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2010. EU-MNECs FREE TRADE AREA

Framework of MNECs and the relationship "EFFICIENT CAPITAL MARKETS - INVESTMENTS – INTERNATIONALIZATION OF SMEs – DEVELOPMENT": the role of a Euromediterranean Network of Stock Exchanges

Giuseppe Verrascina

To the young people *to whom I dedicated my university duties and from whom I received, ten times as much in return, a continuous and renewing interest in the evolutive problems of the human condition;*

To my dear daughters*: Francesca, who is about to enter the working world (the big line-up of builders of the world's destiny), with the wish – I am sure – that she will play an important part in it with the humility which comes from intelligence, and Laura, who can give an effective contribution to the realization of the spirit and ideals of the European Union of which she is a convinced supporter, with the wish that the exciting training experience she is about to have in Strasbourg will be an enlightening one.*

To those who are committed or who can commit themselves *to reach the conditions of peace and tranquility which are essential for the carrying out and strengthening of the process of European integration extended to the Countries of the Mediterranean South shore;*

To everybody *the wish that the Lord of all people may crown the efforts of everyone to build a better world and that is increasingly more sensitive to the problem of the defence of the weakest.*

G.V.

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BSE	*Beirut Stock Exchange*
BSM	*Beirut Secondaty Market*
BVMT	*Tunisia Stock Exchange*
CBJ	*Central Bank of Jordan*
CBP	*Commercial Bank of Palestine*
CBT	*Central Bank of Tunisia*
CEECs	*Central and Eastern European candidates Countries for Eu enlargement*
CMF	*Tunisian Financial Market Council*
CMS	*Turkish Capital Market Board*
CNR	*National Reasearch Council*
CSE	*Cyprus Stock Exchange*
EC	*European Community*
ECMI	*European Capital Market Institute*
EES	*European Economic Space*
EFTA	*European Free Trade Association*
EIB	*European Investment Bank*
EMDB	*Euro-Mediterranean Development Bank*
EU	*European Union*
FDI	*Foreign Direct Investment*
FEAS	*Federation of Euro-Asian Stock Exchange*
FESE	*Federal European Stock Exchange*
FIBV	*Fédération Inernationale des Bourses de Valeurs*
FIPA	*Tunisia's Foreign Investment Promotion Agency*
FTTA	*Free Trade Area of America*
GATS	*General Agreement on Trade and Service*
GATT	*General Agreement on Trade and Tarif*
GDP	*Gross Domestic Product*
IFC	*International Financial Corporation*
IFC	*International Finance Corporation*

IMF	*International Monetary Fund*
IOSCO	*International Organisation of Securities Commission*
ISE	*Istanbul Stock Exchange*
ISMA	*International Security Market Association*
ISSA	*International Security Service Association*
JSCC	*Japan Securities Clearing Corporations*
JSDA	*Japan Securities Dealer Association*
MENA	*Middle East - North Africa Countries*
MERCOSUR	*Mercado Comùn del Sur*
MNECs	*Mediterranean non EC Coutries*
MSE	*Malta Stock Exchange*
NAFTA	*North America Free Trade Area*
NICs	*New Industrialized Countries*
NICs	*New Industrailised Countries*
NIS	*New Israeli Shekel*
OBUs	*Off-shore Banking Units*
PMA	*Palestinian Monetary Authority*
PNA	*Palestine National Authority*
PSE	*Palestine Security Exchange*
SCFOA	*Swiss Commodities, Future and options Association*
SCI	*Specialized Credit Institution*
SEC	*Security and Exchange Commission (US)*
SFA	*Security Future Authority*
SGBV	*Algerian Stock Exchange Society*
SMEs	*Small and Medium Enterprises*
TACT	*Tel-Aviv Continuous Trading*
TASE	*Tel-Aviv Stock Exchange*
WEF	*World Economic Forum*
WTO	*World Trade Organization*

INTRODUCTION by *GIUSEPPE VERRASCINA*

The Mediterranean non EC Countries - ***MNECs***[1] - and the European Union - ***EU*** -, through the ***Barcelona Declaration***[2] and the Work Programme[3], adopted at the Barcelona Euro-Mediterranean Conference on November 27-28, 1995, have devised a grand strategy laying the path for a prosperous Euro-Mediterranean partnership[4] which should break the historical cycle of mutual distrust and recriminations.

If fully implemented, the Barcelona-plan may transform the socio-economic and political balance in the Mediterranean belt: its aim is to further political stability and economic affluence in North Africa and Middle East area by a ***comprehensive form of co-operation*** between the two Contracting Parties. Co-operation, in fact, has been agreed in a broad range of ***political***, ***economic***, ***social***, ***human*** and ***cultural fields***.

In the field of trade, the Barcelona process will mean the establishment of an Euro-Mediterranean free trade area by 2010 whose prospects fit in "naturally" with the trading Partners' geographic inter-relationship. MNECs, in fact, could become an ***off-shore***, low-cost production base serving the Euro-Mediterranean market.

The key factor in the building of that free trade market will be co-operation, the growth of trade between Middle East & North Africa - MENA - Countries

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[1] The Twelve Mediterranean non EC Countries - MNECs - are : the Maghreb States - Algeria, Morocco, Tunisia -, the Mashrek Countries - Egypt, Jordan, Lebanon, Syria - and Cyprus, Israel, Malta, Turkey and the West Bank and Gaza. Following the Barcelona Declaration, the denomination of "Third Mediterranean Countries", used previously to indicate these Countries, has been substituted with the one of Mediterranean Non EC Countries. It has also been agreed that terms such as "Mediterranean Partners" and "MENA - Middle East & North Africa - States/Countries" can be used to indicate the MNECs. See Franco RIZZI, *Unione europea e Mediterraneo. Dal Trattato di Roma al dopo Barcellona (1957-1997)*, NIS, Roma, aprile 1997, p. 95.

[2] EUROPE DOCUMENTI, *La Dichiarazione di Barcellona*, Lussemburgo, 9 febbraio 1996, n. 1974.

[3] EUROPE DOCUMENTI, *Il Programma di lavoro*, Lussemburgo, 14 febbraio 1996, n. 1975.

[4] The Euro-Mediterranean partnership is a joint initiative by the 27 Partners on both sides of the Mediterranean Sea, that is to say :

- the Fifteen Member States of the European Union : Austria, Belgium, Denmark, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom.
- the Twelve Mediterranean non EC Countries - MNECs - : see note n. 1.

themselves and cross-border agreements made by small and medium size enterprises - SMEs – of the area. In fact, concerning the economic partnership, the main beneficiaries of the opportunities offered by the Barcelona initiative are the firms as they occupy a strategic place in the region, so that the strengthening of their capacities would be a way to overcome the developmental backwardness of the Mediterranean Basin.

Anyway, achieving the goals of the Euro-Mediterranean partnership foreseen in the Barcelona Declaration requires a *massive set of concerted actions* and *projects* from both the EU and its Partner Countries. Actions and project whose realization needs a significant amount of *investment* both from *public efforts* such as EU specific financial programs (MEDA) and private interests.

Within this framework is linked my interest to devote time to the analysis reported in the following pages. In particular, it comes from two main reasons.

The first, more general, is linked with my deep conviction that the development of co-operation among people and countries is the key to create, reinforce and maintain human peace and that peace is the basic factor to improve the standard of living of a country and its relationship with other countries in all its components: political, economical, social, human and cultural.

The second is represented by the opportunity that I had to exchange ideas with the Chairman of the 2nd Euromediterranean Conference held in Palermo (June 1996), Minister Antonio Badini, to whom goes my sincere thanks. He stimulated the interest to analyse the general objectives of the recently born Barcelona Declaration. We found mutual agreement in the fact that financial aspects should have been included in the “Regolamento attuativo” in preparation at that time and that consequently specific projects should have been focused to help the EU-MNECs co-operation to become effective.

I must stress my thanks to Minister Badini because such was the enthusiasm he conveyed to me that I accepted it as a great honour to co-ordinate a Foreign office working group of institutions (Treasury Minister, Consob, Bank of Italy, ABI, Assosim) with the aim to start a feasibility study on the realisation of a "*Network among Stock Exchanges*" of the MNECs area.

The initiative was announced for the first time during the "Euro-Mediterranean Capital Markets Conference", held in London on March 26-27th 1998: the meeting clearly confirmed the importance of the Italian proposal: it was underlined how the need for investment, which allows for the real sustainable growth of the Twelve MNECs, requires the existence of reliable financial markets.

The scope of the project, in fact, is to draw investments in a potential market specialised in joint-ventures: the Network is therefore a "must" to boost entrepreneurship.

The establishment of a Euro-Mediterranean Network of Stock Exchanges, in fact, has been thought of as an ambitious and strong means to encourage such a flow of investments in order to facilitate the creation of a common market. This, if fully implemented, will be able to empower and promote the growth of SMEs in the region with the aim of enabling them to access the Euro-Mediterranean markets. To the "*Network*", in fact, the hypothesis is to list the *SMEs* and, in particular those joint-ventures which should be able to attract investments in the area of North Africa and the Middle East as the Network should stimulate co-operation between the small and medium size businesses of the two shores of the Mediterranean Basin: just higher growth rates fuelled by foreign investment is the path to *salvation* for the Mediterranean Partners of the EU.

To attract investment the existence of *reliable financial markets* is necessary and, in fact, the Network's initiative should be able to create a credible capital market mainframe in the region. In this context it is interesting to remember the desire, confirmed also by the Spanish Presidency and the President of the European commission, Romano Prodi, to create a Euro-Mediterranean Development Bank - as stated at the Conclusion of the Laeken European Council.

In addition to the relevant role which such an institution will play, we are convinced that the inclusion of Libya in the Barcelona process could represent a crucial "element" to favour the whole development of the region. We cannot even consider unifying the Mediterranean Basin without including such an important country in the program. Consequently we have decided to mention about Jamahiriya in some part of the work hoping that, with its participation in the Stuttgart conference as a special guest of the EU Presidency, the Country will start taking part as a full Member, and no more as an observer, in the Euro-Mediterranean partnership.

All these actions are necessary. We always have to keep in mind that the Mediterranean Partners of the EU, are its "nearest foreign neighbours" on its Southern flank. Thus, they should enjoy a special place in their external relationships as the EU and the MNECs share many common interests: from trade and investment, through safeguarding the environment and energy supply, to maintaining regional peace and stability.

We have to acknowledge the partnership established in November 1995 markets a turning-point in the Mediterranean policy of Brussels: common objectives and common interests need to be addressed in as spirit of co-responsibility leaving behind the more "patronising" approach which often marketed its policy in the past.

I'm very honoured that the Minister of the Italian "Dipartimento Politiche Comunitarie", On.le Prof. *Rocco Buttiglione*, has considered of some interest the present study and has given his patronage to its publication.

I have to thank my assistant, Riccardo Andriolo, for his patience in providing all the editing necessities.

The biggest thanks go to Claudia Marconcini who is co-author of this publication. Her contribution has been of primary importance together with her precision in the analysis which denotes the high competence and care of a skilful researcher. Claudia Marconcini specifically contributed in the following: Chapter one, Introduction and Paragraph 1.3; Chapter two, Paragraph 2.2; Chapter four, Paragraphs 4.4 and 4.5; Chapter seven, Paragraph 7.4.

CHAPTER 1

THE EURO-MEDITERRANEAN COMMON MARKET

THE FREE TRADE AREA AND THE EUROPEAN UNION FINANCIAL INSTRUMENTS FOR THE SOUTHERN AND EASTERN MEDITERRANEAN REGION

1.1 Introduction

The *Barcelona Conference* has been the launching pad for a complex and difficult process aiming at three main objectives[5]:

- to *define a common area* of *peace* and *stability* through a reinforcement of political dialogue and security ;
- to *set up a shared zone of prosperity*, through an economic and financial partnership and the gradual establishment of a free trade area to integrate the Mediterranean non EC Countries - MNECs - in the major economic system in the region, the European Union - EU - ;

[5] These three objectives correspond to the three well-known sectors of the, at that time, CSCE - now OSCE -: political, economic and financial, social, cultural, and human security. The CSCE included 35 States from Western, Central and Eastern Europe (so that between the Twelve EU Mediterranean Partners only Cyprus, Malta and Turkey were included). Cfr., Giorgio SACERDOTI, *Origine e sviluppi della CSCE*, in Giorgio SACERDOTI (a cura di), *Diritto e istituzioni della nuova Europa*, Giuffrè, Milano, 1995, pp. 23-24 and Bichara KHADER, *L'Europe et la Méditerranée : géopolitique de la proximité*, in Bichara KHADWER, (sous la dir.), *L'Europe et la Méditerranée*, L'Hrmattan, Paris, 1994, pp. 270-276. The global approach and dimension of the Euro-Mediterranean partnership, as expressed in the Barcelona Declaration, is found not just in the omni-inclusive goals of the process but also in terms of those involved at the grass roots. By giving civil society and the private sector major roles, the Euro-Mediterranean-plan, in fact, is no longer limited to governments and public institutions alone, but become something which concerns everyone. In this sense, the partnership reflects the development of societies and of methods of co-operation at an international level. For a deeper analysis and more details on the renewed EU Mediterranean policy see, in particular, the following articles, all published in the "Revue des Affaires Européennes" : Jean-Claude GAUTRON, *La politique de l'Union européenne (Vetera et Nova)*, 1996, pp. 315-323 ; Dario VELO, *Europe's policy between variable geometry and single market*, 1996, pp. 336-340 ; N. GRIMAUD, *Le Maghreb et le partenariat euro-méditerranéen*, 1996, pp. 341-349. See also, *La svolta di Barcellona*, in "Politica Internazionale", n. 4-5, 1995, p. 2.

- to *promote a rapprochement between people* of the two sides of the Mediterranean Basin through a social, cultural and human partnership aimed at encouraging understanding between cultures and exchanges between civil societies[6].

Concerning the first point it is important to remember that with the starting of the new Millennium, the EU basically have only *two major neighbours*, the *Russians*, in the East, and the *Arabs*, in the South, which surely will require the closest possible attention throughout the next decades : the EU cannot afford socio-economic instability/destabilisation of its immediate surroundings[7].

The rise of *theological conservatism* in some Arab Countries has already caused grave anxieties within Member States of the EU over the diffusion of religious disorder, a potential deluge of North African immigrants and possible armed conflicts in the Mediterranean area[8]. What happened on *September 11, 2001*, together with the dramatic escalation of the situation in the Middle East are the real reasons of preoccupation[9]. The difficulties of the Middle East peace process underline the need to achieve indispensable collaboration and to keep the channels of co-operation between the Parties open, so that the *Barcelona process* surely results as the *major asset* for the region.

The Euro-Mediterranean plan has focused on the *reasons of* such *instability* and is trying to cope with them : the EU believes that the socio-political tensions in the

[6] It is important to remember that the MNECs expect from the EU not only market access, but also a better understanding as regards culture, civilisation and human affairs. Indeed, for the first time, the EU and its Mediterranean Partners regard dialogue between their cultures and civilisations as one of the essential themes of the partnership. Concerning conflicts which can arise between civilization see the article of Sam ALLIS, *The Next Battleground*, in "Time", June 1993, p. 63.

[7] Thomas GRUNERT, *La politica mediterranea dell'Unione Europea come elemento della politica estera e di sicurezza*, in Fulvio ATTINA' e Francesca LONGO (a cura di), *Unione Europea e Mediterraneo fra globalizzazione e frammentazione*, Cacucci Editore, Bari, 1996, pp. 79-81.

[8] To prevent political destabilisation the Contracting Parties of the Barcelona process have created a special body, the EuroMesCo - European-Mediterranean Study Commission -, which studies themes such as : conflict prevention, disarmament, political and security co-operation. Set up in 1996, the EuroMesCo network includes (year 2001) some 37 foreign policy institutes located in the Mediterranean Partners and in the EU. For further information, www.euromesco.net. Concerning political co-operation, see also, *Sécurité et Coopération en Méditerranée Occidentale*, in "Etudes Internationales", n. 48, 3/93, pp. 104-109.

[9] See, "Il Sole 24 Ore", September, 12, 2001, pp. 1-9, "Le Monde", September 13, 2001, pp. 1-10, and Frederick FORSYTH, *Per l'Occidente è finita la grande illusione*, in "Repubblica", November 14, 2001, p.1.

Mediterranean Basin will be alleviated if and when there will be *more socio-economic well-being*.

Above all the resolution of the *Arab-Israeli* peace process and the economic growth of the zone are complementary, so the success of the former is dependent upon the success of the latter ; as a result *the resolution of the conflict would have the benefit of boosting investor confidence throughout the area by improving political stability*[10].

For that reason the EU and Middle East & North Africa - MENA - Countries should pursue both tracks with the same diligence[11]: the strategy of the development of Brussels and the peace processes of the Southern and Eastern Mediterranean regions have to go on together[12].

With economic growth and an easing of political tensions, in fact, the environment would be more attractive to investors world-wide. Consequently, we think economic initiatives must not be stopped "just" when there is a political "accident": the *password for the general development* of the Mediterranean Partners of the EU *is "to invest" in peace* and, precisely, in the Middle East peace process - and to encourage economic co-operation also between MNECs themselves -.

Unfortunately, at the moment, the Arab-Israeli peace process is not at all progressing and the MNECs are just focusing upon their own economic development, while not dedicating the same energy to political co-operation, a means of regional integration.

In fact, as well as bilateral-"*vertical*" trade liberalisation with the Old Continent, the Mediterranean Partners of the EU are committed to implement free trade among themselves – "*horizontal*" or South-South integration -. In this field an important

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[10] Nabeel SHA'AT, *Palestina, una nuova frontiera*, in "Aspenia", Anno 2, n. 3, pp. 102-109.

[11] The need for such a political dialogue originates from the acknowledgement that the stability and prosperity of the Members States of the EU cannot be dissociated from those of its immediate neighbours to the South. The political dialogue, in fact, is leading to the establishment of a "Stability Charter". Concerning the involvement of the EU in the peace process see, Azione Comune del 29 aprile 1997, *adottata dal Consiglio in base all'articolo J. 3 del trattato sull'Unuione europea per sostenera l'autorità palestinese nei suoi sforzi per contrastare le attività terroristiche organizzate nei territori sotto il suo controllo*, 97/298/PESC, in G.U.C.E. L 120, 15 maggio 1997, pp. 2-3.

[12] For an example see the article (Anonymous), *Intesa tra Peres e Barilla per investire nei Territori*, in "Il Sole 24-Ore", 7 settembre 1997, p. 4.

sign was given by the *Declaration of Agadir* of May 2001: Egypt, Jordan, Morocco and Tunisia have agreed on the creation of an area of free trade among themselves.
The importance of *South-South integration* was also clearly stressed during the last Euro-Mediterranean Ministerial *Conference* held in *Marseilles* in November 1999 where, in the Final Declaration, concerning the development of sub-regional trade, a proposal was made to introduce a cumulation of origin for all Mediterranean Partners establishing free trade between themselves and to adopt *harmonised protocol on rules of origin*[13]. Above all the participation of MNECs in the pan-European system of cumulation, which is technically possible[14], would be a major step to enhance trade and industry co-operation between member States of the EU and the MNECs.
Anyway, in addition to the lack of South-South integration, the Mediterranean Partners of the EU are experiencing more global integration than a regional one: MENA Countries persist in maintaining their established trading partners, while they should pursue neighbouring markets more actively in order to integrate economically. Concerning North Africa, economic relationships have been predominantly with the European Partners, despite efforts to develop regional markets, such as the Arab Maghreb Union[15], and efforts made by the Arab League to create an Arab market[16].

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[13] *Common Strategy for the Mediterranean and Reinvigorating the Barcelona Process*, Speach by The Rt Hon Chris Patten, CH, SPEECH/01/49, European Parliament – Joint debate – Brussels, 31 January 2001.
[14] The extension of the pan-European origin system to MENA Countries has just been subject to some requirements. The main ones are:
- the agreement of all current participating Countries in the pan-European system;
- the obligation to include free trade agreements with identical rules of origins to benefit from the pan-European programme of diagonal cumulation;
- the introduction of the necessary amendments on the protocols of the “Second generation” agreements.

The participation in the pan-European system would allow for goods manufactured coming from different parts of the area to benefit from preferential access to the EU market under the terms of the agreements. This should open up new opportunities for trade and investment.
[15] George Joffe, *The European Union and the Maghreb*, in Richard GILLESPIE (Edited by), *Mediterranean politics*, Vol. I, Pinter Publisher, London, 1994, pp. 41-43.
[16] See, Abdennour BENANTAR, *Le Monde arabe et l’Union européenne en quete d’un partenariat équilibré*, Ispi, settembre 1996, pp. 26 and 68, the Arab League estimate that the Arab free trade area will conform to international trade rules as well as to the Euro-Mediterranean agreements that some Arab Countries have already signed with the EU.

The Middle Eastern Countries have displayed a similar pattern maintaining ties with traditional trade partners such as Great Britain, the United States and now the Russian Federation (formerly the Soviet Union).

Should this trend persist, the region will remain fragmented and its multilateral political and economic aspirations will go unfulfilled. Fragmentation could successfully be won over by a growth of joint-venture initiatives among cross-border MENA and EU–MENA investors and their listing to the hypothesised Euro-Mediterranean Network of Stock Exchanges.

1.2 Economic reforms and trade liberalisation

In order to meet the economic development requirements, most of the MNECs have, to achieve a high and sustainable rate of economic growth over the coming years, which will be facilitated by the *liberalisation* and *reform* of their *economies*: the Euro-Mediterranean project relies on the ability of Mediterranean business to understand the necessary transformations and adaptations in order not to remain on the sidelines of development of the world economies.

The challenge is a major one for many EU Mediterranean Partners, whose economies have been protected for a long period of time and whose companies are fragile from many points of view[17]. Anyway, the approach chosen to take up the challenge of world competition, with Europe as a Partner, seems to be the one with the best chance of success. For the MNECs, there is an advantage coming from this special link with the EU in order, at one and the same time :

■ to *integrate* their *economies* into the European system[18] ;

[17] Bichara KHADER, *Le partenariat euro-méditerranéen. Les paris et les promesses*, in “Rive”, février 1996, pp. 27-30.

[18] Gilbert BENHAYOUN, Maurice CATIN & Henri REGHNAULT, *L’Europe et la Méditerranée : Intégration économique et libre échange*, Collection Emploi, Industrie et Territoire, L’Harmattan, Paris, 1996.

- to *adapt to world competition* and to the rules of the World Trade Organisation - WTO[19] - ;
- to *take advantage of European support* in order to implement the necessary reforms ;
- to *benefit from* effects induced by the *association* with the EU.

1.3 The Euro-Mediterranean free trade area

The *economic globalization* of these last few years has opened up new commercial relationships between regions sometimes far-away from each other. This phenomenon has encouraged the industrialisation and the economic growth of many countries which haven't reached a sufficient degree of development yet.

The *economic integration* promoted by the Barcelona project aims to favour this process also in MENA Countries both by a North-South process and - especially - a South-South integration[20]. The presence of an intelligent political and economic direction, both in the EU and in the MNECs, in fact, will allow the Mediterranean region to be transformed into a *new integrated system* to produce wealth for both seashores of the region. It is, therefore, really important for the Contracting Parties of the Barcelona plan to integrate their economies, as the consequences of trade restrictions and protectionism can easily bring about political or even military conflicts.

For that reason the EU and its Mediterranean Partners have decided to manufacture a zone of peace, prosperity and stability in the Mediterranean Basin : the Community aspires to promote *rapid economic progress* in the region through a mixture of financial assistance, technical help, economic co-operation and the

[19] See, Erwan LANNON, *The Compatibility of the Euro-Mediterranean Regional Integration with the Multilateral Rules*, in "Regionalism and Multilateralism after the Uruguay Round", Series European Policy, n. 12, European Interuniversitary Press, Brussels, 1997, pp. 771-800.

[20] See the article of Vinod REGE, *Economies in Transition and developing Countries*, in "Journal of World Trade", 1996, pp. 83-115.

establishment of a Euro-Mediterranean common market whose largest evident impact is projected to be on trade.

This area will imply *reciprocal free trade* in all manufactured goods (so as MNECs which have not done so already[21] - as e.g. Israel, Morocco, Tunisia and Turkey have already done - will have to give tariff and quota free access to industrial products originating in the EC in accordance with the timetables agreed between the Partners), that is to say the progressive elimination of tariff and non-tariff barriers, while sensitive sectors, like agriculture[22] and services, will be liberalised step by step[23]. The free trade zone will also mean that MENA Countries will have to eliminate duties on goods originating in other MENA States[24].

Creating the free trade market[25] not only involves the gradual abolition of external protection, but also a gradual *alignment with European regulations* in such diverse domains as competition, State aid, intellectual property right, as well as a commitment to liberalize trade in service, public procurement and so on. This harmonisation will facilitate trade and attract much-needed foreign direct

[21] The process, in fact, will start with bilateral agreements between the EU and individual Mediterranean Partners.

[22] During the round of multilateral negotiations, which took place in Doha, Brussels has demonstrated its will to engage in a substantial liberalisation of trade in agricultural goods. That “new” position of the Community is very important as greater progressive liberalisation in agricultural trade will surely constitute a important issue in the agenda of the Euro-Mediterranean free trade zone, as laid down in the second generation agreements. A revision clause foreseen in each agreement allows the liberalisation process in agriculture to be deepened. The revision of agricultural concessions was agreed with Tunisia in 2000; negotiations are ongoing with Israel and Morocco; the same process should take place with Jordan, once the Association Agreement is ratified, and with the Palestinian Authority.

[23] UNCTAD, Technical Co-operation Project on Trade Relations and Economic Co-operation in the Mediterranean Region, *Intellectual Property Provisions in the Euro-Mediterranean Agreements and Technology Transfer*, March 1998, p. 2.

[24] “Financial Times”, 27th October 1995, p. 10, the appeal for private funds to finance economic development will be boosted by intra-Mediterranean economic integration as, for the moment, intra-Arab trade stand at a paltry 9% of their amalgamated foreign trade. “Al-Hayat”, 22th February, 1997, p. 3, there is already a preliminary agreement to create a pan Arab free trade zone over about ten years.

[25] It is interesting to analyse two important reasons which have brought the EU to establish the Euro-Mediterranean free trade area. See, Isabelle BENSIDOUN & Agnès CHEVALLIER, *Europe-Méditerranée : le pari de l’ouverture*, Collection CEPII, Economica, Paris, 1996, pp. 28-37 and Lionel FONTAGNE’ and Nicolas PERIDY, *De la politique préférentielle de l’Union Européenne-Maghreb au GATT 94 : évaluation et perspectives*, in “Le Maroc et l’Europe”, Ouest Editions, University of Nantes, 1996, p. 128, the first reason concerns the fact that from the impact of the accession of Spain and Portugal to the EEC in the late 1980s to the (re)integration of Eastern and Central Countries in the 1990s and, nowadays, the proliferation of regional integration, the significance of the “preferential regime” granted by the Community to MENA Countries has been considerably weakened. The second reason concerns the potential effect of the GATT 94 on the MNECs, as the increased world trade competition will effect sectors of great importance for these markets.

investment to MNECs. The area, then, should enable MENA Countries to diversify their exports. In facts, if exports continue to focus on a small product field range, they will be exposed to greater medium-term vulnerabilities.

The *Euro-Mediterranean free trade market* should be formed, as a target date, by the year 2010: the area is supposed to link together the *Fifteen EU Member States* and the *Twelve Mediterranean Partners* together with EFTA[26] and Central and Eastern European candidates Countries for EU enlargement (*CEECs*). At a later stage this zone will include some *40 States* and *600-800 million consumers*, i.e. one of the world's most important trade entities.

The Euro-Mediterranean common area is then tied to the pursuit of *liberal economic policies* in the MNECs, such as privatisation of State enterprises, deregulation of the labour market and of various economic sectors, the calling into existence of an effective legal system and the lowering, or elimination, of barriers to foreign investment and trade. Trade *liberalisation*, in fact, is a key element in achieving *international competitiveness*[27]. To reach this goal, the EU will provide technical assistance for trade facilitation and innovative instruments to promote trade are being further developed[28].

Anyway, for the MNECs, full and immediate exposure to international and, above all, European competition could be very damaging to their industries[29]. For this reason the creation of the area is a gradual and progressive process.

What is important to keep in mind, however, is that the *free trade zone* is not an end in itself, but only a means intended to *diminish* the *economic* and *social disparities*,

[26] EFTA: the European Free Trade Association, founded in 1960, is an international organisation comprising four States - Iceland, Liechtenstein, Norway and Switzerland - with headquarters in Geneva and offices in Brussels and Luxembourg.

[27] One of the major advantages of free trade is that the MNECs will be able to enter regional system where common rules of origins are applied. Cumulating of origin will constitute a major factor in encouraging integration and improved complementary economies of the MNECs, and also the development of intra-MNECs trade. Concerning the importance of the rules of origins see the article of Claudio DORDI and Giorgio SACERDOTI, *"Passaporto" unico per le merci esportate*, in "Il Sole 24-Ore", 29 maggio 1997, p. 25.

[28] In Morocco, for example, in 1994 was created, with financial and technical assistance from the EU, EUMAGEX, the Euro-Moroccan Export Management Company, which aims to help SMEs to set up their overseas sales network.

to accelerate sustainable development, to promote regional co-operation and to integrate the EU Mediterranean Partners into the world economy to avoid their marginalization within the new multilateral trading system and to bridge the gap between the shores of the Mediterranean Sea[30]. Free trade has to be considered as just as competitiveness and insertion's vector in international trade, a *component of a more complex process* which aims to promote the endogenous development of the region.

This, in fact, has to be done in order to achieve the final objective of free trade, that is to say the *improvement of the standard of living* in MENA Countries : free trade areas, as well as custom unions, are just schemes which aim to improve the allocation of resources. Alone these economic regional groupings are not able to create net gains in terms of growth, or to create some mechanisms of industrialisation and development. For that reason positive effects coming from the creation of a free trade area are, for the MNECs, indirect : an improvement in competitiveness, as a result of the breaking up of tariffs, reduction of imports, creation of an environment able to attract foreign capital and investment.

Therefore, the creation of the Euro-Mediterranean common market implies that the *main efforts* will have to be *supported by MENA Countries* as, at present, the overture of their economies, whose exportation is not really very different, do not completely agree with the establishment of a free trade zone; a zone which, in addition, will be characterised by a different degree of development of the companies involved.

The *gap* between the EC - European Community - and MENA Countries, in terms of economic and social development, is really evident[31]. In terms of nominal *per-*

[29] Cfr., the article (Anonymous), *Les défis du libre-échange*, in "LE MATIN du Sahara et du Maghreb", 24 mars 1997, p. 13 and J.-P TUQUOI, *La conférence de Barcelone devrait déboucher sur la création d'un éspace économique euro-méditerranéen*, in "Le Monde", 26 novembre 1996, p. 4.

[30] Imperatives of peace and security imply that the growing gap between the EU and the MNECs should be minimised. Income differences, currently standing, would increase to 1 to 20 by 2010 if no measures were taken to support the economies of the EU Mediterranean Partners.

[31] The EU, in order to explain the inadequate development of its Mediterranean Partners, especially concentrate on the endogenous troubles of their economies and on the inadequacy of their economic programmes. That is a right but partial vision. The EU, in fact, in its economic analysis of these Countries, often forget the negative element of the international situation such as the oil chock of the years 1982-1986.

capita GDP[32] it may amount to 10 : 1[33]. At the same time the economic and social disparities among the MNECs themselves, their low level of economic independence and their differing competitive strengths are huge obstacles for regional integration.

The Euro-Mediterranean *regional economic grouping* will therefore constitute an *heterogeneous market*: economic integration between Countries with a different degree of development can make many business activities disappear because of the elimination of customs and increase the deficit of the balance of trade. In addition, it is important to keep in mind that, because of the Uruguay Round[34] and the liberalization of world trade, many MNECs are losing the privileged treatment they enjoyed in the market of the European Community.

For all these reasons, the *chock of the liberalisation* could be very branded and, consequently, the macro and micro-economics decisions that will have to be taken by governments and public/private economic operators will be of crucial importance to avoid the risks of seeing whole economic sectors disappear.

The elimination of the customs system and, therefore, the free trade, will also cause a diminution in customs revenues and a reduction of the Gross Domestic Product. This situation is then strictly linked to the problem of the public external debt - which represents a really hard obstacle to the development of the Mediterranean Partners of the EU - as many tariffs in the MNECs are there not for protective but for fiscal reasons. Consequently, liberalisation of trade will determine a loss of fiscal revenues which will require expenditure to be cut down, or to replace duties by other suitable taxes and that only trade diversion, not trade creation, can be the outcome. For that reason, maybe, it would have been better to exclude from the free

[32] GDP : Gross Domestic Product.

[33] *Global Economic Prospects and the Developing Countries 1996 - Section 4 : the Middle East and North Africa*, World Bank, Washington, D.C, 1996.

[34] To have further information about the Uruguay Round see, *Uruguay Round, Accordo Globale, Vantaggi Globali*, Ufficio delle pubblicazioni ufficiali delle Comunità europee, Lussemburgo, 1994.

trade area those industrial products which, at the border, are taxed only for fiscal reasons[35].

Despite this, we have to remember that the free trade of manufactured goods will also have the effect of *increasing* direct European *investment* in the region, with all the positive consequences related to these flows of investment.

In addition, European officials, even if recognising the *risks coming from liberalization*, point out that the situation is not so dramatic as it is presented by some Arab economists. The calculations of these economists do not consider that the transitory period of twelve years to establish the Euro-Mediterranean common market will enable MENA Countries to make their firms more efficient and competitive and, consequently, risks coming from free trade should not be overrated[36].

Despite these different opinions, what is sure is that, in a short time, it will be the Member States of the EU, and not the MNECs[37], to profit from the creation of the common market, while, not so far in the future, also the MNECs should start benefiting from it[38].

MENA Countries, in fact, are not left on their own to manage the trade liberalisation[39]. A resolute action of Brussels, in fact, has been defined.

The EU is trying to *help* MNECs, among other things:

- to *cope* with the tariffs breaking up through programmes concerning structural adjustment[40];

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[35] Alfred TOVIAS, *The Eu and Mediterranean Countries*, The Hebrew University, Paper to be presented at the Conference on "Regional Trade Agreements and Multilateral Rules after the Uruguay Round : Convergence, Divergence and Interaction" by the University of Liege on October 3-5 1996 pp. 17-18.

[36] Bichara KHADE, *Le partenariat euro-méditarranéen après la Conférence de Barcelone*, L'Harmattan, Paris, 1997, pp. 155-156.

[37] Survey in the "Financial Times", 28th November 1995, a Tunisian government study estimated that, approximately, one-third of its domestic businesses may go bankrupt due to European competition. See also "El Hayata", October 11, 1996, the International Monetary Found - IMF - has predicted that the Arab economies will suffer in the short-term due to their loss of revenues and the inflow of superior European products.

