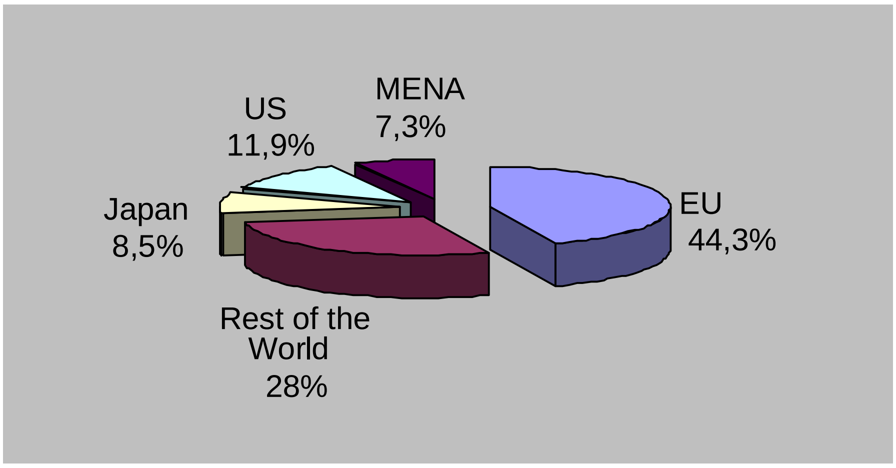
The MENA region trades mainly with industrial economies (figure 1). The countries of the EU are the most important trading partners, accounting recently for 30 percent of exports and 40 percent of imports of MENA countries. The United States accounts for about 12 percent of both the region's exports and imports, and Japan for 16 percent of exports and 8 percent of imports.

Figure 1 Direction of Trade in MENA in percent (1989-1994) average

Destination of export



Sources of imports



Source: IMF. Direction of Trade

MENA conducted nearly half of their total trade (import and export) with the EU. Of the countries in the group it is the three Maghreb countries (Algeria; Morocco; Tunisia) which trade most with the EU. Table 2 shows trade figures (Imports and exports) of MENA with the EU in 2001 with Algeria reaching more than half of its external trade with the EU (62.7 per cent); Morocco 61.2 per cent and Tunisia 74.4 per cent of their total trade respectively. Jordan and the Palestinian Authority are the two SMC which trade least with the EU in 2001; in case of the Palestinian Authority, only 0.4 per cent of its total exports went to the EU and 11.1 per cent as for its imports from the EU. In the case of Jordan, the figures were 3.7 per cent for exports and 31.5 per cent for imports. In the same year, Egypt and Israel conducted respectively about 30 per cent and 34.6 per cent of their total trade with the EU. Lastly, the EU accounted for 39.6 per cent of Lebanese trade and about half of the total trade of each of the other Mediterranean countries (Turkey, Syria, Cyprus, and Malta).

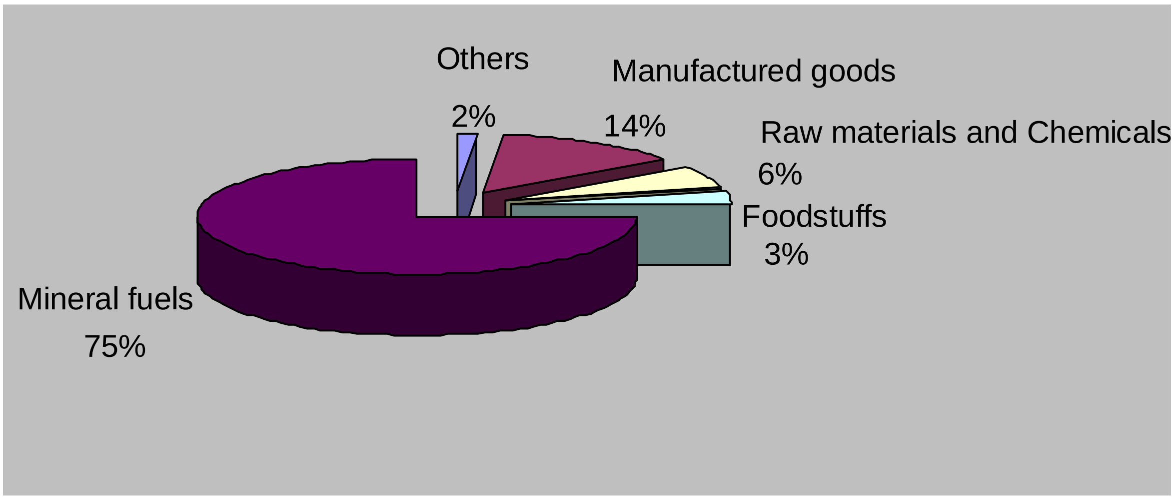
Table 2: EU share of MENA external trade in 2001(in percentage)

