

**Economic Reforms and People Mobility  
for a more Effective EU-MED Partnership\***

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\* The findings and conclusions of this paper are entirely those of the authors and should not be attributed to the World Bank, its affiliated organizations, or to members of its Board of Executive Directors or the countries they represent.

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## **1. Introduction**

1. The new framework for Partnership between the EU and the Southern Mediterranean countries was launched with the Barcelona Conference in November 1995. The purpose of this initiative was to reinvigorate the partnership between the European Union (EU) and the Southern Mediterranean (MED) countries, and work towards integration and convergence. The core mechanism for achieving these results has been the gradual establishment of a free trade area for industrial goods.

2. Other examples of regional partnerships, both involving the EU (the Central European accession countries) and outside (the US-Canada-Mexico NAFTA agreement ) are evidence of the potential benefits from integration between richer and poorer areas. For the Euro-MED Partnership, however, there has been little progress so far compared to what the agreements set out to achieve. Growth in the MED countries remains low, exports growth is limited and undiversified, and foreign companies are still very hesitant to invest in the region. At the same time, the lack of growth and job creation is giving rise to a serious economic, political and social crisis.

3. This paper argues that to reverse these negative trends, the EU-MED agenda needs to be enriched in mainly two directions. First, there needs to be a clearer and much broadened agenda for supporting growth enhancing structural reforms that are complementary to trade liberalization. A second and parallel track focuses on the potential for including labor mobility between the EU and the MED countries on the agenda. Managed migration flows, by construction of limited order, would explicitly address the issue of the labor market situation in the MED countries, which has critical political and social implications.

## **2. The EU-MED agreements - Background**

4. The Euro-MED Partnership initiative following on the Barcelona Conference led to new association agreements between the EU and each of the Arab Southern Mediterranean countries. Seven have been already signed: Tunisia (1995), Israel (1995), PLO for the benefit of the Palestinian Authority (1997), Morocco (1996), Jordan (1997), Egypt (2001), and Algeria (2002). These will soon be joined by Lebanon. Negotiations are continuing with Syria (**table 1**).

5. The agreements have several intertwined purposes: to provide a framework for political dialogue between the EU and the MED region; to establish the conditions for gradual liberalization of trade in goods, services and capital, in order to promote trade and the expansion of economic and social relations between the EU and Mediterranean region; and to encourage regional integration within the Southern Mediterranean zone. The commitment to trade liberalization is intended to improve competitiveness by allowing for import competition and more effective resource allocation. It is also expected to attract foreign direct investment (FDI) into the MED region, firstly, since the main regulatory obstacles to FDI are removed and secondly, since companies locating in the MED region benefit from the geographic proximity to the EU and the lower labor costs in the MED region. The acceleration of trade and investment should result in economic integration and bring further benefits, including a much needed revival of economic growth in the MED region.

**Table 1. Progress on the Euro-Mediterranean Association Agreements<sup>1/</sup>**

	<b>Conclusion of Negotiations</b>	<b>Signature of Agreement</b>	<b>Effectiveness date</b>	<b>End of transition period<sup>2/</sup></b>
<b>Tunisia</b>	Jun 1995	Jul 1995	Mar 1998	2008
<b>Israel</b>	Sep 1995	Nov 1995	Jun 2000	
<b>Morocco</b>	Nov 1995	Feb 1996	Mar 2000	2012
<b>PLO/PA</b>	Dec 1996	Feb 1997	Jul 1997	
<b>Jordan</b>	Apr 1997	Nov 1997	May 2002	2014
<b>Egypt</b>	Jan 2001	Jun 2001	..	..
<b>Algeria</b>	Dec 2001	Apr 2002	..	..
<b>Lebanon</b>	Jan 2002	..	..	..
<b>Syria</b>	In progress	..	..	..

1. As of May, 2002

2. The date at which all tariffs on imported goods from the EU - as included in the agreements - will have to be dismantled.

6. While the agreements' objectives are broad based, the central mechanism of the EU-agreements is rather narrowly focused on establishing free-trade areas, covering industrial products between the EU and each partner country within a 12 year period. Since manufacturing products from the MED countries already have access to the EU market, the agreement is in essence a means for gradually allowing EU manufacturing products into the MED markets. Further liberalization of agricultural goods and services is expected to proceed on a different time frame following additional negotiations. A parallel financial instrument (MEDA) is used to support and facilitate the adjustment process. This financial assistance is intended to complement the free trade agenda by supporting economic reforms and compensating for the socio-economic costs of the transition to a market economy.<sup>1</sup>

### **3. The achievements in terms of economic integration and convergence have been limited**

7. Regional integration, in particular between a developed and an underdeveloped area, can bring several political and economic gains (World Bank, 2000). On the economic side, market enlargement could increase the incentives for domestic and foreign private investment through scale effects and at the same time force firms to undertake efficiency improvements in response to increased competition. On the political side, regional commitments can provide a mechanism for increasing the credibility of economic and political reforms. It is also clear, however, that these benefits are far from automatic and that whether they materialize, and to what extent, will depend on the characteristics of both the partners and the agreement itself.

8. In this light, what achievements have been made in the seven years which have passed since the Barcelona Conference? It may seem early to make such an assessment, since only four of the agreements have become effective (Tunisia, Israel, West Bank and Gaza and Morocco), one has just been signed (Egypt) and a few are still under negotiation. However, we will argue that some assessment is already possible, for at least three reasons. First, a significant impact of the agreements should come from the announcement effect, even before they are fully implemented. Second, for some countries, some implementation of the tariff dismantling started even before the agreements became effective (Tunisia, Morocco), and the financial assistance was also activated. Third, the experience of other countries, as highlighted below, shows that the effects of similar

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<sup>1</sup> Under MEDA 1 (1996-2000) an average of €1 billion were committed each year. Since 2000, MEDA2 is being implemented. Commitments in 2001 amounted to €700 million.

agreements can be significant in a relatively short period of time, in fact similar to the period of time that has passed since the beginning of the Barcelona process.

9. Unfortunately, the evidence so far points to very limited success in achieving the objectives envisaged by the MED agreements. Below, we focus on the experience of four countries which have signed the agreements with the EU, Tunisia, Morocco, Jordan, Egypt, but excluding Israel and West Bank and Gaza. As we will see, even in the countries where the positive effects should be most strongly felt given that the agreements are in place, there has been little progress towards economic integration and convergence.

10. Contrary to their purpose, the agreements have not accelerated the process of economic integration. Generally, the export performance of the four MED countries has not improved during the 1990s: non-mineral exports as share of GDP have remained more or less stagnant between the beginning and the end of the 1990s, and at low levels by international standards. Nor has there been a discernable change in trade flows: the four countries together provide a mere 0.5 percent of total EU non-mineral imports, and there has been only a very marginal increase in the market share over the last decade. Foreign direct investment has fluctuated significantly between the years, largely due to the fact that they have been concentrated on large and bulky infrastructure deals. With the exception of Jordan, however, inflows have not been increasing significantly (**table 2**).

11. The lack of economic integration is mirrored in the comparatively weak growth rates in the MED countries. With the possible exception of Tunisia, growth rates of GDP per working age population have been lower than in the EU throughout the 1990s. As a result, there has not yet been any discernable economic convergence between the two regions.

**Table 2. Lack of Economic Integration and Growth in the MED countries, 1990-2000.**

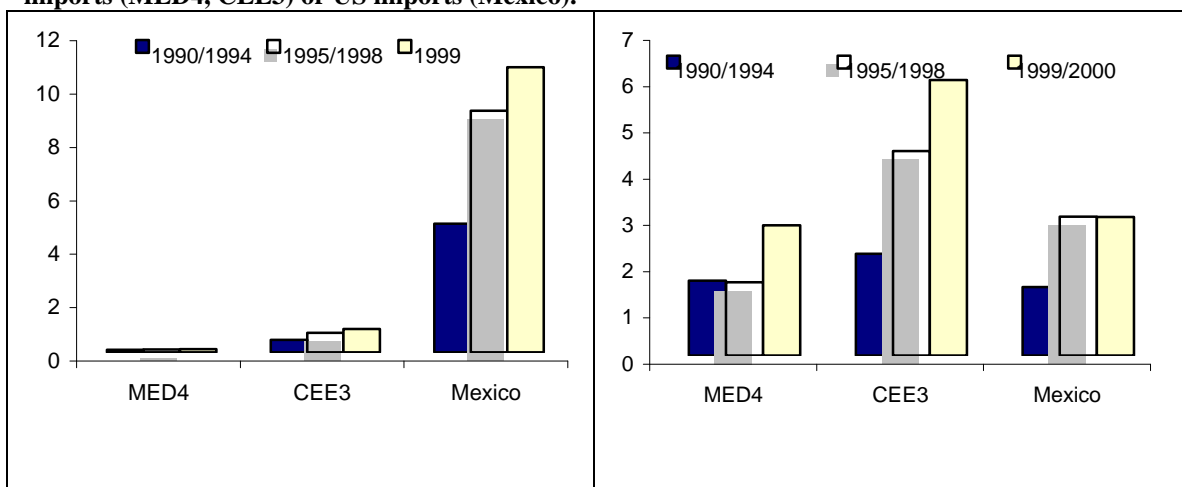
	Non mineral exports, % of GDP			
	Egypt	Jordan	Morocco	Tunisia
1990/94	4.1	19.4	15.3	23.9
1995/98	3.0	18.9	17.0	26.7
1999	2.5	18.8	18.0	25.7
	Non mineral exports to EU, % of total EU or US imports			
1990/94	0.05	0.07	0.18	0.16
1995/98	0.05	0.08	0.20	0.20
1999	0.04	0.07	0.22	0.20
	FDI, % of GDP			
1990/94	2.1	0.5	1.3	2.5
1995/98	1.1	1.6	1.6	2.1
1999/2000	1.2	5.5	2.0	2.7
	GDP per working age population, av. annual growth (%)			
1990/94	1.0	-1.2	0.2	2.1
1995/98	2.3	-0.7	0.0	2.6
1999/2000	2.8	-0.6	-2.3	3.5

**Source:** World Bank (2001), UN Comtrade database (2001)

12. Yet, the potential rapid gains from integration between a large developed region and a less developed area are well illustrated elsewhere. Successful experiences with regional partnerships include the NAFTA trade liberalization agreement between the US, Canada and Mexico, which entered into force in 1994. Another example are the – considerably broader – pre-accession agreements between the EU and applicant countries in Central and Eastern Europe (CEE), in particular the Czech Republic, Hungary and Poland, which applied for membership in the mid-1990s and where EU accession is considered a medium term objective.