[38] In concordance with this thesis, for example, the Minister of Finance and Foreign Investment of Morocco, Mohamed Kabbaj, who, in 1997, saw the sacrifices his Countries will have to support during the following 5 or 10 years and will have, as a result, to bring Morocco to the same level of development as Europe. See the article (Anonymous), *Le Maroc souhaite conclure un accord-cadre*, in "LE MATIN du Sahara et du Maghreb", 24 mars 1997, p. 8.

- to *favour* the "transfer", and no more the "commerce", of *know-how*;
- to *create* the necessary infrastructures to promote the integration between themselves[41].

Brussels is also accompanying the process of tariff removal offering the MNECs a balanced set of *support measures* intended to soften the blow of liberalisation. And again, the "Second generation" agreements include safeguard and so-called "*infant industry*" previsions which allow MENA Countries to extend temporary protection to their industries under well defined conditions. In fact, to carry out the Euro-Mediterranean free trade area, a network of twelve Euro-Mediterranean agreements has to take place in 2010. The network will be composed of nine "*Euro-Mediterranean Association Agreement*", with a view to establishing the free trade zone, and three "*Association Agreements*", establishing customs unions[42]. These agreements constitute the *bilateral legal framework* of the Barcelona-plan.

1.4 Financial co-operation

Under the Euro-Mediterranean partnership, the EU has committed itself to *supporting the effort* of its Mediterranean Partners economically[43].

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[39] GWARTNEY, LAWSON, BLOCK, *Economic Freedom of the World : 1975-1995*, Washington Cato and Vancouver Fraser Institutes, 1996.

[40] For example, the European Commission, in collaboration with the Member States of the EU and international institutions (such as the World Bank and the International Monetary Found) and through an in-depth bilateral dialogue with the Partners relating to macro-economic policy, is providing the MNECs with support and financing structural adjustment actions through direct balance of payment support. The social dimension of adjustment constitutes a characteristic of the Community action, with a top-priority for social sectors and implementation of a genuine employment policy.

[41] Of a different opinion seems to be Abdennour BENANTAR, *Le Monde arabe et l'Union européenne en quete d'un partenariat équilibré*, Ispi, settembre 1996, pp. 45-46, who thinks that in reality, because of the exclusion from the Barcelona process of Libya and Mauritania, the European Community has always followed the logic of "separating" the Maghreb States from each other and from the old Continent to "dominate" better in the region.

[42] Concerning the Euro-Mediterranean agreements see chapter two.

[43] Erwan LANNON & Jean RAUX, *La coopération financière et technique bilatérale avec les Pays de la Méditerranée Sud et Est*, in "Jurisclasseur-Europe", Relations extérieures, Facsicule 2233, Editions Techniques, Paris, mai 1995.

In addition to the financial resources of Brussels to cushion the budgetary costs of the necessary general reform process of MENA Countries, there is the financial support of the single EU States, of the European Investment Bank - EIB[44] -, which is given through lending and risk capital operations, and of other European and international donors.

The principal financial instrument of the EU, whose financial contribution is essentially targeted to medium-term support of policy changes for the implementation of the Euro-Mediterranean partnership, is the *MEDA programme*.

It accounted for 3,424.5 million Euro of the 4,685 million Euro of budgetary resources allocated for financial co-operation for the period 1995-1999[45]. The MEDA programme, at the moment, has reached its second phase, dubbed "*MEDA II*": MEDA's legal framework for the period 2000-2006 has been shaped by a new Regulation[46] and an indicative figure of 5,350 million Euro has been earmarked.

The original idea behind *MEDA* is that it should be a "*facilitator*", as it should accompany the initiatives and the programmes of the MNECs to reform their economic and social structures.

In fact, the priorities for MEDA resources are :

- *strengthening* the *socio-economic* balance : to alleviate the short-term costs of economic transaction[47] ;
- *regional co-operation* : to complement the bilateral activities ;

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44 Beside the MEDA grants, the EIB has provided, for the period 1995-1999, 2.31 billion Euro through loans. In fact, above all, large infrastructure work shall not be financed so much by the EU, but will be a priority for the EIB. Consequently, also for the period 2000-2006 the EIB will provide 7,400 million Euro in loans. See the Final declaration of the IV° Euro-Mediterranean Conference of the Minister of Foreign Affairs held in Marseilles on November 15-16, 2000 and article 18 of the Carte of the EIB. More generally, the Bank provides loans for infrastructure (a.o. telecommunication, energy, transport), environment actions - in particular water - and global loans to support local SME sector.

45 Reg. (CE) n. 1488/ 96 *relativo a misure d'accompagnamento finanziarie e tecniche (MEDA) a sostegno della riforma delle strutture economiche e sociali nel quadro del partenariato euro-mediterraneo*, Bruxelles, 23.07.1996, in G.U.C.E. L 189, 30 luglio 1996.

46 Reg. (CE) n. 2698/2000 del 27 novembre 2000 (MEDA II), in (GUCE" L. 311, del 12/12/2000, che modifica il regolamento (CE) n. 1488/ 96 *relativo a misure d'accompagnamento finanziarie e tecniche (MEDA) a sostegno della riforma delle strutture economiche e sociali nel quadro del partenariato euro-mediterraneo.*

47 The assistance of MEDA programme is focusing particularly on support to the economic transaction and the preparation for the Euro-Mediterranean free trade zone.

- to support the *economic transition* : to prepare for the implementation of free trade through increasing competitiveness.

To facilitate the process of adjustment and transition structural adjustment support plays a specific role. For this reason it is subject to a number of *conditions*[48] and it can only be extended in case where *a Country* :

- *is implementing* either *structural reform* measures in an appropriate macro-economic framework in collaboration with the Bretton Wood Institutions, or a similar programme ;
- *adopts measures* which will render in due course the financial assistance redundant ;
- *is facing serious financial imbalances*, either internally (budget deficit) or externally (balance of payment deficit).

The compliance with these conditions is necessary in order to ensure that MEDA support to structural adjustment contributes positively towards the restoration of financial balance and the *implementation* of reform measures.

At the <u>*macro-economic level*</u>, the MEDA programme, therefore, fulfils its role by financing several structural adjustment support programmes and by engaging in economic dialogue to consolidate the overall economic and fiscal framework.

At the <u>*micro-economic level*</u>, MEDA finances technical support as well as other initiatives in fields such as :

- "Business Centres" ;
- support to privatisation ;
- risk capital operations ;
- investment promotion ;
- technical assistance and training for institutions building of central banks and the wider fiscal sector.

It is then important to remember that some 90 per cent of the resources allocated to MEDA are channelled bilaterally to the Partners (this relates to Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia, Turkey and the Palestinian Authority).

The other 10 per cent are devoted to regional activities (all the Partners are eligible to benefit from these activities, that is to say those mentioned previously, together with Cyprus, Israel and Malta)[49].

Anyway, according to the MEDA programme, bilateral and regional programmes are to be complementary and/or mutually reinforcing, in order to enable the political and economical impact of the MEDA in the Mediterranean Basin.

The *major innovation of the programme*, anyway, relates to the fact that it is directed at public, semi-public and private bodies and to the methods for allocating credits[50].

The programming, then, has a large flexibility to take into account progress achieved in implementing it and the development of priorities : it is no longer a question solely of providing aid for one-off projects, but of support for a global reform policy which must progress at a jointly-decided pace.

Anyway, the new Regulation, that is to say MEDA II, is meant to be much more *programme-oriented and strategic* than its predecessor. MEDA I operated on the basis of a single series of programming papers - three-year indicative programmes - and of individual projects being presented to the MED Committee in a large number, each being assessed on its own merits, but without taking into account the broader strategy. MEDA II is based on the *assumption* that providing the MED Committee with annual financing plans brings about a more strategic approach and more efficient management. These financing plans fit into a programming process consisting of two series of upstream strategic papers: through this more structured programming process the Union's financing choices will be made clearer and more demanding. Consequently, under MEDA II it will be easy to encourage MNECs to intensify economic dialogue at a bilateral as well as at a regional level[51].

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[48] For structural adjustment operations no-predetermined fixed amount has been allocated.

[49] In fact the Countries eligible for MEDA programme are : Algeria, Egypt, Jordan, Lebanon, Morocco, the Palestinian Territories, Tunisia and Turkey. Israel is eligible for the Regional Funds and EIB loans, while Cyprus and Malta receive grants from bilateral financial protocols.

[50] The principle of annual credits, which are not renewed if they are not used, will stimulate the progress of reforms.

[51] See, MEDA TEAM INFORMATION, *From "MEDA I" to "MEDA II": What's New?*, in "Euromed Special Feature", Issue n. 21, May 3, 2001, pp. 1-2.

CHAPTER 2

THE BARCELONA ECONOMIC PLAN

THE EURO-MEDITERRANEAN AGREEMENTS AND THE ECONOMIC PARTNERSHIP

2.1 Introduction

Two complementary *approaches* have been chosen to implement the Euro-Mediterranean partnership: *regional/multilateral* and *bilateral* dimension.

On a *regional level*, the Contracting Parties have adopted a work programme which sets out the actions and priorities that concern the political, economic and cultural fields. In fact, in this way, a permanent dialogue has been established among the Twenty-seven Countries involved in the Euro-Mediterranean process.

The *multilateral dialogue* constitutes one of the most innovative aspects of the Barcelona process. In fact, it is most useful for :

- *addressing themes* of common interest and deciding on joint-projects ;
- *strengthening habits of working* together, whether in the public or private sector, at national or local level, between the Partners ;
- *developing* a genuinely authentic *partnership*.

The regional dimension of the Euro-Mediterranean relations, anyway, is complementary to the *bilateral* one, which is expected to be achieved by the so called "*Second generation*" agreements.

Concerning both the multilateral and the bilateral dimension, the Barcelona-plan has already achieved some significant goals in terms of ministerial and technical meetings, of confidence-building measures, of regional co-operation programmes, of efforts to promote industrial development and private direct investment, to strengthen sub-regional co-operation (including the decentralized co-operation) and of financial support through the MEDA programme or through the European Investment Bank - EIB -. For example, the Marseilles Conference[52] noted that, five years after the start of the Barcelona process, much had been done, even if efforts had been spread too thinly, and that it is now time to strengthen the link between the programme and the implementation of reforms initiated by the Mediterranean non EC Countries - MNECs - under the Association agreements[53].

2.2 The "Second generation" agreements

In *bilateral terms*, the Barcelona initiative takes the form of a *series of agreements*[54], between the EU - European Union - and each of its Twelve Mediterranean Partners, that can be considered more than some mere *developmental* agreements, as they embrace the political, economic, financial, social, cultural[55] and humanitarian dimensions[56].

These agreements, which account for most of the financial resources allocated by the EU to its Mediterranean Partners, not only contain all the new principles underlying the Barcelona-plan, but also reflect the characteristics specific to relationships between the EU and each Middle East & North Africa - MENA -

[52] See Annex "Forth Euro-Mediterranean Conference of Foreign Ministers".
[53] See, MEDA TEAM INFORMATION, *From "MEDA I" to "MEDA II": What's New?*, in "Euromed Special Feature", Issue n. 21, May, 3, 2001, pp. 1-2.
[54] Fadi S. HAKURA, *The Euro-Mediterranean Policy : the Implications of the Barcelona Declaration*, in "Common Market Law Review", n. 34, 1997, p. 351.
[55] In this context, it is important to stress that Contracting parties of the Barcelona plan are trying to agree to create a Euro-Mediterranean Foundation to promote the dialogue between cultures and civilisations in the region. The Foundation would be funded by contributions from Member States, from the Commission and from EU Mediterranean Partners. See, Commission of the European Community, *Communication from the Commission to the Council and the European parliament to prepare the meeting of Euro-Mediterranean Foreign Ministers, Valencia, 22 – 23 April, 2002*, COM (2002).
[56] Anyway, an important dimension, that is to say the one concerning the free movement of people, is not part of the Euro-Mediterranean agreements.

Countries[57]. In fact, in contrast to previous European initiatives, as embodied in the "*Global Mediterranean Approach*" and in the "*Mediterranean Renewed Policy*" (1973-1992), the Euro-Mediterranean partnership is supposed to be about reciprocity, lasting multilateralism, political dialogue, gradualness, liberalization, respect for variety, pluralism and conditions.

At this moment the *Euro-Mediterranean agreements* between the EU and Tunisia (since 1998), Israel (since 2000), Morocco (since 2000)[58] have already entered into force. In 1997, the *interim* Euro-Mediterranean association agreement with the Palestine Liberation Organisation on behalf of the Palestinian Authority has also entered into force. Concerning Egypt, negotiations were concluded in June 1999 and the agreement signed in June 2001. Negotiations with Jordan were concluded in 1998, those with Algeria in December 2001 and those with Lebanon in January 2002[59]. Negotiations are currently under way with Syria. Concerning Turkey, in 1996, this Country has entered into a customs union with the EU[60], while Cyprus and Malta, which had already been linked to the European Community by association agreements since 1973 and 1971 respectively, are waiting for

[57] Enzo GRILLI and Francesca MANNO, *Il rafforzamento della cooperazione euro-mediterranea*, Paper presented at the Conference, "Europa e Mediterraneo : quale nuova partnership ?", Università Bocconi, Milano, 15 dicembre 1997. See also, Oscar GARAVELLO, *La crédibilité des politiques économiques des PTM et les accords euro-méditerranéens*, document presented to the VI° international meeting "La perception de la Méditerranée par le pays méditerranéens", Palais du Pharo, Marseille, 21th and 22sd November 1997.

[58] European Commission, *The Association agreements in 2001*, in "The Barcelona process – The Europe-Mediterranean partnership", 2001 Review, pp. 9-12.

[59] It is very important to keep in mind that, as the agreements are of a "mixed" type (drawing on both European Community and Member States' competencies – the latter concerning the second and third EU pillar), after signature they have to undergo a lengthy ratification process by the national Parliaments of the EU Member States. Anyway, we have to say that the ratification process in the Member States is lamentably slow: the agreement with Jordan was signed in 1998 but is still not in force.

[60] Following the agreement which came into force on the 1st January 1996 and which constitutes a logical extension of the adjustment effort undertaken by Turkey since the start of the '80s, the Country completes a process begun in 1963 with the European Community, that is to say its main trading Partner with which it conducts half its trade. It is important to remember that, about the customs union agreement, immediately applicable measures concern :

* elimination of customs duties, taxes with equivalent effect and quotas for industrial products, including textiles ;
* application by Turkey of the common customs tariff and Community trade policy regime ;
* adoption of the Community competition law with, in particular, the setting up of a competition authority and the application of mechanisms relating to State aid ;
* adoption of Community law in the field of intellectual, industrial and commercial property.

membership. With Cyprus, then, a customs union will be probably established in 2002[61].

This network of agreements, which reflect the global nature of the relationship between the Mediterranean non EC Countries and the EU, as well as all the innovations which characterised the Euro-Mediterranean initiative, are, or have to be, signed for an unlimited period, replace the co-operation agreements in force in the past decades and will provide better market access, improved productivity and increased exports.

The conclusion - or the prospect of conclusion - of association agreements with the Member States of the European Union has been a main catalyst for economic changes in the region: the opening up of external trade has been a factor that has promoted transition and increased awareness of the need for policy and structural reforms in the area.

Agreements, in fact, grant that *free trade in all manufactured goods shall gradually be implemented over a transitional period of twelve years* from their entry into force. In fact, regarding industrial products originating from within the EU, customs duties applicable to imports to the MNECs have to be eliminated over the transitional period, while export to the European Community of industrial products originating in the Mediterranean Partners signatories to the agreements, continue to benefit from the pre-existing free trade regime.

Anyway the "Second generation" agreements would not only lead to free trade of manufactured goods, as they are also coupled with previsions for :

- *applying competition rules* ;
- *customs co-operation* to combat drugs trafficking ;
- *standards*, conformity certification, metrology and quality control ;

[61] Libya is not engaged yet in such agreements because the Country is currently only an observer of the Barcelona process, at the invitation of the Union's Presidency, not a full Member. On the basis of a consensus among the Twenty-seven Partners on its admission reached on the occasion of the "Barcelona III" Stuttgart conference of Foreign Ministers on 15-16 April 1999, Libya could in time become a further Partner in the Euro-Mediterranean process following the lifting of UN Security Council sanctions against it once it accepts the full terms of the Barcelona Declaration and the related actions. Since its participation in the Stuttgart conference as a special guest of the EU Presidency, Libya takes part as an observer in some of the

- *approximation of legislation* to improve conditions for establishment and provision of services[62] in order to progressively liberalising trade in services and rights of establishment having due regard to the General Agreement on Trade and Services - GATS[63] - ;
- protecting intellectual and industrial property rights.

Nevertheless these bilateral agreements are only a part of the picture, as multilateral trade liberalisation is essential. For this last reason all the MNECs have to strictly observe the *obligations* resulting from the *World Trade Organization* - WTO[64] - and, in a second phase, should joint the WTO even if, at the moment, they have, at least, to accept its rules about trade of industrial products.

This picture clearly shows that the Barcelona Contracting Parties committed themselves to the achievement of a free trade market through the Euro-Mediterranean agreements - and free trade agreements between MENA Countries themselves[65] -.

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meeting of the Euro-Mediterranean partnership. See, *Terza Conferenza Euro-Mediterranea dei Ministri degli Affari Esteri, Stoccarda*, 15-16 aprile 1999, Bruxelles 1999, EURO-MED 3/99.

[62] COM (95) 72, *Communication on Proposals for Implementing the Euro-Mediterranean Policy*, Bruxelles, 8th March 1995, p. 6.

[63] Steps to liberalise cross-border provision of services and right of establishment could contribute positively to economic development of the region: services play a major role in the modernisation and the overall competitiveness of manufacturing sectors. Consequently, a Euro-Mediterranean Working Group on Services has been established and has discussed how to liberalise a number of service sectors both in the bilateral framework of the association agreements and in the multilateral framework of GATS.

[64] It is interesting to notice that, even if not all the MNECs are Members of the WTO, the Euro-Mediterranean agreements pretend the respects of the WTO rules. It must also be noticed that, on one hand, Cyprus, Egypt, Israel, Jordan, Malta, Morocco, Tunisia and Turkey are part of the 131 Members of the WTO and that Algeria has begun preliminary talks within the working groups dealing with the accessions. On the other hand, Syria and Palestinian Territories are not members of the WTO and, as far as we know, have not yet submitted their applications. See., Erwan LANNON, *The compatibility of the Euro-Mediterranean Regional Integration with the Multilateral Rules,* in *Regionalism and Multilateralism after the Uruguay Round*, Series European Policy, n. 12, European Interuniversitary Press, Brussels, 1997, pp. 771-800.

[65] RAWLINSON and CORNWELL-KELLY, *European Community Law : A Practioner's Guide*, 2nd ed, Sweet and Maxwell, 1994, pp. 57-59 and 75-104, intra-Mediterranean free trade agreements have to be encouraged through a Community-based cumulating of rules of origins, which provide the criteria determinative of product origin. Imports must be produced ("originate") in the European Community or in a MNEC to freely be traded. Concerning free trade agreements between MNECs see also, Istituto nazionale per il Commercio Estero, *Le opportunità per le imprese italiane nello spazio economico euro-mediterraneo : i finanziamenti del programma MEDA dell'UE*, Milano, 30 gennaio 1997, p. 6, free trade agreements have already been signed between some MNECs such as: Israel and Turkey, Egypt, Jordan and Jordan and Lebanon.

If this end isn't be achieved, the socio-economic gap between the Countries of the two seashores would inevitably stop both the growth of the MNECs and jeopardise all European Countries.
This situation would be the consequence of the fact that today we are acting in a world where nobody can say "*It is not my business*". What is necessary, then, is to get rid of the barriers, physical or economical, technical or scientific, which still exist between the Countries on the two sides of the Mediterranean Basin and lay the foundations for a closer relationship.
In this context, science, technology and education have a *decisive role* in the process aiming at regional integration and development. *Sciences*, in fact, are, by its own vocation, a vehicle of culture at the service of mankind. *Technology* permits its efficient use. *Education*, finally, provides the necessary improvement and development of human resources. *Capacity building is*, in fact, *the result of the combination of fellowship, technical training programmes and joint-research activities*. For that reason, just to make an example, the "Consiglio Nazionale di Ricerca" - CNR - of Italy has started a relationship and scientific co-operation with research groups and institutions in the MNECs and, in addition, has set up an "Office for Scientific and Technological Cooperation with Mediterranean Countries". Its main objective is to provide the public research institutions with a structure able to co-ordinate and support the development of an effective scientific and technological co-operation in the Mediterranean region, to identify obstacles to a partnership in different technological and scientific fields of activity and to co-ordinate training programmes to create new professional figures.

2.2.1 Opportunities and risks within the Euro-Mediterranean association agreements

The new economic framework which aims to establish a Euro-Mediterranean common market foresees the signing of *bilateral agreements*, with five sets of *intermediate objectives* and instruments:

1. *creating* a free trade Euro-Mediterranean area;

2. *increasing* investment flows into the MNECs;
3. *fostering* MENA Countries intra-regional economic links;
4. *establishing* institutional mechanisms for political and economic dialogue;
5. *providing* performance-linked financial support from the EU.

Anyway, the impact of the second generation agreements will probably not be the same for all the Mediterranean Partners of the EU.

In *Tunisia*, for example, the static benefits of improved resource allocation and the dynamic gains from greater efficiency have been projected to eventually exceed 4 per cent of the Gross Domestic Product. The agreement is also expected to encourage foreign investment, but the loss of import tax proceeds requires compensating fiscal measures and transitional unemployment imposes a cost. On balance, the agreement is seen as beneficial for the Country. Benefits are also important for *Morocco*, although dampened by the limited increase in access for its agricultural exports to Europe. Gains are anyway lower for the Countries of the Eastern Mediterranean Basin. *Lebanon* is highly dependent on budgetary revenue from import duties and its agreement is seen as yielding a positive result only if accompanied by foreign investment and technology transfers to its services sector. For *Egypt* and *Jordan*, the relatively low share of imports originating in the EU results in substantial trade diversion.

The Euro-Mediterranean free trade area, in fact, is, generally, expected to generate significant *long-term economic benefits* for all the region, but also involving transitional costs for the MNECs. In addition, the structure of the "Second generation" agreements is such that often they will divert trade and investment in favour of the EU: the agreements are preferential, that is to say tariff dismantling by the Southern and Eastern Mediterranean States in favour of the EU is not extended to other countries. This gives EU Member States a price advantage over competitor equivalent to the margin of preference thus leading to a welfare loss for the MNECs.

More generally, *investment diversion* results from the lopsided development of the agreements: though the Barcelona Declaration speaks of the two sets of free trade agreements - bilateral ones between the EU and each Partner and others among the Partners themselves - the first set of agreements have advanced much faster. In the meantime, little progress has been made in negotiating agreements among the Partners. This means that a "*hub-and-spokes*" system is emerging. As a consequence, a potential investor knows that if he invests in the hub his products will have free access to 15+12 Countries, whereas, if he invests in one of the spokes, he will have freedom of access to 15+1 markets. For that reason a major political *effort* should be made, by the EU, as well as by its Mediterranean Partners, *to ensure* that *more agreements* are concluded among the Twelve MNECs themselves[66] and to improve their competitive capacity, or, better, to help these Countries to built up their infrastructure, their industry and their educational and administrative systems.

To compete on "equal" terms with the EU the problem posed, in fact, is not one of free trade, but of development. Consequently, an important place has to be reserved to the *development of financial industry* of the MNECs as its direct interaction with the most relevant international financial centres represents a milestone in the path leading to the growth of the region: today it is widely recognised that there is a direct *correlation* between *economic integration* and *prosperity* and the *growth of the financial sector*.

Nevertheless, it was during the Euro-Mediterranean meeting of governments' experts on economic transition, held in *Brussels*, on 9 and 10 March, 1999, that it was really *stressed* what should be done, that is to say: *institutional reforms*, as well as the compelling need for fiscal reform. The latter is necessary in order to jeopardise the progress achieved on the macro-economic front, while external tariffs are being reduced. It is also conducive to improving the environment for investment financing: yet, the region has received less then its share of benefits from increased world-wide investment flows, as its markets remain highly fragmented and small. In

[66] In line with the proposals which have been examined by the Euro-Mediterranean Ministers of Trade in Toledo in March 2002, Brussels is increasingly expressing its strong political support for regional integration initiatives such as the Agadir Declaration, that can be considered as a key programme to promote South-South trade opening and economic integration.

this respect, the importance of developing the so-called South-South component is fundamental.

Because of all the reasons we have stressed above, it is clear that now the policymakers of the Countries of the Southern and Eastern Mediterranean Basin will face the challenge of making full use of the opportunities provided by the agreements and employ them as a tactical vehicle for fostering comprehensive supply enhancing reforms to achieve the hoped for optimal effects. In addition, they will need to extend *trade liberalisation to non-EU Countries* to services and agriculture and accelerating those structural reforms conducive to increased foreign investment in labour intensive export-oriented sectors. And again, the macro-economic policy response to the agreements should combine fiscal discipline with social safety net provisions, thus allowing room for exchange rate flexibility while maintaining financial stability.

Well focused assistance and co-operation from the EU should help achieve the dynamic benefits of the "Second generation" agreements, and, combined with more generous access to European markets, could be a powerful signal of genuine partnership between the two rims of the *Mare Nostrum*[67]. The development of this kind of co-operation represents a qualitative *jump forward "something"* certainly with an enormous potential.

Anyway, as more “Second generation” agreements enter into force, the breadth and depth of the EU bilateral relationship with each Country will develop but the case for regional dialogue will remain.

In this context we have to point out that the question of “co-ownership” of hte Barcelona process is one of its fundamental and innovative aspects. Nevertheless, the current situation reflects the differentiated relationships between the Partners and the lack of regional integration: the EU has internal mechanisms for co-ordinating positions and speaking with one voice while the differences between its Mediterranean Partners prevent them from having similar co-ordination

[67] GHESQUIERE, H., *Impact of European Union Association Agreements on Mediterranean Countries*, International Monetary Fund, 1998.

mechanisms on their side. As long as this situation prevails it will be difficult to see how co-chairmanship arrangements could work effectively even if recent practice has shown that some progress has been made.

2.2.2 The intellectual and industrial property rights in the Euro-Mediterranean "Second generation" agreements

The EU and the MNECs have convergent, rather than conflicting, interest in including the *intellectual* and *industrial property rights* in the Euro-Mediterranean agreements : this inclusion may foster technology transfer[68] and, consequently, stimulate domestic economic development[69].

Anyway, it is important to point out that the inclusion of intellectual property provisions in the "Second generation" agreements is not specific to the Barcelona process, as it has become part of the trade policy of the European Community - EC - primarily because raising the level of intellectual property protection abroad makes it easier for the EU technology-based industries to secure exports markets.

Although it is undeniable that the adoption of an appropriate intellectual property legislation is also in the interest of MENA Countries, its inclusion in the "Second generation" agreements, however, could produce a potential conflict of interest. In fact the insistence of Brussels that, generally, its third Countries should conform to the highest international standards may amount to overprotection which could stifle, rather than stimulate, development in MENA States. Therefore, the main issue is to determine which intellectual property measures match the objectives of the EU, as well as the needs of each MNEC. Only by looking at the market situation and policy objectives of each EU Mediterranean Partner can the appropriateness of specific intellectual property measures be evaluated. In particular, due attention should be paid to ensuring that the granting of new exclusive rights does not unduly

[68] Cfr., Abdelkader DJAFLAT, *Bloccage de l'accumulation technologique endogène : les dimensions d'une problématique*, in "Les Cahiers du CREAD", n. 25, 1er trimestr 1991, p. 12.

[69] For example Article 20 of the Jordanian labour code grants employees the right to own the intellectual property rights of works developed on the job, even if their job requires that they research and develop for their employers. This provision discourages local and foreign investment in industries such as software development, video recording and pharmaceutical development.

prejudice the ability of domestic enterprises to compete on the market, if not in the short, at least in the middle-long term.

As a consequence, it is important *to monitor* that the granting of intellectual property rights is effectively promoting *technology transfer* and is not used merely to secure market dominance and foreclose it to domestic competition.

However, the introduction, in MENA Countries, of appropriate intellectual property legislation is not enough to induce technology transfer and to stimulate economic growth, as other rules and regulations are needed if a legal context conducive to private investment and enterprise is to be created.

Full use, consequently, should be made of the provisions on economic co-operation, which, in fact, often expressly aim at stimulating technology transfer[70].

2.3 Initiatives concerning the economic partnership and the establishment of a free trade area

The Declaration adopted at the end of the Barcelona Conference has set up an economic and financial partnership aimed at creating a zone of shared wealth, in particular by progressively introducing a free trade system. Small and medium enterprises - *SMEs* - are *heavily involved* in this acitivity which will mean substantial technical support for the creation of a *genuine private sector* or into increased industrial co-operation with European enterprises.

In either case, it is essential to pass on information about this process to all Mediterranean firms. For this reason the EURO-INFO CENTRE[71] network is expanding

[70] See, U.N.C.T.A.D., Technical Co-operation Project on Trade Relations and Economic Co-operation in the Mediterranean Region, *Intellectual Property Provisions in the Euro-Mediterranean Agreements and Technology Transfer*, March 1998, pp. 7-68, acquiring technology is becoming increasingly costly, so that it is generally considered important to secure export markets for technology-based products. For that reason it may seem surprising, in view of free trade objectives in the Mediterranean region, that so far little attention has been devoted to the liberalisation of trade in technology-based products.

[71] The Purposes of the EURO-INFO CENTRE is to provide information to firms on the rules of operation of the European internal market, European Community research and development programmes, on the Community 's structural instruments, on the Union's external relations and public contract, in order to

also into the MNECs where the so called *EURO-INFO CORRESPONDENCE CENTRES* - *EICC* - have been established.

These Centres are members of organisations with experience in the field of assisting SMEs (such as chambers of commerce, professional federations or development bodies). Their task is to spread information in the MENA Countries about Community policies, actions and programmes, to help and advise Southern and Eastern Mediterranean economic operators with regard to the internationalisation strategy and position on foreign markets of their companies, but also to gather and spread information on MNECs to the EURO-INFO CENTRE network - which is useful to European SMEs[72] -.

Whilst making allowance for the specific situation of each Partner and in close collaboration with them, the European Commission is then implementing *complementary programmes* to strengthen the role of the private sector and to encourage industrial modernisation or, more generally, to *implement the economic environment*. Eight specific goals have to be pursued :

1. *Creating a favourable environment* : MENA governments must provide the business community with a *safe and stable environment* ensuring macro-economic stability, with regulatory and fiscal regimes open and non-discriminatory. So, in collaboration with the Member States of the EU and international institutions, such as the World Bank[73] and the International Monetary Found - IMF -, and through an in-depth bilateral dialogue with the Partners relating to macro-economic policy, the European Commission is providing MNECs with support and financing structural adjustment actions through direct balance of payment support ;
2. *Facilitating trade* : with the prospect of the establishment of the Euro-Mediterranean common market, the European Commission is supplying

encourage co-operation between firms at a European level (through the value added network system which links the Euro-Info Centres) and to exchange entrepreneurs' suggestions at European Community level.

[72] The European Commission recognises a single EICC per third MENA Country, but it is possible to establish relays from the single Centre into the centres of economic activities thus giving SMEs real and concrete access to Europe from wherever they are located.

technical assistance in the field of harmonisation of law and rules and supporting the creation of *export management* instruments for the private sector ;

3. *Promoting investment* : the Mediterranean region has insufficient foreign investment while the latter plays a crucial role in the transfer of expertise and technologies. Economic growth largely depends on the *ability to attract foreign*, and, in particular, European *investment*. To achieve this goal a simplification of laws, regulations and procedures is indispensable. Consequently, MEDA programme supplies technical assistance for a series of actions, for example, to mobilise investment resources, strengthen the role of the central bank, develop effective commercial banks, create new capital funds and, more generally, to improve the legal and administrative framework for foreign investment. EU is also helping some MNECs' agencies in attracting the necessary capital[74] ;
4. *Encouraging privatisation* : support programmes for privatisation have been initiated or are planned to *facilitate the* effective *transfer or property*, management and control to the private sector. The experience of the EU in privatising telecommunications and other economic infrastructures is made available to the Partners. At the level of individual investment projects, then, the commercial loans and MEDA risks capital play an important role in mobilising private confidence ;
5. *Improving infrastructure*[75] : these services are essential to the competitiveness of companies. In order to reduce costs and improve the quality of infrastructure companies managed by the State, the programmes established by the European Commission are *encouraging competition* and inducing, whether possible, the private sector to inject capital and expertise ;

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[73] For an example see, *Marocc-Banque Mondiale : Nouvelle approche de la coopération*, in "LE MATIN du Sahara et du Maghreb", 23 avril, 1996, p. 6.

[74] For example, EU has already provided Tunisia's Foreign Investment Promotion Agency - FIPA - with long and short term technical assistance. Generally the aim is to help FIPA to manage a medium-term campaign of investment promotion in Europe as well as to strengthen its long-term capacity to attract foreign direct investment.

[75] Lorenzo NECCI, *Infrastrutture materiali e infrastrutture immateriali*, in "Aspenia", Anno 2, n. 3, settembre 1996, pp. 97-101.

6. *Supporting small and medium enterprises* : MENA Countries' SMEs, which are often family-owned, are the main source of job creation in most of these States. However their growth is often hindered by a bureaucratic environment and difficulties in obtaining finance. For this reason, *simplification* of administrative procedures and *access to credit* constitute priorities ;
7. *Developing human resources* : training in company management is one of the top-priority areas of the actions taken by the EU. *Teaching* must, in particular, rapidly satisfy the growing needs of the private sector for executives with skills in using modern management instruments and who are above all open to the outside world. Bearing in mind the great variety of different situations, the European Commission intends to develop actions essentially on a bilateral basis ;
8. *Improving companies' competitiveness* : the European Commission is establishing "*Business Centres*" in the MNECs to support companies wishing, for example, to *reorganise* their operational methods, introduce computerised accounting, *change* the range of their *production*, or *find EU Partners* for sub-contracting. In Egypt, Jordan, Morocco, Syria, Tunisia, West Bank and Gaza they are already operational.

In order to cope with other Countries and to benefit fully from free trade, MNECs' companies must become more competitive world-wide. In this context, the initiative of establishing "Business Centres", is fundamental.

According to the demand coming from companies using a cost-sharing system, the services proposed by the "*Business Centres*" relate to consultancy, information and training. More specifically, the range of proposed *services* includes the following :

- improvement of *management* and planning ;
- *commercial* strategy and market analysis ;
- design and development of *products* ;
- *export* development ;
- development of *human resources* ;
- *financing* methods and access to credit ;
- improvement of *productivity*, access to technologies and quality control ;

- strengthening *partnership* between European and Mediterranean companies;
- development of local expertise in the *company management* field [76].

What the above said shows that it is undoubtedly the key role played by the "Business Centres" in their support for the competitiveness of the Southern and Eastern Mediterranean companies. In fact it is through this kind of partnership EU technological and managerial expertise may more effectively reinforce the Mediterranean economic activities in the form of joint-ventures, licences, franchising and sub-contracting contracts.