	Import	Export	Total
Algeria	59.4	64.5	62.7
Morocco	54.0	72.4	61.2
Tunisia	70.7	79.8	74.4
Malta	63.7	51.0	58.4
Cyprus	56.8	50.9	56.1
Syria	33.1	64.3	49.5
Turkey	44.1	51.4	47.2
Lebanon	42.1	19.3	39.6
Israel	41.8	26.3	34.6
Egypt	29.5	31.4	30.0
Jordan	31.5	3.7	23.7
Pal. Authority	11.1	0.4	9.6
Total MPC	45.1	48.7	46.6

Source: Eurostat 2003; News Release Statistics

The region's oil trade heavily influences these indicators. Oil and oil-related products account for about three quarters of the region's exports and about 40 percent of world exports of these products (figure 3)

Figure 3: Composition of MENA trade in percentage: 89-94 average



Source: UN; trade analysis and reporting system

Although on an increasing trend, trade between Mediterranean countries is rather marginal. Figure 1 showed also that this trade is the lowest one (8 percent in case of imports and 7.3 percent in case of export) of MENA s total trade. Oil accounts for a large share of intra-Mediterranean trade (figure 3). The low levels of intra-regional trade appear to reflect relatively weak export structures supporting intra-regional demand, together with inadequate regional transport infrastructure, high transport costs and the higher priority given to the "north-south" trade axis.

EU countries trade importance with MENA region is influenced by historical linkage to the region. Where countries such France, Germany; Italy; UK; Spain are the main trading partner for the Mediterranean countries, other countries like Denmark; Sweden Trade more with the region (Table 3)

Table 3: EU Trade with MENA by member state (EUR bn)

	Import from MED			Export to MED			Balance		
	1995	**2001**	**2002**	**1995**	**2001**	**2002**	**1995**	**2001**	**2002**
France	7.2	13.3	12.5	10.9	17.1	17.5	3.7	3.7	5.0
Germany	7.8	12.7	12.1	11.2	14.9	15.9	3.4	2.1	3.8
Italy	4.9	14.0	12.6	9.4	13.9	13.7	4.5	-0.1	1.0
UK	3.1	6.9	8.0	4.7	7.3	7.6	1.6	0.3	-0.4
Spain	2.3	7.3	7.0	3.1	5.5	6.0	0.8	-1.7	-1.0
Belgium *	2.4	4.8	5.4	4.3	6.5	6.9	2.0	1.8	1.5
Netherlands	2.3	4.5	4.6	2.6	4.2	4.7	0.3	-0.3	0.1
Greece	0.7	1.1	1.3	0.9	1.7	1.4	0.2	0.5	0.2
Austria	0.4	1.0	1.0	0.6	1.1	1.2	0.2	0.0	0.3
Sweden	0.2	0.6	0.5	1.0	1.6	1.5	0.8	1.0	1.0
Finland	0.1	0.2	0.2	0.6	0.9	1.1	0.5	0.7	0.8
Denmark	0.2	0.4	0.5	0.6	0.8	0.9	0.4	0.3	0.4
Ireland	0.1	0.4	0.3	0.5	1.1	0.9	0.4	0.6	0.6
Portugal	0.4	0.7	0.7	0.3	0.5	0.4	-0.1	-0.3	-0.3
Luxembourg	:	0.0	0.1	:	0.1	0.1	:	0.0	0.0
Total	32.1	68.1	66.8	50.6	77.0	79.9	18.5	8.9	13.1

