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HOW WIDE IS TH MEDITERRANEA

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Highlights

- This Policy Contribution provides up-to-date evidence of the strong heterogeneity in th relationships between the five biggest EU economies with the Southern Mediterranea Countries (SMCs).
- Algeria, Morocco and Tunisia are still strongly tied to France, Italy and Spain, in terms investments, financial flows and migration. This pattern is in line with the pattern of siza ble French and Spanish official bilateral development assistance for Algeria, Morocco, a Tunisia. However, the economic connection of Germany, the UK and the US to the western SMCs is negligible. German and US bilateral development assistance is focused in Eg while the four other SMCs appear not to be priorities for non-Mediterranean EU countri
- These differences cannot be explained by geographical distance alone. The unbalanc economic relationship of the SMCs with a small number of European countries risks exp sing the SMCs to shocks in partner countries. Stronger economic ties also results in a hig degree of mutual political attention, as exemplified by bilateral development assistance that flows more strongly between countries with strong economic links. EU external polic is still largely driven by member states• interests. Hence building economic ties betwee the SMCs and non-traditional EU partners could both improve the SMCs• external eco mic relationships, and make the SMCs• political relationship with the EU more resilient.

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HOW WIDE IS THE MEDITERRANEAN?

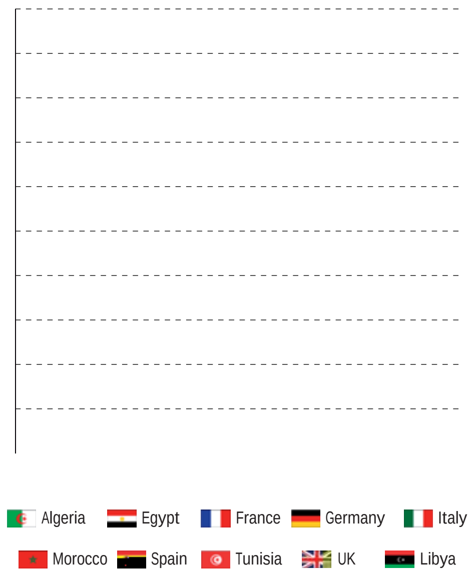
GEORG ZACHMANN, MIMI TAM AND LUCIA GRANELLI, MAY 2012

EUROPE AND THE SOUTHERN MEDITERRANEAN COUNTRIES (SMCs: Egypt, Libya, Algeria, Tunisia, and Morocco) share a long history of economic and political relations. Up until the early middle ages, the Mediterranean served to ease the exchange of information, people, and goods between Europe and distant countries. This resulted in strong political and economic ties between Europe and the SMCs (Braudel, 1977). However, in modern times the Mediterranean seems to have turned into a natural barrier between the divergent economic and political developments on the northern and southern shores. And initiatives for strengthening the linkages (such as the Union for the Mediterranean) have delivered little. One bold proposal for overcoming the Mediterranean barrier has been the development of a Euro-Mediterranean Economic Area by 2030 as called by the Bruegel Policy Contribution Eastern-European Lessons for the Southern Mediterranean. The proposal outlined how domestic reforms in the southern Mediterranean could be encouraged by (1) providing much needed short term assista (2) a mid-term quid-pro-quo framework that successful reforms in the SMCs to a step opening of the European labour and pro market and that (3) anchoring the reforms shared long-term goal (a joint economic are 2030). Moving towards such a vision requi better understanding of the economic linka between Europe and the SMCs.

Due to its size (500 million inhabitants) a economic power (GDP 12 trillion), Europe natural gravitational centre for the countries o southern shore. Several studies analyse economic relationship of the EU or indiv countries to the SMCs. However, neither E nor the SMCs are homogenous blocs. Bas geographical proximity, common history and language some European Mediterranean countries are significantly more bonded to the SMCs than others. In this Policy Contribution, we quantify the degree of integration between key European countries and the five SMCs (in terms of trade, investment flows, financial flows, migration, and aid). The aim is to identify key-patterns of interaction. For this purpose we conduct a comparative analysis by putting the economic relationship between the SMCs and European countries in the context of their economic size and their geographical distance. This allows us to identify which countries have disproportionally strong economic ties.

1 MEASURING THE MEDITERRANEAN

We examine the relationship between geographic proximity and economic proximity. Although geographical distance is easy to measure, economic distance is less straightforward. We



integrated with the rest of the world, and only integrated with each other. In addition, Iqbal and Nabli (2007) showed that SMC non-oil trade flows are just one third of what could be reasonably expected based on the MENA region•s per-capita incomes, natural endowments and populations. In this section, we analyse the SMCs• bilateral trade flows by relating them to the total trade of their partners (see Box 1). Hence, a country that trades little with an SMC appears quite distant from this SMC, while a country that conducts a higher share of its trade with an SMC appears closer. To make

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1. Spanish FDI data for Tunisia was missing.

percentage retained by US banks is 6.8 percent at most (Egypt).