Concerning the economic partnership *other relevant initiatives* have to be mentioned.

For example, because of the importance of the transfer of technology, the Contracting Parties of the Barcelona process have decided to set up a *Monitoring Committee of representatives* of the Twenty-seven Partners. Its aim is to co-ordinate bilateral and multilateral activities in R&D - *Research & Development* -, co-operation and to develop a global strategy in this field as co-operation at the regional level focuses on exchange of experience and the best practise, networking and training.

Concerning the R&D sector it is therefore important to remember a project of scientific and technological co-operation between *Egypt* and *Italy* which can be seen as a "*model*" of partnership fitting the new guidelines adopted by the MEDA programme. The initiative, in fact, is oriented to the achievement of *two objectives* : *development of actions* for bilateral Egyptian-EU MEDA projects and organisation of a *regional research and training network* on the packaging sector complementary to the EU-Egyptian bilateral project.

More exactly, the two Contracting Parties aim to co-operate :

- to identify more effective and innovative technologies to enhance the eco-sustainable development of both Countries ;
- to support technological transfer to SMEs ;
- to train researchers and technicians ;

- to create more links between large industries, SMEs and research and development institutions.

Moreover, Egypt and Italy have decided to establish an "Euro-Med Technology Improvement & Innovation Network" to enhance competitiveness through technology upgrading and innovation, involving universities, public and private research institutions and firms.

Other example of initiatives decided in the context of the economic Euro-Mediterranean process are the projects financed by MEDA - such as structural adjustment programmes in Morocco, Tunisia, Algeria and Jordan ; social fund for employment creation in Egypt ; rehabilitation of the public administration in Lebanon ; rural development in Morocco -. Anyway, at the moment, the Egyptian industrial modernisation project is one of the biggest MEDA initiatives, with a budget of 250 million Euro: the action, which started in 2001, aims to contribute to the restructuring of the Egyptian economy in the face of increasing competition and more open markets[77].

Economic initiatives have also involved the *information society*, *energy*, *local water management* and *industry*. About industry it is important to remember the Euro-Mediterranean Conference on the Economic and Industrial partnership, held in *Brussels* on 20 and 21 May *1996*[78], which adopted a Work Programme whose main aim was the creation of a legal and administrative framework which would bring the MENA Countries closer to their European Partners.

On the other hand, the *Declaration* which concluded the Conference lays particular emphasis on the need to implement the following points :

- to introduce provisions concerning the *right of establishment of companies* and the liberalisation of the service industry ;
- to promote suitable conditions for the *free movement of capital* ;

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[76] See, "Euromed Special Feature", issue n. 10, October, 1, 1999.

[77] European Commission, *The Economic and Financial partnership*, in " The Barcelona Process – The Europe-Mediterranean partnership", 2001 Review, p. 17.

[78] Cfr., the article, *La déclaration de Bruxelles*, in "LE MATIN du Sahara et du Maghreb", 25 mai 1996, p. 5 and the document, EUROPE DOCUMENTI, *Dichiarazione di Bruxelles sulla cooperazione industriale,*

- to encourage respect for and the application of *standards of competition*, without distinction between public or private sector ;
- to adjust *production processes* to international and European Community standards ;
- to create industrial areas where *specialised services* will be provided. They will be made available to companies in order to help them innovate, better organize themselves and improve the quality and marketing of their products ;
- to envisage programmes aimed at *producing a new class of entrepreneurs* and modernising executive training schemes.

After this meeting, recently, the working group on industrial co-operation held meetings in Paris on November 22-23, 2000 and in Brussels on June 20-21, 2001. Activities centred on three main areas of work:

- Euro-Mediterranean market instruments and mechanisms;
- innovation, technology and quality;
- the establishment of a network of investment promotion agencies.

Preparatory work also has started on ways to improve the regulatory framework for small and medium sized enterprises. Another important development has been the group's decision to invite the private sector and its representative organisation to play an active role in the programmes that have to be carried out under the group's auspices.

Following the spirit of the Barcelona Conference, was an attempt to bring both area of the Mediterranean Basin closer together Other important examples which are a concrete illustration of the economic partnership are the installation of the North Africa-Europe gas pipeline[79] financed by the EU in the form of loans by the EIB and the creation, in Damask, of the Euro-Arab management School[80], with its First

adottata alla conferenza euro-mediteranea dei Ministri dell'Industria, (Bruxelles, 20-21 maggio 1996), Lussemburgo, 15 giugno 1996, n. 1990.

[79] The gas pipeline is a natural gas suppliy from Algeria to Spain via Morocco and the Straits of Gibraltar.

[80] A joint co-operation project of the European Commission and the League of Arab States was established in 1995 to provide education, training and other services for the development of business between Arab and European companies. Its is a unique cross-cultural management institution.

Euro-Arab Trade and Investment Programme[81]. In the middle of 1997, during a meeting[82] bringing together some thirty European and Southern and Eastern Mediterranean Economic Institutes it was decided to create an Euro-Mediterranean Forum of Economic Institutes whose aim would be independent analysis of the major economic themes of the Euro-Mediterranean partnership, such as free trade and economic transition, agricultural trade, or the impact of the future enlargement of the EU on the MNECs.

In addition, to implement the free trade area, to attract investment and, consequently to promote the economic growth of MNECs, the *EU is providing expertise* and *information* on *comparative experiences* in attracting investment resources. In this context, the *financial sector* must not be forgotten which, in fact, plays a really critical role in the development of competitive economies, not only mobilising savings but also through ensuring efficient investment.

In this field the MEDA programme supports MNECs' efforts to :

- develop and implement *financial* sector *policy* ;
- ensure the development of independent, competitive *commercial banks* ;
- reform and modernise *central banks* and *clearance* systems ;
- promote the use of a greater range of *financial instruments*, such as risk capital investments or commercial paper[83] ;
- improve *SMEs' access to capital* ;
- *develop financial markets*. Some Stock Exchanges of the Southern and Eastern Mediterranean region, in fact, are relatively undeveloped and MEDA provides technical assistance to reinforce them.

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[81] The aim of this programme is to provide further training to a skilled group of international managers in the following area :
* the Euro-Arab trade and investment environment;
* project financing, tools and possibilities in a Euro-Arab context;
* practical issues for an Euro-Arab manager.

[82] The meeting took place in Marseilles on 24 and 25 March 1997.

[83] MEDA risk capital managed by the EIB often serves as an instrument for the introduction of such new forms of risk-sharing.

With this trend, the project in which some Italian and MNECs institutions take part was devised whose goal is to establish a Network between the Stock Exchanges of the Mediterranean Basin[84].

2.4 The decentralised and horizontal co-operation

The North Africa and Middle East aid programmes of the European Community, also known as the Mediterranean (Med) programmes, were launched in 1992. The Contracting Parties of the Barcelona process had understood the importance of the decentralised co-operation - Med-programmes represent an example of decentralized co-operation[85] -. Consequently, they decided to include them in the actions related to the Euro-Mediterranean initiative: the Barcelona-plan has tried to give a renewed impulse and a new picture to the decentralised and horizontal co-operation.

At the moment all Med programmes are no longer in operation. We hope they will be reintroduced as soon as possible and that during the Ministerial Conference of Valencia a reflection on this topic will be made: the relevance of these programmes of decentralised co-operation is clear to everybody. For example, in the coming months the European Commission will carry out a substantive streamlining of the EuroMed Youth programme - which aims at facilitating the integration of young people into social and economic life – an initiative that is surely a largely decentralised programme.

More generally, the *instruments* of *decentralised* and *horizontal co-operation* which were set up aim at benefiting the Mediterranean region as a whole or a number of Partner Countries by supporting multilateral and (sub)-regional co-operation s'

[84] For further information about this project see Chapter 3.

[85] Jean ALEGRE, *La coopération décentralisée en Méditerraneée*, in "Confluences Méditerranée", n. 7, 1993, pp. 91-108.

projects with the priority for promotion of the development of Mediterranean firms (including partnership with EU firms) and of investment, environmental protection and conservation, regional operations in fields such as transport, water, energy, telecommunications, demographic issues, micro-projects and cultural development.

Decentralised co-.operation means "*Civil society*": the Barcelona Conference, in fact, acknowledges the "*essential contribution*" *of civil society to the Euro-Mediterranean partnership*. Anyway, the dynamics of this *new* kind of co-operation - which, in fact, means a collaboration between non-governmental people in order to provide a framework to support partnerships between various groups of the civil society of the Countries of the two sides of the Mediterranean Basin - depend on the ability to extend beyond official confines, to mobilise regions and economic, politic, social and cultural agents, together with associative networks. For this reason the Euro-Mediterranean process, to be successful, must be able to use all agents in civil society, by increasing opportunities for joint-work.

In order to achieve this goal, *programmes for decentralised co-operation*, surely, constitute a major element as they seek to encourage participation and the taking of initiatives and responsibilities by key groups in civil societies[86], local authorities, universities, media bodies and to promote between them contacts, understanding, co-operation and concrete expressions of feelings of interdependence.

Therefore the MNECs have benefited from programmes of decentralized co-operation[87] since 1992, which had been essentially represented by the Med programmes.

Anyway with the Euro-Mediterranean initiative, increased emphasis had above all been placed on the following decentralized co-operation programmes, which, as we have already underlined, at the moment are no longer in operation[88].

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[86] Concerning the role played by civil society in the Euro-Mediterranean process, see the article of Maria-Angels ROQUE, *Forum Civil e un primo bilancio*, in "Rive", n. 1, dicembre 1996, pp. 40-42. See also Relazione "Barcelona 1995", *Hacia un nuevo escenario de asociaciòn euromediterrànea. Fòrum Civil euromed*, Istituto Català de la Mediterrànea, Barcelona, 1996.

[87] Decentralized co-operation is described by the European Commission as "something" forming direct links ("networks") between groups or organisations that share common interests and purposes.

[88] For an exemple of decentralised co-operation see the article of Janiki CINGOLI, *Milano apripista in Egitto e in Giordania*, in "Il Giorno", 8 luglio 1996, p. 10.

Anyway. we believe it is important to write about them as many of them had been highly successful: one day, maybe, they will be again an integral part of the Barcelona process.

The most relevant programmes, concerning the economic field, were:

- Med-Invest[89] (development of small and medium enterprises), which now has been absorbed into the MEDA programme;
- Med-Urbs[90] (co-operation between local authorities);
- Med-Campus[91] (co-operation between universities);
- Med-Techno[92] (research);
- Med-Media[93] (media co-operation).

So, decentralised co-operation is to be welcomed as its aim is essentially to facilitate investment in North Africa and in the Middle East area: "*To watch close to arrive far away*" is an entrepreneurial philosophy with which an increasing number of companies explore the Southern and Eastern Mediterranean region: from Morocco to Turkey entrepreneurs can find a great market that, in the last years, has begun to move towards development. In many of these Countries, in fact, there are moreover particular favourable conditions to invest, such as low cost of labour, wealth of natural resources, a strong impulse to privatisation, substantial facilities for foreign investment in markets such as the one of Morocco or of Tunisia and a geographic closeness to EU. This context should push operators to internationalise their activities in the region.

[89] Med-Invest supported relationship with the SMEs and the professional associations and institutions of the two sides of the Mediterranean Basin. Its aim was to create tools and structures necessary to establish joint-ventures with the economic operators of the EU and to give the tools to promote the SMEs in the MNECs in order to experiment in those Countries strategies able to promote their growth by real pilot projects.

[90] Med-Urbs was designed to develop co-operation between local authorities of the EU and its Mediterranean Partners and thereby to promote socio-economic development in the region. More specifically, this instrument aimed to improve the quality of life by helping local authorities to benefit from the skills and experiences of their counterparts in the EU and modernize municipal administration.

[91] Cfr., *Les projects Med Campus de l'UNIMED*, in "Rive", février 1996, pp. 220-236, Med-Campus was based on a network of universities and higher education institutions in the EU and in the MENA Countries. The purpose of this programme was to upgrade the human resources of MENA Countries by encouraging co-operation between universities of the two coasts of the Mediterranean Sea

[92] Med-Techno was a programme for technological co-operation to develop regional technological and scientific networks in the MNECs.

[93] Med-Media supported network co-operation between media professionals and organisations.

However, to an entrepreneur wishing to make a joint-venture the capital and a partner are fundamentally necessary are necessary. In order to obtain financing an important reference can be the EIB that distributes loans also to small enterprises, while the partner can be “easily funded” thanks to the instruments supporting the decentralised co-operation, a co-operation which is able to bring the different Partners near.

Anyway, what is important to always keep in mind is that to *promote the growth of the industrial sector*, and above all the field of the SMEs of the Mediterranean area, it is necessary *to attract* the interest of foreign *private investors*. For this reason, the creation of a *Network between the MNECs' Stock Exchanges* would be the corollary to the actions related to the Barcelona process. In fact whatever the role played by the EIB and the MEDA, they are not enough for the mobilisation of private capital, through domestic investment, foreign direct investment and portfolio investment, that is to say the real source of massive capital flows while MNECs' private companies, to became more competitive and efficient, need capital and domestic and foreign private investment.

Therefore, the role that the capital markets and, consequently, the Stock Exchanges of the area should play is crucial.

CHAPTER 3

THE PROJECT FOR THE ESTABLISHMENT OF A "EURO-MEDITERRANEAN NETWORK OF STOCK EXCHANGES"

CAPITAL FLOWS IN THE MEDITERRANEAN BASIN AND THE CO-OPERATION BETWEEN THE SMES OF THE TWO SHORES

3.1 Introduction

The European Union - EU - policy towards its Mediterranean neighbours is strictly linked both to the perceived threat of their social unrest and economic underdevelopment - as the social and economic unbalances which characterise the Mediterranean non EC Countries - MNECs - are potential generators of conflicts and instability between the two sides of the Mediterranean Sea -, and to the need, for European companies, to have a larger market of reference. As a consequence, the establishment of an *Euro-Mediterranean common area* represents the centrepiece of the Barcelona strategy as it can be considered the *first step* both towards the development of Middle East & North Africa - MENA - Countries and the *creation of* that *market necessary to* the EU small and medium Enterprises - *SMEs* -. In fact the less competitiveness of European companies, on international markets, is due, largely, to their too limited internal area compared to other Countries (e.g. United States and their market of reference, that is to say the NAFTA[94]): MENA Countries - which are expected to grow exponentially in the 21st Century[95] - should provide an exceptionally broader consumer base[96]. This

[94] NAFTA : North America Free Trade Area. It is an agreement of free trade among United States, Canada and Mexico which come into force on the 1st January 1994.
[95] Vinod REGE, *Economies in Transition and Developing Countries*, in "Journal of World Trade", 1996, pp. 83-115.

prevision also depends on the explosive *growth in capital flows* which on the hole has made MENA governments more responsive to international, and above all European, markets. In addition, they have started making sweeping policy changes and now compete with other Countries to attract foreign capital. It is also true that privatisation of State owned companies has greatly contributed to increase foreign direct investment flows.

Nevertheless is important to remember that *UE companies*, generally, do not invest in the MNECs to overcome trade barriers or serve local markets. Increasingly their concern is to operate most efficiently on regional or global markets: for example, the need for scale economies have started to shake firms into searching for new markets in those Countries as a way of gaining competitiveness[97].

This picture shows that it is in the interest of all the Contracting Parties involved in the Barcelona process to co-operate to support the economic development process and the growth of the companies in the Southern and Eastern Mediterranean Basin in order to make the region an area of shared prosperity.

To achieve this goal, ***capital markets*** will play an important role - today more than ever before, they are able to *promote global economic integration and prosperity* as well as trade - as they encourage technology transfer, infrastructure development and competition. In addition, the *globalisation* of financial markets and the increased cross-border *free flows of capital* should be able to give new impetus to the European investment in the MNECs also because the promotion of a free capital circulation in the Euro-Mediterranean region is a significant step towards the creation of an Euro-Mediterranean common market whose prospects fit "naturally" with the trading partners' geographic inter-relationship.

Therefore the *development of local financial markets* in each MENA Country, as well as the direct interaction with the most important international financial centres, represents a milestone in the path leading to convergent, and improved, social and economic conditions. In fact, the *development* of efficient financial markets, and

[96] International Conference, "Mediterraneo : l'impresa che cambia in una regione che cresce", Marrakech, 22sd and 23th March 1996, Acts published by Aspen Institute Italia, in "Incontri 1996", pp. 7-19.
[97] See the article of Diana Tuss, *Multilateralism's New Approach in the Global Economy*, in "Globalization and External Relations in Latin America and the Caribbean", Capìtulus, n. 53, June 1998, pp. 33-37.

consequently of *Stock Exchanges*, in the Southern and Eastern Mediterranean area would facilitate the flow of private foreign investment towards the region. As a consequence, *fresh capital resources* would in addition be more easily accessible for new economic projects which would enable the establishment of a partnership with the economic operators of the EU contributing to the development of the area.

For all these reasons the initiative to establish an *Euro-Mediterranean Network of Stock Exchanges* has a great importance, a project announced for the first time during the "Euro-Mediterranean Capital Markets Conference", held in London on March 26-27th, 1998. The Conference has confirmed the importance of the initiative. In fact, it was underlined how the need of investment, which allows for real sustainable growth of the Twelve MNECs, requires the existence of reliable financial markets[98].

Nowadays, the project has been slowed down by the promoters. We do believe that, due to its validity and importance, the work will resume in accordance to the contribution that its progress can give to the process of development in the considered region.

3.2 The project for the establishment of a Euro-Mediterranean Network of Stock Exchanges

A greater *flow of investment* is fundamental to a sustained *development* of the MNECs, but to attract them the existence of a developed financial environment is necessary.

The initiative for the establismnet of a Euro-Mediterranean Network of Stock Exchanges, consequently, can be considered a means conducive to the realisation of a *credible capital market* mainframe in MENA Countries. In fact, the up-grading of the Stock Exchanges of the Southern and Eastern Mediterranean Basin[99], as well as

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[98] Financial Times Conferences, Mediterranean Capital Markets Conference, 26 & 27 March 1998, Guildhall, City of London.

[99] In the past years the level of capital flows going to MENA Countries has been very low above all if compared with the dramatic increases in flows to emerging markets elsewhere.

the modernisation of financial sectors and the gradual establishing of associative links, should be considered as a *pre-requisite* in order to attract a greater flow of investment towards the area, thus sustaining its growth.

The role of capital markets and, consequently, of Stock Exchanges in economic development is becoming increasingly evident. It is widely recognised today that there is a direct *correlation* between economic growth and development of the financial sector: *a well-functioning Stock Exchange facilitates a chain of productivity, domestic saving and economic growth*.

More generally, the improvement of the context of capital market financial institutions would be encouraged to reach under-served business segments, especially SMEs, the enterprises which form the bulk of the MNECs economy.

The initiative of the "Network" also represents *the basis* to which *other projects* could be connected, starting from the ones concerning the relationship between the SMEs of the two shores of the Mediterranean Basin[100].

However, what is important to stress is that the creation of an Euro-Mediterranean Network of Stock Exchanges is not an object in itself, as we are dealing with an initiative which aims:

- *to favour* the accumulation of domestic savings partially to be directed to the privatisation process ;
- *to contribute* to the establishment of developed and efficient financial markets so as to make the region attractive to foreign investors[101] ;
- *to favour* the access to capital markets to SMEs ;
- *to encourage* the involvement of foreign investors offering a possible easy way-out of their investment ;
- *to promote* awareness of the emerging capital markets in the Mediterranean area to the EU investors ;

but mainly :

[100] The project of the "Network" could be related to an organic project for the internationalisation of SMEs aiming to provide them with qualified assistance beginning from the early stage of searching for a partner in other Countries to the complete realization of their international growth. In this context, "Business Centres" play an important role.

- *to **contribute** to the development of the MNECs, as it will permit the growth of their SMEs, which, at presemet, are able to act as the main engine for the stable growth of the MNECs*[102].

For that reason *the main candidate **to be listed*** in the "Network" *are the **SMEs**, in particular the **joint-ventures** resulting from agreements between the firms of the Countries of the two sides of the Mediterranean Sea*.

In addition, SMEs can often have many advantages coming from their listing in a Stock Exchange.

The analysis of the *main reasons* which should bring economic operators to list their small and medium businesses are the following :

- the possibility to improve the market position of the SME ;
- to give an easy way-out of the investment ;
- to be able to make strategic alliances through shares exchanges.

More generally, the economic operators should decide to list their shares as a consequence of a *mix of propulsive factors* composed by strategic variables related to the SMEs or to the competitive environment and to the opportunity to obtain permanent capital to improve the financial structure of the company[103].

For all these reasons, consequently, *the project of the "Network" surely represents an important step towards the establishment of a common Euro-Mediterranean market as stated by the Barcelona Declaration*[104]. The initiative, in fact, reflects the spirit of the Euro-Mediterranean process, as envisaged in the above said Declaration. In the part dedicated to the "Economic and Financial Partnership : Creating an Area of Shared Prosperity" the Contracting Parties, in fact, : *"(...)*

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[101] Investor confidence is a critical element for financial markets as it relies on a safe legal environment and on the existence of efficient trading facilities.

[102] The kind of development that the Contracting Parties of the Barcelona process wish to promote in the Southern and Eastern Mediterranean Basin cannot be reduced to the economic one as the growth of States today has to answer to the social needs of the respective populations, to the environmental problems, to the traditions of every Country and to a condition of political stability. The concept is clearly expressed in the final Declaration of the Barcelona Conference. See, Euro-Mediterranean Partnership, *Barcelona Declaration, Work Programme*, European Commission, DG IB - External Relations, Bruxelles.

[103] Cooper & Lybrand Corporate Finance, *I mercati finanziari per lo sviluppo della media impresa, una visione internazionale*, Coopers & Lybrand Corporate Finance S.p.A., Milano, 1997, pp. 14-16.

[104] See, Dario VELO, *La politica mediterranea europea fra geometria variabile e mercato unico*, in Fulvio ATTINA' e Francesca LONGO (a cura di), *Unione Europea e Mediterraneo fra globalizzazione e frammentazione*, Cacucci Editore, Bari, 1996, pp. 43-46.

acknowledge that economic development must be supported both by internal saving, the basis of investment, and by direct foreign investment. They stress the importance of creating an environment conducive to investment, in particular by the progressive elimination of obstacles to such investment which could lead to the transfer of technology and increase production and exports ; (...) encourage enterprises to enter into agreements with each other and undertake to promote such co-operation and industrial modernization by providing a favourable environment and regulatory framework. They consider it necessary to adopt and to implement a technical support programme to SMEs ; (...)"[105].

Anyway, the creation of the "Network" requires a *great work of a team*, as it should be conceived as an initiative encompassing all the MNECs. Consequently, *it will be necessary* :

- *to implement* in the MNECs : the depository, settlement and clearing systems ; technology and regulatory matters ; domestic and international payment systems ;
- *to strengthen* supervision and transparency ;
- *to carry out* a wide range analysis of the characteristic of the Stock Exchanges and of their domestic rules ;
- *to develop an* adequate training of human resources in the fields related to the project ;
- *to set the basis* for a search study, on a Country by Country basis, of European businesses willing or already ready to internationalise their activity through the realisation of joint-ventures;
- *to make* a comparative analysis among financial systems and Stock Exchanges organisation of the MNECs in order to propose the minimum standards MENA Stock Exchanges should conform to compete successfully and, consequently, the policy-lines necessary to meet those standards ;

[105] Euro-Mediterranean Partnership, *Barcelona Declaration, Work Programme*, European Commission, DG IB - External Relations, Bruxelles, p. 5. See also Appendix.

- *to analyse* the structure and the level of efficiency of the existing Stock Exchanges, as well as drawing up a check list of their problems to be solved also with regard to the possible birth of Stock Exchanges, where lacking[106].

What is important to stress concerning the initiative of the "Network" is the linkage between it and the growth of the MNECs :

Network of Stock Exchanges	**Development of the financial markets of the MNECs**	**Increase of domestic saving**	**Greater flows of private and foreign investment**	**Growth of SMEs**	**Sustainable development of the MNECs**
⇒	⇒	⇒	⇒	⇒	=

The whole Southern and Eastern Mediterranean region is interested in a *series of reforms* intended to remove the obstacles for the creation, or the enhancement, of an efficient market economy. These actions, to be brought on, need funds which can be provided only in part by the governments and the EU resources allocated for the Euro-Mediterranean partnership, or the EIB loans: most of the need capitals, therefore, could come through the establishment of efficient financial markets.

Anyway, efficient financial markets, internationally orientated, as MENA Stock Exchanges seem require, as a pre-requisite for their growth, the *harmonisation of* different *laws* concerning the *circulation of equities*. In addition, it is useful to encourage the involvement of *foreign investors*, above all European ones, in the economic development process.

[106] The only Mediterranean Partner of the EU included in the Euro-Mediterranean partnership which has not a Stock Exchange yet is Syria.

However, such an involvement could be much greater if they were offered the possibility of an *easy way-out* of their investment through the negotiation of the shares acquired in local companies in an Euro-Mediterranean Network of Stock Exchanges.

The establishment of the "Network", therefore, represents a *necessary pre-requisite* for the success of those fundamental investment for the development of the Southern and Eastern Mediterranean SMEs which, in fact, need "*patient capital*" especially in the "start-up" stage.

The reinforcement of the macro-economic sector of the MNECs, then, need the development of the financial field through support to strengthen the central banks, to develop the commercial ones and to widen and deepen the financial markets.

Particular attention should also be given to the stimulation of domestic savings: at present, the development of efficient financial markets in the MNECs represents a stimulus to the accumulation of domestic saving which should partly be addressed to the privatisation process, a process which is strictly linked to the reform programmes of the MNECs.

What is important, then, is to improve business performance, in particular by the *modernisation of SMEs* and the access to financial services, notably for private firms.

3.3 The investment in the Mediterranean region

In order to bring forward the comprehensive *economic reform agenda* successfully called for by the achievement of the Euro-Mediterranean common market, a greater amount of investment both domestic and foreign, direct and portfolio, should be flowing towards the MNECs.

In fact, *just a fraction of financial requirement necessary are provided by MEDA funds* and EIB loans: most of the necessary capitals can at present come through investment and, consequently, the establishment of efficient financial markets.

However, to attract investment the *supply of adequate guarantees* is necessary for investors interested in putting their capital "at work" into MENA new-coming economies, as well as the achievement of a satisfying level in the harmonisation of rules, practise and tools concerning the markets : appropriate macro-economic policies in the MNECs Countries are not sufficient to attract sufficient private foreign capital inflows. In fact, beyond political stability and human capital development, a well established legal and regulatory framework along with comprehensive fiscal systems and developed Stock Exchanges represent critical success factors for international issues.

Consequently, to achieve their *development*, *MENA markets* have to be able to repay the investment and to support the launching phase of new entrepreneurial initiatives; but to attract investment these markets have to be large, comprehensive, responsive, branched and diversified. If implemented, in fact, the Southern and Eastern Mediterranean markets can become a *good alternative* to the traditional outlet markets for the development of experiences involving SMEs.

The Euro-Mediterranean partnership policies and the prospects to create a large common area, which will encompass the whole Eastern Europe by 2010, are the new scenarios against which the national systems, and mainly local economies of the MNECs, have to be assessed. In this light, resources should be optimised and not only financial resources should be made available by the new European policies. Injections of money are not enough for the growth of MENA Countries. What they need are *projects and actions* to concretely "create" what they need as well as the support of the economic experiences of the States of the EU. Indeed, recently, experiences in such a direction have multiplied as opportunities to exchange ideas and experiences between the Countries of the two sides of the Mediterranean Basin are increasing.

This co-operation is necessary for the growth of the SMEs as they are faced with the great challenges of sustainable development, quality, but mainly innovation and global markets so that they must improve their performance. For instance, they have to improve their capacities to absorb and manage *technological innovations* and adjust to the market. Namely, they have to overcome their organisational limits and increase co-operation and networking. The transfer of technology and know-how, then, should trigger mastering processes, reduce the technological gap and stimulate skills for the management of new technologies but also produce further innovation.

Foreign investment is essential for the economic rejuvenation of the MNECs economies, while up to now the past years have been a bit disappointing : in the past years these Countries attracted just a pitiful 1% of private capital flows to the developing Countries, or US$ 2,700 million out of US$ 226,000 million[107], and a tiny share, less than 2%, of the European foreign investments: foreign direct investment have largely ignored the Maghreb and Mashrek as these regions were considered unattractive and mediocre, both politically and economically.

Anyway the situation is visibly changing as MENA markets will be merged intoone big free trade area comprising the whole of Europe and the Mediterranean: MENA States will not only be trade free with the EU[108], but also with the EFTA Countries, with most of Eastern Europe and with all the other Countries around the Mediterranean. What is expected is a sort of Mediterranean Free Trade Area - MEFTA -. As soon as the contours of this area will take shape, investors will start taking a new look at the region, as they have done before at ASEAN, MERCOSUR or Eastern Europe. In the second place the investment climate is changing because of the economic reforms the MNECs are undertaking and the EU becoming actively involved in the Mediterranean Basin. The *EU financial effort*, in fact, is directed to improve the efficiency of the industrial sector in order to attract investment in the region and MNECs governments are working with the private sector to promote

[107] UNCTAD, *World Investment Report*, (United Nations, 1995), extracts published in "Al-Hayat", 16th December, 1995.

[108] For further information concerning the economic relationship between the MNECs and the European Countries see the articles, all appeared in the daily paper "LE MATIN du Sahara et du Maghreb", : A. KIDISS, *Journée de partenariat maroco-danois*, 4 juin 1996, pp. 1-2 ; (Anonymous), *Nous allons donner un nouveau départ à la coopération maroco-allemande*, 1er juin 1996, p. 2 ; (Anonymous), *Nouvelle impulsion aux échanges bilatéraux*, 25 mai 1996, p. 5.

investment : privatisation has a key role to play as it can help generate the large sum needed to boost economic growth and investment[109].

Therefore the MNECs have the potential for a strong economic performance. However only if they are able to develop their capacity to generate, in due time, sizeable export surpluses of manufactured goods, will they be able to service the loans and the direct capital investments required to finance industrial renovation, to improve infrastructure and to create the jobs necessary to reduce unemployment. It is also true that today economic prosperity increasingly depends on the quality of a Country's domestic investment climate and the ability of its producers to respond quickly to opportunities in the global marketplace.

In the last few years, for example, because of their economic environment, some MENA Countries, such as Lebanon and Jordan, have been characterised by significant capital inflows which, within the context of important transfers of technology and skilled labour force, have improved the standards of living and the equity markets. However these Countries suffer from financial problems, as national savings are insufficient to cover the required investment. In addition their companies, being generally of small and medium size, do not always interest foreign banks which do not dedicate enough resources to small operations. This is a real problem since the domestic capital markets cannot fill the gaps ; in this context the project of the "Network" will play an important role.

Investors invest in this or in another region accordingly to risks and opportunities. Consequently, what the MNECs have to undertake to attract investment are structural reforms to improve resource allocation - by establishing sound financial systems and flexible markets -, facilitate participation in international trade, encourage private capital inflows, increase productive investment. This means simplifying regulatory systems so that potential investors, both domestic and foreign, will not be deterred by endless red tape, but attracted by a simple and clear set of rules, impartially applied, under which the private sector can flourish : laws,

[109] Bichara KHADER, *Le partenariat euro-méditerranéen après la Conférence de Barcelone*, L'Hartmattan, Paris, 1997, pp. 261-277, to develop industrial sector privatisation is not enough as it could mean transforming a public monopoly into a private one and this situation cannot constitute a solution to the economic stagnation of the MNECs.

regulations and administrative procedures are needed to be streamlined to make life easier for investors.

Therefore what is crucial for the growth of the MNECs is a concerted action between the Partners of the Euro-Mediterranean-plan to implement a comprehensive reform programme. As reforms are implemented, economic growth can be expected to pick up: Israel, Tunisia, Jordan, Malta, Morocco and Cyprus have been outstanding examples of rapid economic development linked to economic reforms.

Foreign investment is essential for economic rejuvenation, above all the Arab MNECs. To attract investment what is really important for them is to develop SMEs sector and co-operation between the firms of the two Mediterranean shores, above all by agreements of joint-venture. Arab MNECs, in fact, have the potential for strong economic performance testified by a long entrepreneurial tradition and many highly-skilled people. In addition, the EU financial effort is directed to improve the efficiency of the industrial sector and to promote industrial co-operation: establishing viable export-oriented industries, largely composed of small and medium-sized enterprises, will be the litmus test of the new Mediterranean policy.

It is also true that investors today invest more capital in MENA markets as most of them fit in within their preferred parameters; also flows from local and international investors and institutions have been rising dramatically. However much still remains to be done, even if economic growth needs to be deepened and speeded up, particularly regarding policies designed to help the SMEs.

3.4 The Small and Medium Business and the policy of investment

The SMEs[110] are the foundation of the MNECs economic activity and a key instrument of job creation and service innovation : their importance is reflected in

[110] 96/280/CE : *Raccomandazione della Commissione relativa alla definizione delle piccole e medie imprese*, Bruxelles, 3 aprile 1996, in order to be considered as a SME, an enterprise must have less than 250 employees. More specifically, and in order to distinguish between the SMEs, an enterprise is considered as "medium-sized" if it has more than 50 and less than 250 employees and an annual turnover not exceeding 40 million Euro or an annual balance-sheet total of no more than 27 million Euro. To be defined as "small" an

their significant contributions to the economy of their Countries. Anyway, to fully contribute to this growth, their business opportunities have to expand through increasing international economic activities. Actually, some of them are starting establishing business relationships with European companies.

The economic operators of the MNECs, as well as the ones of the EU, are aware that the key to success, in this increasingly globalised environment, is greater business co-operation by coming together to form business partnerships for mutual benefit: for that reason it is necessary to create a ***network of joint-ventures*** between the two sides of the Mediterranean Basin, as well as the instruments which could enable the Countries of the EU and the MNECs to establish such linkages[111]. The project of the *"Network" should facilitate this process*, as, at present, we are dealing with an initiative which naturally fits in with the spirit of the Barcelona Declaration.

In fact the main beneficiaries of the opportunities offered by the economic Euro-Mediterranean partnership are the SMEs depending on the fact that they contribute significantly to wealth and employment in the Southern and Eastern Mediterranean Basin not only as intermediate and final producers but also as consumers of goods and services. In addition they represents the primary vehicle by which new entrepreneurs provide the economy with a continuous supply of skills and innovation. Strong SME fields, then, could enable European economic operators to establish and expand linkages.

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enterprise must have less than 50 employees and an annual turnover not exceeding 7 million Euro or an annual balance-sheet total not exceeding 5 million Euro. As "very small" will be considered enterprises having less than 10 employees. A further basic criteria for an enterprise to be characterised as SME or "small" will be its independence, meaning that it cannot be owned by one or jointly by several large enterprises more than 25%. The definition of SMEs proposed by the European Commission provides a reference framework for the Community programme, policies and legislation concerning SMEs and for all those specific measure in favour of them.