: Not available
* 1995 Belgium data includes Luxemburg
Source: Eurostat, 2003

2.3 The Barcelona Process and FDI in MENA

The partnership with the EU, initially proposed to the three Maghreb countries, was extended in 1995 to the twelve countries of the South and East of the Mediterranean Basin. For the EU, the Euro-Mediterranean Partnership implied the upgrading of its relations with Mediterranean countries from the narrow cooperation agreements to the much more complex partnership agreements, which until then were applied only to Cyprus, Malta, and Turkey. A political partnership and a social partnership were added to the traditional economic issues; the economic partnership covered many new issues (such as cross-border supply of services and policy harmonization) not covered by the previous cooperation agreements. However, given that cooperation agreements already granted Mediterranean countries nearly duty-free access to EU markets for industrial goods, there is little room for further trade concessions. The key commitment concerns the establishment of a free trade area in industrial goods over a 12-year period (liberalization will mostly occur on the partner country). On agricultural and fishery trade the agreements call for a gradual and reciprocal liberalization while offering very limited improvements to access the EU markets.

With reference to economic partnership, the goal is to create an area of shared prosperity through the progressive establishment of a Euro-MENA Free Trade Area, coupled with financial support from the EU to accompany and support under the agreements, the MENA partners gradually remove all tariffs on imports of industrial products from the EU over a period of 12 years. The agreements also provide reciprocal liberalization of imports of raw and processed agricultural products and fishery products, where mutual concessions are given in the form of reduced tariffs that apply on all trade or only on defined quantities (tariff quotas).

The Barcelona declaration [3] sets 2010 as the target date to complete the Euro Mediterranean free trade area. Although, the project remains on track, full trade liberalization may occur later than 2010 given the length of the transition period, the time

[3] for more details about Barcelona process:
http://europa.eu.int/comm/external_relations/euromed/index.htm

for ratification and the need to progress with the south-south integration foreseen in the bilateral agreements.

The Euro-MENA association agreements also contain a number of provisions concerning among others, trade in services, capital movements, intellectual property rights and competition policy which complement trade liberalization. They aim to achieve a higher degree of integration between the EU and the MENA partners and foster greater trade openness between the MENA partners .This project is in the line of the extensive regionalization of trade and capital flows that was experienced in recent years. In this framework, MENA countries belong to a Euro-Mediterranean region, together with the European Union and with Central and Eastern European Countries (CEECs). However the competition between the MENA countries in one hand and the MENA and CEECs in the other hand is likely to be tough. This situation is a source of concern on both shores of the Mediterranean Sea

Despite the clear progress in attracting FDI during the 90s, FDI flows remained at a rather low level in the MENA region[4]. Table 4 shows the distribution of FDI in the developing world during the 90s. Given that FDI inflows to developing countries has been decreased (from 31.4 per cent within 90-95 to 25.4 percent in 96-99), more than 70% of world FDI is in the developed world. The table shows also that MENA region has been receiving the lowest portion of world FDI among the developing countries. Moreover; inward FDI in MENA has been decreasing (1.3 per cent in 1990-1995 to 0.7 per cent in 1996-1999) whereas FDI has been increasing in regions like CEECs.

[4] see for instance the official statement of the Fourth Euro-Mediterranean Conference held in Marseille, in November 2000, where the low level of FDI flows to the region was highlighted

Table 4: FDI Distribution in Percent of World FDI.

Developing countries	Average 1990-1995	Average 1996-1999
	31.4%	25.4%
MENA	1.3%	0.7%
CEEC	2.5%	2.6%
Latin American & the Caribbean	9.2%	10.3%
South & East Asia	10.1%	7.6%

Source: UN World Investment Report (1995-2001)