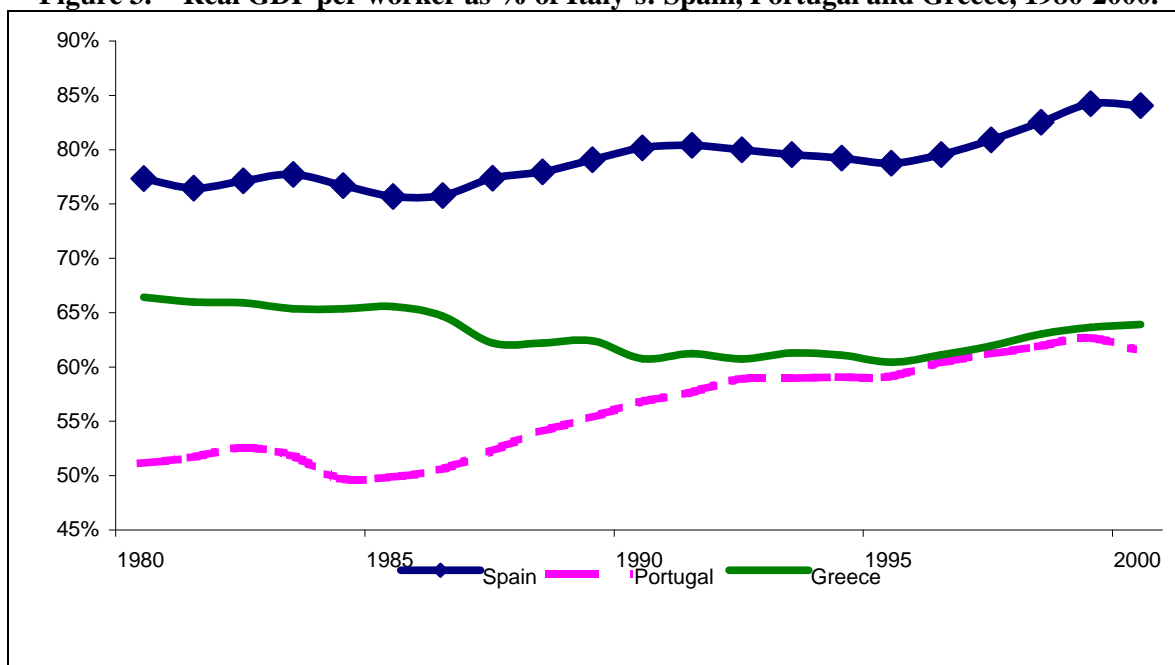
13. The lack of economic integration between EU and the MED countries stands in stark contrast to the cases of both Mexico-US and the EU-accession countries. During the 1990s, both Mexico and the CEE countries doubled their market share (i.e. share of total imports) in the US and EU respectively (**figure 1**). This was not a result of pure trade diversion, however: in Mexico, total non-mineral exports increased from less than 10 percent of GDP in 1990 to over 26 percent of GDP by 1999 and over the same period, the three CEE countries almost doubled their share of non-mineral exports in GDP, to nearly 40 percent of GDP. Foreign direct investment saw an even more spectacular development (**figure 2**). Total FDI flows into Mexico increased from 1 percent of GDP in the beginning of the 1990s to almost 3 percent of GDP by the end of the decade. In the group of CEE countries, foreign direct investment nearly tripled, from just over 2 percent of GDP to 6 percent of GDP.

**Figure 1. Non mineral exports, % of total EU imports (MED4, CEE3) or US imports (Mexico).**



Source: World Bank (2001), UN Comtrade database (2001)

14. A similar picture of the potential benefits from regional integration emerges from the accession process of Spain and Portugal, which became members of the European Union in 1985. Between 1980 and 1988, foreign direct investment more than tripled in Spain and Portugal and exports increased rapidly over the same period. As economic growth rates increased, Portugal and Spain began catching up with the rest of Europe (**figure 3**). Greece, which joined the EU in 1980, did not benefit as clearly from regional integration, however. The differences in outcomes are linked to the depth of the reforms which Spain, and particularly Portugal, undertook in response to EU integration, but which Greece avoided.

**Figure 3. Real GDP per worker as % of Italy's: Spain, Portugal and Greece, 1980-2000.**

**Source:** World Bank, World Development Indicators, authors' calculations

15. In sum, it is clear that regional cooperation can deepen economic integration and lead to economic convergence, but this does not appear to be happening for the MED countries. The question is then how to explain the poor performance of the EU-MED integration process.

#### **4. The needed complementary reforms agenda has failed to materialize**

16. The lack of progress in economic integration and convergence compared to the underlying objectives and initial expectations, clearly begs the question as to whether the EU-MED agenda in its current form is sufficient to deliver the desired results. The far more superior performance – in terms of concrete results and beneficial impact – of the NAFTA and EU pre-accession agreements in the 1990s, suggests that a comparative exercise could be useful to evaluate the content and limitations of the EU-MED agenda as it stands. In particular, the NAFTA and pre-accession agreements appear to offer a more complete form of integration and harmonization, while that complementary agenda of wider institutional reform and convergence is missing in the case of the EU-MED partnership.

17. The slow transition towards a well-functioning liberalized market has been a key factor in containing growth in the MED countries, in limiting the supply response of domestic firms and in reducing the region's attractiveness as a host for foreign direct investment, especially for exports oriented companies. Although the four countries have launched reforms in several areas, a considerable acceleration and widening of the reform agenda is required to catch up with other regions. Such growth promoting structural reforms relate to the general business and investment climate, including a reduction of the role of the State in economic activities. A broad liberalization of the domestic market also needs to be accompanied by improved competition policies, strengthened property rights, etc..

18. While private investment and growth depend on reforms, the opposite also holds: without growth there will be no strong political constituency supporting a reform program. Economic policy

reforms that are aimed at liberalizing the economy and opening up the sphere for private sector activities, will only succeed if indeed there is an adequate supply response from the private sector to replace the public sector as the main source of growth and employment. Thus, because of self-fulfilling expectations, only a credible reform process will generate the response necessary for its own success. The credibility will hinge on whether the private sector (domestic and foreign investors) believes not only that the reforms undertaken are sufficient to improve the economic environment, but also that they will not be reversed.<sup>2</sup>

19. While the four MED countries have succeeded in maintaining macroeconomic stability throughout the 1990s, they lag behind their comparators in terms of both the scope and speed of structural reforms. **Figure 4** below shows two composite indices of progress on reforms for the MED-countries and their comparators, here Mexico and two CEE countries, Poland and Hungary (data is lacking for the Czech Republic), for the period 1985-1998. One index relates to economic stability and comprises fiscal and current account balances, exchange rate black market premium, and inflation rates. The other refers to structural reforms and comprises tariff rates, tax rates, PPP distortions and privatization revenues.<sup>3</sup>