[111] In the Euro-Mediterranean framework the creation of joint-ventures is well supported by the establishment of "Business Centres" as the major part of their work concerns the encouragement of collaboration between European and MNECs companies in a variety of forms including joint-ventures and the growth of SMEs. Concerning this last point, all Centres already existing have started to conduct business diagnosis as a first phase to take SMEs through a cycle of strategy development and company restructuring. The Tunisian "Business Centre", the "Euro-Tunisia Entreprise", has, for example, started to recruit consultants for direct assistance to enterprises. The general aim of "Business Centres", in fact, is to provide a range of consulting, information and training services to individual companies on a demand-led basis. Services include business planning, management development, marketing, packaging and promotion, export

In this light, *the challenge for MENA governments* is to assume the role of a catalyst in promoting entrepreneurship[112] and in creating a legal framework which takes their necessities into consideration. In fact SMEs suffer from constraints that really lower their resiliency to risks and prevent them from attaining scale economies. As a result they are still far from realising their full potential.

The priority in the road to growth is the creation of a "*friendly environment*" enabling interregional co-operation and entrepreneurship to venture into new activities in order to make the enterprises more productive and competitive on both the domestic and international markets.

To achieve this the economic operators of the MNECs, cannot be left on their own : a *concerted action between MENA governments and*, above all, *private institutions* both of the EU and of the MNECs, such as the Chamber of commerce, Development Agencies and Universities[113], is necessary in the framework of the Euro-Mediterranean-plan whose main aim concerning the SMEs should be to agree on a common action programme focusing above all on the following critical areas:

- access to technology ;
- human resources development ;
- access to credit and capital ;
- access to market opportunities ;
- intra-regional co-operation and internationalisation.

An area of intervention is badly needed in the field of human resources development and access to technology as the lack of workers and entrepreneurs with technical skills is one of the prime barriers to the growth of SMEs.

The development of firms in the MNECs and the possibility to make joint-ventures with European SMEs is essential because of the links with *technology* : in many of the Mediterranean Partners of the EU the link between science and technology and SMEs is not at all obvious, as science and technology is under the control of the

development, product design and development, productivity improvement, technology procurement and quality management.

[112] Camera di commercio italo-araba, *Il sostegno statale ai giovani imprenditori e gli aiuti dell'UE alla formazione di PMI*, in "PAESI ARABI", Informazioni Paese, maggio 1996, p. 19.

Universities, which are largely State supported. On the other hand, most of the SMEs, which constitute the bulk of the private sector, are not only small, family-owned, possible in the informal (or, better, illegal) sector, but also have little to do with science or technology.

In the light of this situation it is important to concentrate on joint-ventures with European firms which represent a crucial way to have access to new technologies[114]. In addition, *paring SMEs* from the two shores of the Mediterranean Basin will encourage technical co-operation and sponsorship of new enterprises, while the creating of linkages among them will provide the basis of increasing co-ordination among those "clusters"[115] of SMEs which are able to enhance their productivity and sustainability.

Access to credit and *innovative finance* is essential as well to develop the enterprises of the MNECs : the lack of networking opportunities hamper their growth, especially concerning those in need of capital.

In order to make the sector of the SMEs dynamic, it is then important to find proper strategies to get new markets : the Euro-Mediterranean Declaration is suggesting vertical integration, including joint-ventures and sub-contracting with European firms, a kind of co-operation also necessary for European ones.

With the emergence of a global market, the SMEs of the EU are increasingly searching for *new off-shore investment* opportunities. However, when setting up operations in North Africa and Middle East, overseas companies are often faced with the daunting task of "location", especially as the investing company is from a European Country which has a legal framework and business etiquettes. A way in which companies can overcome this problem is by entering into a joint-venture with a local partner: by entering into a joint-venture companies not only gain valuable exposure to local market conditions but also diversify their risks and opportunities. In addition, for the European small and medium businesses wishing to expand their

[113] It is important to remember that in this field the horizontal co-operation, and above all the decentralised one, has to play an important role.

[114] Abdelkader DJAFLAT, *Blocage de l'accumulation technologique endogène: les dimensions d'une problématique*, in "Les Chaier du CREAD", n. 25, 1er trimestre 1991, p. 12.

[115] See Chapter seven.

operations internationally, the concept of joint-venture offers a means of spreading costs and risks, while, companies with a limited capital base can enter into new areas of investment and exploit new technology.

At present, therefore, not only the economic operators of the MNECs, but also the European ones, do not profit as much as they should from the cross-border business opportunities. This is also due to the regrettable reluctance of financial institutions to support such projects and, concerning EU investors, because often little may be known about the proposed partner, local business environment and target markets. However these partnerships, frequently, fail to see the light of day also because often MENA Countries lack a real developed capital market and there is no way for equity holders to exit from the investment. The result is that SMEs growth is limited, their competitiveness is not improved and their capacity to create new job is not fully exploited[116].

Anyway, the need to start a *strategy of cross-border co-operation*, through joint-venture projects[117], has lead more and more European companies to establish some linkages with the SMEs of the other side of the Mediterranean Basin : probably they have understood they have something to gain from the opportunities offered by MNECs ; although they also have something to offer, that is to say expertise, experience and the know-how to use capital to the greatest mutual advantage.

3.5 Conclusion

On the basis of the previous considerations, we can reach the conclusion that the presence of an *efficient "Network" of Stock Exchanges* in the area, eventually connected with other Stock exchanges or networks working in other geographic areas such as USA, Japan, China, represents a "*must*" not an alternative. To guarantee the investors in order to guarantee enough flow of capitals to grant the development is a fundamental condition: the "Network" represents this condition.

[116] It is important to remember that, not only in the MNECs but also in many Member States of the EU, SMEs are the principal generators of job.

Another important conclusion is represented by the fact that the *main actor* of the network should be the *SMEs* whose development will represent the "*stable development*" of the area.

Furthermore it has been underlined that as a *pre-condition* only an *efficient financial market*, characterized by an homogeneous satisfaction average level among MNECs, *can host the "Network"* and permit the realization of the discussed joint venture among MNECs and EU-MNECs SMEs.

For these reasons, in the following pages, we will try to focus on some *economic trends of the MNECs* by analysing the macroeconomic framework of the Countries involved in order to point out their real potentiality of growth.

We will also analyse, more specifically, the financial framework of those Countries, focusing on the banking sector, in order to point out the complexity of the actions necessary to reach the above mentioned efficiency level.

We will then examine the present *framework of* the *MNECs Stock Exchanges* comparing the Countries with reference to the main topics of the Stock Exchange structure and activity. This analysis will certainly help to understand the level of the efforts that we can expect to be necessary to bring all of them to a comparable efficient common denominator as the basic condition to build up the network.

Finally, we will dedicate deep consideration to what we consider the most interesting *kind of shares* we expect to be listed in the "Network": those representing the "joint ventures" born within the EU-MNECs SMEs co-operation.

We will, in particular, analyse the possible situation that could encourage the *internalisation strategy of SMEs* in order to favour their will to participate with each other in the business venture on both shores of the Mediterranean Basin.

[117] See the article "Anonymous", *S.M. Hassan II : Oeuvron ensemble pour faire basculer l'Histoire*, in "LE MATIN du Sahara et du Maghreb", 26 aout 1996, p. 6.

CHAPTER 4

MACRO-ECONOMIC FRAMEWORK OF THE SOUTHERN AND EASTERN MEDITERRANEAN COUNTRIES

PAST, PRESENT AND FUTURE ECONOMIC PERFORMANCE OF THE MNECS

4.1 Introduction

The *prosperity gap* between the two Contracting Parties involved in the Euro-Mediterranean partnership is enormous.

To explain this gap, it is important to remember that some Mediterranean non EC Countries - MNECs - belong to the category of developing Countries, some others to one of the less developed Countries and just a few of them to the category of developed Countries[118].

For example, the West Bank and Gaza Strip should belong to the less developed Countries for the European Union - EU[119] -, most of the Arab MNECs, together with Turkey, seem to belong to the developing Countries category, while Israel is generally considered a developed Country, by the EC, but perceived as a developing Country in some spheres covered by the GATT '94 such as in the *Public Procurement Code*.

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[118] See the first Ministerial Conference of the WTO, Singapore, December 9-13, 1996, the problem of the level of development of the MNECs is of great importance regarding the GATT/WTO rules as they are conferring differential and more favourable treatment for developing Countries, including special attention to the situation of least developed Countries.

[119] COM (97) 156 final, *Improving Market Access for Least Developed Countries*, Brussels, 16th April 1997. On the contrary, West Bank and Gaza are not included in the UN list of least developed Countries.

We use "*should*", "*seem*" or expressions like these as the present status of developing Countries is decided on the basis of "self-selection"[120].

[120] The WTO allows for "self-selection" and this means that Member Countries may declare themselves "less developed Countries" if they consider this useful and plausible. This self classification is useful to benefit from some favourable treatment, in the WTO, among members. See the Communication from the Commission SEC(96)2168, 16/01/1997, p. 5. Anyway it is interesting to notice that the juridical base of the MEDA programme is given by article 235 of the Treaty that establishes, on one hand, that actions that will have to be undertaken are something more than the traditional co-operation in the development and, on the other hand, that the MNEC have no more to be included in the category of the developing Countries. See article 235 : "*Quando un'azione della Comunità risulti necessaria per raggiungere, nel funzionamento del mercato comune, uno degli scopi della Comunità, senza che il presente trattato abbia previsto i poteri d'azione a tal uopo richiesti, il Consiglio, deliberando all'unanimità su proposta della Commissione e dopo avere consultato il Parlamento europeo, prende le disposizioni del caso*", in G.U.C.E. C 224, 31 agosto 1992, p. 78.

Mediterranean non EC Countries' economic indicators

(Table n. 1.1)

MACRO-ECONOMIC INDICATORS	ALGERIA	CYPRUS	EGYPT	ISRAEL	JORDAN	LEBANON	LIBYA	MALTA	MOROCCO	SYRIA	TUNISIA	TURKEY	WEST BANK AND GAZA	TOTAL AMOUNT[121]
Population (million people)	34 (2000)	0,7 (2000)	65 (2000)	6 (2000)	5 (2000)	3 (2000)	5 (2000)	0,4 (2000)	29 (2000)	18 (2000)	10 (2000)	65 (2000)	3 (2000)	244,1 (2000)
GDP[122] (US$ billion)	53,3 (2000)	8,8 (2000)	97,5 (2000)	110,332 (2000)	8,34 (1999)	16,5 (2000)	35,1 (2000)	3,5 (2000)	34,0 (2000)	17,8 (1999)	19,8 (2000)	201,5 (2000)	5,1 (2000)	561,5 (1999)
GDP - real growth rate	2,4 (2000)	5,1 (2000)	4,9 (2000)	5,7 (2000)	3,9 (2000)	0,0 (2000)	3,0 (2000)	4,7 (2000)	0,9 (2000)	2,5 (2000)	4,7 (2000)	6,1 (2000)	N.A.	
GDP per-capita (US$)	1.550 (1999)	11.950 (1999)	1.493 (2000)	17.754 (2000)	1.655 (2000)	4.715 (2000)	6.600 (2000)	9.245 (2000)	1.183 (2000)	1200 (2000)	1.946 (2000)	3.086 (2000)	1.479 (2000)	4.678 (1999)
Inflation rate (annual average)	0,3 (2000)	4,1 (2000)	2,4 (2000)	1,1 (2000)	0,7 (2000)	-0,4 (2000)	N.A.	2,4 (2000)	1,9 (2000)	-0,4 (2000)	2,9 (2000)	54,9 (2000)	N.A.	6,35 (2000)
Total external debt (US$ bn)	25,53 (2000)	5,32 (2000)	26,81 (2000)	102,38 (2000)	6,76 (2000)	25,27 (2000)	N.A.	2,07 (2000)	11,66 (2000)	N.A.	10,17 (2000)	116,06 (2000)	/[123]	332,03i[124] (2000)
External debt in % GDP (annual)	47,9 (2000)	60,2 (2000)	27,5 (2000)	92,8 (2000)	81,1 (2000)	153,2 (2000)	N.A.	59,2 (2000)	34,3 (2000)	N.A.	51,4 (2000)	57,6 (2000)	/[125]	66,52 (2000)
Imports (US$ bn)	9.345 (2000)	3.556 (2000)	16.432 (2000)	34.187 (2000)	4.074 (2000)	6.230 (2000)	5,1 (2000)	3.097 (2000)	10,6 (2000)	4.055 (2000)	8.564 (2000)	54.502 (2000)	N.A.	144.058 (2000)
Exports (US$ bn)	21.650 (2000)	951 (2000)	7.078 (2000)	30.837 (2000)	1.899 (2000)	715 (2000)	11,5 (2000)	2.476 (2000)	7,4 (2000)	4.674 (2000)	5.840 (2000)	27.775 (2000)	N.A.	103.914 (2000)
Local currency: exchange rate - /US$	Algerian dinar -AD- 75,3 (2000)	Cypriot pound -£C- 0,621 (2000)	Egyptian pound -LE- 3,85 (2000)	New Israel Shekel -NIS- 4,08 (2000)	Jordanian dinar -JD- 0,709 (2000)	Lebanese pound -$L- 1.507,5 (2000)	Libyan dinar – LD – 0,5403 (2000)	Maltese lira Lm 0,438 (2000)	Moroccan dirham -DH- 10,626 (2000)	Syrian pound S$ 11,23[126] (2000)	Tunisian dinar -TDN- 1,371 (2000)	Turkish lira – TL - 625.219 (2000)	Jordanian dinar -JD- 0,709 (2000)	/

[121] The period of time taken into consideration to make the total amounts of the macro-economic indicators for both tables are the years 1999-2000. Brackets numbers referee to the period of the datum. When that number consists in 2 years, it means that no-uniform data are available.

[122] GDP : Gross Domestic product. The principle measure of total economic activity occurring within a Country's geographical boundary. As an aggregate measure of production, the GDP of a Country is equal to the sum of the gross value added of all resident institutional units engaged in production of goods and services.

[123] The datum concerning "West Bank and Gaza" does not exist because it is not a Country and consequently, it cannot have an external debt.

[124] The datum concerning "West Bank and Gaza" is not included in the total amount of MNECs' external debt as it is not a Country.

[125] See note n. 6.

[126] This exchange rate refers to the "Primary Official Exchange Rate". Market rate – named "Common border Countries exchange rate" – was averagely settled into 46,25 in 2000.

EC COUNTRIES ECONOMIC INDICATORS

(Table n. 1.2)

MACRO-ECONOMIC INDICATORS	AUSTRIA	BELGIUM	DENMARK	FINLAND	FRANCE	GERMANY	GREECE	IRELAND	ITALY	LUXEMBOURG	NETHERLANDS	PORTUGAL	SPAIN	SWEDEN	UNITED KINGDOM	TOTAL AMOUNT[127]
Population (mln people)	8,1 (2000)	10,2 (2000)	5,3 (2000)	5,17 (2000)	59 (2000)	82,5 (2000)	10,5 (2000)	3,7 (2000)	57,6 (1999)	0,4 (2000)	15,9 (2000)	10 (2000)	39,4 (2000)	8,9 (2000)	59,2 (2000)	375,87 (1999/2000)
GDP (US$ bn)	189,9 (2000)	207,7 (2000)	216,08 (2000)	121,72 (2000)	1299 (2000)	1.875 (2000)	0,11 (2000)	76,43 (2000)	1.235,05 (1999)	18,1 (2000)	369,33 (2000)	101,67 (2000)	560,09 (2000)	227,04 (2000)	1.414 (2000)	7911,22 (1999/2000)
Imports (US$ bn)	66,9 (2000)	159,5 (2000)	43,4 (2000)	32,4 (2000)	287,2 (2000)	500,7 (2000)	31,4 (2000)	50,6 (2000)	209,9 (1999)	10,58 (2000)	187,3 (2000)	39,8 (2000)	115,1 (2000)	74,3 (2000)	326,8 (2000)	2135,88 (1999/2000)
Exports (US$ bn)	64,2 (2000)	165,2 (2000)	49,7 (2000)	45,6 (2000)	291,2 (2000)	551,6 (2000)	13,5 (2000)	75,5 (2000)	229,7 (1999)	7,13 (2000)	206,6 (2000)	25,2 (2000)	147,8 (2000)	91,4 (2000)	283,4 (2000)	2247,73 (1999/2000)

127 The period of time taken into consideration to make the total amounts of the macro-economic indicators are the years 1999 - 2000.

The EU-MNECs gap, which presently stands at about a level of 1: 10 would reach the level of 1 : 20 by 2025 if the *status quo* is maintained [128].

To reduce this ratio during the next twenty years the Middle East & North Africa - MENA - Countries should achieve a GDP growth of at least 4 per cent per annum[129]. As table n. 1 shows, at the moment they are doing “quite” well. However, to continue present GDP growth rate trend, expansion of trade between the EU and the Southern Mediterranean region is vitally important as it represents a tool for the economic and industrial development of MENA Countries.

To achieve this goal the MNECs have embarked upon *programmes of divestiture*, recognising that privatisation can be an important element in the development of a competitive private sector. Anyway a *high priority* will also have to be attached to broadening these programmes in the future and to ensuring that they will result not only in the transfer of ownership (or better in the transformation of a public monopoly into a private one) but also in the creation of genuine competition. For that reason the UE is supporting the MNECs efforts to privatise a part of the public sector.

Nevertheless, what is important to stress is not only the macro-economic differences between the EU Member States and the MNECs, as also the Countries of the Southern and Eastern Mediterranean region have quite enormous differences in their *economic structures* as Table 4.1 shows. Not least of these is the variable in GDP per capita from a rate – in the year 2000 -, in Syria, of US$ 1.183, one in Malta of US$ 9.245, to a rate in Israel of US$ 17.754.

Therefore, in terms of *economic goals*, evidently there are a number of different traits that have to be dealt with by all the decision makers in the economic field.

However there are also many ***common traits***. Just to make an important example, in all the MNECs, there have been major and fundamental structural changes to the economies: it is interesting to compare this with the situation in the late 1980s when

[128] COM (94) 427, *Communication on Strengthening the Euro-Mediterranean Policy*, Bruxelles, October 1994, pp. 8-18.

[129] Eberhard RHEIN, *Europe and the Mediterranean : A Newly Emerging Geopolitical Area ?*, in “European Foreign Affairs Review”, 1 : 79-86, 1996, p. 83.

quite a number of MENA Countries faced really considerable difficulties in their economies, while, in these last years, enormous progress has been made by all the MNECs in terms of economic performance.

As a result, for example, after the *introduction of structural adjustment programmes*[130], the legacy in MENA Countries has been that the central banks and those with decision-making role in governments, in terms of economy, have been left with highly conservative policies : the results are lower *inflation rates*, *lower* budget *deficits* and so on.

4.2 The economic performance of the MNECs

The indicators used to assess macro-economic stability of the MNECs suggest that all these Countries need to *strengthen macro-economic policies*, particularly as inflation remains higher than the EU average : this will require tighter financial policies.

Lebanon, in particular, has a long way to go in terms of fiscal adjustment and even though the other MNECs have relatively low budget deficits, additional fiscal adjustment will generally be needed. Judging by the volatility of the real effective exchange rate, Algeria, Egypt, Lebanon and Syria, then, may need to allow the exchange rate to be more responsive and/or adopt more restrained fiscal and monetary policies to minimise potential divergences between the actual and new equilibrium real exchange rates.

Also *external debt* is a real problem for the growth of the MNECs as a large external debt at the outset of trade liberalization complicates macro-economic adjustment and may cloud the prospects for attracting investors.

[130] These structural reforms need to be broadly based, particularly in terms of reducing bureaucracy, in order to make it easier for direct investors to invest in the market and for local companies to expand. Fiscal legislation might also be needed to be improved and there should also be a deepening of capital markets governance in terms of transparency, disclosure and compliance.

This is because high debt service places a heavy burden on the budget and the balance of payments. Moreover, investors would be concerned if the debt burden reflected large past macro-economic imbalances and if they believed that it might lead to a future increase in taxation or a reintroduction of trade and exchange controls.

What is important, then, is lowering the *external debt to GDP ratio*.

Anyway this will be critical for Countries such as Algeria, Morocco or Jordan. Although they have lower external debt-to-GDP ratios, also all the other MNECs, except for Lebanon and Israel, will have to make serious efforts to reduce it, even if MENA Countries' external debt burden is generally moderated by the fact that some of the debt was contracted on concessional terms.

Turning to *investment regulation*, Israel, Jordan and Lebanon have maintained fairly liberal systems, while Morocco and Tunisia have liberalised them significantly only recently in the context of newly adopted unified investment codes[131]. Algeria[132] and Syria, on the contrary, maintain, to different degrees, restriction on private investment and still have a dominant public enterprise sector.

By contrast, Lebanon has traditionally confined public sector involvement mainly to the utilities sector and Israel, Jordan, Tunisia and Morocco have been moving rapidly to privatise public enterprises, while more limited progress has been achieved in Egypt.

[131] Concerning Morocco see, Camera di Commercio italo-araba, *Marocco*, in "PAESI ARABI", Informazioni Paese, maggio 1996, pp. 14 and 25 ; Ministère des Finances et des Investissements Extérieurs du Maroc, *Charte d l'investissement*, 1996 ; Partenariat euro-méditerranéen, *Guide de l'investisseur au Maroc*, préparé avec le soutien de la Commission européenne, diffusé à l'occasion de la conférance sur les opportunité d'investissements dans la region méditerranéenne, Londre, 6-7 mars 1997, pp. 34 and 97-98. Concerning Tunisia see, *Codice d'incentivazione agli investimenti, Legge n. 93-120 del 27 dicembre 1993*, in "Repubblica tunisina, Ministero dell'economia, Agenzia per la promozione dell'industria", Tunis Belvédère, 1993.

[132] See, Alain FELER, *Algerian Adjustment Efforts Yeld Broad Gains*, in "IMF Survey", 29 July 1996.

4.3 The MNECs differences in the economic structures

MENA States have come far in modernizing their economies, in transforming them into free markets, in creating market conditions in order to integrate into global economy; also average inflation for the region has declined as external debt.

Naturally all these economies cannot be put in the some bag, as Arab ones, in contrast to non-Arab MNECs, such as Israel and Turkey, for example, who still share low industrial competitiveness.

Concerning *Arab Countries*, the past 5 years have seen significant achievements in privatization/economic reforms and in the development of their financial markets testified by a considerable headway in stabilizing and opening up their economy. We can mention, among others,:

Algeria, whose steadfast implementation of its comprehensive stabilization and reform program since 1994, despite severe political and security problems, has helped produce the first increase in real per-capita income in five years;

Egypt, whose economic success of these years can be attributed to some basic factors such as: success at maintaining fiscal and monetary stability, continued strength in balance of payments and foreign reserves, increased aggregate demand, a positive capital market that is attracting foreign investment and attempts by the government to favourably reform legislation and privatization to offer investment incentives[133] ;

Jordan, whose determined pursuit of prudent macro-economic policies and structural reform since 1989 has resulted in a strong, broad-based growth averaging 6 per cent in the last few years and in a substantial reduction in unemployment,

[133] Mohamed S. YOUNES, *What investors want*, Mediterranean Capital Market Conference, 26 & 27 March 1998, London p. 20.1, Egypt has accomplished spectacular strides in reforming its economy over the past five years. Here are some of the highlights :

- Increase in foreign exchange reserves to twenty billion dollars;
- Drastic reduction of budget deficit;
- Removal of all exchange control;
- lack of restriction on foreign investment which has made it easier and easier to invest in the Country.

despite high labour force growth. The Country, then, has introduced important market reforms to integrate with global economy;

Morocco, where a vast modernisation and adjustment program has allowed the Country to balance macro-economic factors, thus laying the groundwork for international exchanges. Thanks to this new policy foreign investment is developing strongly. The revival of the Casablanca Stock Exchange is then linked to the Structural Adjustment Program. In fact, for example, privatisation has had a significant impact on the Stock Exchange development and initiatives to relax capital controls have strengthened the banking sector;

Tunisia, whose transformation in 1986 from an inward-looking and heavily regulated economy into a predominantly export-oriented market has made the Country more able to withstand external shocks, increased real per-capita income by an average of about 2 per cent per annum since 1987 and permitted major improvements in health, education and other social indicators.

Despite all these achievements, MENA *Arab Countries are operating below potential* as they are not taking full advantage of the opportunities that global economy has to offer. This can be seen in the fact that, in the past years, they have attracted very little private investment and their export has not developed enough. As a consequence these Countries should expand and balance modes of production and distribution to create the conditions for greater private sector participation and growth. Privatisation, deregulation and the liberalization of protective external trade regimes should then be stepped up to increase MENA international competitiveness.

Egypt, Jordan, Morocco and Tunisia are doing well in *stabilizing macro imbalances*, so they could be considered NICs[134]. The situation in Lebanon and above all in Syria is different and can be considered, as has been described by the International Finance Corporation - IFC[135] -, a sleeper.

[134] NICs : New Industrialized Countries.

[135] Iasser I. ELGUINDI, *A Look Back at 1997*, in "Yearened Review", January 2, 1998, p. 3.

Therefore the *EU Mediterranean neighbours* consist of Countries of unequal resource endowment and development potential. Towering over the others is the tiny *Israel* with its six million people, enjoying a standard of living as high as that of Europe, based on modern science and technology and a very close relationship with Europe. Nor will the EU have to be excessively concerned about the long-term development of a powerful *Turkey*, as this Country possesses the human and agricultural resources, including water, for sustainable growth: the Turkish economy has been expanding faster than the OECD average in recent years.

Concerning *Cyprus* and *Malta* they are small but good and stable economies and, in fact, the enlargement of the EU to the two Mediterranean island States pose no economic problems for the Union.

The concern stems from the Arab Countries of the Maghreb and Mashrek which are really different economies from the one of Turkey, Israel, Cyprus and Malta. For example GDP (an important indicator to assess both the relative economic weight as well as relative market size) of Israel is quite a bit larger than the one of Egypt, Jordan and Tunisia together, and Cyprus' economy is larger than the one of Jordan.

Arab MNECs, anyway, are involved in major reforms as they have realised they cannot continue past policies marked, for example, by centralized government controls and interventions, inward-looking industrialization, control of the media and State industries.

Nevertheless, to develop, MENA States should focus not just on their own economic growth, as it seems they are doing, but also to regional integration as, for the moment, these Countries are experiencing more global integration than a regional one. If integrated into a single economic unit, *MENA region could become one of the most favoured investment area in the world*, capable of rapid economic growth in a relatively short period of time as a less fragmented environment would be more attractive to investors world-wide and could avoid the so-called "*hub-spoke*" effect resulting from the establishment of free trade with the EU and the maintaining of high intra-regional trade barriers with the other MNECs. In this case, foreign investors, who otherwise might have invested in a MNEC because of the access it offered them to other MNECs' domestic markets, would have an incentive to invest in the "hub" (the EU) which offered them access to all the MNECs (the spokes). So the hub-spoke, as well as the trade diversion effects, can be minimized only by a uniform reduction of trade barriers between all Euro-Mediterranean trading Partners.

It is important to stress that the MNECs have to start the *necessary comprehensive trade reform* long before their entry into the free trade area. In fact in this way the shock of structural adjustment will be minimised, a smoother reallocation of resources fostered and minimised trade diversion effects.

What is then relevant for the MNECs to promote their growth is to reach a high degree of trade openness.

Two indicators are generally used to assess trade openness : *import tariffs* and the *ratio of total trade to GDP*.

Regarding *import tariffs*, Jordan has relatively low average tariff rates, while the other MNECs have quite high tariff structures which are often increased by import surcharges. In terms of the ratio of *total trade to GDP*, then, Jordan and Tunisia appear to be the most open. In Egypt and Libya, external trade accounted for less than 40 percent of GDP in 2000. However, Egypt appears more open if external trade in services (e.g. tourism) is taken into account.

The remaining MNECs fall between these extremes.

Even judging by the trade-to-GDP ratio, most MNECs remain less open than other, faster-growing developing Countries. Thus, nearly all the MNECs need to pursue measures that foster economic openness.

Despite this situation, in reality the degree of liberalisation of the regulatory framework cannot be easily qualified. Nevertheless, one can get the idea of the openness of the regulatory framework by examining the extent of price controls, labour market limitation, investment regulation and privatization.

So we can notice that Egypt, Israel, Jordan, Morocco and Tunisia have already made significant progress in decontrolling their price systems. Also Algeria has recently made considerable efforts in this field, but, together with Syria, it still maintains a considerable array of controls. Concerning Jordan and Lebanon, these Countries have fairly liberal labour market regulations, while Israel still regulates the labour market closely, although there has been a marked improvement in the functioning of it in recent years. Considerable labour market limitation, then, remain in Algeria, Egypt, Morocco, Syria and Tunisia: these limitations particularly reduce the employers' possibility to carry out labour force adjustments in response to changing economic conditions.

4.4 The importance of the Euro-Mediterranean agreements for the economic growth of the MNECs

There are different views concerning the relationships between the macro-economic environment of the MNECs or, better, its improvement, the *Euro-Mediterranean agreements* and the fact that the latter ones will be able to achieve their aim to help MENA Countries to develop.

It is interesting, as well as important, to point out the contrasting positions.

In *Morocco*, for example, the government estimated that 25 per cent of private sector businesses would fail if the Euro-Mediterranean free trade area were to be introduced in a short period of time.

That could be true but we have to stress that there is time for businesses to prepare for 2010. What is important, anyway, is that Brussels has to remember that it has some responsibility to bear in ensuring that there is a major transfer of expertise ahead of that target. And, in fact, the "*Second generation*" agreements seem to take such a transfer seriously, but maybe not enough.

Therefore, the benefits and the threats of the agreements, in terms of approaching the free trade zone, are something which should not be underestimated[136]: in reality,

[136] Angus BLAIR, *Regional Economic Prospects - An Investor's Response*, Mediterranean Capital Market Conference, 26 & 27 March 1998, London, p. 10.2.

much still depends on governments to speed up the economic reform programmes currently in place in all the MNECs and do what investors would like to see done.

Generally, anyway, the *free trade zone* is expected to generate significant long-term economic benefits, even if it will also involve transitional costs.

In time, *welfare gains* would results:

- as trade liberalization results in factors of production being reallocated towards sectors where each MNEC has a comparative advantage;
- as the anti-export bias present in many of these Countries' trade regime is reduced;
- as MNECs become more attractive to foreign investors;
- as incentives for industrial restructuring increase.

The size of welfare gains will also be related to the extent to which MENA States implement trade reform with non-EU Countries. If they do so, this will ensure that trade creation outweighs trade diversion. The latter, on the contrary, could result from entry into a free trade agreement with the EU, even if, in reality, the impact of trade diversion is likely to be limited - geographical proximity and established trade links would suggest that the EU will always remain a dominant trade Partner of the MNECs -.

Nevertheless, while substantial benefits should result for MENA Countries from having freer access to what is currently one of the world's largest markets, the increased benefits will probably be limited, since most of the MNECs manufactured goods already have free access to the EU. Anyway, as many Mediterranean Partners of the EU stress, if the agreements were to allow substantially increased access to European markets for agricultural products and for those manufactured products currently subject to monetary barriers - products in which the MNECs have a comparative advantage, such as textile and clothing - the benefits to MENA Countries would be substantially higher.

Efficiency improvements should also result in the Countries of the Southern and Eastern Mediterranean Basin from *harmonising standards* and *measures* and *regulations* in areas such as subsidies, competition policy and public procurement as, anyway, envisaged in the agreements. Further productivity gains, then, should result from the increased competitive pressures that will reduce monopolistic rents and from the absorption of technological know-how associated with foreign direct investment.

What is true is also that, as far as *transitional costs* are concerned, trade liberalization with the EU will effect protected industries, which will need to adjust to the increased external competition, possibly by reducing labour costs through reduction in labour.

This could raise unemployment, pending the reallocation of resources: it would be the case if tariffs on raw materials and intermediate goods were eliminated early on, while tariffs on final goods were maintained - a sequence envisaged in the EU agreements with Morocco and Tunisia. However the welfare losses associated with increased effective protection may offset the temporary gains from reduced unemployment.

Anyway, the agreements are also likely, at least, initially, to worsen the current balance of payments. In fact the elimination of quantitative restrictions and tariffs may raise overall consumption levels and cause consumers to buy imports instead of domestic goods. In addition, the higher level of investment fostered by the agreement will require higher imports on capital goods: a major expansion in exports is difficult in the short run, given that the MNECs already enjoy preferential access to the EU market and reallocation resources as well as raising investment in export industries will take time. From here arises the need to establish a Euro-Mediterranean Network of Stock Exchanges able to attract the necessary capital.

This picture shows that, of course, the MNECs have to try to *minimize the costs* and *maximize the benefits* of entry into the free trade area with their European Partners. To do so they should endeavour to meet a number of conditions :

- *macro-economic stability*;
- *low reliance on trade taxes*;
- *low external debt burden*;
- *high degree of openness*;

- *liberal regulatory framework*[137].

4.5 Globalisation, Multilateralism, Regionalism and the Euro-Mediterranean partnership

Globalisation, *multilateralism* and *regionalism* have become three characteristics of the world economy: above all the constitution of regional economic groupings is outlining a new economic map for the planet[138]. Nevertheless, against a background of growing interdependence, the MNECs risk becoming the also-run of the new economic world order, if they are not associated with Europe.

The MNECs, in fact, can expect to benefit from being "locked into" a liberalization schedule with one of the major regional trade system, as this kind of co-operation will help them foster a more favourable investment environment which will encourage further domestic and foreign direct investment.

To be associated in the European regional grouping will have positive effects not just for the MNECs, but also for the UE Member States. Consequently, it is important to analyse why *Brussels has decided to create a regional grouping* with its Mediterranean Partners.

The answer is: *to create a counterbalance to the economic groupings of Asia and America*. More generally, the processes of globalisation/regionalisation of the economy is one of the reasons which has brought the EU to launch the Euro-Mediterranean-plan[139].

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[137] Controls on goods and factor markets hinder the efficient reallocation of resources and limit the transmission of the positive effects on trade reform. Price controls also often involve explicit budgetary subsidies, making fiscal discipline more difficult to sustain. It is then essential that, in the MNECs, the decontrol of goods and factor markets be complemented by an appropriate regulatory framework that does not hinder the industrial restructuring prompted by trade reform. The benefits of liberal export-oriented policies can be improved by the privatisation of public enterprises, which can contribute to increasing overall economic efficiency and savings, as well as widening the scope for the private sector in the economy.

[138] Giorgio SACERDOTI, *Nuovi regionalismi e regole del GATT dopo l'Uruguay Round*, in Giorgio SACERDOTI e Sergio ALESSANDRINI, (a cura di), *Regionalismo economico e sistema globale degli scambi*, Milano, 1994, pp. 11 and following.

[139] The other two reasons which have brought the EU to launch the Euro-Mediterranean partnership are :

The *globalisation* of the economy, in fact, leading to the internationalisation of companies and to a globalisation of the market. This situation, as a result, increases the competition between industries and the great economic powers. Therefore, to respond to world competition better some regional areas have been set up and others are being established.