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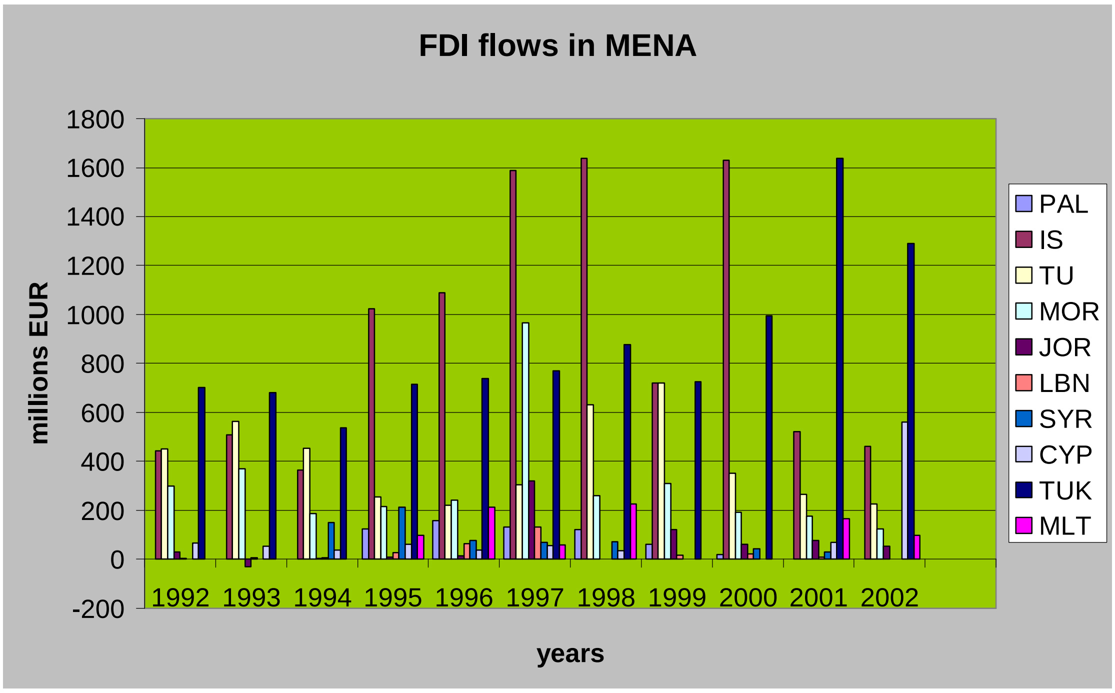
Within these overall trends, the performance of MENA countries varied considerably. The spectacular rise of the CEE region as a host to FDI in the 1990s has been perceived within the MENA region as a threat to its own process in attracting FDI. Figure 4 depicts FDI inflows in MENA during the period 1992-2002.Generally it is possible to distinguish at least three different groups of recipient countries which are competing in the main geographical region. The core group encompasses Turkey and Israel. These countries represent the most important competitors in the area, accounting for a share of FDI ranging from 363 millions euros in 1994 to 1639 millions euros in 2001. These countries are in advanced stage of integration .However, it is worth notice that till year 2000; Israel's share steadily grows faster than turkey s share, bringing Israel on top of the list of the main recipient countries (in value terms) within the region in year 2000 (1630 millions euros comparatively to 725 millions euros for Turkey). Between 2000 and 2002, Israel has lost the leading position in favor of Turkey, the country which is preparing for accessions negotiations with the EU. The political situation in the Middle East had also a negative impact in FDI attraction to Israel and in the region in general. In the second group or the middle recipient group are countries like Tunisia and Morocco, which implemented a successful open policy late in 1997. In 1997, FDI in Morocco accounted for 966 millions euros making the country the second FDI recipient in the region after Israel. Among small recipient countries, Jordan and Lebanon emerge as very dynamic after 1996, while preparing for the Association Agreement with the EU. FDI initiatives into the other economies of the region remain unstable and low due to the security issue in the Middle East. Moreover; the event of 11 September affected negatively FDI attractiveness in all MENA countries.

Figure 4: FDI flows in MENA in millions EUR



Source: Eurostat 2003

3- EU Enlargement and FDI Competition

The main aims of joining the EU for accession countries since the first wave of enlargement (Iberian enlargement, Greece, Ireland) are: Increase economic integration with Western Europe (The richer Europe); Provide a catalyst to sustainable economic growth and raise relative living standards closer to the EU average.