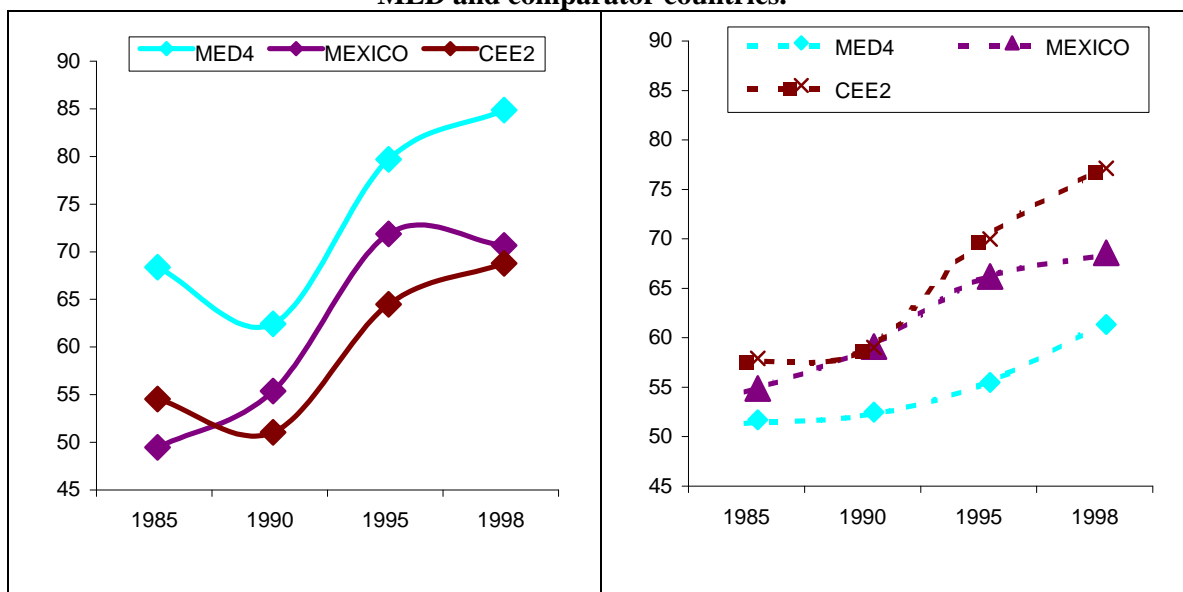
20. As can be seen, the MED countries have been more successful than the comparator countries from the point of view of macroeconomic stability: they were more stable at the outset, and have remained comparatively stable over time. However, with respect to structural reforms, the picture is very different: a difficult mix of an unfavorable starting point, in terms of the level of distortions present in the economy, and slow progress on removing those distortions, have left the MED countries far behind Mexico and the CEE accession countries. The structural reform index for the MED countries not only starts at a lower level than the comparator countries, it also improves at a slower speed, further widening the gap.

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<sup>2</sup> See e.g. Rodrik (1989) or (1991), or Tommassi and Velasco (1995).

<sup>3</sup> Note that these indices refer to reform outcomes rather than reform efforts *per se*.

**Figure 4. Progress on economic stability reforms (left) and structural adjustment (right), MED and comparator countries.<sup>1/2/</sup>**



Source: Srinivasan (2001)

Note:

1. The Economic Stability (ES) and Structural Reform (SR) indices are composite indices. The ES index is a weighted average of indices for fiscal and current account balances, exchange rate black market premium, and inflation rates. The SR index is a weighted average of indices for tariff rates, tax rates, PPP distortions and cumulative privatization revenues. The separate indices are calculated so that 100 = best value for all countries and all years 1985-1998. The larger the deviation from 100, hence, the worse the reform performance of the specific country. To arrive at an average for each set of countries, the individual composite indices have been averaged (unweighted).

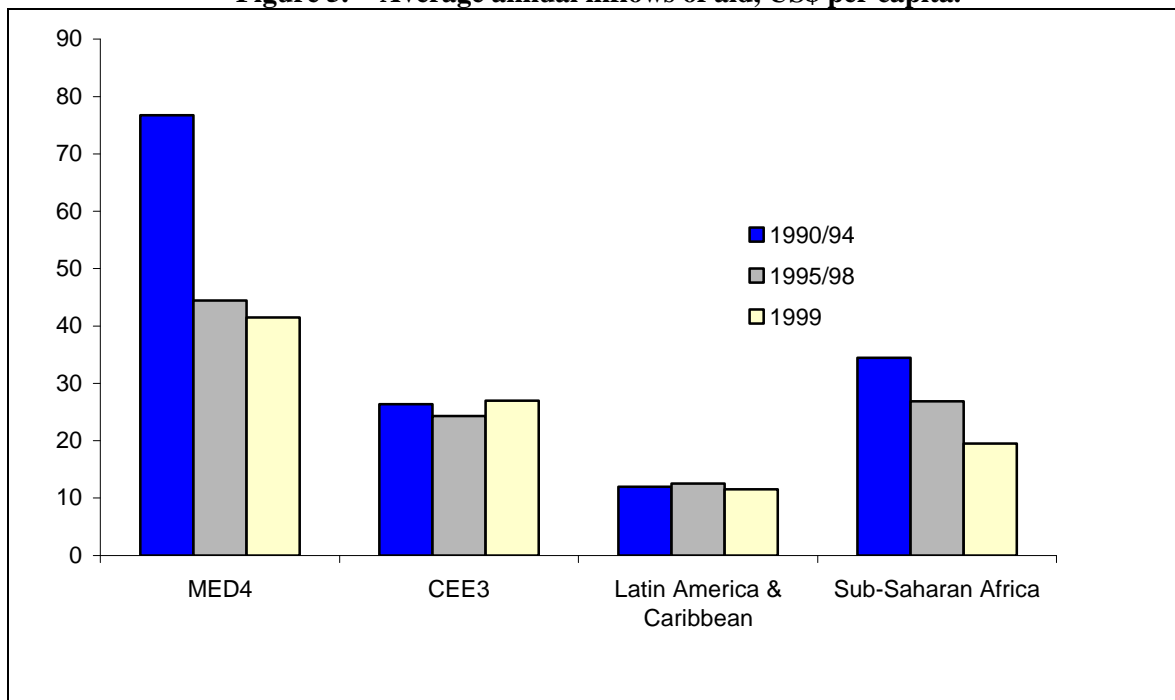
2. CEE2 = average for Poland and Hungary.

21. For example, although average unweighted tariff rates for the MED countries were reduced by almost a third over the 1990s, they remained more than twice the level of those of Hungary, Poland, or Mexico. Mexico's tariff rates were more than halved between 1985 and 1998, and while tariff rates were not much more reduced in the CEE countries than in MED countries over the 1990s, they were already at the outset at a lower level.<sup>4</sup> Privatization proceeds, however, increased rapidly in the 1990s in the comparator countries but remained relatively small in the MED-countries.

22. The most compelling arguments for explaining this lag in implementing economic reforms are related to the motivations to undertake reforms within the specific social and political context facing the MED countries.

23. First, international experience shows that reforms are easier to launch in times of deep economic crisis, when there are no alternatives left, e.g. due to a situation with unsustainable economic imbalances, and where other resources have been depleted or become inaccessible. As we have seen, there has been no major stabilization crisis in the MED countries since 1985. Moreover, although the MED countries' access to so called "easy money" – principally in the form of mineral exports receipts and foreign aid – has been reduced over the past ten years, aid inflows remain considerably more important than in other regions (**figure 5**). The continued availability of foreign resources is likely to reduce the incentive to foster economic reforms.

<sup>4</sup> The EU-Med agreements are in fact by construction leading to a transitional increase in effective trade protection in the MED countries as the initial stages of tariff dismantling focus on intermediate and capital goods.

**Figure 5. Average annual inflows of aid, US\$ per capita.**

Source: World Bank (2001)

24. Further, the very structure of the EU-MED agreements – a gradual and back-loaded trade liberalization scheme coupled with front-loaded financial assistance to support reforms – does not provide incentives to accelerate economic restructuring. Along the above lines of reasoning regarding easy money, the up-front financial assistance which was intended to ease the transition and implementation costs of reforms, may instead delay them by providing alternative means for financing an inefficient economic structure. In addition, the reforms imposed by the agreements – dismantling of trade barriers for industrial goods - have a long implementation period on the part of the MED countries. Although other complementary reforms are included on the agenda, either for future negotiations (services and agricultural goods) or as areas for harmonization and cooperation (e.g. product standards, competition policy, international property rights), there is no mechanism within the agreement which would ensure timely implementation and guarantee continued adherence.

25. Finally, the present political and social environment in MENA is proving a particularly difficult setting for launching reforms. The combination of low growth, high and increasing unemployment rates, and often worsened poverty levels has rendered a tense social climate where political survival may hinge on the State retaining its role as a guarantor of employment, and where domestic and foreign private investors are deterred from investing due to social, political and economic uncertainty. The result is low growth and negative job creation, which further increases the instability of the countries.

26. The high uncertainty surrounding the political situation as well as the reform agenda in the MED countries is a deterrent for private investment, whether foreign or domestic. There is strong evidence from MENA countries and elsewhere that uncertainty has an important negative impact on investment decisions (Sondergaard, 2001). The irreversible nature of most investments will make investors hesitant to act in a high risk environment – there is almost always the option to wait and see what happens today and adjust the investment strategy as to make an optimal investment choice tomorrow.

27. The contrast to the accession partnerships in this respect is telling. The pre-accession strategy for the CEE countries is based on strict and detailed accession criteria and contains precise commitments on the part of the candidate country relating to a broad agenda including democracy, macroeconomic stabilization, industrial restructuring, and the adoption of the *acquis communautaire*. The criteria include the free movement of goods, services, capital, and labor (albeit with a transition period) and imply a complete overhaul of institutions, law and regulations. Moreover, although the reform agenda is being complemented with financing along the way, these reforms are not parallel but pre-conditions for EU accession. It is therefore essentially a back loaded process in that the main benefit it provides for applicant countries comes after the reforms have been undertaken.

28. The comparison with NAFTA is, at first glance, less clear-cut. Like the EU-MED agreements, NAFTA is limited to enforcing trade liberalization – although it included service liberalization upfront – and possible complementary reforms are on the agenda as areas for cooperation without any binding commitments regarding content, implementation or timing. However, the Mexican accession to NAFTA was in large part the logical conclusion to, rather than the beginning of, a process of liberalization which had been undertaken unilaterally by the Mexican government since the mid-1980s (Galal and Hoekman, 1997). Thus, the purpose of the agreement was more to anchor the substantial achievements already made in liberalizing the Mexican economy, than actually to initiate liberalization reforms, as is the case with the EU-MED agreements. As mentioned earlier, Mexican tariffs have not fallen significantly during the 1990s, but were already in 1990 at half the level of (the average of) those of the MED countries in 1999. The difference between NAFTA and EU-MED distinguishes the role of a free trade agreement as an anchor to enhance the credibility of reforms already undertaken, from that of a vehicle for initiating reforms.