There are many of these *regional groupings* today, even if it is consolidating a triadic model made up of three geo-economic areas : the *American* one (markedly the NAFTA), the *European* one (markedly the EU or, better, the EES[140]) and the *Asiatic* one (markedly the AFTA[141] and the APEC[142]).

The European pole, anyway, risks to be less effective because of the limitation of its internal market and the pourer relationship with its neighbours.

Therefore, within the international arena, it is fundamental to know about the existence of the main economic regional systems[143] in order to understand the importance for Brussels to build a Euro-Mediterranean regional economic grouping. This is particular important given the Unites States' proposal to create, in short

- to balance the policy of the EU in the two main zones that concern its security, that is to say the Countries of Central and Eastern Europe and the MNECs. The internal balance of power in the EU needed redressing : the Southern European Member States felt that the EU (financial) efforts in Central and Eastern Europe needed counter-balance in the form of a programme for the EU Southern and Eastern neighbours.
- to slow down the economic crisis of the MNECs and, consequently, preserve the stability of the Mediterranean area and the security of Europe. In the eyes of the EU Member States the Mediterranean region is being destabilised due to economic crisis and resulting radicalisation of social conflicts ; in other words, Brussels is worried about losing control over its energy supplies and about increased (especially illegal) migration from the area. Therefore the EU is not only interested in the Mediterranean Basin just to contrast the USA economic world-wide influence, but it is also interested in encouraging a genuine social and economic development. This objective is testified by the fact that the Barcelona plan is based on equality between the involved Countries and by the fact that it is rightly aimed to start a process, rather than provide immediate solutions to existing problems.

[140] EES : European Economic Space. It is an agreement of free trade between the EU and the EFTA States (except for Switzerland). The EFTA, European Free Trade Area, is an association agreement which includes Island, Norway, Liechtenstein and Switzerland.

[141] AFTA : ASEAN Free Trade Area. It was established in 1992 between the member Countries of the ASEAN that is to say : Indonesia, Malaysia, Philippine Singapore, Birmania, Laos, Brunei, Taiwan and from December 17, 1998, Cambogia. See the article of L. Vin, *L'Asean accellera nell'integrazione*, in "Il Sole24-Ore", 17 dicembre 1998, p. 9.

[142] APEC : Asian Pacific Economic Co-operation. It was established in 1989 and includes 18 Countries including China, Japan, United States, and Canada. The APEC, the NAFTA, but also the Euro-Mediterranean regional grouping, show that the integration of developing Countries into world markets is a clear example of a transformation taking place in international economic relations.

[143] See Naheed KIRMANI, *International Trade Policies*, in "World Economic and Financial Survey", International Monetary Fund, Washington, 1994, pp.107-116.

term, a Free Trade Area of the Americas - FTTA - encompassing all the American continent's Countries[144].

Europe, as it emerges from the Treaty of Rome, has considerably increased its socio-economic integration, its economic importance and the number of Countries belonging to the system has increased. The *United States*, anyway, continues to retain its position as the most important international economy, above all after the establishment of NAFTA in 1994, while the second position is retained by *Japan* in spite of the fact that it is currently undergoing a period of relative economic stagnation and recently experienced an important crisis.

In this context, the economic performance of *China*, a Country with a population of about 1.350 million and an important scientific and technological level, must be underlined, as, just to make an example, in the last twenty years its Gross Domestic Product growth rate has increased annually by over 8%.

The economic importance of China and Japan is also stressed by their membership in a really important regional economic system, the APEC.

Another participant in the world economy which has to be taken into account is *India*, as well as the potential and the dynamism of the Countries of South-East Asia. For that reason another significant regional grouping to take into consideration is AFTA as well as MERCOSUR[145].

All these regional trade agreements have already lead to a positive performance. For example, MERCOSUR intra-trade (both exports and imports), since the entry into the Treaty of *Asunciòn* in 1991, has developed considerably and so has trade with the rest of the world, although at a slower pace. In fact between 1992 and 1995 intra MERCOSUR exports grew at an average annual rate of 30%, while total exports grew at an average annual rate of 11%. In addition Brazil has become Argentina's

[144] Although this project, the MERCOSUR Countries, especially Brazil, because of the conflicting elements between the FTTA and MERCOSUR have attempted to delay the negotiations for the establishment of the FTTA suggesting putting of such a decision to the year 2005. The United States, on the other hand, have proposed the year 2005 as a deadline for the full implementation of the area. The creation of this regional grouping will result, practically, in the disappearance of MERCOSUR, since it will lead to the elimination of tariff barriers between all the Countries of the Americas, thus including the common external tariff which is fundamental tool of MERCOSUR.

main trade Partner, accounting for almost 30% of its exports and therefore relegating the United States from its historical position[146].

In all Latin America, then, exports grew by an annual average of 9% between 1990 and 1995 and while global imports in the same period grew by 8%, Latin America imports increased by 14% despite the shake up after the Mexican *tequilazo*[147].

Also concerning the Asiatic continent, the economic performance has been considerable in these last years. Imports into East Asia reached an annual 15% over the same period. Trade investment is also growing at an unprecedented rate, especially between Japan and East Asia and between East Asia and South Asia.

That is the framework the European regional grouping has to cope with.

For this reason, in recent years, Brussels is – successfully – trying to establish a larger internal market which may allow it to cope with other regional groupings, creating a neo-liberal doctrine according to which a wide, open international euro-Mediterranean market is an option that could favour everybody, since the distribution of factors will be according to the criteria of profit maximization increasing economic competitiveness.

As we have already pointed out, regionalization has meant the creation of three main areas of influence, even if they have different levels of institutionalisation: the area of North America, Europe and Asia-Pacific.

Besides these systems, as we have shown, there are other economic groupings not totally integrated with them such as the former *Socialist Republics*, the *Middle East*, *Africa* or *Latin America*.

These could be considered as "*disputed areas*" within the circles of influence mentioned above and the competition between North America, Europe and Asia-Pacific to expand their influence in the disputed regions will surely have several

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145 MERCOSUR : Mercado Comùn del Sur, established in 1991 between Argentina, Brazil, Paraguay and Uruguay.

146 Diana Tuss, *Multilateralism's New Approach in the Global Economy*, in "Globalization and External Relations in Latin America and the Caribbean", Capìtulus, n. 53, June 1998, p. 48.

146 Financial Times Conferences, Mediterranean Capital Markets Conference, 26 & 27 March 1998, Guildhall, City of London.

147 See, CEPAL, *Informe 1997 sobre inversiòn extranjera en America Latina y el Caribe*, Santigo del Cile, majo 1998.

consequences[148], while, at the same time, these systems must compete among themselves to attract investments.

COUNTRY	GROWTH OBSERVED IN 2001
Argentina	- 0,50
Brazil	1,50
Chile	5,40
Mexico	- 0,30
Venezuela	3,20
AVERAGE	1,86

(Table n. 4.3)

COUNTRY	GROWTH OBSERVED IN 1997
Korea	8,80
Malaysia	0,40
Thailand	4,80
China	7,40
Hong Kong	0,10
India	5,20
Singapore	- 2,00
Taiwan	- 1,90
AVERAGE	2,85

(Table n. 4.4)

If we compare Table n. 4.3 and 4.4 to Table n. 1, we notice that the EU really has to associate with the MNECs in order not to lose to its two main competitors, the United States and Japan, which are already trying (rather successfully) to have closer economic linkages with, respectively, the Countries of Table 4.3 and Table 4.4.

[148] It is important to remember that, in December 1995, the EU signed an agreement with the group of Countries constituting the MERCOSUR.

The same strategy has to lead the EU to be more competitive with them, that is to say it has to create a real partnership with its Mediterranean neighbours.

What is also important to remember is that the EU, in order to “win” this economic groupings competition, has to *support the development* of its Mediterranean Partners - as MNECs, at the moment, have a growth rate inferior to the one of many American or Asiatic emerging Countries - above all as MENA States could have the potential to surpass the American and Asiatic Countries economic performance[149].

Therefore, it is in the interest of both Contracting Parties involved in the Barcelona process to build up a prosperous Euro-Mediterranean regional economic grouping.

[149] Ettore BOTTI, *L'Europa si allunga nel Mediterraneo*, in “Corriere della Sera”, 29 novembre 1995, p. 7.

CHAPTER 5

SOUTHERN MEDITERRANEAN BANKING AND FINANCIAL ENVIRONMENT

BANKING AND FINANCIAL SECTOR

5.1 Introduction

If Mediterranean non EC Countries - MNECs - further develop their international commercial ties without increasing intra-regional activity they will attain greater global integration without achieving regionalism, with intra-regional trade remaining a dismal 7 per cent of total exchanges. In addition, as these Countries continue to integrate internationally, they will continue to deal with Western Countries and Western-led organisations than with other MNECs.

The *presence* and *influence of the West* is evident even in the Middle East & North Africa -MENA - development bank, a situation which may develop into future conflicts of interest[150] : whenever the MNECs work through development banks, they are never free of Western involvement. In fact, unlike any typical bank, ***MENA bank*** is to continuously monitor development project once loans have been awarded : therefore the bank, including its Western component, will maintain a supervisory role over all regional development projects which require its financial assistance.

What is true is that *financial institutions* have an important *role* to play in helping the MNECs economies realise their full potential : banking systems fulfil essential functions in intermediating between savers and investors, financing private sector

[150] For example, in some MENA Countries, the United States holds more than 21 per cent of the bank's total shares whereas a typical MNECs hold less than 10 per cent.

trade and investment and helping to ensure that the economy's financial resources are allocated efficiently.

Therefore, it is crucial to have a *well-functioning banking system* to increase the effectiveness of macro-economic policy: by providing a channel for monetary policy signals.

5.2 MNECs financial markets

Over recent years the *development* of a number of *financial centres* has been seen in the Southern and Eastern Mediterranean region, which, consequently, is becoming a major emerging market.

This potentially lucrative growth is the result of eliminating impediments that deterred the rise of efficient financial markets. In fact, the past record of MNECs in attracting equity flows was very poor.

However, today, *the situation* is clearly changing. Indeed we can point out, for example, that :

- *in Egypt* the *new capital market law n. 95 of 1992*, with its executive regulations and rules, has stimulated the growth of the primary and secondary financial markets ;
- *Jordan*, *in 1997*, ruled its Stock Exchange's activity through the *Security Law*;
- as a part of *Morocco's* economic reform programme, *three laws* have been issued to govern and develop the *Stock Exchange*.

These examples show that MENA Countries are succeeding in developing their financial markets and Stock Exchanges, which would also have the function to *promote the privatisation process* already started in most of the MNECs.

Therefore the policy followed by many Mediterranean Partners of the European Union - EU - has already led to a number of positive results witnessed by a significant achievement in the development of financial markets : almost all *MENA stock markets* have had robust *increases* in their main *stock indicators*.

Investors invest more capital in financial markets which reflect their preferred parameters and most of the Southern and Eastern Mediterranean markets are starting to fit in with these: today flows from local and regional investors and institutions have been rising significantly so that many MENA markets are already on the screen of the world investment institutions. Historically, in fact, many MNECs' financial markets have been overlooked. Indeed that was exactly the case until about two years ago. As a result, in 1997, equity portfolio flows for the Southern and Eastern Mediterranean region reached nearly two billion dollars and flows into debt instruments also continued to rise sharply[151].

The reforms implemented by most MNECs have led to a number of positive developments as well as on the *banking sector's activities* and growth: in the two decades from 1975 until 1994, the total assets in the banking sectors of Arab Countries have significantly increased. In addition, by gauging the ratio of total banking deposits to GDP, for MENA Arab Countries, it is apparent that this ratio is high in the majority of these States.

That improvement of the banking system is important as this sector plays a *central role* in every economy. It is there that the public deposits the bulk of its financial savings, which are used by the banks to provide credit to firms and households ; most payments are made via the current accounts which are handled by the banks ; foreign currency transactions are also usually executed via the banks. Banks, anyway, operate in other important spheres too.

Therefore, the financial sector liberalisation in the MNECs, as in all developing Countries, is crucial as it is able to reveal major problems in the financial adequacy of domestic banking systems, as for example we have seen in the current Asian crisis. For that reason some MENA governments are allowing privatisation of State-owned banks and opening them to competition from new private banks. Also the

[151] Angus BLAIR, *Regional Economic Prospects - An Investor's Response*, Financial Times Conferences, "Mediterranean Capital Market Conference", 26 & 27 March 1998, Guildhall, City of London, pp. 10.1 and 10.2.

International Finance Corporation - IFC - is investing in the region in several new institutions to support this encouraging trend.

5.3 The banking system : a Country by Country report

5.3.1 Algeria

Under the current International Monetary Fund - IMF - banking reform programme, new initiatives will seek to foster recapitalization and the liberalization of the banking system of Algeria. These reforms are aimed at increasing competition and developing the financial market and Stock Exchange.

The banking reform programme was launched in 1987 and the structure of the financial sector has been fundamentally altered by the *law on Money and Credit of April 1990*[152]. It established the independence of the Central Bank and permitted the creation of privately owned[153] and foreign-owned banks.

Union Bank, Algeria's first private bank, opened up for business in early 1995. It is the first merchant bank of the Country and it can have local and eventually foreign shareholders. Concerning foreign banks, just in 1989 they were allowed to set up representative offices in Algiers for the first time, led by three major French banks. Also international banks set up representative offices in Algeria in 1989. Both French and Saudi Arabian banks have opened for business. In addition the Citybank of the U.S. has also opened a local office. Foreign banks can establish *joint financial enterprises* with local institutions and they are allowed 100 per cent ownership and can repatriate all their profits, with significant powers of autonomy from the Ministry of Finance

[152] Key law and regulations have been passed since 1990 to de-regulate the banking system and allow banks to carry out their intermediation role between lenders and borrowers.

[153] Till few years ago the banking sector was entirely dominated by State-owned specialised banks.

The Algerian banking system consists of the Central Bank *d'Algerie*, 6 State banks, 1 public development bank and 1 private bank owned by Algeria State's banks and Saudi Arabian group[154].

The *Central Bank d'Algerie*, known as "Banque d'Algerie" - BDA -, in these last years, has undergone a significant overhaul. It plays an important role as it issues currency, regulates and licences banks, sets rediscounting ceilings for banks and supervises all foreign transactions. It can also adjust liquidity by intervening in the money market through purchase and resale agreements with banks. The "Banque d'Algerie" is then responsible for reforming the banking system and investment practices.

Concerning *commercial banks*, they finance the transactions of State-owned[155] and private enterprises. Commercial banks have not yet started to attract domestic savings and do not offer mortgage facilities[156]. Although they are still State-owned, the commercial banks, then, are managed independently and are allowed to compete. They are also allowed to operate as universal banks and offer a vast range of services.

As regards the national savings bank, the CNEP, it uses household savings to finance house building programmes and to provide housing loans for private individuals[157].

It is then important to remember that IFC has approved a project to establish the first international commercial bank of the Country, with Arab Banking Group as a technical partner, in order to serve the needs of Algeria's growing private sector. The hope is to create an institution which should serve as a "best practice" model

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[154] Source: http://www.arabchamber.com/arab-countries/algeria/G/trade_and_project_financing.htm

[155] Former State banks, increasingly, have to compete for customers, but have a limited ability to mobilise deposits.

[156] Generally, in the last decades, real deposit and lending rates have been negative on the whole.

[157] Euro-Mediterranean Partnership, *Guide for Investors in Algeria*, prepared with the support of the European Commission, Released at the Conference on Opportunities for Investment in the Mediterranean Region, London, 6-7 March 1997, pp. 36-40.

for the development of a modern banking system which, in Algeria, is still non-existent[158].

5.3.2 Cyprus

The *banking system* of Cyprus consists of the Central Bank, of 9 onshore commercial banks, of 30 Offshore Banking Units - OBUs[159] -, of 2 Administered Banking Unit - ABUs -, of 3 specialised financial institutions and of a number of leasing companies[160].

Strong *correspondent networks* are maintained around the world by onshore and offshore banks. They have easy access to the world banking network and are able to carry out traditional and specialised financial transactions.

Offshore banking licenses are granted by the Controller of Banks who is the Governor of the *Central Bank*. As a rule, only subsidiaries or branches of banks enjoying a good reputation internationally, established in Countries where there is adequate banking supervision and where lender of last resort facilities are available, are eligible for an offshore banking licence. All offshore banking licenses are then subject to certain conditions, which may be expanded or modified depending on a number of factors, including the Offshore Banking Unit’s legal form (i.e. subsidiary or branch) and the parent bank’s financial standing and international reputation. OBUs, although exempt from most monetary policy and credit regulatory measures applicable to onshore banks, are then subject to supervision and inspection by the Central Bank. They are also expected to satisfy the Central Bank to meet their obligations when they arise and to their adherence to sound banking practices.

Applicant banks may also establish themselves as ABUs.

These are required to carry on banking business in their own name, but their day-to-day administration should be carried out, on their behalf, by another bank which must already be licensed by the Central Bank to operate in, or from, Cyprus. In

[158] André HOVAGUIMIAN, *The Role and Importance of Capital Markets*, Financial Times Conferences, “Mediterranean Capital Market Conference”, 26 & 27 March 1998, Guildhall, City of London, pp. 14.1 and 14.2.

[159] The complete list is available at web address: http://www.centralbank.gov.cy/pdf/obunits.pdf

addition ABUs are subject to the same reporting and supervisory requirements as OBUs.

It is then important to stress that offshore enterprises may not render financial services to parties other than their shareholders or members of their group of companies without the prior authorisation of the Central Bank[161].

5.3.3 Egypt

A major breakthrough in the Economic Reform and Structural Adjustment Program in Egypt is the liberalisation and strengthening of the financial and banking sector, as well as introducing new securities and financial services. As a result, in these last few years the *banking system* of Egypt has undergone a *significant reform*.

The banking industry is large and offers standard services, such as credit and long and short term loans. Even if banking practices are still highly conservative, with financing generally limited to well-established companies and individuals. The banking sector then provides most of the capital for investors : although the system is highly liquid, most financing consists of short term lending.

The field is dominated by the *public sector* banks, but the *privatisation* of joint-venture banks is reducing this domination. In fact over recent years, the banking system has been partially liberalised: by the end of 1996 14 banks had been majority privatised with the share of the public sector banks being reduced to less than 49 per cent.

Banks can be divided into five categories, by ownership and/or activity: public sector commercial banks, private sector commercial banks, foreign banks, investment and merchant banks and specialised banks. More exactly, in Egypt there are 57 banks comprising of 4 State-owned commercial banks - the so called "Big Four" -, 15 branches of foreign banks, 11 investment banks (8 with foreign share holdings up to 49 per cent), 24 commercial banks (15 joint-venture banks with

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[160] Commercial banking arrangements and practices follow the British model.

[161] Euro-Mediterranean Partnership, *Guide for Investors in Cyprus*, prepared with the support of the European Commission, Released at the Conference on Opportunities for Investment in the Mediterranean Region, London, 6-7 March 1997, pp. 5 and 21-22.

foreign share holdings up to 49 per cent) and 3 Egyptian owned specialised banks (Real Estate Bank, Industrial Bank and Agricultural Bank, with 19 affiliates). There is also 1 offshore bank operating in the Country and the previous shareholding ceiling of 49 per cent for foreign investment in private and joint-venture banks has recently been lifted.

All these banks have an extensive geographical network of branches covering every major city in Egypt. They are guided by the *Central Bank*'s discount rate in the formulation of their own policies.

Concerning the Central Bank of Egypt, it plays a *regulatory role* though offerings of treasury bills and monetary policies. It also supervises the banking system, is responsible for credit and general banking policies, influences monetary policy and issues bank notes, manages Egypt's reserves of gold and foreign exchange, regulates and monitors commercial banks and acts as a government bank. The Central Bank, then, controls the availability of credit within Egypt regulating the liquidity requirements and investment policies of trading and commercial banks. It also engages in a limited range of open-market operations, trading in financial assets to effect conditions in the financial markets and thus influencing the overall credit system. In addition it guarantees deposits at all authorised banks, but not those of non-bank financial institutions.

Public sector commercial banks, which are commonly referred to as the "*Big Four*", with their total branch network numbering over 800 branches, account for approximately 70 per cent of the total banking sector's assets, but only 40 per cent of capital, reserves and provisions. They are then dominant in retail deposit collection, public sector company banking and have an unrivalled access to official deposits. However, they suffer from a multitude of problems, the most severe of which is a high level of non-performing loans. They are also over-staffed, bureaucratic and severely under-capitalised.

Active in *private sector*, other commercial banks are a number of foreign banks which opened branches and/or established joint-ventures with local banks after the introduction of law 43 of 1974 which allowed a joint-venture to conduct business in local currency, if it was at least 51 per cent Egyptian owned.

These joint-venture banks have been known for their efficient style of operation and better banking services, compared with the more " bureaucratic" "Big Four". Their credit decisions tend to be much quicker and emphasise cash flows, operating cycles and risk migration in contrast to the "Big Four" 's focus on collateral. Therefore the joint-ventures are dominant among private sector corporate clients and multinationals and, with increasing levels of competition, several of these banks are now targeting the top tier public sector companies. For all these reasons, commercial banks are the most profitable group in the industry.

Of the 11 investment banks that were operating in Egypt in the late 1996, all except 1 were privately owned. 9 focus on trade finance activities, especially importation, while the other focuses on project finance and medium to long term transactions. Whether owned by Egyptians or foreigners, investment banks are allowed to provide banking services in both local and foreign currencies.

The rise in the number of banks in Egypt has resulted in increased competition and the introduction of more innovative and sophisticated banking techniques, with many options now available in structuring loan agreements. Anyway, there is wide variation between the banks in terms of branch availability with the public sector banks offering a range of services, even in remote locations, compared to some of the foreign banks which are specialising in handling complex financing arrangements[162].

5.3.4 Israel

Israel possesses a *well-developed* and *modern banking industry*[163] that provides a wide range of banking, financial and credit services.

[162] Euro-Mediterranean Partnership, *Guide for Investors in Egypt*, prepared with the support of the European Commission, Released at the Conference on Opportunities for Investment in the Mediterranean Region, London, 6-7 March 1997, pp. 54-59.

[163] The Country's banking system is of the type called "universal system" which enables banks to be involved in investments.

Intervention in the bank shares crisis of 1983 resulted in the government effectively, if not formally, becoming the major nonvoting shareholder in the leading banks. The nonvoting shares have since been enfranchised and a portion of government holdings have been sold to the public. The rest are to be offered for sale in stages through the *Tel-Aviv Stock Exchange* and by tender offers.

The *banking system* is characterised by the following features :

- a *high degree of concentration*, with three major banking groups accounting for approximately 75 per cent of total assets of the commercial banks in Israel. Two other significant banking groups account for another 10 per cent : little room is left for small banks, though there are several. These banking groups maintain subsidiaries and branches in the main financial centres of the Western world ;
- *liquid regulations*, that limit the volume of free credit available to the public ;
- a relatively *high level of international activities* and *interaction* with major foreign banks by Israeli commercial banks.

In the Country there are 28 ordinary banking corporations, comprising 23 commercial banks[164], 2 merchant banks and 3 foreign banks[165]. Then there are 8 mortgage banks[166], 1 investment-finance bank[167], 6 other financial institutions not fully subject to liquidity regulations and 2 joint services companies.

The Supervisor of Banks is appointed by the Governor of the Central bank of Israel and two committees operate alongside the Supervisor.

Concerning the *Central Bank*, under the previsions of the Central Bank of Israel Law, banking legislation, and the Currency Control Law, it fulfils a variety of very important functions :

- the Governor acts as economic advisor to the government ;
- regulating and directing monetary policy ;

[164] Commercial banks provide all the customer wholesale, retail banking services and also merchant banking and underwriting services.

[165] Israel has a lack of foreign banks. Nevertheless, their number has notably increased in the last years.

[166] Mortgage banks specialize in the provision of long-term loans for private and public housing activities.

[167] Investment banking is conducted by commercial banks and by one investment bank. There is a growing tendency to separate this activity from the commercial banks, but this process will take some time. Full investment banking services are offered by these banks, including raising long-term capital by way of public

- managing the foreign-exchange reserves ;
- conducting economic research ;
- controlling foreign exchange ;
- issuing coins and banknotes ;
- acting as banker to the government and to the banks ;
- supervising banks ;
- representing Israel in international institutions.

5.3.5 Jordan

To Jordan is accorded a rather enviable reputation as an established and *stable capital market* to constitute a serious and respected marketplace. In fact, the financing, as well as the banking sector, is substantial and increasingly well developed and it is both concentrated at the top and fragmented across the rest.

It has grown rapidly over the last three decades and is showing strong prospects for expansion and diversification : the sector, as a whole, is undergoing substantial reform and development that will give a strong foundation for that expansion.

Concerning the *banking system*[168], it includes commercial, Islamic, investment and foreign banks. 15 commercial banks are currently operating of which 10 are domestic and 5 are foreign, such as the Arab Land Bank. In addition, there are 2 Islamic banks, 5 private investment banks, 1 financial institution and 2 representative offices[169].

Jordan's banks have remained local with the exception of the Arab Bank[170] (with 400 branches and offices abroad) and the Jordan National Bank, which acquired a regional status.

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issues, or private placements of shares, or debentures with or without convertible warrants or options. In addition, companies are assisted in preparing for capital issues in the local and overseas capital markets.

[168] Currently only 3 banks qualify under the capital requirement to become universal banks. These are the Arab Bank, Housing Bank and Jordanian Islamic Bank.

[169] Source: Central Bank of Jordan. Further information are available at web site http://www.cbj.gov.jo.

[170] In terms of outstanding credit the Arab Bank's share is about 35 per cent and the Islamic Bank and the Housing Bank have some 13 per cent each. The remaining 39 per cent is split between the other banks and credit institutions.

Nevertheless, many Jordanian banks opened branches in the PNA[171] territories, in order to capitalise on the long-term potential and growth stimulated by peace : more than 10 Jordanian banks established branches in the PNA territories, forming a network of 47 branches which have succeeded in attracting deposits from the Palestinian population.

The trend in *banking expansion* is still under way. Anyway, while the banking industry is basically sound, it has limited ability to attract and encourage medium and long term investment. With the exception of the largest companies, most financing consists of relatively short term lending. For that reason the World Bank has made a facility to the Central Bank of Jordan - CBJ - available whereby Jordanian banks can provide medium term loans to a wider spectrum of enterprises.

The number of credit facilities continued its positive growth. Overdrafts decreased for the benefit of loans and advances. Overdrafts amounted to 49.4% of total facilities and in 1997 were 31%, as a result, the share of loans and advances increased from 30% to 59.4%. Discounted bills represented 9.5% of total facilities compared to 20.6% in 1981.

Concerning the *CBJ*, it has been successful in encouraging substantial progress in adopting *international norms* for capital adequacy and prudential lending. The main features consist in:

- issuing and regulating banknotes and coins in the Kingdom;
- maintaining and managing the Kingdom's official reserves of gold and foreign exchange;
- regulating the quantity, quality and cost of credit to meet the requirements of economic growth and monetary stability;
- taking appropriate measures to deal with local economic and financial problems;
- acting as a banker to the licensed banks and SCI's;
- supervising licensed banks to ensure the soundness of their financial position and protection of the rights of depositors and shareholders;

[171] PNA : Palestinian National Authority. The Palestinian Liberation Organisation - PLO - acts for the PNA and , in fact, it is a signatory to the Barcelona Declaration.

- acting as banker and fiscal agent to the government and public entities;
- advising the government on the formulation and implementation of financial and economic policy.

The CBJ is trying to consolidate the financial position of banks. With a view to keeping pace with modern banking techniques, the CBJ decided as of the beginning of *1996* to introduce the *universal banking concept*. This permit banks to undertake all banking transactions, provided that:

- fiscal and monetary ratios are observed ;
- there is no deficiency in the required provisions ;
- a bank's capital is not less than JD 20 million ;
- there exists an efficient management and firm internal control systems and that an auditing committee be appointed from among the members of the Board of Directors.

Commercial banks still offer a relatively limited range of products to lenders and investors. So, in order to *protect new foreign investors* in Jordan, the CBJ allows commercial banks to provide Jordan dinar / foreign currency swap facilities The CBJ, then, periodically updates regulations of commercial banks in order to ensure a free banking system devoid of currency speculation to protect the interests of the public. The CBJ has also liberalised almost all direct controls on interest rates. This has exposed Jordanian banks to increasing foreign competition.

The Government is encouraging mergers among the smaller banks. This should both increase their capitalisation and, ideally, competitiveness.

Investors are offered short and longer term deposits, including those greater than 1 year. Banks can also deal in buying, selling and maintaining accounts in foreign currency under the supervision of the Central Bank.

The challenge of providing local competitive banking services[172] is on the increase. Modernisation and computerisation of banking services is then under way in most

[172] Part of the reason for bank's relatively small products range is their limited know-how and the training available in Jordan.

local banks, enabling them to adapt to their new integral role in the world economies[173].

5.3.6 Lebanon

The Lebanese *banking sector* represents the *strongest segment of the* Lebanese *economy*. For that reason, the Central Bank of Lebanon, in these last years, has been directed towards rebuilding confidence in the national currency. Hence it has adopted a policy of exchange rate stabilisation in order to reduce the high inflation rate. This policy has succeeded, as the exchange rate appreciated gradually but substantially from $L 2.825 in 1992 to $L 1.507 in 2000; inflation decreased from 120 per cent in 1992 to 0,2 per cent in 1999 (and a deflation of 0,4 per cent in 2000) and the dollarisation of banks' deposits decreased from 70 per cent in 1992 to 57 per cent in 1997. More generally, anyway, the *Central Bank* has contributed to strengthen the performance of the banking sector and the activity in the financial markets[174].

The Lebanese banking system operates under the *Bank Secrecy Law*, to which the Government is strongly committed. Bank Secrecy Laws, that exists in other Countries, most notably Switzerland, have come under attack in international forums in recent years as being an encouragement to money laundering, although the major Lebanese banks contend that they use it prudently.

According to Lebanese legislation, *banks* must meet the following *requirements*:

- lending to related parties (e.g. directors, managers,...) can not exceed 25% of shareholders' equity and needs to be secured;
- holding with the central Bank, as required reserves, 13% of their total deposits in LBP. At least, 10% of the deposits should be held as non-interest earning reserves, and the rest i.e. 3% of the deposits may be held in Special Lebanese

[173] Euro-Mediterranean Partnership, *Guide for Investors in Jordan*, prepared with the support of the Overseas development Administration, Released at the Conference on Opportunities for Investment in the Mediterranean Region, London, 6-7 March 1997, pp. 38-41.

[174] For further information about Lebanese Central Bank see the article of Riad SALAME, *The development of the banking sector and financial markets in Lebanon*, in "Euro-Mediterranean Partnership", Volume 3, Issue 1, pp. 64-70.

Treasury Bills (6-month maturirty, at a rate of 6%). However, deductions from reserve requirements are allowed with special arrangements like loans granted in Lebanese pounds for housing under the protocol concluded between banks and the Public Cooperation for Housing , and loans to small and medium enterprises guaranteed by the KAFALAT Corporation (60% of loan amount), as well as for foreign-currency denominated debt securities;

- for Deposits in Foreign Currency, no reserve requirement is applicable. However, banks can only lend 75% of these deposits to the private sector;
- meeting a total capital to risk weighted assets of at least 10% in line with the Basle Standards. However, this raio has to reach 12% by the end of 2001;
- lending to a single entity (be it a customer or a group owned by the same customer) lower than 20% of a bank's shareholders' equity or 10% of a bank's shareholders' equity plus 1% of its deposits;
- for foreign exchange exposure, banks are allowed to hold a daily maximum net trading position for each foreign currency against the Lebanese Pound equal to 1% of the bank's shareholders' equity, but the global trading position of foreign currencies can not exceed 40% of the bank's shareholders' equity. A structural position of 60% is authorized to hedge the capital denominated in LBP.;
- minimum capital for new banks is LBP 10 billion (approximately USD 6.6 million);
- accounting standards are in conformity with IAS 1-32;
- rules for Loan Classification and Provisioning are in conformity with Basle's Standards;

Currently in Lebanon there are 7 participatory groups in the market which are regulated by the “Banque du Liban” - BDL -. These are:

1. 62 commercial banks[175]: they perform traditional commercial banking activities. They can also be floor trader on the BSM[176];

[175] The main activity of commercial banks is the provision of short-term credit, mostly to finance trade. The commercial banks operating in Lebanon are classified according to nationality and capital base. The complete list of the banks is available on web page http://www.bdl.gov.lb/bfs/listbank.htm.

2. 8 investment banks : their main activity is to lend for the medium and long-term against receiving deposits for a minimum of 6 months. They can also be floor trader on the BSM and the BSE[177];
3. 28 financial institutions: they perform investment banking activities. They can also be floor traders on the BSM and the BSE[178];
4. 5 brokerage firms[179]: they perform broker / dealer activities. They can also be floor traders on the BSM and the BSE[180];
5. A number of Money dealers : they perform money exchange transactions and gold and silver trading depending on the category they belong to[181];
6. 23 Representative offices of foreign banks;
7. 3 leasing companies.

The *foreign financial institutions* in Lebanon fall into three categories : representative offices of a foreign banks[182], the branches of foreign financial institutions in Lebanon and branches of foreign commercial banks. The main activities of a foreign commercial bank's branch are to provide banking services to depositors and the extension of credit against collateral and guarantees. In addition activities such as portfolio management, rental of safe deposit boxes or foreign exchange operations are also undertaken.

"Banque du Liban", or *Central Bank of Lebanon*, regulates and supervises the banking industry. It is a separate legal entity, not a government department and is vested with financial autonomy. Its authority covers the definition of the monetary and credit policies, setting of discount rates and the promotion and organisation of the financial markets. Its primary role is to safeguard the currency and promote

[176] BSM : Beirut Secondary Market is an Over The Counter - OTC - market established in June 1994. See Code of Money and Credit. This Code stipulates that every bank must be organised in the form of joint stock company. The minimum capital required for the establishment of a commercial bank is US$ 5 million. However, foreign banks which are already operating in their own Countries are exempted from this requirement. The establishment of any commercial bank is subject to the approval of the Central Council of the BDL, as are the opening of branches and representative offices.

[177] BSE : Beirut Stock Exchange. See law n. 50/83.

[178] See Code of Money and Credit and Credit and its decision n. 5994.

[179] The BDL is responsible for issuing licences to brokerages firms.

[180] See BDL circular n. 1445.

[181] See law n. 42/87 and BDL decision n. 6053.

[182] Unless it buys an existing bank, a foreign bank has to apply for a licence from the BDL.

monetary stability. In addition to the BDL, the Banking Control Commission, an organisation which is subject to the authority of the BDL, conducts at intervals individual audits of banks to determine whether they are following the law and regulations[183].

Finally, it is important to stress that, on the first of April 1975, decree No. 29 established a free banking zone by granting the Lebanese government the right to exempt non residents' deposits and liabilities in foreign currency from :

- the income tax on interest earned;
- the required reserves imposed by the Banque Du Liban by virtue of article 76 of the Code of Money and Credit;
- the premium of deposit guarantee imposed on bank deposits to the profit of the National Deposit Guarantee Institution.