In the 1990s the EU concluded Europe Agreements with the following countries in Central and Eastern Europe: Hungary and Poland in December 1991, Romania, Bulgaria, the Czech Republic and Slovakia in February 1995, Estonia, Latvia and Lithuania in February 1998 and Slovenia in February 1999. On 1 May 2004; the number of EU member states increased by ten. The new wave of enlargement include Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia, bringing the total number of EU members to 25. Accession negotiations with Turkey will start on October 2005.[5] Many benefits arise from free trade within the single market. There is a big opportunity for the new members to exploit their comparative advantages in many industries and increase exports to richer countries as a source of further economic development. The EU enlargement will eventually create a single market of over 500 millions consumers. There is also a great potential for large inflows of FDI into accession countries[6] .

In the case for MENA, it is absolutely unachievable for these countries to join the EU unless the borders of Europe are well defined. Moreover, the article 49 on the treaty of the EU says that any democratic European country can apply for the membership. The Europeaness of the CEECs was never questioned. A future enlargement may include other eastern European countries (Perhaps, Ukraine or Russia in the future). Moreover, associations agreements with the MENA are a partnership agreements ones that do not lead to accession to the EU.

[5] The Copenhagen European Council reaffirmed the goal of the accession of Bulgaria (and Romania to the European Union in 2007 but only if further progress is made in fulfilling the accession criteria. It also adopted a roadmap for the negotiations and agreed on significant increases in pre-accession aid for the two countries.

[6] Previous EU enlargement has seen a boost to FDI flows in the accession countries

While the MENA-CEECs comparison is somewhat "unfair" given the greater level of industrialization and human capital that exists in Eastern Europe, the parallels between the two regions are close enough that a comparison is informative. Many countries in both regions start reforms in the late 1980s; the level of state intervention in both regions was high; and both are in proximity to the EU and they have very low labour costs – in some cases even lower than in the MENA countries (Ferguéne and Ben Hamida, 1999).
Furthermore, the MENA association agreements were implemented in a period when the EU is considering an enlargement of unprecedented proportions in its history. The historical, cultural, political and strategic reasons for the enlargement of the EU to include the countries of Eastern Europe are much less substantial in the case of the southern Mediterranean countries. However, the Eastern European countries have labour forces which are on average better skilled and culturally closer to the mentality of the European partners than their counterparts in MENA countries. Moreover, they benefit from the more favourable political-economic relationships deriving from their concrete prospects of joining the EU. In fact, the prospect of being one of the next countries to join the EU creates a climate of confidence and optimistic expectations which gives the Eastern European countries an important competitive advantage over those of the MENA. Moreover, the Union's enlargement to the East is already creating problems for the MENA countries, which are facing increased competition in their main outlet market – Europe – raised by those countries that have aggressively entered international markets only in recent years, and have massively reoriented their trade towards the EU. MENA exports to the EU are largely due to North Africa, which exports most of its manufactured goods to Europe. For the Middle Eastern countries the EU is much less important.
Given that Trade is a good indicator of economic integration , MENA countries have recorded two decades of trade stagnation with the EU (50 per cent in average of the total of MENA exports to the EU, has been stable during the 80 s and the 90 s, see table 5). Whereas, both the share of CEECs in total EU imports and the share of Mexico in total US imports doubled between 1994 and 2000 (World Bank data, 2002).