**Table 3. The complementary reform agenda is missing in the EU-MED agreements.**

<b>REFORMS INCLUDED IN THE AGREEMENTS</b>	<b>EURO-MED</b>	<b>US-MEXICO NAFTA</b>	<b>EU ACCESSION</b>
<b>Free Movement</b>			
Industrial goods	Yes	Yes	Yes
Agricultural goods	To be negotiated	Yes	Yes
Services	To be negotiated	Yes	Yes
Capital	No	No	Yes
Labor	No	No	Yes with transition period
<b>Complementary Reforms</b>			
Competition Policy			
IPR:s	Included as areas for cooperation and harmonization but no mechanisms for implementation	Included as areas for cooperation and harmonization but no mechanisms for implementation	Included as preconditions for accession
Privatization			
Company Law			
Financial Sector Reform			

## 5. The looming social crisis and the labor market in the MED countries

29. At the same time, the comparatively weak economic performance in the MED-countries may pose a serious threat to political and social stability in the region. The combination of economic stagnation or recession, massive migration to urban areas, and a demographic transition which translates into a rapidly growing work force, is increasing pressures on the labor market and along with it political and social unrest. Evidence from the region and elsewhere shows that from the perspective of political stability, the lack of job opportunities for the educated and politically vocal middle class is particularly serious.

30. Labor markets in the MED countries are characterized by low or negative job creation and low turn over, and the trends are very worrisome. First, average overall unemployment rates are already reaching very high levels, ranging from 8 percent in Egypt to some 22 percent in Morocco, and have invariably been increasing over the 1990s (table 4). Moreover and importantly, the rate of unemployment is much higher among new entrants to the labor market, among the young, and among the educated, and again, the tendency is worsening. In Egypt, for example, new labor market entrants made up around 70 percent of all unemployed in 1998, compared to 58 percent in 1988. Of these unemployed first time job seekers, over 90 percent had completed at least secondary education. Over 90 percent of all unemployed are aged between 15 and 30 years, and 80 percent of all unemployed have secondary education or more (Assaad, 2000).<sup>5</sup> The picture is similar for the other MED countries.

**Table 4. Unemployment in MED countries by age and level of education <sup>1/</sup>**

	<b>Egypt</b> <b>(1998)</b>	<b>Jordan</b> <b>(2000)</b>	<b>Morocco</b> <b>(2001)</b>	<b>Tunisia</b> <b>(1999)</b>
Overall unemployment rate, 1988/1989	<b>5%</b>	<b>10%</b>	<b>16%</b>	<b>15%</b>
Overall unemployment rate, Latest available year	<b>8%</b>	<b>14%</b>	<b>22%</b>	<b>16%</b>
Youth unemployment rate	<b>15%</b> (aged 15-19)	<b>24%</b> (aged 15-19)	<b>36%</b> (aged 15-24)	<b>36%</b> (aged 18-19)
	<b>19%</b> (aged 20-29)	<b>20%</b> (aged 20-24)	--	<b>32%</b> (aged 20-24)
Young unemployed by age group, % of total unemployed aged 15-64	<b>84%</b> (% unemployed aged 15-29)	<b>90%</b> (% unemployed aged 15-39)	<b>87%</b> (% unemployed aged 15-34)	--
Unemployed with secondary education or more, % of total unemployed	<b>80%</b>	<b>41%</b>	--	<b>41%</b>
Unemployment rate, economically active population with tertiary education	--	--	<b>27%</b>	--

1. Latest available year 1998-2001.

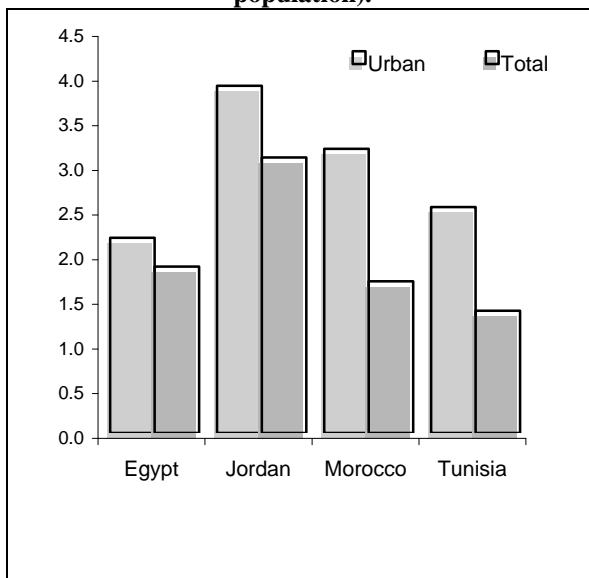
**Source:** Egypt: Assaad (2000); Morocco: Ministry of Economic Forecasting and Planning (2001); Jordan: ILO (2001), Jordan Dept of Statistics; Tunisia: IMF (2001), ILO (2001).

31. These characteristics are all the more serious given that the inflow to the formal labor market is bound to increase over the coming years. As in most developing countries, the urban population is still growing fast, rapidly increasing the supply of job-seekers in cities: in Jordan, urban population growth is almost 4 percent p.a.; in Morocco and Tunisia, it is almost twice that of the overall population growth (**figure 6**). At the same time, the combination of a demographic transition increasing the available work force and improved access to education, will further increase the share of educated new entrants in the labor market. In Egypt, the number of people in the labor force with at least secondary education increased, on average, by some 440 000 *per year* between 1988 and 1998. Measured as percentage of total labor force, this is equivalent to an annual increase of 3%. At these arrival rates, the net addition to the Egyptian labor force will consist entirely of

<sup>5</sup> The analysis in Assaad (2000) is based on the Egypt Labor Market Survey 1998 and the Labor Force Survey of 1988. To ensure comparability between the two surveys, the author uses an extended definition of the labor force, including all employment in subsistence agriculture, and define unemployed as those seeking work. These definitions give rise to a lower unemployment rate than would otherwise be the case.

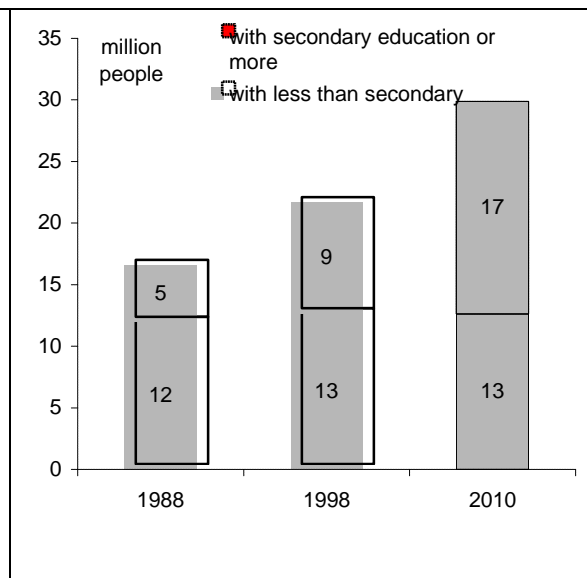
mid- or highly skilled labor. Two thirds of the Egyptian labor force will have at least secondary education by 2010, with correspondingly high expectations of a pay-off to their human capital investments (figure 7).

**Figure 6. Urban population growth is high.**  
(average growth p.a., urban and total population).



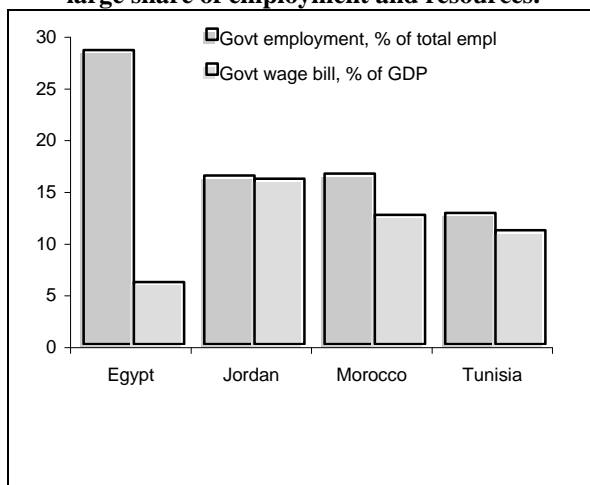
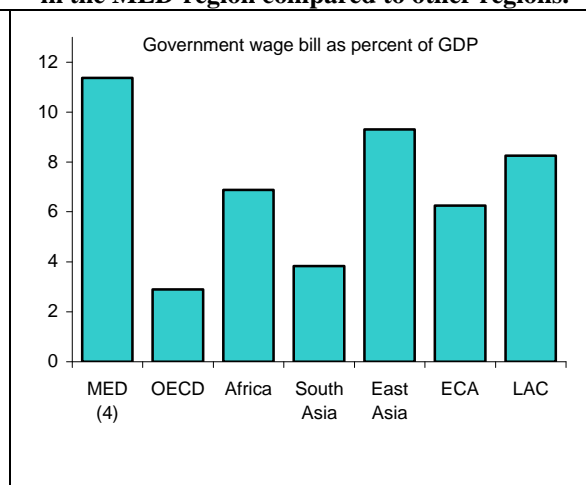
Source: World Bank (2001), authors' calculations

**Figure 7. And an increasing share of the labor force is expecting a pay off to education (Egypt).**



Source: Assaad (2000), authors' calculations

32. Traditionally, the public sector has constituted a major source of employment for the educated middle class in the MENA region. Up until the mid 1980's, the parallel expansion of the parastatal sector and of publicly provided services absorbed a majority of the skilled labor. As the economies slowed down – and with it private sector job creation – the public sector continued to absorb the residual workforce, in effect acting as a form of unemployment insurance. By now it is clear, however, that the public sector can no longer sustainably absorb new cohorts of well educated workers as it has reached its upper limits in terms of absorbing fiscal resources (figures 8 and 9). A majority of countries are faced with a pressing need for public workforce downsizing, and at any rate an expansion of the public sector is not likely to be possible.