5.3.7 Libya[184]

The Libyan Central Bank supervises monetary policy. From 1972, it has an important branch abroad (called "Lybian Arab Foreign Bank"), which operates in 20 Countries. The main feature consists in managing foreign financial holding.

The *commercial banking system* is under full government control from 1970, when the Government nationalized all the banks, with the exception of one small privately owned bank licensed in 1996. In fact, from 1993, it is possible to set up private banks with a required capital of at least 10 Million Libyan Dinars. Foreign banks are allowed to open branches, but none have already done so.

Nowadays there are operating 8 commercial banks and the Central Bank.

[183] See Euro-Mediterranean Partnership, *Guide for Investors in Lebanon*, prepared with the support of the European Commission, Released at the Conference on Opportunities for Investment in the Mediterranean Region, London, 6-7 March 1997, pp. 34-39.

[184] Information and statistical data about Libyan banking system are, at the moment, poor and unverifiable. There are no web sites of Official Institutions.

5.3.8 Malta

In the late Eighties, the Maltese authorities took the first step to develop Malta as an international business and financial centre. In response to a number of domestic and foreign banks offshore banks were established in the Country.

In fact, today, Malta offers an existing and well developed banking and financial sector which is geared to support all international operations and the legal and supervisory framework is flexible in the context of constraints imposed by internationally-accepted guidelines.

The Maltese *banking system* is made up of the following elements : the Central Bank of Malta, credit institutions, international banking institutions[185] and other financial institutions.

The *Central Bank* is a corporate body having a distinct legal character and enjoys a good degree of independence in its operations. Its function can be broadly divided into *two main areas*, namely the formulation and implementation of *monetary policy* and the promotion of a sound and *efficient financial system*. The Central Bank also plays an important role in the foreign exchange market. In this respect, it is to be highlighted that a complete overhaul of foreign exchange controls has been engineered during the past few years. Thus, foreign investors operating in the domestic economy are allowed the freedom to engage in foreign currency transactions necessary to ensure the profitable conduct of their business ventures in Malta. No controls which limit the repatriation of profits generated by foreign interests operating in the Country are made. To this effect, Malta met the obligations associated with article VIII of the International Monetary Fund.

Concerning the exchange rate of the Maltese lira, it continues to be determined on the basis of a number of currencies and spot and forward exchange rate quotations of the lira are revised continually by the Central Bank[186].

[185] The international banking institutions consist of offshore banks which are licensed to transact business exclusively with non-residents and offshore companies.

[186] Euro-Mediterranean Partnership, *Guide for Investors in Malta*, prepared with the support of the European Commission, Released at the Conference on Opportunities for Investment in the Mediterranean Region, London, 6-7 March 1997, pp. 35-36.

5.3.9 Morocco

Morocco is in the process of developing a relatively comprehensive banking system, a system that, anyway, is still used by the government as a way to channel domestic savings to finance government debt.

Recently it has been deemed necessary to *adapt* the Moroccan *banking industry* structures to the new financial needs of the national economy and to its opening on the outside world. A set of actions in this direction has already been undertaken by the monetary authorities and the banking institutions involving many aspects, such as the adoption of *prudential rules* to allow *adequate control of banking activities*, or the adoption of *international norms*.

A banking system reform has been followed by a wider opening to the outside world with several Moroccan commercial banks opening branches abroad. The Governor of the *Moroccan Central Bank* has therefore declared that the banks made progress from 1996 and helped in achieving a very good national growth rate as a result of the improvement in revenue from agriculture and tourism, in addition to the transfers from expatriates.

The *banking system* comprises 15 commercial banks[187], 5 government owned specialised financing institutions, 5 foreign banks. Banking network amounts to 1703, or roughly one per 17.000 inhabitants. The monetary authorities comprise the Ministry of Finance and the Central Bank, Bank Al Maghrib.

Bank Al Maghrib, which is represented in 26 cities throughout the Kingdom, has numerous and various attributions : in addition to its essential task of monetary policy regulation - in charge of refinancing mechanisms, limitation of credit distribution - the Country's financial and exchange reserves management agent, Bank Al Maghrib, can effect all operations like a commercial bank. Moreover, it is entrusted with the very large task of controlling banking activity and monitoring specialised financial bodies and, at the control level, is the sole effective authority

[187] Commercial banks have a large share of private capital in which the share of foreign interests remains important. Indeed, Moroccan banks have close ties with foreign banks which serve as their correspondents in international transactions. Only 2 banks are under the public sectors.

to which the banks are subject. As a Central Bank, it also holds the privilege of issuing currency which it mints itself[188].

5.3.10 Syria

Syria *needs a real and deep reform of* its existing *financial system*. In fact the Country's banking sector is slow, cumbersome and its functions are under stringent government regulation. It is isolated from world markets and specialist banks offer their services to different sectors of the economy without competing with each other. In addition, services are limited to basic deposit and lending facilities. Pre-shipment finance or export credit is unavailable and cheques play no real role in the local economy. Direct debit and credit cards, then, are not offered, although some internationally recognised credit cards may be used in Syria: transactions on these cards are made at the neighbouring Country rate and are thus comparatively expensive.

Concrete steps towards the reform of the existing banking industry are hindered by the public sector's dependence on cheap loans from local banks.

So far, modernisation, rather than reform, appears to be the approach taken and this, together with the introduction of a computerised system at the Central Bank and the Commercial Bank of Syria, is underway with financial assistance from the European Union.

The *EU-funded project for the modernization of the Syrian Central Bank* was completed on time, on 31st January. The project, which received a Euro 2.25 million grant from the EU, lasted four years and permitted the installation of a complete state-of-the-art computer and telephone system, to train a substantial number of staff and to provide technical assistance over the period of implementation. The project represents the first phase in the modernization of the Syrian Central Bank, thus enabling it to implement policy reform and to reinforce its role within a revamped banking system for which new laws are currently being

[188] Partenariat euro-méditerranéen, *Guide de l'investissement au Maroc*, préparé avec le soutien de la Commission européenne, Diffusé à l'occasion de la conférence sur les opportunités d'investissements dans la

considered by the Syrian authorities. In addition to the information and communication system, the project includes technical assistance provided for nearly four years by Banque de France, the French central bank, on behalf of the EU.

Syria's *free zones* possess the legal framework for the establishment of private banks. Although no more limits currently exist for private or foreign banks[189] to operate in the Country, the upshots of the reforms are not clearly visible. In addition the primary function of the banks has been to cater for the financial requirements of the public sector. Consequently, the banking system has been of little assistance to the private sector. However, as with many aspects of the banking industry reform, liberalisation has been promised for some time.

Anyway, at the moment, a more general opening of the banking sector of this Country appears to be some way off. It would have to involve the abolition of monopolies by existing banks, a reorientation along free market lines and expansion of services. Above all it will have to coincide with further public sector reform.

All aspects of Syrian banking industry are handled by 5 State-owned banks which enjoy monopoly positions in their designated areas of the economy and operate under the joint supervision of the Ministry of Economy and Foreign Trade and Central Bank, that determines interest rates and the level of credit within the economy. One of these banks is the Commercial Bank of Syria. It is the Country's largest and most important bank. As the only official channel for hard currency transactions, it is the financial institution which foreign firms are mostly likely to come into contact with. Its responsibilities include domestic and international trade finance, foreign exchange and the operation of hard currency accounts.

The Bank also functions as a primary channel for the repatriation of expatriate Syrian capital and direct foreign investment.

The Country also has some specialised banks which, anyway, are considerably smaller and concerned exclusively with banking operations in their own sectors. As

région méditerranéenne, Londres, 6-7 mars 1997, pp. 74-77.

[189] The banking system has recently been reformed by law no. 28 dated 29.03.2001.

a result, they also provide limited credit facilities for the local market and offer saving accounts[190].

5.3.11 Tunisia

In Tunisia, the banking sector has been heavily segmented for many years.

In an attempt to promote competition between the different types of banks, the *banking law was emended in February 1994* to enable commercial banks to lend for any term as, previously, long term lending was restricted to development banks. Also financial advisory services can now be undertaken not only by newly introduced investment banks, but also by long established commercial and development banks. Some development banks, in particular, are investigating the possibility to move into the market and out of their traditional niche.

Banks can finance themselves through the *Central Bank of Tunisia* - CBT -, which is responsible for overseeing the banking and financial sector in general, or inter-bank market. They can also issue their own bonds on the *Stock Exchange*.

Concerning interest rates, in general, they are fairly rigid. The gap between CBT controlled rates and money-market rates is constant and results from an "*accord de place*" between all the participants. That is an agreement not to compete on interest rates, which deprive rates of their informational content. This collusion also protects the less efficient banks. Another feature of interest rate stability is the stickiness of underlying CBT controlled rates over time. This is due to the target the CBT sets to monitor monetary growth.

The banking sector, where deregulation is in progress, comprises 14 commercial banks accounting for the bulk (68%) of total commercial bank loans to the economy, 8 development banks, 8 off-shore banks, 2 merchant bank, 9 leasing companies, 2 factoring companies and 4 representative offices of foreign institutions.

[190] See Euro-Mediterranean Partnership, *Guide for Investors in Syria*, prepared with the support of the European Commission, Released at the Conference on Opportunities for Investment in the Mediterranean

5.3.12 Turkey

The number of banks operating in Turkey by the end of 1997 reached 133, not including the Central Bank. Of these, 127 are commercial banks, of which:

- 46 State-owned banks;
- 72 private banks;
- 3 Fund banks;
- 6 foreign banks[191].

The remaining 6 are development and investment banks.

Commercial banks are authorised to partake in various activities in financial market in Turkey. Investment banking, which generates an 8 per cent share of the market's total asset and has been developing since the mid-1980s, concentrates on corporate finance, dealings on foreign currency, the underwriting of securities and engaging in mergers, acquisition and initial public offerings. Development banks then provide medium-term finance to the industry and channel government funds to sectors that have priority for the government.

In Turkey there are also several foreign banks and this is a reflection of the progressive internationalisation of Turkey's financial system. Despite their small market shore, they have a crucial place in the banking system of the Country due to the introduction of new concepts and practices.

Therefore, during the last decades, banks have built up their international network by opening branches or representative offices, through participation in foreign banks. The number of representatives offices abroad and foreign branches of Turkish banks totalled 61 (in 9 different countries) and 41 (in 10 different countries) respectively at the end of 1999. Moreover, Turkish banks have also in 10 different countries and also 69 financial participations established in 23 countries.

Region, London, 6-7 March 1997, pp. 32-34.

[191] Source: Central Bank of Turkey.

5.3.13 West Bank and Gaza Strip

The Palestinian *banking system* is developing rapidly and is providing a wide range of local and international financial and banking services.

In the West Bank and Gaza Strip there are many established banks. Recently the number of banks operating in Palestine reached 22 - 9 national banks, 10 Arab banks and 3 foreign banks - which operate (108) branches compared to (16) banks operating (72) branches in 1996. Licensing of both local and foreign banks falls under the jurisdiction and *regulatory framework* of the Palestinian Monetary Authority - PMA -.

In fact, PMA's features consist in[192] :

- exercising the privilege of issuing the national currency and coins in due course, in accordance with the terms and conditions to be determined by the law relative to the issuing of currency and securing the cash reserve necessary;
- organizing banking activities, issue and cancel licenses of banks, control and supervise them, and impose penalties on them;
- preparing, organizing and publishing the balance of payments;
- providing cash flow to the banks within the legally established limits;
- working out, organizing and implement monetary and credit policies as well as the policies of dealing in foreign currencies, in accordance with the provisions of the Currency and Credit law;
- keeping and managing the National Authority reserve of gold and foreign currencies;
- rendering financial and economic advice to the National Authority, carring out economic and monetary analyses on a regular basis and publish the results;
- serving as a financial agent to the National Authority and Palestinian public institutions inside and outside Palestine;
- working out and implementing the regulations, decisions and instructions which guarantee maintenance of an effective, secure and sound banking system;

[192] Further information is available on web site http://www.pma.gov.ps.

- organizing credit quantity, quality and cost in order to respond to the requirements of economic growth and monetary stability, in accordance with the provisions of the Currency and Credit Law;
- working as a bank for the licensed banks, specialized lending institutions and finance companies and control them in a way that guarantees soundness of their financial standing and protection of depositors' rights;
- organizing activity of the exchange profession, finance companies, development and investment funds, as well as issue relevant licenses, and control and supervise them.

The PNA is currently developing *banking and currency control laws and regulations*. Before the establishment of the PNA in 1994, accounts were offered in the Jordanian dinar - JD - and /or the New Israeli Shekel - NIS -. Accounts in US Dollars were allowed if withdrawals were converted into NIS or JD. Today, anyway, banks in West Bank and Gaza Strip can offer accounts in NIS, JD and US $, in addition to the other hard currencies. Anyway, in the absence of a Palestinian currency, banks have to compete for deposits with banks located elsewhere. The competition is mostly for deposits of local residents.

Important is then the role played by the *Commercial Bank of Palestine* - CBP - which operates in the West Bank and Gaza Strip. Established in 1992 and operational since 1994, CBP has focused on providing high quality services to small scale businesses and, in fact, in all its four branches, it offers user-friendly banking services. In addition, aware of the absence of micro banking in the past and the predominance of micro-enterprise, CBP strategically set out to fill the vacuum by helping small businesses grow and, in turn, growing with them.

Concerning commercial banks, they can either obtain funds through customer deposits or through other sources, such as inter-bank lending or through the issuance of negotiable Certificates of Deposits - CDs - or securities ; although banks operating in the West Bank and Gaza have not yet issued negotiable CDs or securities.

Unlike Israeli banks, local banks are not allowed to offer inflation indexed savings accounts or foreign currency dominated accounts. These two restrictions place Palestinian banks at a relative disadvantage in competing for the accounts of large Palestinian firms and international organisations.

Foreign currency control regulations are carried out in *co-operation with the Israeli Central Bank*. Anyway, what is interesting to stress is that services and operations are constantly upgraded in line with international standards[193].

5.4 Conclusion

This picture shows that the MNECs are trying to implement their banking industry. These Countries have understood that it is crucial not to underestimate the importance of the regular input that it is necessary to receive, above all, from an association with an international financial institution. In fact bankers are able to give to the economic operators a global perspective as you might go to an investment bank[194] with a rosy balance sheet only to find out that imports from a place you have not even heard of might really affect your company performance. More generally, because of the importance of banks on the private initiative of a Maltese bank, the creation of an operational co-operative network between Mediterranean commercial banks, called *Med Bank Network* was begun. Other similar activities have been initiated always in the banking sector. We can remember the meeting of commercial banks which took place in Tunis in December 1996, or Turkey's Central Bank suggestion to create a Euro-Mediterranean Association of Central Banks. And again, recently, Spanish Presidency of the UE

[193] Euro-Mediterranean Partnership, *Guide for Investors in West Bank and Gaza*, prepared with the support of the European Commission, Released at the Conference on Opportunities for Investment in the Mediterranean Region, London, 6-7 March 1997, pp. 29-31.

[194] Samih SAWIRIS, *The Role and Importance of Capital Markets - Issuers' Perspectives*, Financial Times Conferences, "Mediterranean Capital Market Conference", 26 & 27 March 1998, Guildhall, City of London, pp. 16.1 and 16.2, investment banks are very important as they are much faster and not as strict and limiting as an institutions like the IFC even if, at times, this can be a double edged sword.

confirmed its interest in this project. Mr. Aznar stated that Spain will launch a series of initiatives to bolster economic association and boost the Mediterranean Partners' commercial integration including, *inter alia*, the creation of a Euro-Mediterranean Development Bank – EMDB –, as appears in the Conclusion of Laeken European Council[195].

This desire determined the presentation of a formal proposal[196], by Mr. Romano Prodi, dated 2002-02-27, for the foundation of the mentioned "Bank", which should not be a branch of the European Investment Bank – EIB – but a proper financial institution. Anyway, EIB will hold a controlling interest in the new bank share capital. It should guarantee the safety and rapidity of the process and obtain the same financial rating as EIB - in order to achieve a lower cost of money in the market -. Moreover, the EMDB should use the special know-how of EIB matured in the past[197].

The objective is to make the "Bank" operational by the beginning of 2004. Mr. Prodi evaluated financial efforts for the period 2003-2006 in Euro 7/12 billion, of which 20/30% paid-up. This capital should permit financing in both the public and private sector[198].

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[195] Source: Program of Spanish Presidency of the UE, 1/1-30/6/2002.
[196] This proposal was discussed during the European meeting scheduled for March 15[th, 2002].
[197] It is important to stress that EIB play an important role in the Mediterranean area, holding an investment portfolio, whose value amounts to around Euro 9 billion (of which around 1/3 involves the private sector).
[198]E. BRIVIO, *Un'eurobanca per la sponda Sud*, in "Il Sole 24 Ore", 2nd February, 2002.

CHAPTER 6

THE STOCK EXCHANGES IN THE EURO-MEDITERRANEAN REGION

PROFILE OF THE STOCK EXCHANGES OF THE MNECS

6.1 Introduction

A securities market, as a place for long-term fund raising by corporations and governments and as an arena for investment in securities, plays an important role in the development of a free trade economy.

For instance, the primary functions of a Stock Exchange are :

- to establish a highly organized securities market ;
- to increase the liquidity of the market by integrating a huge supply and demand of securities ;
- to fix fair prices and to officially distribute such prices to the public.

Anyway to contribute to the development of a Country, a Stock Exchange also has to secure fair and smooth trading of securities so as to protect public and domestic interest or foreign investors : only in this way will a Stock Exchange be able to attract those capitals necessary for market growth.

The analysis of Stock Exchanges which will be made in the following pages has to be considered just an “initial” study of them. Tables will describe the “situation” and the functioning of Stock industries of the MNECs – Mediterranean non EC Countries – A deeper analysis will be the object of a future work which will specifically focus on it.

6.2 General aspects of the Stock Exchanges of the MNECs

Table 6.1 shows the general profile of the Mediterranean non EC Countries – MNECs - Stock Exchanges. It gives an immediate comparison of the main structural aspects of each of them; it is then possible to have an initial idea on the work that has to be done in order to reach a minimum level of common standardisation. The date of establishment of the market has been considered, the legal basis of its institution, the ownership - if public or private - the presence of a supervisory body.

The oldest Stock Exchange of the Southern Mediterranean area is Egypt. In fact the Stock Exchange of Alexandria and Cairo was established, respectively, in 1881 and in 1903. In 1920 a Stock Exchange was set up in Lebanon, in 1929 in Morocco, while in the 30's the Tel-Aviv Stock Exchange was set up. We had to wait for some decades for the setting up of the fifth stock market of the region, the one of Tunisia in 1969. About ten years later the "Amman Bourse" was established and, in 1986, the Istanbul Stock Exchange.

In the 1990's the Stock Exchanges were created of: Malta, - in 1992 -, Cyprus – in 1996 -, West Bank and Gaza, - in 1996 -, and Algeria - in 1997-. Only Syria has not a Stock Exchange yet[199].

All Stock Exchanges of the Southern and Eastern Mediterranean region have been established by rules and most of them are private or public owned, as just the ones in Egypt, Lebanon and Turkey are semi-public bodies and Morocco, Tunisia and West Bank Gaza are private bodies.

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[199] Euro-Mediterranean Partnership, *Guide for Investors in Syria*, prepared with the support of the European Commission, Released at the Conference on Opportunities for Investment in the Mediterranean Region, London, 6-7 March 1997, p. 34, in Syria there is not a Stock Exchange yet. Plans for a Stock Exchange have been discussed frequently and legislation has been drawn up, but no concrete moves have been made. Therefore, at the moment in this Country there are only few official channels through which to direct private funds. There is no neither a bond market. Real estate, then, has been a focus of particular attention due to the lack of obvious alternatives and prices, particularly in the big cities, and has soared. Following the passing of Investment Law n. 10, a number of private investment funds, offering annual returns of between 25% - 35% attracted large deposits, but were outlawed after a number of them collapsed following financial irregularities. Participation in the companies of relatives and friends continues to be an important channel of unofficial investment and public share offerings by private companies have become more common in recent years, but trading remains limited to in-house share trading offices and volumes traded through these remain very low.

So we can still see that a number of Middle East & North Africa – MENA - Countries' Stock Exchanges are not organised on an innovative base taking a mostly private juridical structure yet (the exceptions are represented by the 5 above mentioned Stock Exchanges: "Cairo & Alexandria Stock Exchange", "Beirut Stock Exchange", "Bourse des Valeurs de Casablanca", "Bourse des Valeurs Mobilières de Tunis" and "Palestine Stock Exchange").

Table 6.1: Stock exchanges' general profiles

	ALGERIA	CYPRUS	EGYPT	ISRAEL	JORDAN	LEBANON	MALTA	MOROCCO	TUNISIA	TURKEY	WEST BANK AND GAZA
NAME OF STOCK EXCHANGE	"Bourse Algierienne des Valeurs Mobilères"	"Cyprus Stock Exchange" - CSE -	"Cairo & Alexandria Stock Exchange"	"Tel-Aviv Stock Exchange" - TASE -	"Amman Bourse"	"Beirut Stock Exchange" - BSE -	"Malta Stock Exchange" - MSE -	"Bourse des Valeurs de Casablanca"	"Bourse des Valeurs Mobilières de Tunis" - BVMT -	"Istanbul Stock Exchange" - ISE - (Istanbul Menkul Kiymetler Borsasi)	"Palestine Securities Exchange" - PSE -
ESTABLISHMENT DATE	1997	1996	1881: Alexandria Stock Exchange 1903: Cairo Stock Exchange	1930's	1975	1920	1992	1929	1969	1986	1996
LEGAL BASIS											
LAW		X	X	X	X			X	X		X
DECREE-LAW	X					X				X	
ACT							X				
OWNERSHIP		.									
PRIVATE BODY								X	X		X
PUBLIC BODY	X	X		X	X		X				
SEMI-PUBLIC BODY			X			X				X	
COUNCIL OF MANAGEMENT	Stock Exchange Society (SGBV)	The Council of the CSE and the Minister of Finance.	Cairo & Alexandria Stock Exchange	TASE Board of Directors	Securities Exchanges Board of Directors	Beirut Stock Exchange Commitee	The Malta Stock Exchange	"Association Professionnelle des Sociétés de Bourse"	Stock Exchange of Movable Values of Tunisia	The Executive Council	Palestinian National Authority
SUPERVISORY BODY	"Commission d'Organisation et de Surveillance des Opérations de Bourse"	The Stock Exchange Board And the Capital Market Commission	Capital Market Authority	Israel Securities Authority	The Securities Commission	Ministry of Finance	The Council of the Malta Stock Exchange	The "Conceil Déontologique des Valeurs Mobilières"	Financial Market Council (CMF)	Capital Market Board (Sermaye Piyasasi Kuruku) – CMN - and the ISE's Inspection and Control Board	Ministry of Finance

6.3 Technical aspects

Technical aspects about:

- trading concern time, structure, traded instruments (as table 6.2 shows);
- active fields (table 6.3);
- listing requirements (table 6.4);
- the public offer of securities, number of listed companies, securities and transaction, the information about the trading volume and the market capitalization (table 6.5);
- taxes (table 6.6);
- the depository of securities, the settlement, the clearing and payment system (table 6.7).

Securities are traded weekly in all Stock Exchanges of MENA Countries. Concerning “Trading structure”, just the Stock Exchange of Jordan uses an “out-cry” system, while the one of Israel a computerized call system. The remaining stock industries use an electronic system[200]. About the “Instrument traded” we can notice that most traded securities are “Shares”, which are traded in all MNECs’ Stock Exchanges, followed by “Government bonds”- which are traded in all Stock Exchanges, except in the ones of Algeria, Lebanon, Malta and West Bank and Gaza - , “Equities”, “Non-government bonds”, “Corporate bonds” and “Warrants”.

The most active field, in the Mediterranean non EC Countries - MNECs -, with the exception of Malta and Algeria, is the finance one, followed by the bank and the insurance sector. Other quite active fields are those of industry, of investment companies and of services.

Concerning the remaining sectors, we can notice that each MNEC is characterised by well determined active fields.

[200] Datum concerning Algeria is not available.

Concerning "Stock Exchanges operators", in all MNECs there are brokerage firms. The role played by banks is also very important [201].

In all Stock Exchanges of the region there are specific requirements for issuing securities.

In Egypt, Malta, Morocco and Tunisia, every company which wishes to list its securities in the Stock industry is subject to specific provision contained in a Law or in an Act. To be quoted on the Stock Exchanges of Malta, Tunisia and Turkey, an admission dossier containing basic information of the companies has to be submitted to a special body. In Cyprus and Lebanon twenty five per cent of the share capital must be spread to the public ; the percentage is of twenty per cent in Malta. For the listing of securities in Israel, Lebanon and West Bank and Gaza it is necessary that companies meet a minimum capital.

About "The public offer of securities" there are little data.

Anyway we can notice that this offer is not regulated yet in Morocco, while it is in Algeria and Malta.

It is laudable that two Stock Exchanges recently established, respectively, in 1997 and 1996, have decided not to wait for the public offer of securities to be regulated.

N. OF LISTED COMPANIES ⇒ Total amount : 2.501 (period 1997-2002)

Egypt, Israel and Turkey have a large number of listed companies above all compared to Lebanon and Malta which have, respectively, only 8 and 12 listed companies.

MARKET CAPITALISATION ⇒ Total Amount : US$ 219.359 billion (period 2000-2001)[202]

Turkey and Israel have a market capitalisation far bigger than the one of the other MNECs. Only West Bank and Gaza have less then US$ 1 billion. It is important to stress that market capitalisation has increased notably in the last few years, with a peak in 2000, following the world trend determined by *New Economy*.

[201] The analysis does not take into consideration the datum concerning Algeria as it is not available.

Concerning "Taxes" we can see that in many Stock Exchanges, that is to say the ones of Egypt, Israel, Malta, Morocco and West Bank and Gaza, there are no restrictions on foreign investors. Also no capital gains tax is wide spread in the area: in Israel, Jordan, Malta, Morocco, Tunisia and Turkey it dues not have to be paid, although in Jordan, Malta and Turkey there are some exceptions. For example in Malta the capital gains tax dues not have to be paid if it is the result of a fund and in Turkey just resident dues not have to pay it. In Cyprus, Israel, Jordan and Morocco a tax on dividends has to be paid. The percentage is 35% in Malta, unless investors benefit from reduced rates in terms of other laws, 25% for private investors in Israel and 10% in Morocco, while in Jordan there are some exception in order not to pay tax on dividends. On the contrary, in Egypt and Tunisia, no tax has to be paid on dividends.

Data available show that in all Southern and Eastern Mediterranean Stock Exchanges there is a central depository of securities[203].

Concerning the "Settlement system", the transaction period is included between T + 2 and T + 9. In fact transactions have to be settled on T + 2 in the Stock Exchange of Egypt, Morocco and Turkey and on T + 9 in Cyprus Stock Exchanges - about purchase -. In Cyprus, Israel, Jordan, Lebanon and Malta transactions must be settled on T + 3, in West Bank and Gaza on T + 5 and in Tunisia on T + 7[204]. Concerning the "Clearing system", data available show that, generally, for the clearing, there is a special body as well as a specific payment system.

As regards the "Central depository of securities", the settlement, the clearing and the payment systems, in Tunisia and in Turkey the some body is used, that is to say, respectively, "Sticodevam" and "Takasbank", while only concerning the settlement

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[202] The total amount of market capitalisations does not include Algeria as datum concerning this Country is not available.

[203] Datum concerning Algeria is not available.

[204] The analysis does not take into consideration Algeria as the datum is not available.

and the clearing systems, in Egypt and Lebanon, there is a special institution called, respectively, “Misr for Clearance and Settlement” and “ Midclear”.

Table 6.2: Stock Exchanges' technical aspects - Trading

	Algeria	**Cyprus**	**Egypt**	**Israel**	**Jordan**	**Lebanon**	**Malta**	**Morocco**	**Tunisia**	**Turkey**	**West Bank and Gaza**
TRADING DAYS AND HOURS	Monday	Monday to Friday 11:00 to 12:30	Monday to Thursday 11:00 to 13:00	Sunday to Thursday 10:00 to 16:00 - shares and convertibles - 10:30 to 15:30 - bonds -	Saturday to Wednesday 9:00 to 12:00	Monday to Friday 9:30 to 12:00.	Monday to Friday 9 :30 to 11 :00	Monday to Friday 11:00 to 12:15	Monday to Friday 10:300 to 12:30	Monday to Friday 8:00 to 11:30	Saturday and Wednesday 9:00 to 15:00
TRADING STRUCTURE	N.A.										
ELECTRONIC SYSTEM[205]		X	X		X	X	X	X	X	X	X
COMPUTERIZED CALL SYSTEM				X							
OUT-CRY SYSTEM											
INSTRUMENTS TRADED											
EQUITIES	X	X	X		X		X	X	X	X	
GOVERNMENT BONDS[206]		X	X	X	X			X	X	X	
NON-GOVERNMENT BONDS				X	X		X			X	X
CORPORATE BONDS	X	X		X			X				
CORPORATE			X						X		

[205] Electronic trading means a type of Stock Exchange in which the entire transaction process has been fully computerized and automated. This includes : computerized input of orders with subsequent automatic transfer to the computerized Stock Exchange ; automatic onward transfer of supply and payment obligations from the Stock Exchange transactions ; automatic circulation of trading information to the market participants.

[206] Bonds issues which are issued by an international Consortium (of banks) and are placed simultaneously in several Countries. The shares are usually payable in the major currencies. Issuers include Countries, International institutions and major companies.

DEBANTURE											
TRESURY BILL	X			X				X		X	
MUTUAL FUNDS	X									X	
SHARES[207]		X	X	X	X	X	X	X	X	X	X
WARRANTS	X	X	X	X		X					X
TREASURY BONDS						X					X
CERTIFICATE OF DEPOSIT										X	
SECURITIES-DEPOSIT RECEIPTS			X		X						
GOVERNMENT PAPER							X				
CONVERTIBLES	X			X	X						
DEVELOPMENT BONDS											
REVENUE SHARING CERTIFICATE										X	
HOUSING CERTIFICATE										X	
REAL ESTATE CERTIFICATES										X	
BANK BILL										X	
COMMERCIAL PAPER[208]										X	
ASSET-BACKED SECURITIES											X

207 Rights to participation in a joint-stock company are referred to as shares. They are rights to membership. The amount of participation is based upon the nominal value of the share. Depending upon the value of the share, the shareholder participates in the nominal capital, distribution of profits, increases in capital stock from company resources and the proceeds from liquidation; his right to participation in increases in capital is also determined on the basis of the nominal value. The right to membership takes the form of voting rights at the stockholders' meeting. This right to participation means that the share has a so-called tangible value, in contrast to debenture bonds, which certify purely par-value outstanding debts.

208 Commercial paper : instrument of indebtedness in the name of the holder, mostly in discounted form.

209 Generally speaking, "Option" means the contractually-accorded right to buy or sell an object under certain conditions and at a specific price. There are two types of option: purchase option (call option) and selling option (put option). The purchaser of an option can ask the seller (bearer of securities) to supply, at any time within a certain period (option period), a specific quantity of a specific security at a market price (basic price) agreed when the deal is concluded; alternatively, he may waive the right. For this right, the purchaser pays the bearer a specific sum of money - the option price -. The purchaser of a selling option, in return of payment of the option price, acquires the right to supply to the seller (bearer of money), at any time within the option period, a specific quantity of a specific security at the agreed basic price. The options can be traded independently on the Stock Exchange, in other words they can be bought and sold during the term.