Table 5: Export to the EU in % of total MENA Exports

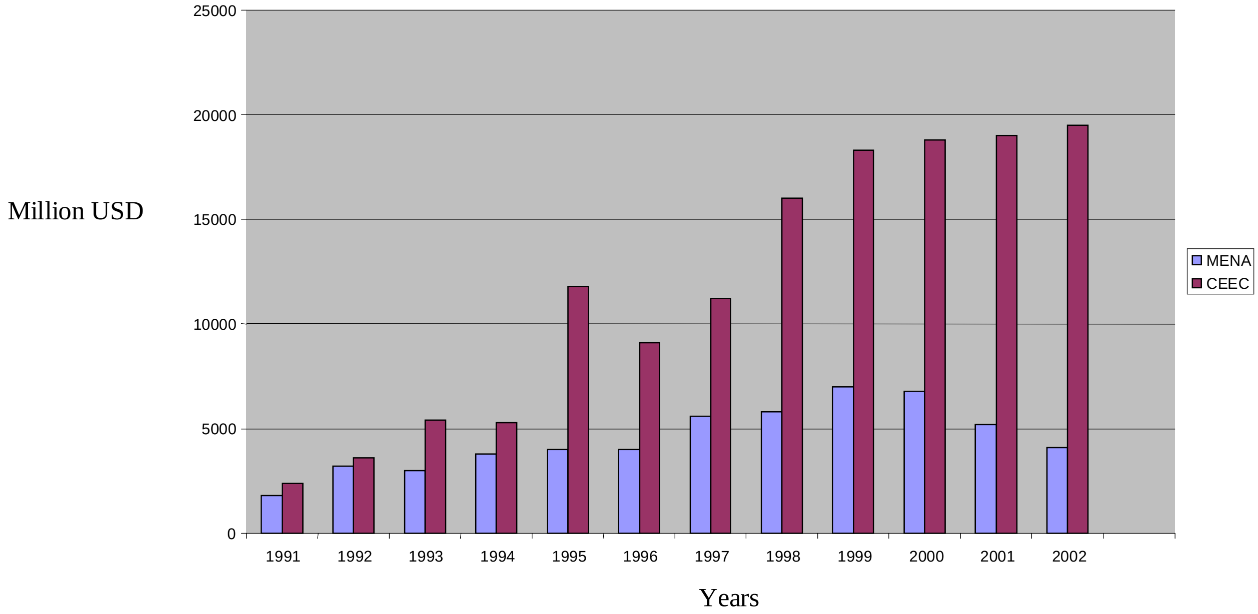
	MENA	Algeria	Egypt	Israel	Jordan	Lebanon	Morocco	Syria	Tunisia
1980	51.4	44.4	50.2	50.4	3.5	---	68.7	69.7	76.5
1990	57.1	69.9	43.4	39.9	6.0	39.8	73.1	46.7	85.9
2000	51.6	66.5	56.7	28.7	6.4	30.4	68.9	68.3	88.4
2001	52.9	64.9	55.1	29.0	10.8	38.8	76.1	69.5	89.2

---: not available
Source: Eurostat 2003

Central and eastern European countries CEECs are also a strong rival in attracting FDI inflows. The gaining importance of this increase in FDI is reinforcing the successful reintegration of these countries into the world economy and intensifying competition for FDI.

Figure 5 shows the distribution of FDI flows in both the CEECs and MENA regions within the period 1991 and 2002. The rapid growth in FDI initiatives into the CEECs region is immediately apparent, as is the relative stagnation in inflows into the MENA.

Figure 5: FDI inflows in MENA and CEECs



Source: UNCTAD-DTCI 2003; FDI data based on IMF; Balance of payment statistics

Between 1991 and 1992, both in MENA and CEECs, the values of FDI flows were almost close to each other and lower than 5000 million dollars. In 1995, as accession negotiation started with many CEECs countries and the vast privatization programs implemented, FDI flows doubled in CEECs and were above the 10000 million dollars and FDI flows in MENA ,despite the Barcelona Conference and the persistent loss of preferential access to European markets, were still less than 5000 million dollars. In the late of the 90s, annual FDI flows in the MENA region benefited from the rise in FDI flows but to a much lesser extent than CEECs. FDI flows amounted for the first time more than 5000 millions dollars in MENA; however; it grew rapidly in CEECs region and reached nearly 20000 millions dollars that is quadrupled. Between 2000 and 2002, FDI flows dropped again in MENA to a level less than 5000 millions dollars. In the CEECs, FDI flows stayed almost stable above 15000 millions dollars.

In general and in term of location for FDI, the MENA region was in a much weaker competitive position. CEECs region appear to be clearly a direct FDI rival to MENA.

The causes of FDI are complex and cannot simply be characterised as a gradual shift towards more labour abundant locations. To understand more clearly the effect that the opening of CEE has had on FDI in MENA requires a discussion of the motives for investing and the strategies of investing firms.