French banks by far hold the most claims in the SMCs. In Algeria, Morocco and Tunisia, French banks are the major holders of external claims. Alongside the strong French exposure, only the role of Italian banks in Egypt is worth mentioning. All other countries (UK, US, Germany and Spain) are underrepresented relative to the size of their foreign financial sector claims.

SMCs for which quarterly GDP data were available (Egypt, Morocco, and Tunisia) … see Figure 4. We then analyse the correlation of the cyclical components of the individual countries• GDPs.

The first finding is that business cycles in the developed countries are highly correlated. In contrast, the business cycles of Egypt, Morocco and Tunisia are not correlated. This supports the view that the SMCs are economically not integrated.

The second finding is that the business cycle of Tunisia happened to be highly correlated with that of all developed countries between 2002 and 2009. Whether this is due to the •small country effect, which left Tunisia more exposed to the global business cycle than Morocco or Egypt, or whether it was due to deeper integration with developed economies, cannot be deduced from the correlation figures alone. The great importance of highly weather-sensitive agriculture in the GDP of Morocco and Egypt might be responsible for the low correlation of the two countries• GDP with those of the developed countries.

The third interesting result is that the business cycle of Morocco is weakly (at the 10 percent significance level) correlated with the French and Italian business cycles, while it is not correlated with the business cycle of any other sampled EU country.s destination for emigrants from Algeria, Morocco and Tunisia. Obviously, history plays a more important role for migration than geographic distance. Present migration is potentially amplified by long-lasting path-dependencies of migration patterns. This is particularly striking in the case of Algeria, which has slightly closer trade and investment links with France than one would expect from their geographic distance, but which has a migration pattern that is extremely focused on France (Algeria was formerly part of France). Egyptian migration is very different from those of the western SMCs. More than three quarters of Egyptian migrants go to the Gulf countries (42 percent to Saudi Arabia, Kuwait, the United Arab Emirates and Qatar), Jordan (23 percent) and Libya (11 percent). Finally, there is only limited emigration from Libya to all countries.

Although less important, geography also plays a role. Italy is a major destination for Moroccans and Tunisians, while Spain is a major destination for Moroccans. Emigration of people from the SMCs to the US, the UK and Germany is negligible relative to the number of immigrants in these countries.

1.6 Aid flows

Between 2003 and 2010, the five European countries disbursed about $9 billion in official development aid (ODA) to the SMCs. This corresponds to 4 percent of their total official development aid. The US spent $3 billion or 2 percent. The distribution of aid by source country somewhat mirrors the trade, investment, financial and migration exposures. France is the main donor (relative to its total aid) in all SMCs except Egypt. It spends 9 percent of its overall aid in the region. Spain is active in the western SMCs (Algeria, Morocco and Tunisia), while, in terms of financial, investment, migration and trade flows, it is mainly exposed only to Morocco.

In contrast to the EU Mediterranean countries, the US, the UK and Germany play no role in the western SMCs. The US and Germany provide significant ODA, relative to their overall foreign aid portfolios, only to Egypt and Libya. According to these figures, the UK is virtually absent in the region.

In terms of ODA, in addition to the five EU countries covered by this Policy Contribution, the European institutions are a sixth major partner. EU institutions are among the top-two donors in Algeria, Egypt, Morocco and Tunisia. The EU spent

$5 billion between 2003 and 2010, or 6 percent of its aid budget.

2 CONCLUSION AND DISCUSSION

This Policy Contribution shows using up-to-date data that France, Italy, and Spain have a particular economic interest in the south-west Mediterranean. Furthermore, in terms of investment, trade, and financial and migration flows, they are •closer• to Algeria, Morocco and Tunisia than geographic proximity alone would suggest. The flip-side of this special relationship is that other countries … such as Germany and the UK … are relatively more •distant• from the SMCs in economic terms. Hence, it is not the EU as a whole that has a special relationship with the south-west Mediterranean, but three countries that are particularly active in the region.

The existence of this special economic relationship has political implications. As we have shown, France and Spain are disproportionally active in the region in terms of bilateral development assistance, a proxy for political attention paid to a region.

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Beyond bilateral political links, the SMCs• relationships with the EU as a whole are shaped by the special relationship between the western Mediterhe speMeditbwl7.1(e u.1(e)14.1(p)16.1(m)14.2(d))* 0 Tc fpeloliticb.1(p)TJ T*ilerriacv9(ar

3. The •five-plus-five dialogue• was a cooperation process in the western Mediterranean that involved Tunisia, Morocco, Algeria, Mauritania, Libya, France, Portugal, Spain, Italy and Malta.

4. The Mediterranean Forum was a framework for cooperation between Portugal, Spain, France, Italy, Greece, Morocco, Algeria, Tunisia, Egypt, Malta and Turkey.

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