INVESTMENT UNITS					X						X
COMMODITY CONTRACTS											X
PROMPT CONTRACTS					X						
FORWARD CONTRACTS					X						
SALE AND PURCHASE OPTIONS[209]					X						
OVER THE COUNTER OPTION											X
FOREIGN SECURITIES										X	
INTERNATIONAL SECURITIES					X						
EUROBONDS					X	X				X	

Table 6.3: Stock Exchanges' sector of activities of listed companies and operator

	Algeria	**Cyprus**	**Egypt**	**Israel**	**Jordan**	**Lebanon**	**Malta**	**Morocco**	**Tunisia**	**Turkey**	**West Bank and Gaza**
ACTIVE FIELDS											
FINANCE SECTOR		X	X	X	X	X		X	X	X	X
INSURANCE SECTOR		X	X	X	X	X	X		X	X	
BANK SECTOR		X	X	X	X	X	X	X	X	X	
INVESTMENT COMPANIES[210]		X	X	X		X					
COMMERCE		X		X					X		
SERVICES			X	X	X	X		X	X		X
INDUSTRIAL FIELD		X	X	X	X			X	X		
CONSTRUCTION				X	X						
AGRICULTURE	X			X				X			
OIL EXPLORATION	X			X				X			
MINE SECTOR		X			X			X			
ENERGY SECTOR								X			
CHEMICALS SECTOR			X	X					X	X	
CEMENT		X	X			X				X	
FOOD			X						X	X	
TOBACCO			X					X			
TOURISM	X	X			X				X	X	
HOTEL		X			X		X				
BREWERY											

[210] Investment companies : institutions for the management of investment funds which are made up of securities (security funds) or even real estate (property fund). The shares in the funds are referred to as investment shares certificates which are sold on the open market

COMPANIES							X				
PHARMAUCETICAL SECTOR	X										X
TELECOMMUNICATION SECTOR					X		X				X
MANUFACTORING COMPANIES		X									
TRANSPORT		X	X		X					X	
RETAIL TRADE					X						
STOCK EXCHANGE OPERATORS											
BROKERAGE FIRMS	X	X	X	X	X	X	X	X	X	X	X
INTERNATIONAL BROKERS			X								
BANKS			X	X		X				X	
FOREIGN INSTITUTIONS			X								
FINANCIAL SERVICES COMPANIES	X				X						
FINANCIAL INSTITUTIONS						X	X				
OPEN-ENDED MUTUAL FUNDS									X		
CLOSED-ENDS FUNDS									X		
PUBLIC LOCAL BODIES									X		

	Algeria	**Cyprus**	**Egypt**	**Israel**	**Jordan**	**Lebanon**	**Malta**	**Morocco**	**Tunisia**	**Turkey**	**West Bank and Gaza**
LISTING REQUIREMENTS	The requirements that must be met by the listening company are general and particular. General, the issuer: • must be a joint stock company, in accordance to the Law • must have disclosed financial statement • must supply an evaluation Report made by an expert; • must have achieved profits for the last period before applying te be quoted • must include in its structure the internal auditor and its main features • must assure transfer prices of trading operations • must	There are specific requirements for allowing a public company to list its securities on the CSE. The following are amongst the basic ones: • the issuer must have been incorporated and must operate in accordance with the Law of his Country of incorporation and have authority to issue securities to the public • the issuer must propose the listing of securities with an expected total market value of at least CY£ 600.000 • the issuer must propose the listing of securities which are freely transferable • a shareholder	Every company that is desirous of issuing securities shall notify the Authority accordingly. If the Authority does not object within three weeks from its notification date, the company shall then be free to go head with the issuing procedures subject to any other provision in the law n. 95 of the year 1992.	The company is required to submit an annual statement according to which it meets the minimum capital and activity requirements.	Companies that apply to be listed on the Second Market must fulfill the following conditions: • the Net Shareholders' Equity must not be less than 50% of the paid-in capital • a full year must have elapsed since the company was granted the right to start its business Moreover, the issuer must supply further information about finance, shareholders and directors.	The issuer of securities wishing to joint the official market should confirm to the following : • it should have distributed at least 25% of its capital to the public on the first day of pricing at the latest • the issuer's capital has to be the equivalent of at least US$ 3 million in Lebanese pounds • the number of shareholders holding 25% of the company's capital should be at least 50 shareholders • it should have been incorporated at least three years earlier.	Requirements are related mainly to the company's size and trading record, the spread of its shares in the hands of the public and the disclosure of financial and other relevant company information, both prior and subsequent to listing. Basic requirements for a listing: • shareholders funds less intangibles of at least Lm 250.000 • paid-up capital of at least Lm 100.000 • 20% of the issued, fully paid-up capital in the hand of the general public • flotation limit of at least Lm 100.000 • adequate profit forecast shares must be freely transferable • financial information in compliance with Investment Services Act • acceptable level of risk attached. The Listing Particulars Document must also be published. It consists in a factual document giving full	Chapter II of the law n. 1-93-211 dated September 21, 1993.	Application for admission by mediation of a Stock Exchange intermediate. Admission dossier for quotation includes all juridical, economical, financial and compatibles documents of company which asks for the admission. The Stock Exchange fix the list and contents of all these documents. It can also ask for some other supplementary information to delivering body. See articles 26-34 of "Tunis Stock Exchange General Regulation".	The company submits a written registration form that contains basic information about its financial position, assets and liabilities, profit and loss statements and the rights attached to a security. The Executive Council, which meets regularly to take decisions on matters concerning daily operations of the ISE and to review new listing admissions, is entitled to seek further information in case of ambiguities.	To be quoted companies need to have an undersigned capital at least of US$ 750.000 and 250 shareholders.

	supply further information	must not control directly or indirectly a percentage of more than seventy per cent of the share capital of the issuer and, at least, twenty five per cent of the share capital must be satisfactorily spread to the public at large • the issuer must safeguard that shares issued are offered to the existing shareholders in proportion to the holding of each in the issuer's capital.					information about the company and its present and past trading record. It must also include the Auditors' Report providing comfort that the audited accounts provide a true and fair view of the financial position of the company. The Listing Particulars or other equivalent Offering Document must then comprise all such information as would enable the public to decide whether or not to invest in the company. Moreover, a three years trading record has to be presented to give a true and fair view of the performance of the company and the profit forecast must include a comment on the reasonableness of the assumptions				

Table 6.5: Stock Exchanges' FRAMEWORK OF LISTING COMPANIES AND MARKET CAPITALISATION

	ALGERIA	CYPRUS	EGYPT	ISRAEL	JORDAN	LEBANON	MALTA	MOROCCO	TUNISIA	TURKEY	WEST BANK AND GAZA
THE PUBLIC OFFER OF SECURITIES		N.A.	N.A.	N.A.	N.A.	N.A.			N.A.	N.A.	N.A.
ALREADY REGIMENTED	X						X				
NOT REGIMENTED YET								X			
N. OF LISTED COMPANIES	4 (2002).	221 (2002)	1036 (2002)	669 (2002)	160 (2002)	9 (1997)	12 (2002)	57 (2002)	44 (2002)	280 (2002)	28 (2002)
N. OF LISTED SECURITIES	N.A.	240 (2000)	N:A:	Shares 951 Bonds 287 Total 1.238 (1999)	N.A.	N.A.	Share 12 Corporate bonds 11 Government bonds 36 (1999)	55 (2001)	29	N.A.	N.A.
N. OF TRANSACTIONS	N.A.	1.761.388 (2000)	1.286.300 (2000)	N.A.	295.495 (2001)	N.A.	17.057	59.315	2.757.382 (2001)	32.427.312	20.143
AVERAGE DAILY TRADING VOLUME	N.A.	US$ 20 million (2000)	N.A.	US$ 64 million (2001)	JD 2,8 million US$ 3,9 million (2001)	N.A.	N.A.	N.A.	N.A.	US$ 722 million (2000)	US $ 0,9 million (2000)
AVERAGE YEARLY TRADING VOLUME	N.A.	£C 6,3 billion US$ 10,1 billion (2000)	LE 54,016 million US$ 14million (1996)	US$ 28,5 billion (2000)	US$ 942 million (2001)	N.A.	Lm 149 million US$ 340 million (2000)	US$ 3,3 billion (2000)	US $ 1,3 billion (200)	US$ 177 billion (2000)	US $ 0,2 billion (2000)
MARKET CAPITALISATION	N.A.	£C 8.296 billion US$ 13,359 billion (2000)	LE 120,9 billion US$ 31,4 billion (2000)	US$ 101,6 billion (2001)	US$ 4.5 billion (2001)	US$ 2,6 billion (2000)	lm 1,790 billion US$ 4,1 billion (2000)	US$ 11 billion (2000)	3,276 TDN million US$ 2,4 billion (2001)	US$ 47,7 billion (2001)	US$ 0,700 billion (2000)

Table 6.6: STOCK EXCHANGES' FISCAL ASPECTS

	ALGERIA	CYPRUS	EGYPT	ISRAEL	JORDAN	LEBANON	MALTA	MOROCCO	TUNISIA	TURKEY	WEST BANK AND GAZA
TAXES						N.A.					
TAX ADVANTAGES TO LISTED COMPANIES AND INVESTORS			X								
NO RESTRICTIONS ON FOREIGN INVESTORS			X	X			X	X			X
NO CAPITAL GAINS TAX[211]											
TAX ON CAPITAL GAINS			X (on sale)	X	X (with some exceptions)		X (if realised by a fund)	X	X	X (if resident and with some exceptions) X (if non-resident and with some exceptions)	
NO TAX ON DIVIDENDS											
TAX ON DIVIDENDS											
TAX ON INTEREST[212] INCOME			X						X		
INCOME TAX					X (with some exceptions)		X (35% unless benefiting from reduce rates in terms of other laws)				
TAX ON INTEREST		X		X (25% for private investors)			X (with some exception	X (10%)			
NO TAX ON GOVERNMENT SECURITIES	X										
NO TAX ON THE CHANGE IN OWNERSHIP BY TRANSFER OR CESSION				X (35% for private investors)						X	
NO CAPITAL REPATRIATION LIMITS										X	
NO DIVIDENDS REPATRIATION LIMITS											
NO TAX ON GOVERNMENT SECURITIES			X								
TAX ON TRADING PROFITS				X (just if the initial investment was made in a hard currency)							
				X (just if the initial investment was made in a hard currency)						X	
							X (35% unless benefiting from reduce rates in terms of other laws)				

[211] Capital gains tax - CGT - is a special form of collection of income tax on certain domestic investment income.

[212] Interest is a remuneration for the provision of money and capital. There are numerous economic authorities for clarifying the meaning of interest. One of ther most realistic is that interest consists of a remuneration for the provision of liquidity, a currency depreciation quota and a risk premium.

Table 6.7: Stock Exchanges' central depository, settlement, clearing and payment system

	Algeria	**Cyprus**	**Egypt**	**Israel**	**Jordan**	**Lebanon**	**Malta**	**Morocco**	**Tunisia**	**Turkey**	**West Bank and Gaza**
THE CENTRAL DEPOSITARY OF SECURITIES	N.A.										
THERE IS		X	X	X (The TASE Clearing House)	X (the Securities Deposit Center)	X	X (Central Securities Depository - CDS -)	X (Maroclear)	X (Sticodevam is an entity in charge of the custody, clearing, settlement and payment)	X (Takasbank : it provides for clearing, settlement and custody services)	X
THERE IS NOT											
THE SETTLEMENT SYSTEM[213]	N.A.										
T+0											
T+1											
T+2			X (Misr for Clearance and Settlement)					X (on the open outcry market)		X (Takasbank : it provides for clearing, settlement and custody services)	
T+3		X (sales)		X	X	X (settlement and clearing is performed by "Midclear")	X				
T+4											
T+5											X
T+6								X (on the OTC market)			
T+7									X (Sticodevam is an entity in charge of the custody, clearing, settlement and payment)		
T+8											
T+9		X (purchase)									

(Table 6.8)

213 To clarify what is meant by the "Settlement" of Stock Exchange transactions, it is convenient to distinguish the fundamental phases which make up the purchase of sale of a security traded on an exchange: the assignment of an order to buy or sell, the execution of the order and the settlement of the transaction : settlement represents the moment in which the execution of the contract is realised, which consists of the exchange of securities for money. Therefore the settlement is the conclusion of a securities transaction when a customer pays a broker/dealer for securities purchased or delivers securities sold and receives from the broker the proceeds of a sale.

THE CLEARING SYSTEM THERE IS A SPECIAL BODY THERE ARE MANY BODIES	N.A.	N.A.	X (Misr for Clearance and Settlement)	X (clearing house)	X (clearing house)	X (settlement and clearing is performed by “Midclear") .	X	X (90% of foreign investors clear with “Banques Commerciale du Maroc”)	X (Sticodevam is an entity in charge of the custody, clearing, settlement and payment)	X (Takasbank : it provides for clearing, settlement and custody services	X (Clearing Deposit and Settlement – CDS – department of PSE) .
THE PAYMENT SYSTEM A SPECIAL INSTITUTION BANK	N.A.	N.A.	X	N.A.	N.A.	X	N.A.	N.A.	X (Sticodevam is an entity in charge of the custody, clearing, settlement and payment) X	X (Takasbank : it provides for clearing, settlement and custody services)	N.A.

6.4 Other relevant information

This section provides some important information concerning each Stock Exchanges of the MNECs.
No information is available for the *"Bourse Algérienne del Valeurs Mobiliéres"* since, as already stated, that capital market is not developed to a greater extent.

6.4.1 Cyprus

- In June 1997, the CSE was accepted as a member of the Association of National Numbering Agencies - ANNA -
- The Stock Exchange Law provides for the establishment of a Compensation Fund called "Joint Cooperation Fund Securing Stock Exchange Transactions". The aim of this fund is to protect investors in the event of financial collapse, or whenever a Member of the CSE is unable to meet his obligations to his principals or to third parties.
- In order to prevent "inside dealing" a law will soon be passed entitled "Insider Dealing Law" which will provide further protection to the investors.
- Capital flows restrictions will soon be abolished.

6.4.2 Egypt

- Forecast of insurance systems to prevent speculation and of particular mechanisms to promote investment funds development
- Establishment of a market maker able to control supply and demand.
- A limited selection of modern brokerage firms.
- As part of its structural adjustment program, in 1992, Egypt passed the Capital Market Law which provides for the establishment of modern brokerage firms and marchant bankers, mutual funds, the use of debt instruments and corporate bonds, stringent disclosure requirements for listed companies and tax advantages to listed companies and investors. This Law aims at improving the operational efficiency

and boosting public confidence in the securities industry eliminating tax distortion and bias against investment in securities and currently regulating the market and the market participants for full investors' protection. The Law extends incentives to the supply and demand for securities, as well as to all forms of securities services.

- Legislative restrictions on bonds issuance have been removed: the bond market has been greatly encouraged and domestic and overseas confidence and interest restored. As a result of that policy, for example, by July 1996 foreign investment accounted for about 35% of the total value of trading, with over 126 overseas institutional investors participating in the market.
- Other incentives to new securities'acquisition:
  - the drop in interest rates on deposits;
  - dividend income is exempt from taxes - the tax on income from most stocks and bonds was removed in mid 1996 -;
  - current review of all trading clearance and settlement systems.
- In 1996 the International Finance Corporation -IFC[214] - included Egypt in its Investible Index.

6.4.3 Israel

- Foreign investors may buy and sell any listed security and mutual funds. If the original purchase of such securities was made in foreign currency, interest and dividend payments may be repatriated in foreign currency.
- From 1998, the TA-100 Index comprises the 100 shares with the highest market capitalisation, rather than the 100 most actively traded shares. Anyway TASE will

[214] IFC indices measure the day-to-day performance of the developing stock markets. The Investible Index represents the stocks that foreign institutions can buy, taking into consideration market capitalization, liquidity and regulations. More specifically, IFC is part of the World Bank Group and is the largest multilateral source of equity and loan financing for private sector projects in developing Countries. IFC's involvement in the Southern and Eastern Mediterranean Basin has grown steadily in recent years, fuelled by the opportunities which emerged as Countries in the region took steps to improve macro-economic conditions and expand the role of the private sector. For that reason, over the last five years, IFC project approvals and investment in the MENA area has doubled. It is important to remember that the IFC is part of the World Bank Group and is the largest multilateral source of equity and loan financing for private sector projects in developing Countries.

publish a new Index called YETER which will cover the shares not included in the TA-100 Index.

- Concerning the trading system, in the TASE we have the TACT (Tel-Aviv Continuous Trading) and the CCM (Computerized Call Market) systems.
- The TACT, which was successfully launched in August 1997, is an order-driven system for computerized, simultaneous and continuous trading. The system performs extraordinarily well and has won great acclaim from domestic users and especially from international investors, whose weight in Israel's capital market is constantly increasing. It combines the advantages of a call market[215] with those of continuous trading. The system, then, significantly improves trading transparency, liquidity and fairness for the benefit of the whole financial community. TACT also contributes to a significant rise in trading volume on the TASE: since the beginning of 1998, daily trading volume in individual securities has been breaking records and the total turnover has been constantly increasing. TACT was set up by the task team that comprised the Chicago Stock Exchange system supplier. In fact it is based on similar systems installed by the Chicago S.E. in Johannesburg, Manila and Bangkok, but includes enhancements for TASE specifications. These enhancements have made TACT a genuine "second generation" system.
- The CCM system enables members to trade via the TASE computer, without requiring a trading floor, auctioneers, or dealers. In this system all transactions are carried out at the price fixed daily. It is also very important as it enhances trade fairness and reduces the possibility of price manipulations, promote liquidity, fair trade, is fully automated and all trading stages are conducted electronically, including:
    - dissemination and display of trading data;
    - trade execution;
    - post-trade clearance;

[215] The fixing of a single price at which all transactions are executed, that is at the heart of the call system, has major advantages of fairness and customer protection. In fact when there is only one price at which all transactions are executed, there can be no concern of preference to favoured customers. On the other hand the

    - market surveillance.

- Another stage in the TASE's modernisation plan is the computerization of derivative trading.
- In July 1997, a law regulating investment counselling and portfolio management, "The Investment Advisors Law", has come into full effect.
- In mid-1997 the International Finance Corporation of the World Bank Group announced that it will include Israel in its set of benchmark indices for emerging markets.

6.4.4 Jordan

- The Amman Financial Market is one of the most developed and sophisticated Stock Exchanges in the Arab world. In fact, Jordan, together with Egypt and Morocco, is included in the International Financial Corporation's Index of emerging markets.
- In 1996 an agreement was signed with Bahrain to connect their Stock Exchanges and today other similar agreements are under negotiation with Egypt, Lebanon and Kuwait.
- The present settlement and depository system will soon be modernized. The new system will be based on the French model used by the Paris Bourse. The Bourse and Sicovam SA (the French settlement and depository centre) are providing the technical assistance to automate all trading on the exchange and create a new electronic clearing, settlement and depository system.
- Jordan is the only Middle Eastern market to be represented on the board of the International Accounting Standards Council - IASC -.
- Capital markets have been opened to foreign investors, by removing the 50% ownership ceiling. Foreigners can buy up to 100% in most sectors : banking, insurance, telecommunication, transport. The only exceptions are in construction, retail trade and mining.

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major disadvantages of the call system is that the fixing of prices only once a day does tend to depress trading

- In October 1997, the Country issued its first Eurobond to set a precedent for future lending.

6.4.5 Lebanon

- The Stock Exchange will list companies with small capitals as well as Arab and foreign companies subject to specific conditions.
- In the Stock Exchange there is unrestricted freedom to transfer money and buy stocks without payment of any taxes on these transactions.
- Cross listings with the Stock Exchange of Egypt already exist.

6.4.6 Malta

- The MSE is planning to reduce the settlement period. In fact,, with the reduction in the volume of paper work associated with electronic trading, the MSE should be able to move to a T + 2 settlement period.
- The integration of the trading system with the CSD and the Clearing and Settlement System - CSS - should prevent some speculative activity that may occur as a result of operators being able to churn certificates in other market places.
- The Stock Exchange Council hopes to internationalise the Malta market and thus place the Island even more firmly on the international map as a financial services center. It is an exciting development which local businesses and investors should fully exploit.
- MSE is a member of the International Organisation of Securities Commission - IOSCO -, of the Federal European Stock Exchange - FESE - and of the "Fédération Internationale des Bourses Valeurs - FIBV -.

6.4.7 Morocco

- There are no restrictions on foreign investment, nor on foreign ownership of companies.

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turnover and price discovery is not continuous.

- Creation of new institutions in order to have a really dynamic market, such as the Stock Exchanges societies.
- Creation of investment portfolio operational agencies to diversify financing services on capital market (Dahir creating the law n. 1-93-213 dated September 21, 1993).
- Favourable investment legislation[216].
- Juridical reforms to develop collective securities management instruments.
- The market of Treasury bill issued by award has been opened to residents and non-residents.
- Four Treasury securities intermediaries have been chosen to foster the market.

6.4.8 Tunisia

- In 1995 Tunisia issued a decree simplifying the purchase of shares in Tunisian companies by foreigners. Today foreigners can buy up to 10% of a company on the Tunis Stock Exchange and up to 30% of an unlisted company without central bank approval.
- Present exchange controls guarantee the free transfer of profits to non-residents under the following conditions : when either the company's shares are registered on the listed securities market, or when at least 50% of the company's total gross income is derived from exports.
- The existing Tunis Index of 33 stocks is characterised by a lack of liquidity, a fact which has been a concern of potential investors. So in 1995 the industrial "Mise à niveau" program was launched in order to develop the productive system and to encourage private entrepreneurs.
- Law 94/117 concerning the reorganization of the financial market and the creation of societies such as SICAVs and SICAF.

[216] For further information see the law 1-93-46 dated September 10, 1993 and the law 18-95 dated October 3, 1995 creating the "Charter of Investments".

6.4.9 Turkey

- The settlement system is designed to settle both securities and funds on a net basis to minimise principle risks.
- In October 1993, the ISE was recognised as a “Designated Offshore Securities Market” by the US Securities and Exchange Commission - SEC -.
- On January 1995, Takasbank was approved by the SEC as an “Eligible Foreign Custodian” , on July 1995 accepted as an “Approved Depository” by the Securities Futures Authority of UK - SFA - and, following the transformation into a bank, on January 1996 was recognized as an “Approved Bank” always by the SFA.
- Following the designation of the ISE as an appropriate foreign investment market by the Japan Securities Dealers Association - JSDA -, on May 1995 also the Japan Securities Clearing Corporations - JSCC - and the Japan Securities Depository Center – JASDEC - recognized Takasbank as an eligible depository conforming to the standards predetermined by these institutions.
- On April 1995 Takasbank became a member of the Association of National Numbering Agencies - ANNA[217] -.
- On May 1995, the JSDA officially designated the ISE as an “appropriate foreign investment market for the private and institutional Japanese investors”.
- Development of a negotiations’system completely automatic in order to reach a better speed/capacity to elaborate transactions.
- On the way to becoming an international hub, the ISE established the international market in the free trade zone in order to provide a fair and an organized market for the trading of depository receipts of foreign equities, eurobonds and other foreign bonds, mutual funds and repurchase agreement.
- To offer more varied instruments for investors, ISE is planning to launch the Derivatives Market : the legal framework of the market has been prepared. This market will not only provide investors hedging and speculation opportunities, but it will further aid the volatily in the spot market to decline.

- The ISE is a full member of :
    - FIBV - Fédération Internationale des Bourses de Valeurs ;
    - FEASE - Federation of Euro-Asian Stock ExchangesM;
    - ISSA - International Securities Service Association;
    - ISMA - International Securities Market Association;
    - ECMI - European Capital Market Institute;
    - WEI - World Economic Forum;
    - SCFOA - Swiss Commodities, Futures and Options Association.

6.4.10 West Bank and Gaza

- The Palestine Securities Exchange is open to foreign investors and brokers and to the listing of foreign companies. All investors have equal access to the market regardless of geographical location within or outside Palestine. Investors are offered protection against insider trading, price manipulation and fraud.
- New issues of shares and bonds will be priced at market clearing levels without government intervention in order to encourage long-term financing.
- The promotion of the Stock Exchange as a regional securities market in the context of promoting prompt, wide and extensive dissemination of market data and company information.

[217] ANNA is an association providing reliable and prompt confirmation for the sound execution of security transactions in the markets by international investors by using International Securities Identification numners (ISIN).

6.5 Comment

In these last few years the MNECs are doing well in modernising and promoting their financial markets and Stock Exchanges. This situation is testified by many indicators.
First of all we have to remember that the analysed countries join different Stock Exchange's association.
In particular, Cyprus, Egypt, Jordan Israel, Lebanon, Morocco, Syria, Tunisia and Turkey are members of the International Finance Corporation.
Cyprus and Turkey are members of the "Association of National Numbering Agencies" - ANNA -, Malta and Turkey are members of the "Fédération Internationale des Bourses des Valeurs" - FIBV -. Algeria, Cyprus, Malta, Morocco and Turkey are also ordinary members of the "International Organisation of Securities Commission" - IOSCO -. Malta also joins the "Federal European Stock Exchange" - FESE -, while Egypt, Jordan, PSA and Turkey is a member, among others, of the "Federation of Euro-Asian Stock Exchange" -FEAS-.
Concerning investors protection and advantages, many Stock Exchanges are doing really well. In Cyprus recently a Compensation Fund was established, named "Joint Compensation", to protect investors in the event of financial collapse and in a short period of time a law will be passed to provide further protection to the investors. In this Country capital flows restrictions were recently abolished. In 1992 Egypt passed a law - Capital Market Law -which aims at full investors' protection and tax advantages. Also in West Bank and Gaza protection against insider trading, price manipulation and fraud is offered to investors. Indeed MNECs are trying to modernize their financial markets and Stock Exchanges. It is also important the fact that negotiation agreements are under way to connect Egypt, Jordan and Lebanon's Stock Exchanges, while cross listing between the Stock Exchange of Egypt and Lebanon already exist. Egypt is then reviewing clearance and settlement systems. Also in Jordan the present settlement and depository systems have recently been modernized[218], while in the Malta Stock

[218] Michel MARTO, *The Role and Importance of Capital Markets*, Financial Times Conferences, "Mediterranean Capital Market Conference", 26 & 27 March 1998, Guildhall, City of London, p. 15.1, it is

Exchange the settlement period should move to a T + 2. The Israeli trading system is also very interesting: the " Tel-Aviv Continuous Trading" - TACT - and the " Computerized Call Market" - CCM - which enhances trade fairness. Morocco, then, is trying to create new institutions in order to have a really dynamic market and in Tunisia the reorganization of the financial market is going on. Stock Exchanges in the area are also trying to internationalize or to attract the overseas confidence of investors : Malta is internationalising its financial market and West Bank and Gaza is trying to promote its Stock Exchange as a regional securities market.

In the context of the modernization and internationalization of the MNECs' Stock Exchanges a relevant role is played by the Istanbul Stock Exchange or, more precisely, by Takasbank, the entity in charge of the clearing, settlement and custody services, which has been approved by the US Securities Exchange Commission as an "Eligible Foreign Custodian", while the Japan Securities Dealers Association has officially designated the Istanbul Stock Exchange as an appropriate foreign investment market for the private and institutional Japanese investors.

Therefore, this description of the situation of MNECs' Stock Exchanges shows these Countries are really trying to improve their stock industries as well.

In these last few years, in fact, we can see that in Countries such as Algeria and Cyprus Stock Exchanges have been created. Also Palestine was able to open a Stock Exchange early in 1997 and, despite the economic and political situation, share prices have been holding steadily. The index of 23 stocks has been volatile, fluctuating within a 30% range since its creation, but not too much of a variance for an emerging market. Some other Countries, such as Jordan, Morocco and Egypt, have been able to implement some important reforms in order to develop their Stock Exchanges. As a result, as already mentioned, they have been included on the International Finance Corporation's Investible Index. This inclusion should inject confidence in investors

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important to remember the reform programme the government of Jordan is undertaken to improve Jordanian Stock Exchange. More generally, the core elements of the programme are directed at:

- institutional restructuring ;
- removal of barriers to foreign investment;
- installation of an electronic trading, settlement and clearance system ;
- establishment of a book-based securities depository ;

looking to cut their money into the country. Concerning Egypt we also have to stress that in the aftermath of the Asian market crisis, the Egyptian Stock Exchange appeared surprisingly resilient to external shocks and become a safe haven for capital of Asian influence. So, the economic success of Egypt in these years can be attributed to a positive capital market able to attract foreign investment[219].

It is also interesting to analyse the case of the Casablanca Stock Exchange. In fact, according to a survey by one of the main Moroccan magazines, *L'Economiste*, the interest of private investors to invest in this Stock Exchange is so high that, for example, in 1995, during some privatisation of public companies, 15 per cent of individual investors had bought a lot of securities, even if they did not have an account in a bank, in order to invest their savings, which, till then, were kept "at home". The privatisation process, therefore, has really transformed the "Bourse des Valeurs de Casablanca" in just two years which, today, can be considered, after the one of Johannesburg, the second financial market of the African continent. For instance, the Ministry of Privatisation of Morocco, Mr Abderrahmane Saaidi, has affirmed that, in the 90s, the volume of exchange of the Casablanca Stock Exchange has multiplied by five-fold and the capitalization has increased eight times[220]. The trend has been continuing in the last few years.

Anyway, to develop their Stock Exchanges, MNECs should go on improving their depository, settlement, clearing and payment systems, in harmonising their practices and tools in order to set up a minimum standard to which all of them should conform in order to compete successfully world-wide: above all Stock Exchanges internationally oriented, as MNECs ones seem to be, need the harmonisation of different laws concerning the circulation of securities. Other obstacles preventing

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- adoption of a regulatory infrastructure to an international standard.

[219] Mohamed S. YOUNES, *What Investors Want*, in "Financial Times Conferences", Mediterranean Capital Market Conference, 26 & 27 March 1998, Guildhall, City of London, pp. 20.1 and 20.2, it is also interesting to stress that, as Egypt has no forward exchange market, it is quite impossible to speculate against the Egyptian pound. This currency is therefore relatively immune to the attacks that precipitated the Asian collapse. In addition Egypt has negligible direct or portfolio investments in the Far East and so Egyptian companies and investors , regarding not only the Asiatic collapse but, more generally, all possible crises, are not directly affected by the collapses. Therefore the Egyptian financial market in addition to its proven resistance to crisis offers an unusual investment opportunity.

some Stock Exchanges of the Southern and Eastern Mediterranean region from flourishing are :

- unfavourable macro-economic and/or political environments and/or unfavourable tax regime;
- lack of cultural exposure to share ownership and the lack of individual savings to buy shares;
- lack of sophistication, compared with the Stock Exchanges in more developed Countries;
- restrictions on foreign portfolio investment;
- insufficient protection of smaller investors;
- lack of liquidity: developments which should remedy the liquidity problem are the liberalisation of foreign exchange controls, minimising restrictions on foreign portfolio investment, the change-over to electronic trading system and the privatisation on parastatal companies. We can notice that most of the Middle East & North African Countries are undertaking or have already undertaken some crucial reforms. For example, concerning the trade structure, Jordan recently changed to the electronic system. Moreover all the MNECs are moving away from inward-oriented, public sector-led development strategies to a more open economy even if, concerning government involvement, we can still see that a number of MENA Stock Exchanges are not organised yet on a mostly private juridical structure yet.

Despite this last consideration, Southern and Eastern Mediterranean financial markets are doing remarkably well in laying the foundation for future growth.

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[220] See the article of Guido BUSETTO, *E la Borsa balza al secondo posto in Africa*, in “Il Sole 24-Ore”, 21 gennaio 1995, p. 21

CHAPTER 7

THE INTERNATIONALISATION STRATEGY

JOINT-VENTURE AGREEMENTS BETWEEN THE SMES OF THE TWO SHORES OF THE MEDITERRANEAN BASIN

7.1 Introduction

Today economic operators are becoming aware that the *liberalisation of trade*, following the implementation of the *Uruguay Round*, has profound implication not only for Middle East & North Africa - MENA – small and medium enterprises - SMEs -, but also for European ones[221], and that the internationalisation of their activities does not constitute a development strategy of solely large enterprises.

Indeed, SMEs of the two sides of the Mediterranean Basin have to proceed towards the direction of their *internationalisation*. The main aim of this strategy is to agree on a *common action programme* which should perform the role of a resource catalyst with distinct capabilities in, among other, syndicating technology transfer projects in the spirit of intra-regional co-operation and in promoting partnerships.

This adjustment is necessary in order to face increasing competition, even at local market level, and also for improving the capacity of SMEs to penetrate the other markets and, concerning European enterprises, above all the emerging economies, such as the Mediterranean non EC markets.

[221] The implementation of the Uruguay Round, the eighteen business transaction of reform of the GATT which has lead to the establishment of the World Trade Organisation - WTO -, for instance, has diminished the protection of the multifibres agreement - that has regulated the trade of textile products for more than thirty years - guaranteed above all to developed Countries. In fact, this agreement will be gradually eliminated in ten years time and duties will be progressively reduced: the standard rules of the GATT/WTO will also be applied to this field within the expiry of the transitory period of ten years. Consequently, developed Countries will have to plan a general reduction of prices of the textile products if they do not want to risk this industrial field not being

7.2 The strategy of internationalisation[222]

The *strategy of internationalisation* of European SMEs in Mediterranean non EC Countries - MNECs -[223], above all through agreements of joint-venture[224], is fundamental for the development of the Mediterranean Partners of the European Union - EU - as these businesses can be considered the main motor of the economic growth and dynamism in the region. It goes without saying that they make an important contribution to create employment. For that reason, recognising the vital role of SMEs, the EU and its Mediterranean Partners have launched initiatives and programmes to ensure their full *integration* into the process of economic development. The Barcelona process has created an institutional framework to promote it : along with the accessibility of new trade, instruments useful for the internationalisation strategy and investment facilities offer unprecedented opportunities for promoting business relationships between companies on the two sides of the Mediterranean Sea.
Co-operation and *cross-border agreements* are crucial for the MNECs because the strengthening of the capacities of their firms would be a way for the overcoming of developmental backwardness[225] as their SMEs are able to attract and enable foreign investors to establish and expand domestic linkages.

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able to cope with world-wide competition, as one of the MNECs. This pictures clearly shows the importance of a partnership between the enterprises of the two shores of the Mediterranean Basin.

[222] With the term "internationalisation" we mean a strategy of entrepreneurial development which includes the simple activity of import-export, the stipulation on agreements, the opening of show-rooms, or of agencies of trade abroad and, above all, the creation of joint-ventures.

[223] See Giuseppe VERRASCINA, *Il finanziamento comunitario, sostegno allo sviluppo delle piccole e medie imprese*, EBC, Milano, 1995, pp. 239-249.

[224] A joint-venture can be defined as a kind of co-operation between two or more companies working together to achieve an objective or objectives which might not be possible alone. Although joint-ventures take a variety of forms and have varying degree of complexity, they all share one common feature which is the desire of the partners to share their specific strengths for a common purpose and mutual benefits : by utilising their different strengths, the joint-venture parties are able to minimise risks and liabilities.

[225] For that reason, to attract investment necessary for their growth, the MNECs are concentrating on some initiatives. We remember, just to make an example, that Egypt has launched two pioneer projects to promote private investment in establishing special economic zones. Both zones will enjoy special legislation, which will create a competitive business environment allowing for rapid movement of goods, capital and labour, as well as world-class infrastructures and operational standards. Serena MASSIMI, *Rabat gioca la carta incentivi con*

Anyway, MENA SMEs left on their own will be far from realising their full potential: the Barcelona Declaration has opened new opportunities for their growth and it above all suggests *vertical integration*, including joint-ventures, as well as *horizontal* and *decentralised co-operation*. It will be above all by the decentralized co-operation that these firms will develop: to empower and promote them, a concerted action between, not only governments, but also private institutions is necessary and possible within the framework of the Euro-Mediterranean partnership, linking a large number of SMEs together with business organisations, institutions and agencies in a network, on the two sides of the Mediterranean Basin, with competence in specific areas of enterprises support services.

7.3 The SMEs in the Euro-Mediterranean region

In these last few years, European SMEs are facing new challenges as a consequence of the globalisation of markets. In fact, parallel to the process of *economic integration*, particularly within the framework of the creation of a large European "single market", European small and medium businesses have been confronted by a dramatic increase in the degree of structural change at world level. This is effectively a process of global economic integration often described as "*globalisation*"[226]. Anyway, above all because of the creation of new regional trading areas, European enterprises need to improve their competitive capacity and promote their international integration within a unified

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quatttro zone franche, in "Il Sole 24-Ore", 11 settembre 1997, p. 21, also Morocco has launched a programme to create some industrial centres in four areas of the Country. Two of these areas will be free trade zones. Concerning Turkey, at present, there are nine operational free zones and three others are under construction. For further information see, *Investment Proposal of Turkish Companies*, in "Export Promotion Center of Turkey - IGEME -" Boritec '97, Milan, 28-30 October 1997, pp. 10-11. It is then important to remember that Jordan's Free Trade Zones Corporation has developed trade and industrial zones near the port of Aqaba and in the Amman-Zarqa area. These zones offer foreign investors substantial financial incentives, including duty-free importation, tax relief and guaranteed repatriation of foreign exchange. The Aqaba zone concentrates on transit, cold storage and industrial manufacturing. The Zarqa zone offers automobile and commercial sales opportunities plus manufacturing and warehousing sites.

[226] D. ARCHIBUGI, J. MICHIE, *Technology, Globalization and Economic Performance*, Cambridge University Press, Cambridge, 1997.

a coherent approach: SMEs potential cannot be fully exploited without entering the international markets.

As a consequence, the establishment of a *Euro-Mediterranean common area* represents a means for the creation of that market: the MNECs[227] could actually provide an exceptionally broader consumer base[228]. The forecast essentially depends on the explosive growth in capital flows in the region which has, on the whole, made MENA's governments more responsive to international, and above all European, markets. In addition, they have started making sweeping policy changes and now compete with other Countries to attract foreign capital. It is also true that privatisation of State owned companies has greatly contributed to increase foreign direct investment flows.

Today European SMEs are becoming aware that they have to proceed towards the direction of internationalisation of their activities in order to face increasing competition and to improve their capacity to penetrate emerging markets. Anyway, it is also true that sometimes SMEs face difficulties to have access to some of these foreign markets, such as the ones of the Countries of the Southern and Eastern Mediterranean Basin: the Euro-Mediterranean partnership policies and the prospects to create a large free trade area, which will encompass the whole of Eastern Europe by 2010, are the new scenarios against which the European systems, and, mainly, local economies, have to be assessed.