**Figure 8. The public sector is absorbing a large share of employment and resources.****Figure 9. The weight of the wage bill is high in the MED-region compared to other regions.**

Source : De Tommaso and Mukherjee, (2001)

33. New jobs for skilled (and unskilled) workers will consequently have to be created in the private sector. Yet, the domestic private sector has so far failed to provide a source of employment growth – in much due to persistent structural problems in the economies, including the strong presence of the State.

34. The cost of long-term youth unemployment and the resulting disillusionment of a whole generation could be very high. The region is already seeing a large exodus of highly skilled people. Moreover and importantly, the social and economic malaise could in itself block the reform process necessary to reverse the negative trends. In this way, the political and social costs of high unemployment rates and worsening poverty trends limit the possibilities for public sector reform and wide-scale industrial restructuring. This *status quo* bias is exacerbated by the phenomenon of self-fulfilling expectations which is creating a vicious negative growth circle. The high political uncertainty and instability deters private investment and increases capital flight, which in turn further depresses growth rates, and thus further increases political instability and uncertainty.

## 6. New directions for the Barcelona framework.

35. It is clear that the current framework for cooperation and integration between EU and the MED countries has so far not proved sufficient either to achieve the goals set out in the Barcelona agreements, or to mitigate the social and political tensions in the MED countries. Instead of contributing to growth and savings, the increasing work force has turned into a barrier. Political and social phenomena are reducing the incentives for reform and making the countries unattractive for investment and unfit for productivity improvements.

36. Given this dire background, this paper proposes that the Barcelona framework be enriched along several dimensions. First, the constituency which should find it in its interest to support the EU-Partnership needs to be broader and stronger. In the present framework, one can hardly find groups within MED countries who can clearly identify benefits for themselves from the agreements. On the contrary, many see costs: the business sector which has to adapt to the European competition, the workers who may bear some of the costs of adjustment to trade liberalization, and the young (and less young) population which find it increasingly difficult to enter Europe because of more stringent entry requirements (visas, etc.). The political support for the Barcelona agreements is weak.

37. Second, more credible mechanisms for anchoring the implementation of a broad and intense agenda for reforms complementary to trade liberalization should be developed, to make sure that

the expected benefits from the agreements do actually materialize sooner rather than later. It is clear that financial support cannot be the only answer, even though it may be part of a larger package. On the contrary, as argued above, merely providing financial flows could have a perverse effect on incentives to undertake reform.

38. In this respect, widening and accelerating the agenda for liberalization on agricultural trade is important for the agricultural constituency, and may play a role in helping reduce rural poverty. Yet this measure is, on its own, unlikely to be enough to reverse the trend of overall rural migration to the cities, for several reasons. First, productivity improvements in the agricultural sector in response to trade liberalization is more likely to actually reduce demand for labor. Second, the severe water shortage characteristic for a majority of the MED countries will limit the supply response from the rural sector. Third, competition from Poland and Hungary is also likely to limit demand from the EU for agricultural products from the MED countries.

39. Similarly, broadening the agenda to services liberalization may also increase the benefits of the agreements, in particular as its implementation would highlight the need for harmonization and reforms in a number of areas outside tariff reduction, but the risks remain that the complementary reform agenda does not materialize.

40. A more credible reform process would hence require a strong upfront commitment on the part of MED governments to carry out and maintain critical reforms in areas such as public sector reform and financial sector modernization. These reforms should be accompanied by official support from the EU, a signal which would then further back the credibility of the reform program.

41. Third, labor mobility is at present not included in the partnership framework, nor on the agenda for negotiations. However, the strong links between labor market conditions in MENA on the one hand, and political resistance to growth enhancing reforms on the other, suggest that migration could well be an important ingredient in improving the framework. Indeed, a well-designed significant program of managed migration from MED countries to the EU can be a major vehicle for achieving the objectives of the partnership. First, it would create an immediate constituency which benefits from the partnership. Second, it would relieve socio-economic-political pressures (especially in labor markets) in MED countries and facilitate the undertaking of the complementary reform agenda. This would be achieved through a double-smoothing: that of the impact of the transition costs of trade liberalization, and that of the bulge in the demand for jobs over the coming 15-20 years which results from the demographic transition. Both factors would help support and enhance the reform agenda.

42. Intensified trade relations, as in the EU partnership, have been put forward as a substitute for interregional migration, and indeed as a means of containing mass migration from poorer to richer areas. First, from a purely theoretical perspective, factor endowment trade theory would suggest that trade in goods is indirectly trade in factors, including labor. Secondly, increased trade is expected to lead to higher growth, especially in poorer countries, which in turn leads to economic convergence, thereby reducing the incentives for migration in the first place.

43. Yet, research on trade and migration show that trade liberalization and migration controls are not necessarily substitute policies, at least not over the short term (Faini *et al.*, 1999). In fact, the historical evidence suggests the opposite: the globalization drives at the end of the 19<sup>th</sup> century and in the 20<sup>th</sup> century post-war period were accompanied by a surge in migration flows as both labor and goods benefited from a fall in communication and transportation costs. High income countries which liberalize with middle income countries are not likely to have to fear massive migration flows. However, trade liberalization between high income countries and significantly poorer countries may at least initially result in increased pressures for migration, if production is polarized and if migration previously has been repressed by financial constraints.<sup>6</sup> NAFTA, for example,

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<sup>6</sup> Several factors will motivate international (economic) migration, including wage differentials, preferences for the home country, and the cost of migration. In a very poor country, migration to a richer area may be

appears to have increased migration, at least in some sectors, over the short term. Migration and trade policies will therefore need to accompany one another to increase the benefits for all parties over the medium term.

44. Below, we aim to advance the debate by developing the arguments for increased movement of people between the MED countries and Europe.

## 7. People mobility between EU and MED countries as part of the solution

45. What are the possibilities for channeling migration in ways that maximize the potential current and future gains for the sending country and make use of the reduced labor market pressures to make a big push for reforms? Migration, and perhaps especially from Muslim countries, has a bad name in Europe. A variety of reasons explain the poor reputation: high overall unemployment rates in the EU; previous large waves of migrants, especially from the Maghreb region (to France, Italy, Spain) and Turkey (mostly to Germany), and among whom unemployment rates are often higher than among nationals; high fertility rates among immigrant communities, continued flows of illegal immigration, etc.. The strong tightening of migration policies in the 1980s-1990s is evidence of the changing perception towards foreign labor. The debate over the perceived cost of opening the borders to workers from the EU accession countries in Central and Eastern Europe, and the imposition of a seven year transition period for free movement of labor to this end, has highlighted the lack of a common agreed framework for migration within the EU. It has also revealed the tension surrounding the management of migration flows and the concerns of EU members – in particular in the Mediterranean area, which presently receive an important share of inflows from Maghreb. This paper, however, advances the benefits from a scheme with managed migration for mid-skilled labor, i.e. with secondary education, from the MENA region, which would differ from past waves of immigration.

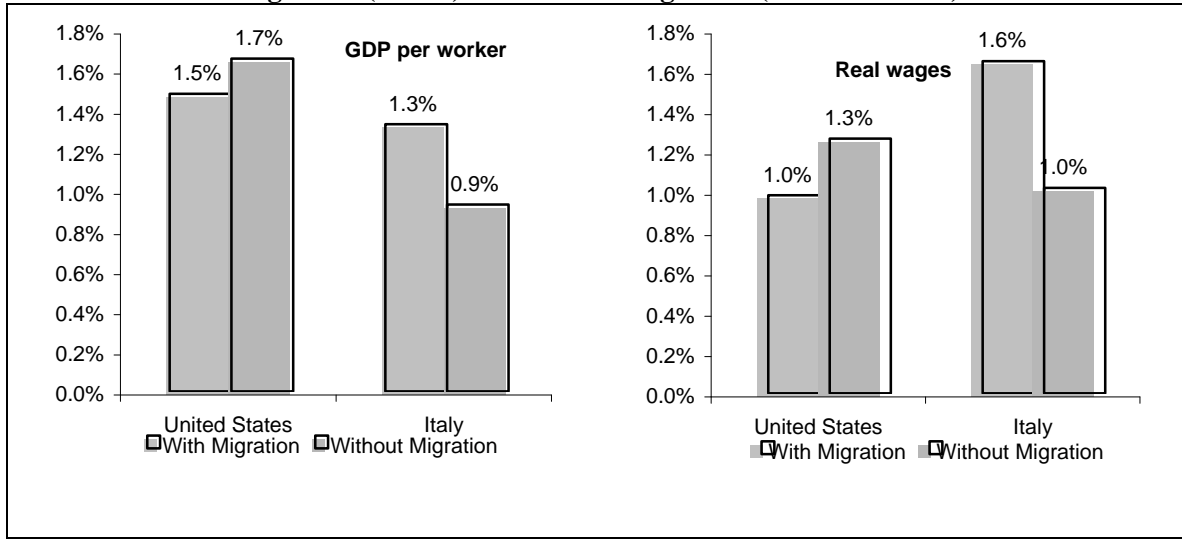
46. Critics would argue that from the perspective of EU countries, opening the borders for workers outside the EU will put upward pressure on the already high unemployment rates in the EU, and especially in the countries which for cultural and historical reasons are most likely to be recipients of large scale immigration. And indeed, unemployment rates in EU (15) averaged 9% between 1995-2000 and reached 11% France, 9% in Germany and almost 20% in Spain (OECD, 2001a). From the perspective of the MED countries, on the other hand, migration of skilled labor would imply losing its best work force to foreign countries, at a time when capacity and skilled labor are considered key in improving international competitiveness and in the *mise à niveau* of the private sector.