In an OECD study (C, Oman, 2000), it has been shown that among the developing countries around the European region, there is evidence of competition for FDI among some MENA countries and some CEEC. It was demonstrated also that rule based competition especially EU membership that determine FDI competition rather than the use of fiscal and financial incentives. This competition is a source of concern for MENA countries, which are not popular locations for FDI. The presence of highly competing countries within the Euro-Mediterranean region should be taken in account. This rise up a question of extremely importance: given the EU enlargement to the east; to what extent MENA countries that have signed a ***partnership*** agreements ***not accession*** agreements with EU; compete for the same foreign direct investment to achieve a sustainable growth?

4- Policy implications

Deriving some insights, in the process of the future enlargement of the EU to other European non members; and given that MENA accession to the EU seemed to be almost impossible for the time being, relying on partnership agreements with the EU to attract FDI in MENA countries is a risky strategy. Tow types of policy implications are suggested.

4-1 At country level

The major role to be undertaken by policy makers in MENA is to enhance national competitiveness and domestic investment which is a secure vehicle of sustainable growth. Nonetheless, Partnership agreements can be used as an "escalator" to stimulate domestic investment. Policies that help increase the rate of domestic investment are also needed. Such increases can be achieved through higher levels of public investment and by policies that induce higher levels of private investment.

Enhancing competitiveness does not mean low labor cost. Low wage may provide an excellent launching pad for export of simple products by MENA. However, MENA can not achieve a sustainable growth if it continues to rely on low unskilled labor. Cheap unskilled labor still remains a source of competitive advantage, but its importance is diminishing. Moreover, it is not a base for sustainable growth, since rising incomes erode the edge it provides. Competitiveness means instead upgrading the simple labor-intensive activities to make higher- quality products that yield greater value added and offer broader base for production and building capabilities. (As an example: moving from a simple assembly to adaptation and improvement, new product design, innovation and basic research) .Enhancing national competitiveness through domestic investment shall provide a powerful impetus for change in the longer run.

Furthermore, the combination of EU enlargement and possible future enlargement and the fierce competition in world labour-intensive manufacturing by countries such as China and India, threatens to erode the competitive position of MENA in the few markets were they still effectively participate. These countries will need to harness new sources of comparative advantage, and their geographic and cultural proximity to the European markets. Therefore, the horizontal integration seemed to be urgently needed

4-2 At regional level

Despite numerous attempts to promote regional integration, intra-MENA trade remains a small portion of total MENA trade. Intra regional exports comprise some 8 per cent of total exports. This share also has remained relatively constant (figure 1). Trade policy has often been cited as the main policy induced barriers to intra MENA trade. Moreover; while some countries in the region pursue market-oriented policies and have established a strong record of economic adjustment and reforms (e.g. Morocco; Tunisia), other countries maintain a higher degree of government involvement (Syria; Algeria). These contrasting strategies tend to discourage intra-MENA trade. Undoubtedly, political factors[7] including also the Middle East issue have impacted the bilateral trade in the region. In any case; the removal of barriers of every kind to intra regional trade is urgently needed and is crucial for every country in the region to fully develop their comparatives advantages.

The south-south project of a large Free trade Area between MENA may give some impetus to enhance competitiveness in the region and gives the region also a strong negotiation power toward the EU.

[7]For example, political differences between Morocco and Algeria reduces trade between these neighbouring countries

5-Conclusion

The failure of the Barcelona Partnership to register significant advances and the current EU enlargement policy in detriment of MENA are calling us to ask what policy mechanism might be introduced to achieve economic development in MENA after 10 years since the signature of the Barcelona agreements in 1995.

The Barcelona declaration and the subsequent association agreements do not provide specific measures to foster European investment in the region. Furthermore, the economic analysis of the prospects for FDI leads to worrying results: inward FDI in MENA that have been unsatisfactory since 1990; could be reduced; not increased as a consequence of the enlargement.

If the MENA is to become more competitive and achieve a sustainable growth; each country has to not rely on FDI strategies and mobilize all its efforts to enhance the domestic investment; the secure way to achieve a sustainable growth. MENA countries in the other hand have to work together and promote the partnership with the EU in order to foster their south-south integration.

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