Faced with the great challenges of *sustainable development*, quality, innovation and global markets, European enterprises must improve their performance. For instance they have to improve their capability to absorb and manage *technological innovations* and adjust to the market. Namely, they have to overcome their organisational limits and increase co-operation and networking with the enterprises of the MNECs[229].

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[227] Vinod REGE, *Economies in Transition and Developing Countries*, in "Journal of World Trade", 1996, pp. 83-115.

[228] International Conference, "Mediterraneo : l'impresa che cambia in una regione che cresce", Marrakech, 22sd and 23th March 1996, Acts published by Aspen Institute Italia, in "Incontri 1996", pp. 7-19.

[229] See, R. SCIATTARELLA, Settori tradizionali, piccole e medie imprese ed integrazione con i paesi terzi mediterranei, in "Quarto Rapporto sul Mediterraneo", (a cura di), AMOROSO Bruno, Federico Caffè Center; Università di Roskilde, Edizioni Lavori, Roma, 1998.

The *Euro-Mediterranean partnership's programme*, in fact, provides co-operation instruments which can help EU enterprises to benefit from the opportunities arising from the markets of the MNECs. What is true, in fact, is that European SMEs need to internationalise their activity, while the SMEs of MENA Countries need to enter into co-operation with the ones of the EU[230].

The best way to put this strategy into practise is to make *joint-ventures agreements* as, by utilising their different strengths, the joint-venture parties can minimise risks and liabilities.

The economic operators of the MNECs, as well as the ones of the EU, which are increasingly searching for new off-shore investment opportunities, are aware that the key to success, in this increasingly globalised environment, is greater business co-operation by coming together to form business partnerships for mutual benefit[231].

Consequently, the need to start a strategy of *cross-border co-operation* - as such *agreements* are able, in the Countries on both sides of the Mediterranean Sea, to both reinforce a company's international competitiveness[232] and to create new jobs - bringing more and more European companies to establish some linkages with the enterprises of the other side of the Mediterranean Sea. Probably the entrepreneurs have understood they have something to gain from the opportunities offered by the region: the liberalisation of trade, following the implementation of the Uruguay Round, has profound implication not only for MENA SMEs, but also for European ones.

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[230] Doug HENDERSON, *Opening address*, Mediterranean Capital market Conference, 26 & 27 March 1998, London, p. 3.

[231] In the Euro-Mediterranean framework the creation of joint-ventures is above all supported by the establishment of "Business Centres" as the major part of their work concerns the encouragement of collaboration between European and MNECs companies in a variety of forms including joint-ventures and the growth of SMEs. Concerning this last point, all Centres already existing have started to conduct business diagnosis as a first phase to take enterprises through a cycle of strategy development and company restructuring. The Tunisian "Business Centre", the "Euro-Tunisia Entreprise" has, for example, already started to recruit consultants for direct assistance to SMEs. "Business Centres" already exist in Egypt, Syria, Jordan, Morocco, Tunisia and West Bank and Gaza. Their general aim is to provide a range of consulting, information and training services to individual companies on a demanded-led basis. Services include business planning, management development, marketing, packaging and promotion, export development, product design and development, productivity improvement, technology procurement and quality management.

[232] See the article "Anonymous", *S.M. Hassan II : Oeuvron ensemble pour faire basculer l'Histoire*, in "LE MATIN du Sahara et du Maghreb", 26 aout 1996, p. 6.

7.3.1 European SMEs

Meeting the challenge of growth, competitiveness and employment is one of the EU's highest priorities. In fact, to finance the large volume required to satisfy its raw material and food needs, Europe must have a dynamic *investment policy* and internationalisation strategy.

In today international economic environment European SMEs are facing increasing financial needs as they are dealing with new challenges, challenges which are related to market globalisation, drastic technological changes and the need to improve their competitive capacity. For all these reasons, internationalisation strategy, as well as the *supporting role of the bank* for it, have to be taken into great consideration both by the enterprises and the experts of the public and private sector.

European SMEs policy, anyway, to be successful, has to be undertaken with a unified and coherent programme.

It is also true that SMEs potential cannot be fully exploited without entering the international markets, markedly the one of the MNECs. To achieve this goal, it is first of all necessary to improve information and co-operation instruments. Concerning information it is important to transform the European information centres into "*first-stop-shops*" - following the expression used by European Commissioner Papoutsis[233]- : the composition and the quality of the services provided by the Euro-Info Centres should be upgraded and substantially improved. This implementation is necessary because of the pressing needs for increased transparency in providing a large number of European Community information services.

It will also be important to implement the *EURO-INFO CORRESPONDENCE CENTRES* in the MNECs[234]. In order to give the SMEs of the European Union - EU - a new development impulse, all the Parties of the Rome Treaty involved should unite their efforts at a Euro-Mediterranean level firstly promoting the exchange of information between the economic operators of the EU and of the Mediterranean non EC

[233] Speech of Commissioner PAPOUTSIS, *Internationalisation of SMEs : a Challange for Competitiveness and Employment Parthnership '96*, Entreprise Policy, Distributive Trades, Tourism & Co-operatives, DGXXIII, p. 2.

[234] See chapter two, point 2.3, "Initiatives concerning the economic partnership and the establishment of the free trade area".

Countries: the development of the information society allows enterprises to have access to markets which formerly were accessible only to larger enterprises.

In order to provide information and advisory services the Euro-Mediterranean economic operators can use a number of *complementary instruments*: through these actions, the road to a stronger participation in specific programmes and available resources would be open for the internationalisation of European SMEs in the MNECs. The result will be the strengthening of European and North Africa & Middle East Countries SMEs through the creation of a real Euro-Mediterranean regional grouping in the new globalized market. Therefore, the business throughout Europe should adapt their strategies to the fast changing circumstances, that is to say:

- to the needs of a changing world based on *investment flows* and *trade*;
- to the needs of a context where economic *activities* are more and more oriented towards transactions *between developed* and *new markets*, as MENA can, at the moment, be considered.

For that reason the EU *internationalisation strategy* should be *mainly based on joint-venture agreements*. Consequently, it will be more and more important to facilitate the dialogue not only between enterprises but also economic operators and credit institutions: it is relevant to *improve access to bank financing* and identify best practise which could be properly disseminated in all the Countries of the Euro-Mediterranean area. Brussels, in fact, recognizes the difficulties that, not only in the MNECs, but also in the EU, SMEs are faced with having access to finance and the negative impact that such a difficulty creates for the internationalisation strategy of their activities. So, it is really necessary for an improvement in communication and relationships between SMEs and banks, the adaptation of the credit products and the training of the staff, on the basis of the specific characteristics of SMEs, as well as the development of guaranteed funds for them.

In this light, the project for the establishment of an *Euro-Mediterranean Network of Stock Exchanges* will play a crucial role, also because access to financing is not sufficient to guarantee that an enterprise will survive and develop. The creation and business development go together with a good business management, with the

promptness of the payments by its clients, with the implementation of proper enterprising practices in the private sector, with the appropriate policy and support from the public authorities and most of all with the development of a real and more efficient partnership between the SMEs on the two shores of the Mediterranean Basin.
In fact, to promote the growth of European SMEs, it is also necessary to promote a better awareness of existing problems for the development of a *closer co-operation* between Euro-Mediterranean firms : a decentralised approach should be chosen as this kind of approach has significant advantages as it allows a strategy to be upgraded through the important activities of enterprises at local, regional and national level.

7.3.2 The case of Italy

Italy, a Country where business activities are mainly carried out by the small and medium enterprises, should, more than other European markets, address its strategy of internationalisation towards its Mediterranean Partners[235].
To reach this goal it should be necessary to do a micro and macro-economic analysis of both the entrepreneurial Italian environment and the one of MENA, in order to identify those sectors and those businesses interested in the Italian internationalisation strategy and to organize desks specialised in assistance to firms which want to internationalise their activity.
Therefore, to collect all necessary data, a *data-bank* should be created on foreign market economical indicators and new possibilities for the development of joint-venture agreements between the SMEs and credit institutions. It would also be very useful to organise periodical seminars in order :

- to *publicize* the culture of the internationalisation ;
- to *make an analysis* of the SMEs eligible to the internationalisation process through joint-ventures ;
- to *give assistance* to identify the partners for the establishment of such agreements ;
- to *introduce* to Italian entrepreneurs :

[235] See, CNEL, Commissione Rapporti Internazionali, *Razionalizzazione della legislazione di supporto all'internazionalizzazione del sistema imprenditoriale italiano*, Relazione, Roma, dicembre 1992.

⇒ the economic situation of MNECs ;

⇒ market fund information concerning investments in Southern and Mediterranean Countries ;

⇒ strategies to approach Mediterranean markets ;

⇒ information on fairs ;

⇒ information on the taxation and customs procedures.

To beat world-wide competition and seize the opportunities of co-operation, Italian economical operators should then know MNECs legislation, regulation and, in general, the techniques of international trade. All this has to be done in order to promote joint-ventures in the MENA Countries and Italian investment in the Mediterranean Basin. In the context of the Italian internationalisation strategy the project of the Euro-Mediterranean Network of Stock Exchanges should attract investments in the region as it should be able to give more publicity to the joint-ventures and an easy way out for investors.

7.3.3 The SMEs in the MNECs

SMEs are deeply involved in the establishment of Euro-Mediterranean area of shared wealth as MENA's firms represent the primary vehicle by which new entrepreneurs provide the economy with a continuous supply of skills and innovation. However, since many of them are engaged only in a traditional sector and left on their own, they cannot fully contribute to the growth of their Countries: their businesses opportunities have to expand through increasing international economic activities.

Anyway, and even if the impact of the Euro-Mediterranean free trade area will be harder on SMEs in comparison with the impact on large establishments, the realisation of an agreement of a joint-venture with European SMEs, the creation of technology support systems, as well as technical assistance and training by the EU, through the tools set up by the Euro-Mediterranean partnership, may provide keys to upgrading SMEs' competitiveness in the MNECs. This would support the industrial policy of these Countries which, through different kinds of incentives, is aimed at both promoting the setting up of new enterprises and further boosting those already in operation.

That will be fundamental to achieve as, in all the Countries of the Southern and Eastern Mediterranean shore, the SMEs are the foundation of their economic activity. In addition strong SME sector attract and enable foreign investors to establish and expand domestic linkages. It is true, anyway, that left on their own, many SMEs face difficulties arising from liberalisation-induced adjustments.

With enterprises varying widely in size, capabilities, environment - some are urban, other rural-based - and organisational structures (in the case of co-operatives) across Mediterranean Countries, coherent region-wide strategies to address their problems have been difficult to organise. Consequently, they need to be helped to harness the opportunities arising from the liberalisation and facilitation of trade and investment and to adjust to a fast-changing business environment. For that reason, mainly, the governments of the Countries of the Southern and Eastern Mediterranean shore need to improve and finely tune their policies, programmes and intensify their co-ordination with Brussels.

At the moment, in particular, the business opportunities for SMEs are limited by a variety of factors. For example, they encounter some difficulties to gain access to appropriate information and to be integrated in the global industrial fabric, notably through partnership. Anyway in an increasingly global economy, no country can act alone. For that reason Brussels is supporting initiatives aiming at filling the SMEs' information gap, support firms use of information networks and encourage them to develop joint-venture agreements. The key issues are identification of business needs, interoperability of services access to information, intellectual protection and the promotion of awareness in the small and medium business community. If these policies are implemented the first beneficiaries will be the SMEs themselves and

secondly, through the stimulation the initiative will give them, the public benefit will be in economic growth and more jobs.
Consequently, to cope with these difficulties, strategy internationalisation could help the process of business, better joint-venture agreements, which not only allow trade barriers or serve local markets to be overcome, but also to operate more efficiently on regional or global markets, as the need for scale economies should shake European economic operators to search for new markets in these Countries to gain competitiveness.

7.4. The small and medium business in the Euro-Mediterranean area: the "industrial district" policy model and the transfer of technology

Euro-Mediterranean small and medium size enterprises need innovation; innovation requires large, sectorial and diversified markets able to repay the investment and support the launching phase of new entrepreneurial initiatives. In addition, for European firms, the *MNECs* can become a *good alternative* to the traditional outlets *markets* for the development of innovative experiences involving small and medium business.
As a matter of fact, in these last few years, experiences in such a direction have multiplied. That is very important also for the business of the MNECs as in these States SMEs play a pivotal role in the socio-economic fabric of their Countries: the role they play as factors in economic stability and social cohesion is increasingly recognised.
Several Countries, in fact, are home to a number of family-owned small and medium scale enterprises, with a tradition extending over centuries, which constitute an undeniably solid link with employment. That is really relevant as, although employment is a major challenge in the Countries of the EU, it has become the number one priority in the Southern and Eastern Mediterranean States: the labour supply in all

of the Arab Countries and in Turkey is lagging far behind the expected increase in the labour maximum benefit therefrom[236].

The explanation of the existence of a link between employment and SMEs could lie in the historical dearth and the divergent nature of large-scale enterprises in the MNECs, with respect to Europe. Put in another way, *the role played by middle classes* in the economic history of each EU Mediterranean Partners has been really modest *vis à vis* Europe's experiences. The role has been taken up by economic actors such as local *élites* wielding military power, or foreign firms, that have only been marginally linked to the socio-economic fabric of the MENA States in the last three decades.

Nevertheless, today, the growing airiness of the strategic importance of these firms to the economic growth of the MNECs is also underscored by the establishment of *ad hoc* bodies. Examples include Algeria's creating of the Ministry of Small and Medium Sized Enterprises in 1992, Israel's setting up of the Small Business Authority, Turkey's establishing of a department, the KOSEGB, at the Ministry of Industry and Commerce to handle the problems of local SMEs and Morocco's creating, with financial and technical assistance from the EU, the Euro-Moroccan Export Management Company - EUMAGEX -, in 1994, which aims to help SMEs to set up their overseas sales network[237].

Moreover, some Countries have devoted significant effort to SMEs in reconstructing their production systems.

For instance, Tunisia implemented its "*mise à nouveau*" programme in September 1995, which features a far-reaching series of measures involving all areas of economic activities, including SMEs. Many MNECs have even announced, as part of their planned co-operation with Brussels policies, that support to enterprises is among their

[236] FEMISE Report, September 2001, p. 12, the challenges facing MNECs in the coming years are considerable. Employment will be a major issue since the region will need to create more than 45 million jobs in the next decade, just to keep employment rates at present levels.

[237] See, the article (Anonymous), *L'ésprit d'éntreprise fait du Maroc un "jeune tigre"*, in "Al Bayane", Quotidien politique et d'information, 4 mai 1997, p. 3.

immediate concerns, as the document accepted by all participants at the Euro-Mediterranean Conference of the Ministries of Industry held in 1996 shows [238].

Anyway, when we analyse the small and medium businesses of the Countries of the Southern and Eastern Mediterranean Basin, we have above all to focus on *three specific issues* related to them which provide an empirical evidence on the key role played by these firms.

These issues can be summarised as follows:

- the *contribution* of SMEs *to employment* and their characteristics;
- *technology* policies and systems of *innovation*[239];
- the limits inherent in the assumption that the States on the Mediterranean' Southern and Eastern rim can learn important lessons from the experience of the European networking among SMEs, or better, "*industrial district*" – the cluster - policy approach[240].

7.4.1 The contribution of the SMEs to employment and their sectoral characteristics

Data on the *MNECs' economic activities* are, in general, *very poor* compared with similar data in the EU Countries. In addition, a specific difficulty in collecting information on SMEs concerns their large presence in the so called "informal" economy. And again, unlike the EU, its Mediterranean Partners have not yet generally defined in a uniform and exact way what they mean by small and medium firms. The

[238] EUROPE DOCUMENTI, *Dichiarazione di Bruxelles sulla cooperazione industriale, adottata dalla conferenza euro-mediterranea dei Ministri dell'Industria (Bruxelles, 20-21 maggio 1996)*, Lussemburgo, 15 giugno 1996, n. 1990. Si veda anche l'articolo (Anonimo), *La déclaration de Bruxelles*, in "LE MATIN du Sahara et du Maghreb", 25 Mai 1996, p. 5.

[239] What MENA Countries need is, above all, access to "clean" technology. On this subject see, Francesco MUNARI, *La Tutela dell'Ambinte e la Disciplina del Commercio Internazionale*, document presented to the "II° Convegno della Società Italiana di Diritto Internazionale" : "Diritto e Organizzazione del Commercio Internazionale dopo la creazione dell'Organizzazione Mondiale del Commercio", Milan, Bocconi University, 5th-7th June 1997.

[240] Networking is of particular interest in promoting the growth of industrial "clusters" in the MNECs. A cluster, in fact, is a group of firms concentrated in one geographic location and working in the same sector. A network, on the other side, is a collection of firms working in co-operation, though not necessarily in the same place. Both types of grouping can give firms competitive advantages. For further information see, DI PIETRO G. and GOMEZ y PALOMA, S., *Piccole e medie imprese e modelli industriali nello spazio euromediterraneo*, in "Quarto Rapporto sul Mediterraneo", (a cura di), AMOROSO B., Federico Caffè Center; università di Roskilde, Edizioni Lavori, Roma, 1998.

results of some research which has been done on this subject generally indicates that the statistics of most MNECs define a small business as one with less than 10 employees, while medium sized business are often defined as having anywhere from 10 to 20/25 employees (up to 24 in Jordan and Lebanon).

The different *definition of small and medium-scale enterprises* adopted by the Countries on the two shores of the Mediterranean Basin make it difficult to compare the EU and MNECs' SMEs: the comparison of the "small" category could best be made between the micro-firms (8-9 employees) of the EU and the small ones of the MNECs; on the other hand, medium-scale enterprises of the MNECs could be compared with small firms in the EU (10-25 employees) [241].

Anyway, data available on enterprises in the MENA States, indicate that these enterprises carry the most weight in Egypt, Turkey, Jordan and Lebanon.

Country	**Firms with less than 10 employees (%)**
Egypt	94.7
Jordan	93.2
Lebanon	88
Gaza Strip	+/- 56
Tunisia	42.3

Country	**SME share of national work force (%)**	**SME share of industrial Sector work force (%)**
Jordan	60.7	60
Lebanon	-	73.3
Morocco	48	60
Turkey[242]	56.3	-

Sources: Di Pietro, G. and Gòmez y Paloma, S. 1998

[241] 96/280/CE : *Raccomandazione della Commissione relativa alla definizione delle piccole e medie imprese*, Bruxelles, see Chapter three, note n. 17.

[242] It is also important to keep in mind, that in Turkey the SMEs are the 99% of the whole manufactured firms.

7.4.2 Technology policies and systems of innovation

To date, *technology support systems* for SMEs in MNECs are not a widespread phenomenon. Nevertheless, some important initiatives have been taken in this direction by some of them.

Egypt has set up several Business & Technology Development Centres - *BTDCs* - to provide consulting, marketing and human resources services in order to promote the development of its business. Moreover, Egypt and Italy have decided to establish “Euro-Med Technology Improvement & Innovation Network” to enhance competitiveness of their small and medium enterprises through technology upgrading and innovation, involving universities, public and private research institutions and the SMEs themselves. *Tunisia*, in 1994, implemented the "Fund for the Promotion and Use of Technology" to boost R&D projects for its enterprises. *Turkey* has established two technology parks through its Small and Medium Industry Development Organisation - SMIDO -, in Istanbul and Ankara, which work in close collaboration with local universities to encourage innovation in industry. *Israel*'s Ministry of Industry and Commerce co-ordinates the "Technological Incubators", which provide the Country's SMEs with technical assistance.

More generally, in MENA Countries it has become quiet commonplace to hear several arguments for the adoption of a restricted group of measures to promote the diffusion of technology among enterprises, e.g. establishing a closer and more efficient collaboration between universities, research centres and SMEs, or keeping SMEs abreast of new technologies being used in the various industries, or again gaining a better understanding of the technological needs of firms.

By contrast, the attention is here focused on the *impact of technology-oriented* foreign direct investment - *FDI* - linkages to SMEs. In fact, since the amount of FDI has been increasing very rapidly over the last decades in the MENA Countries, some believe the issue may play a key role in the near future. The suggestion here is that FDI could be at the root of two different kinds of mutual advantages gained by both Parties in the process.

The first, well known in economic literature, is based on the classical technology transfer concept: by investing in the markets of the MNECs, the economic operators can take advantage of both local cheap labour and gain close access to host Countries' markets; on the other hand, local SMEs may improve as foreign firms enter the local market, use new technologies, provide technical assistance to their local suppliers and customers and train local employees. As a consequence, relevant technology spill-overs may arise locally from the FDI of foreign firms, or better with joint-venture agreements[243].

The second type of mutual advantage - less widespread in comparison with the first - stems from the possibility of benefits which foreign holdings could gain by controlling local high-technology firms. These basically lie in the profits which multinational corporations could make by acquiring the results of SMEs' R&D. A symbiotic relationship is thus created: local firms need foreign investors in order to grow and to access global networks, while the latter can obtain important benefits from SMEs' know-how. Evidence on a significant number of Israeli small high-technology companies, which succeeded in penetrating global markets and networks, thanks to FDIs financing their R&D expenditure is well known[244].

The importance of increasing the presence of FDI to *boost local innovation* is strongly supported by some of the Countries of the Southern and Eastern Mediterranean rim. It is the case of Egypt, which, in fact, has been opening its doors further to foreign trade and aggressively seeking foreign investment, especially in the field of electronics and Information Technology - IT -: among its efforts to encourage investment, particularly in the field of IT, the government has launched a technology development programme offering highly attractive incentive packages to national and foreign investors.

The general policy implications of this situation are that the MNECs should adopt measures aimed to attracting FDI, thereby reducing the costs borne by foreign investors: relevant elements include stability of the macro-economic environment,

[243] BIANCHI, P., *Partenariato euro-mediterraneo e sviluppo delle PMI: verso una crescita condivisa attraverso la complementarietà*, in "Sviluppo delle Piccole e Medie Imprese", Workshop, Milano 4-6 June 1996.

[244] FELSTAIN, D., *The Marketing of a High Technology Node: Foreign-owned Companies in Israeli High Technology*, in Regional Studies, 31 (4), pp. 367-80, 1997.

productive and efficient infrastructure and effective intellectual property protection systems.

In the light of this situation it is important to concentrate on *joint-ventures with European SMEs* which, consequently, represent a crucial way to have access to new technologies[245], as this kind of partnership should be able to provide such a time-efficient approach to technology transfers: *paring the SMEs from the two shores* of the Mediterranean Sea will encourage technical co-operation and will provide the basis of increasing co-ordination among "clusters" of SMEs which are able to enhance their productivity.

7.4.3 "Industrial district" policy approach

The *industrial district model*, mainly founded in North-East of Italy[246], is a system of production embodying SMEs located in the same area and specialised in differing yet interconnected steps of the same production process[247].

Several governments of the early industrialised countries, mainly France, West Germany and Denmark[248], which rely on the widespread presence of SMEs, have

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[245] Abdelkader DJAFLAT, *Blocage de l'accumulation technologique endogène: les dimensions d'une problématique*, in "Les Chaier du CREAD", n. 25, 1er trimestre 1991, p. 12.

[246] It is interesting to remember that if we have a look at the evolution on trade relations between the MNECs and the Southern regions of Italy in traditional industries, we can notice that the significant enhancement in trade, which occurred in the past five years, can be interpreted as the result of the increased co-operation between SMEs located on the two rims of the Mediterranean Sea. Trade flows shows that SMEs in the MNECs increasingly produce finished labour-intensive goods, marketed on the final market by the EU firms, as well as intermediate goods for the EU enterpises.

[247] The industrial district model, from a socio-economic standpoint, can be seen as a sort of "perfected" division of labour which enables SMEs of a given district to benefit from external economies, whose main effect is to reduce average overheads by lowering the costs of information without increasing the costs of co-ordination. This "intra-mural" co-operation enables firms in the same industrial park to undertake a series of joint initiatives which helps to enhance their competitive profile in the global marketplace. For further information about the "cluster" see, BECATTINI Giacomo, *Distretti industriali e Made in Italy*, Bollati Boringhieri, Torino, 1998, Gianfranco VIESTI, *Crisi ed evoluzione dei distretti industriali*, in Fabrizio ONIDA, Gianfranco VIESTI, Anna Maria FALZONI, (a cura di), *I distretti industriali: crisi od evoluzione?*, Centro di Studi sui Processi di Internazionalizzazione dell'Università Bocconi, Milano, 1992, pp. 12-25, Giacomo BECATTINI, *Distretti industriali e sviluppo locale*, Torino, 2000, Banca d'Italia, *Un'indagine della Banca d'Italia sui distretti industriali*, Corigliano Calambro, 2001, Paul KLEBNIKOV, Richard C. MORAIS, *Italy's second Risorgimento*, in "Forbes", Aprile 1996, pp. 182-193, Enzo RULLANI, *Distretti industriali ed economia globale*, in "Oltre il ponte",n. 50, Ires veneto, Venezia, 1995, pp- 5-55, Giuseppe FOLLONI, Gianluigi GORLA, *Una modellizzazione del distretto industriale e della sua evoluzione*, in "Sviluppo locale", Vol. VII, n. 13, Torino, 2000, pp. 35-45, Véronique LE BILLON, *Le triomphe des réseaux à l'italienne*, in "L'Expansion", n. 505, 10-13 luglio 1995, pp. 88-91, *Spotlighting Italy, Focus on cluster*, in "The Economist", Febbraio 2000, pp. 28-33, Luciano CONSOLATI, *Financiamento as empresas organizadas em sistema produtivos locais*, in "Cluster",

pursued policies designed to reinforce inter-SME co-operation, using as a model the Italian industrial district system.

Some argue that there are doubts concerning whether the *district approach* could be *exported*, not in the industrialised Countries, but in the MNECs[249].

Basically, these *doubts* arise from the following consideration:

- SMEs, in MENA States, are *highly concentrated* in manufacturing and therefore very few in services. Evidence from the EU experience outlines the fundamental contribution of services-oriented firms to the industrial district's success: the success of the district is strictly dependent upon the presence of a relatively high number of service enterprises, the activities of which are complementary to those carried out by other firms located in the same area. Consequently, an increase in the number of enterprises active in services in the MNECs is needed to export the industrial district model;
- since producer associations in the Mediterranean Partners of the EU, the *historical evolution* of which was hampered by the colonial power, remain relatively young and therefore weak in most industries, the practise and culture of the association, which is one of the pillars of the districts' *genesis*, lags behind the European model[250];
- the *relationship between large companies and SMEs* in Europe is extremely different from the one in MNECs. Historically, the establishment of large number of SMEs in North-East Italy stems from the restructuring process of the Milan-Turin-Genoa industrial triangle: this was based on a concentration of large plants

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Anno 1, n. 1, aprile/giugno 2001, Franco VERGNANO, *Il distretto vince la sfida*, in "Il Sole 24 Ore", 15 settembre 2000, p. 23.

248 R. HUGGINS, *Technology Policy, Networks and Small Firms in Denmark*, in "Regional Studies", 30 (5), pp. 523-26, 1996.

249 S. BRUSCO, *Small Firms and the Previsions of Real Services*, in "Industrial Districts and Local Economic Regeneration", Pyke. F. and Sengenberger, W. (eds.), ILO, Geneva, 1992.

250 The importance of sub-contracting to employment in Europe's manufacturing industry can be seen in a survey carried out by Eurostat some years ago. This report shows that firms in the textile and aerospace industries linked to large companies through sub-contracts accounted for over 30 per cent of the total work force in both sectors. On the other hand, in the MNECs, many large companies belong to foreign-based multinationals which, apart from limited capital investment and the hiring of an often small indigenous work force, are completely disconnected from the socio-economic fabric of the host Country. Indeed, their organisational and production relations remain predominantly with the parent company's Country or the other industrialised Countries.

shifting to a grouping of small and medium firms linked with each other, but also with the large establishments. Most entrepreneurs of these small companies were former employees for the large firms and they took advantage of their past work experience to become major suppliers or subcontractors to their former enterprises;

- despite all efforts made by the Countries of the Southern and Eastern Mediterranean Basin, to date, *the state of their infrastructures* is often *inadequate*. There is little doubt that without their upgrading, especially in transport and telecommunications, it will prove particularly difficult for MENA governments to pursue policies targeted at creating integrated systems of SMEs, in which cross-over communications are of vital importance. In this context, Brussels, in order to help its Mediterranean Partners to take full advantage of the potential offered by the Barcelona-plan, should help them in modernise their infrastructures and to link them regionally, as well as to European networks such as in the field of transport infrastructure where the interconnection to trans-European networks should be ensured[251]. Anyway, priorities should be identified on the basis of existing global or specific feasibility studies. This approach would facilitate the mobilisation of capital from both public and private sources.

To sum up, in the MNECs:
- the dearth of SMEs in services;
- the relative weakness of producer associations;
- the absence of an interdependent relationship between SMEs and large establishments;
- the inadequate state infrastructure;

can lead to the ineffectiveness of policies aimed at reinforcing inter-SMEs co-operation in an attempt to transfer the industrial district model to the MNECs.

Because the foreign investors offer little assistance, the SMEs are forced to seek support almost entirely in the public sector, especially in strategic areas such as R&D.

[251] Maritime transport should be developed as a priority, with "highways of the sea" linking the main Mediterranean ports. Short haul maritime transport is of particular importance in the Mediterranean because of the distances involved and because of the lack of feasible overland routes in many cases. Short haul maritime transport services are also an integral element in the multimodal transport chain (road/sea or rail/sea).

In reality, this could be seen as a rather pessimistic vision which does not keep into consideration the Barcelona process and its tools aimed to support the economies of MENA States to create such an environment necessary to the establishment of the Italian "industrial district" policy model.
Anyway, as an alternative to the industrial district system, a "*network approach*" could be suggested, which, indeed, could really be useful in strengthening MENA Countries firms' competitiveness: advances in information technology and transport are making it easier and cheaper for SMEs both to contact and establish relationships, even if located in geographically distant areas.
Thanks to technological progress, then, the division of labour, vertically and functionally, can also be achieved between enterprises situated in any location within the Euro-Mediterranean zone: the interplay of varying aptitudes for innovation and change of networked enterprises, coupled with their productive specialisations, may generate important economic advantages for SMEs.
Consequently, attention within the Euro-Mediterranean partnership should be oriented towards the identification of policy measures such as the process of deregulation in the MNECs, which, in fact, is capable of stimulating the creation of international networks, that is to say one of the pillars of the possible co-operation strategies between the EU and its Twelve Mediterranean Partners.

7.5 Final Considerations

The European Union, one of the most open markets in the world, is a leading performer on the international stage and it has become a benchmark for developing co-operation, as the Euro-Mediterranean-plan shows. In fact, the Barcelona partnership, with its instruments, essentially, the *"Second generation" agreements, the programmes of horizontal* and *decentralised co-operation* and the *MEDA programme*, intends to promote the dialogue between the operators of the two shores of the Mediterranean Basin to support the economic and social development of the whole region.

Therefore, Brussels is trying to *extend the range* of its main internal action programmes (cross-border co-operation, research and development, environment, social and cultural measures, programmes for small and medium enterprises to include its Mediterranean neighbours: the EU cares much more than in the past about the Mediterranean. Consequently, the *Barcelona process* may one day be hailed by historians as the first "structured" effort made by Europe to prepare the rough seas of this Century's global economy, which otherwise could risk being dominated by East Asia, the Pacific and North America.

Anyway, even if the Euro-Mediterranean strategy is implemented, the Countries of the two shores of the Mediterranean Basin will not certainly be, for a long time, a homogeneous group: they will continue to be unequal in economic size, natural resources, political and economic stability.

However, just thanks to the Euro-Mediterranean policy, their political and *economic systems* could progressively *converge*, resembling each other considerably more than today. Thus, *implementing the standard of living of the area*.

To reach this goal some crucial actions will have to be undertaken, above all concerning the field of SMEs or, better, the implementation of Euro-Mediterranean agreements of *joint-venture* between the small and medium businesses of the area: thank to the dynamism and the flexibility which characterises them, they are especially capable of adjusting to changing demand and the preferences of their customers within the developing enterprise environment, to create jobs and, consequently, to promote the development of the area.

Anyway, SMEs, by their nature, are weaker and more susceptible to failure than larger enterprises. In addition, those small and medium businesses which wish to internationalise their activities face much bigger problems than larger enterprises. In addition, there are substantial questions relating to the exchange rates and credit risks in a Country, the double taxation or the limited access to national resources for research and development.

In order to solve these problems, all Contracting Parties involved in the Barcelona-plan should *strengthen* and *co-ordinate* their *policies in favour of SMEs* better, or better, undertake an Euro-Mediterranean strategy to favour joint-venture agreements.

Because of all the reasons mentioned in the above chapters, once more it is important to stress that today it is really necessary to continue the Euro-Mediterranean effort for the support of firms to increase their activities and improve their competitiveness at an international level to promote the development of MNECs and the standard of living of EU member States[252]. In this contest *the project for the establishment of an Euro-Mediterranean Network of Stock Exchanges represents a relevant step for the SMEs* - and public policy markets - for the opening of new prospectives: today Euro-Mediterranean business have to respond to the challenges of globalisation, which means the necessity to increase the efforts for the promotion of partnership and, notably, joint-venture agreements.

The Barcelona-plan should lead to *promoting cross-border agreements* also because the new Mediterranean policy the EU has decided to undertake should support crucial initiatives such the one of the “Network” which, in fact, should be able to achieve a real improvement in competitiveness, to contribute to the creation of employment and to the improve standard of living[253].

[252] The importance of SMEs also in Europe is testified by the fact that 92.7 of the enterprises in the EU employ fewer than 10 people, while 7.3 per cent employ between 10 and 499.

[253] The crucial role of SMEs in achieving competitiveness and particularly job-creation is universally recognized.

What is relevant to stress is that *things are moving* within the Euro-Mediterranean partnership. Goals, even if, perhaps, not so "visibly", but, in their own obstinate and quiet way, are definitely moving on the way to being achieved.

Anyway to achieve its declared goals the Contracting Parties should preserve the Barcelona momentum, mobilise political desires, involve civil forms, capitalise on human resources and bring companies closer through mutual understanding and cross-border business class exchange programmes. They should also promote, in the MNECs, institutional and political reforms which will guarantee bureaucratic efficiency, accountability, decentralisation and transparency. In fact only a flow of money and trade liberalisation without real institutional change might backfire and be counterproductive. Institutional reforms are also important both to sustain the growth of the small and medium enterprises of MENA States and develop co-operation between the firms of the two Mediterranean shores. The MNECs, in fact, have the *potential for strong economic performance* as seen by a long entrepreneurial tradition and the presence of many highly-skilled people[254]: actually, for both the Twenty-seven Euro-Mediterranean Partners their co-operation would be very important as a way to improve their economic performance and take fuller advantage of the opportunities in today’s global context.

[254] Even if many of the economic variables are good in Countries such as Egypt, Israel, Jordan, Lebanon, Morocco and Tunisia, indeed economic growth needs to be deepened and speeded up, particularly regarding policies designed to help the SMEs.

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