47. In spite of these arguments, several facts speak in favor of a deeper integration of labor markets between EU and the MED countries. First, while the present trade focused format of the EU-MED agreements seems insufficient to lead to economic convergence, international and historical experience shows that migration can be a major force in bringing it about. A study by Taylor and Williamson (1994) suggests that migration between the Old and the New world at the end of the 19<sup>th</sup> century was the main factor behind convergence in real wages, GDP/worker and GDP/capita between Europe on the one hand and the US and Australia on the other. In short, migration served to take off pressure on the labor markets in Europe and instead provide much needed work force in the new countries, with an impact on both GDP and the compensation of workers (**figure 10**).

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attractive from the point of view of wage differentials but may be contained simply by lack of resources. In higher middle income countries, while prospective migrants have the resources to move abroad, the wage differentials may not be a sufficient incentives, especially not if the prospects for growth in the home country are good (Schiff, 1996). The highest migration pressures could therefore come from lower middle income countries where the financial constraint is less binding but the wage differential still provides an incentive.

**Figure 10. Average annual growth rates of the U.S. and Italy between 1870-1910, with migration (actual) and without migration (counterfactual)**



Source: Taylor and Williamson (1994), authors calculations

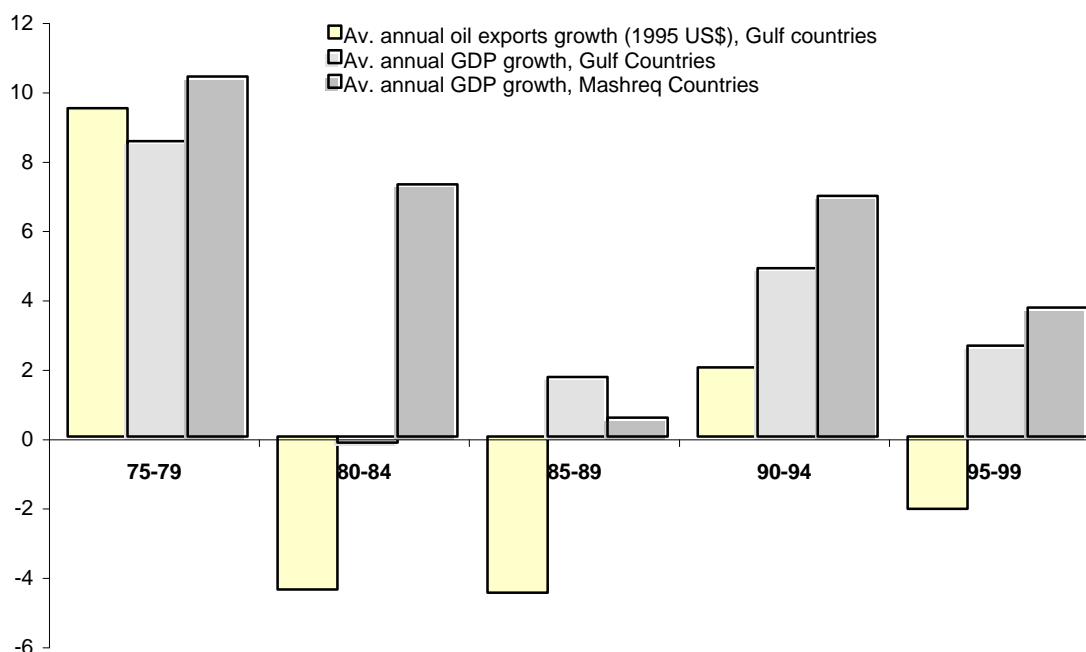
48. More recently migration within the Middle East and North Africa has also served as a means of convergence. Migration has provided a vehicle for distributing oil revenues within the region: millions of Egyptians, Palestinians, Yemenis, Syrians, Lebanese, and Jordanians have worked in the oil producing Gulf countries for extended periods, sending home money to their families. Later on, many have returned home as investors or skilled and experienced labor. As shown in **figure 11**, GDP growth in these labor exporting countries moved together with oil revenues and GDP growth in the Gulf countries during the 1970's, 1980's, and 1990's (except for the beginning of the 1980's), suggesting important spillover effects. With the Gulf war in the beginning of the 1990s, however, labor demand fell radically in the oil rich economies, leading to a large involuntary return of workers. The shrinking labor market in the Gulf has been one key factor in pushing unemployment rates up in e.g. Jordan and Egypt.

49. Further, some access to the EU labor market for the MENA countries, even if limited, could potentially bring important economic, political and social gains for the sending countries. The risk for brain drain is a real and serious one, but the migration option must be contrasted with the current situation where skills are not put to use. Long-term unemployment persistence, especially for new and well-educated entrants to the labor market, is at present both increasing frustration and eroding skills that are not maintained through on-the-job training. The resulting political and social tension is in turn hampering the investment climate and economic growth. All the while, labor skills are becoming obsolete.

50. Moreover, the lack of opportunities is already pushing highly skilled labor to leave the region, but to other regions such as the US, Canada, or Australia. By way of illustration, out of the over 50,000 Egyptians migrants which in 1990 resided in the United States (as recorded by the census), 98 percent had completed secondary education and almost 80 percent had tertiary education (Carrington and Detragiache, 1998).

51. While the geographical proximity to the EU area will induce out migration it will also facilitate return migration. This is not necessarily the case for migrants who have taken the step to move to continents much further away from the MENA region. The more rooted immigrants become in the host country, the less likely they are to return home. And as immigrants lose their personal and professional ties to their home countries, the benefits associated with sending workers abroad will also weaken.

**Figure 11. Oil revenues trickle down in the MENA region**



Source: WB (World Development Indicators), authors' calculations

52. An appropriately managed migration to the EU area, in contrast, would bring important benefits in the form of foreign exchange savings (workers' remittances) and simultaneously provide better management and capitalization of human capital assets. Such a scheme, although focused and limited in size, would at the same time relieve some critical pressure on labor markets in the MENA countries. With several migrants returning home after a certain time spent in the EU, the region would also gain from upgrading skills and business connections, etc.

53. Workers' remittances already make up an important source of balance of payments support in the Middle East and North Africa Region, and have, as shown in **table 5**, by far exceeded direct investment inflows in the four MED countries.

**Table 5. Workers' remittances and foreign direct investment, % of GDP**

	1990-1994		1995-1997		1998-2000	
	Workers Remittances	FDI	Workers Remittances	FDI	Workers Remittances	FDI
Egypt	7.8	2.1	4.6	1.0	4.2	1.2
Jordan	14.9	0.5	21.0	1.3	20.7	4.4
Morocco	7.2	1.3	5.8	1.7	5.7	1.2
Tunisia	4.4	2.5	4.1	1.6	4.1	3.0

Source: WB (World Development Indicators), authors' calculations

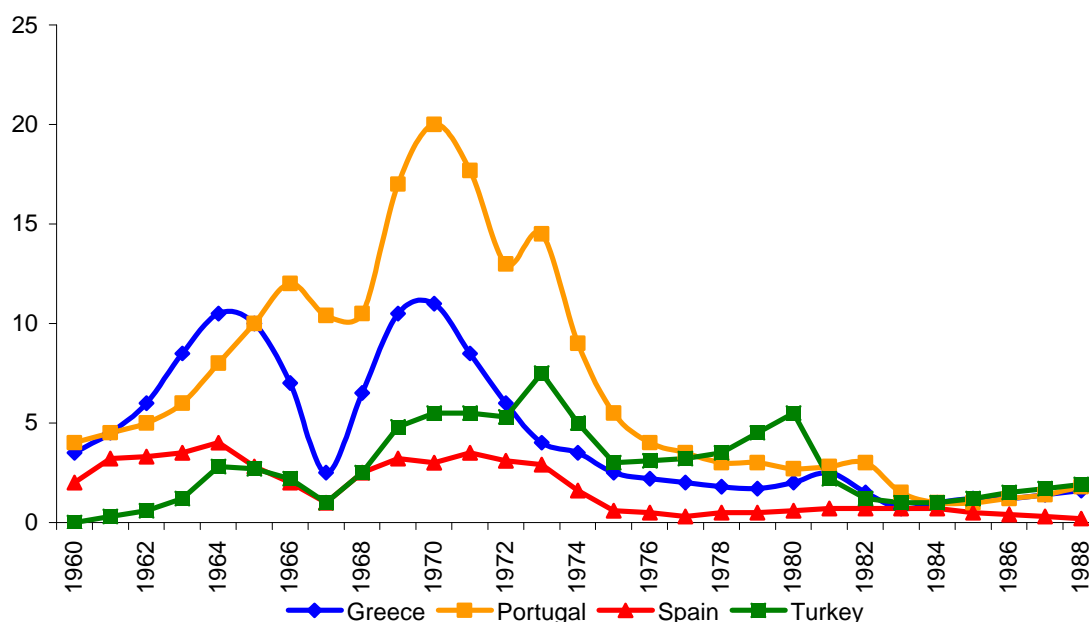
54. Migration can also provide the means for skilled labor to capitalize on investment in human capital already made, in a place where returns to education are higher, and to continue upgrading skills overseas. When conditions at home have improved, they can return back home with accumulated savings as well as new skills. There is strong evidence that an important share of migrants do not lose their ties with their home countries but choose to return home after a certain time abroad. It has been estimated that of all US immigrants, one third return to live in their home country at some point during their life time, and 20 percent return within the first ten years after arriving to the US (Stalker, 2000).

55. Return migrants often bring back significant skills, experience, connections within business networks in Europe or elsewhere, as well as savings for investment. There are also indications that savings in the form of workers' remittances are more directly translated into growth than other forms of savings since they tend to be used for productive investment to a higher degree. For example, a study of the use of international remittances by households in rural Egypt showed, first, that a substantial share of migrant household incomes is spent on investment, and second, that the propensity to invest is larger than for non-migrant households (Adams Jr., 1991).

56. Clearly, however, the propensity to return home to put savings and experience to use will depend on whether the work and investment climate in the home country does improve or not. International experience shows that return migration is ruled by "push" factors - worsening labor market climate in host countries - but also to a large extent by "pull" factors - increasing attractiveness of the home country (Dustmann, 1996, Gmelch, 1980).

57. The Southern European countries' experience of migration to Northern Europe (primarily Germany, France, Switzerland) suggest an inverse u-pattern in the propensity to migrate (**figure 12**). As work opportunities increased in the buoyant northern European economies in the 1960s, migration from Greece, Portugal, Spain and Turkey rapidly took off, and fell together with the declining opportunities after the first oil shock. However, as the economies in Northern Europe improved in the 1980s, net migration from Southern Europe did not pick up, although there were still considerable gaps in real wages and incomes between the two regions. Although stricter immigration policies did play some role it does not fully explain the trend towards return migration, since migrants from other countries continued to arrive into the Northern European countries.

58. Empirical work suggests that the propensity to migrate in the Southern European economies was determined by income disparities between the home and the host country and by the individual level of wealth of the potential migrant i.e. his resources for migration, but also by the strength of cultural and social ties to the home country (Faini and Venturini, 1994). In a poor country, hence, migration is likely to initially increase with growth, as potential migrants acquire the financial means and the level of education necessary to take the step to go abroad. But as conditions at home improve, the incentive to migrate is reduced and some of the migrants return home to their preferred country of residence, becoming an important source of dynamism and a bridge between the two markets.

**Figure 12. Migration rates in Southern Europe, 1960-1988 (migrants per 1000 inhabitants).**

**Source:** Faini and Venturini (1994)

59. Similarly it could be argued that the quality of investment made by returning migrants - in terms of choice of sector, productive use, growth potential, spill over effects – is likely to depend on the opportunities for investment in the home country (Chandavarkar, 1980). The quality of the investment climate at home will thus be important in determining not only the propensity to return, but also the productive use of remittances.

60. Finally, the willingness of political decision makers to undertake important but politically difficult economic reforms is likely to increase with migration. Outflows of workers would alleviate labor market pressures during structural reforms that may have a potentially negative bearing on the labor market, at least in the short run – including civil service reform, changes in the education system, etc. This can create a positive feedback loop, where migration allows for a more decisive take on economic reforms without immediate large social costs, which in turn improves the investment climate and growth prospects, and thus attracts migrants back after a certain time.

## 8. Can the EU cope?

61. However strong the arguments from the sending countries, a migration scheme which is costly to the recipient countries, especially from the prospect of labor market impacts, will not be politically feasible. The expected impact on the EU labor market of taking in more skilled migrants from North Africa is therefore a key issue in assessing the viability and applicability of a migration scheme. It is evident from the current debate on migration within Europe that the perception of migration as socially and economically costly for the host countries is widespread. As discussed above there are several counterarguments to increasing migration: high unemployment rates suggest that the EU labor markets can no longer absorb its own work force, let alone take in foreign labor; increasing further what are already high levels of immigration would lead to even higher unemployment or a drop in real wages or both; the EU, if opening up, will need to concentrate on accommodating workers from the accession countries in the CEE, rather than on non-member countries (Maghreb) which have already been allowed their share of immigration for decades. As we will see below, however, these arguments do not necessarily hold up to closer scrutiny.

62. First of all, although the EU has received a large share of immigrants, the share of foreign-born labor force remains lower than in the US and Canada. Yet unemployment rates in the US and Canada have remained below those of the EU area. This could be due to a variety of factors, including differences in labor markets, migration types and selection criteria, but the fact remains that the US and Canada have managed migration flows and labor market pressures better.

63. Second, it is true that earlier waves of migration from the MENA region, and in particular from the Maghreb countries, have resulted in an important presence in several EU countries, especially Belgium, France, Italy and Spain. During the industrial boom of the 1960's, several EU countries actively recruited workers from the Maghreb to occupy low skill jobs in the industrial sector. As the recession hit Europe in the mid- 1970s, migration policies took a sharp turn and access to the EU market for foreigners was considerably tightened. However, as economic conditions subsequently worsened also in the MENA region, in particular after the collapse in oil prices in the mid 1980s, there was still an important supply of migrants. With stricter migration policies, illegal immigration increased, in particular to the southern European countries, where the Mediterranean coast puts an obstacle to tight border entry control. With the exception of a sharp increase in Moroccan immigration to Italy and Spain, there has been little or no increase of the share of North African immigrants since the mid-80s (**table 6**). Other countries have instead increased their presence in Northern Europe.

**Table 6. Stock of foreign population by nationality (% of total foreign), selected EU countries, earliest and latest available year.<sup>1</sup>**

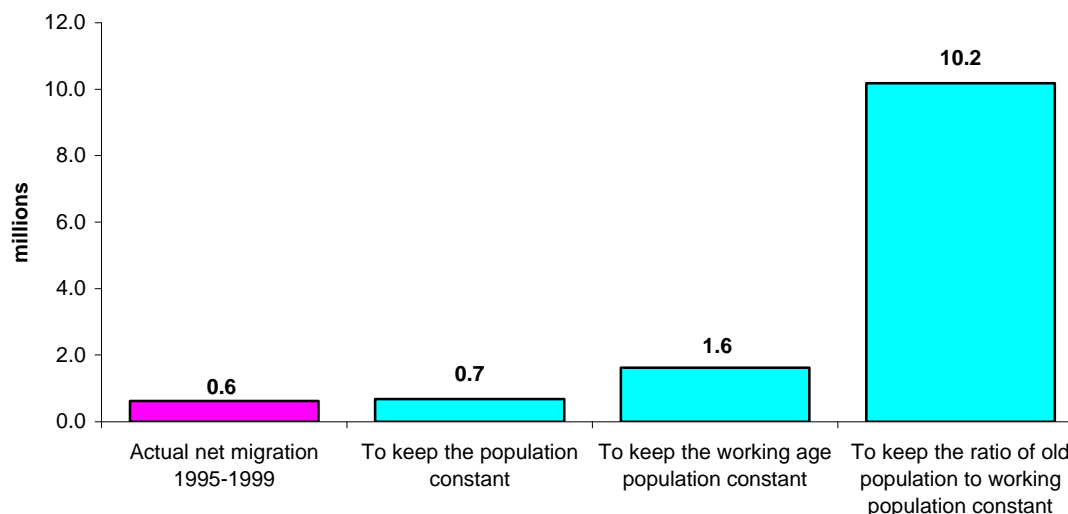
As % of total foreign pop.	Belgium		France		Germany		Italy		Netherlands		Spain	
	1980	1998	1982	1990	1985	1998	1985	1998	1985	1998	1985	1998
Morocco	15	14	12	16	..	..	1	12	21	19	2	18
Algeria	1	1	22	17	..	..	1	..	..	..	..	..
Tunisia	1	1	5	6	..	..	..	4	1	0	..	..
Egypt	..	..	..	..	..	..	2	2	..	..	..	..
Turkey	9	8	3	6	32	29	..	..	28	15	..	..
Poland	..	1	2	1	2	4	..	2	..	..	..	..
Other	75	76	56	54	66	67	97	80	50	65	..	..
Tot. North Africa	17	16	39	39	..	..	3	18	22	20	2	18
Tot. foreign-born pop. (thousands)	847	905	3714	3597	4397	7320	423	1250	553	662	242	720

Source: OECD (2001b).

1. Definitions of foreign population differ across countries. For Italy and Spain, figures include results of regularization programs (Italy: in 1987-88, 1990, 1995, Spain: in 1991)

64. Third, demographic developments in the EU would in fact imply that increased work force migration would be highly desirable. Under the prevailing pay-as-you-go social security system, a rapidly ageing population is threatening to weigh heavily on future workers/tax payers who will need to provide for retirees with increasing life expectancy. Short of an immediate and drastic change in fertility rates in the EU area, migration provides the only means of reinforcing the shrinking workforce. Presently, the EU receives around 0.6 million migrants (on a net basis) every year. Demographic projections by the UN suggest that to keep the working age population constant, another million people would need to enter the EU each year (UN, 2000). To keep the ratio of old population to working population constant, i.e. to ensure that each retiree can rely on the same amount of workers, the region would need as much as 10 million additional immigrants per year (**figure 13**).

**Figure 13. European Union: Current net migration (1995-1999) and projected average annual net migration needs, in millions, 2000-2030**



Source: United Nations (2000), authors' calculations.

65. From the perspective of replacement migration, can and will the additional workforce needed be more than adequately provided by the accession countries in Central and Eastern Europe? The discussion regarding EU enlargement and labor mobility has revealed large differences in perception regarding the potential pool of immigrants from Central and Eastern Europe: while EU members fear mass immigration, the CEE countries appear to expect emigration to be more limited. Several characteristics, which distinguish the CEE countries from MED countries, speak in favor of the latter scenario. First, the CEE countries have already started their integration and convergence process, and the lion share of migration might already have taken place at the beginning of the 1990s after the fall of the iron curtain. Net inflows from Poland to Germany, for example, went from an average of 58,000 people per year in 1989-1991, to 4,000 between 1996-1998 (OECD, 2001). Second, the accession countries are also at a much higher per capita income than the MED countries and, following the pattern of the Southern European countries accession, improved living conditions at home are likely to dampen the tendency to migration. As discussed earlier, evidence suggests that trade liberalization of high-income countries with middle-income countries tends to foster convergence and discourage migration. Third, their demographic structure is mirroring that of the EU, with shrinking working populations, reducing the number of workers who would or could migrate (**table 7**). Indeed, as shown above, the accession of Greece, Portugal and Spain in the 1980s did not lead to mass immigration, in spite of widely held fears, but had almost an opposite effect. The accession process provided better conditions in the home countries, which led people to return home to take advantage of improved prospects.

**Table 7. CEE accession countries: labor force growth.**

	Labor Force (million)	Proj. growth rate p.a., Share of EU (15) Labor 2000-2010	Force
Czech Rep.	5.4	-0.4%	3.1%
Hungary	4.4	-0.6%	2.5%
Poland	19.8	0.4%	11.3%

Source: ILO (2001), authors' calculations

**9. A managed EU-MED migration scheme - mid skilled labor in search of experience.**

66. The prospects of relatively limited migration flows from CEE accession countries would open the way for migration flows from the MENA region to the EU. However, these flows should be different from previous waves of legal migration of unskilled labor, or the illegal migration flows which are currently taking place. In line with the changing characteristics and upgrading of the education level of the MENA labor force, the new form of migration flows would consist of middle-skilled labor going to work in the formal sector, with full economic and social rights.

67. Focusing on managed migration to the formal sector means that only labor with some skill proficiency will be targeted. In EU, comparatively high minimum wages topped with high social security contributions (often amounting to 100 percent of wages) result in a high minimum cost per worker. The high cost of labor implies in turn that only workers with higher productivity, i.e. with some skill/education level, can get jobs in the formal sector.

68. Under these circumstances the relative importance of MENA labor inflows will be of comparatively small and manageable magnitude. Concentrating on the MED countries – the most populous countries in the MENA region, except Iran – the potential pool of migrants would be limited to the labor force with mid to higher skill level of education. Although the share is increasing rapidly it remains small in absolute numbers compared to the EU labor force (**table 8**).

**Table 8. Pool of potential migrants from MED countries, latest available year, 1994-2000**

	Economically active population (millions)	Labor force with at least 2ndary education (millions)	Unemployed with at least 2ndary education (millions)
Jordan	1.5	0.7	0.1
Tunisia	3.0	1.0	0.2
Egypt	21.7	9.0	1.4
Morocco	10.4	1.3	0.3
TOTAL	36.6	12.0	2.0
<i>% of EU(15) labor force</i>	20.9%	6.8%	1.1%

Source: ILO (2001)

69. The goals of an EU-MED migration scheme would be threefold: first, to help tighten labor markets in MENA, especially for mid-skilled workers with at least secondary education; second, help ensure that returns to education are high; third, help produce experienced investors who, when returning to their home country, would have built networks within the EU for future use in their business activities.

70. The design of such a scheme should take into account previous experience from migration schemes, within and outside the EU, to minimize illegal immigration and maximize the benefits for both sending and receiving countries. It would need to ensure that workers from the MED countries are channeled to sectors where they are most needed, and where their ability to gain useful work experience and contacts is high. It will also be important to put in place mechanisms that facilitate and encourage voluntary return migration, e.g. by increasing business opportunities in the sending

countries over the long term. The migration scheme would thus be an integral part of the Euro-MED agenda, complementing other areas for cooperation, including growth enhancing economic reforms.

71. A survey of international experience of migration schemes, whether for temporary and permanent, high skilled and low skilled workers, presents mixed results (Coulibaly, 2001). A key lesson from the multitude of schemes that have been implemented – and in some cases dropped – is that as long as there is a demand for foreign labor, increased sending pressures, decreasing transportation costs, and an existing web linking immigrants and prospective migrants, immigration will take place irrespective of the policy in place. Even if the “front door” (legal economic migration) is closed, there will be entry through the “side door” (legal immigration for social and humanitarian reasons), or the “back-door” (illegal immigration).

72. A managed migration scheme that responds to EU needs for mid-skilled and skilled workers, while ensuring positive returns to migration and education for MED economies, would therefore need to contain the following provisions:

- Focus on (i) mid-skilled labor (ii) on training experience in the EU, and on (iii) encouraging return migration;
- In the absence of a common EU migration policy, allow for bilateral arrangements, but with the support of a common EU Fund;
- Create an EU Fund for co-financing with the private sector. This fund would be used to support the financing of both training programs, and return migration-integration of graduating trainees or returnees. A 3-year trainee program could be offered to selected graduates geared towards the industry and services sectors. A shorter training opportunity could be offered to interested workers as part of company transferees under a EU-MED Guest Worker Program. Trainees would be partially funded by the EU, and partially by the private sector in the respective countries. At the end of the training program, MED country nationals who receive a job offer should have the possibility to stay;
- Provide assistance on both sides of the Mediterranean to help manage these programs and assist trainees as well as returnees in their effort to adapt and reintegrate. This would include technical and financial assistance needed by returnees;
- Establish clear and accessible information channels for prospective EU employers and MED employees. This could include a virtual market that could allow for job/skills match and training offers made by local or foreign employers;
- MED governments must engage their responsibility and pledge their direct participation in efforts to manage and indeed encourage return migration. In addition to active participation in the scheme management together with the EU (esp. jobs/skills match, etc.) these efforts need to focus on setting the ground rules for a friendly business environment with safety nets for returnees, and facilitating the readmission of their illegal immigrants;
- This framework could be augmented with easier entry for business visits and educational purposes, which would both encourage human capital development and strengthen the personal and professional links between the regions.

73. The scheme would in itself be limited in time, but with a stronger emphasis both on encouraging voluntary return migration, and on providing the opportunity for qualified MED country nationals to remain working in EU after the trainee period. For example, the guest worker programs in Germany and Switzerland as well as the foreign trainee program in Japan largely failed as temporary schemes, as there were no mechanisms in place either to integrate these workers in their host country, or to encourage (or coerce them) to return. With a rapidly ageing population, the EU may be obliged to adopt a more pragmatic approach to migration. Here, the EU countries may have something to learn from the experiences of other large labor importing regions, including the

US, Canada and Australia, where economic migration is still possible, and where programs appear better targeted to the needs of both recipient and sending countries.

## **10. Conclusions**

74. The EU-MED partnership needs to be revitalized and broadened if it is to fulfill its purpose of encouraging economic growth and the process of integration between the two regions. In this paper, we have suggested that the broadening take place along two parallel and complementary tracks. First, reform efforts need to be intensified, to lay the ground for increased private investment, economic growth and job creation in the MED countries. Second, allowing for limited economic migration flows between the regions would ease off the demographic pressure on labor markets in the MED countries and thus indirectly ease some of the political and social tension which are blocking reforms.

75. There is a need to find mechanisms which enhance the credibility of the reform programs in the MED countries. The EU-MED agenda needs to go beyond trade. On the part of the Med countries, this will require a strong upfront commitment by undertaking reforms in critical areas, including public sector reform. EU support should accompany rather than lead these reforms. A credible program which results in both EU official support and private FDI would further support and facilitate the reform process, creating the positive credibility feedback-loop that is missing at present.

76. A migration program which would open up the EU labor market for mid skilled workers in MED countries, could improve labor market conditions and increase public support for both the EU-MED agreement as such and for reform efforts more generally. The risk for brain drain, although important, must be seen in the light of what is happening at present, when new labor market entrants see their skills eroding and where an exodus of skilled labor is taking place, but with less positive spillovers than under a managed migration scheme. When economic reforms at home deliver better conditions in due time, several of these migrants are likely to return home, bringing back savings, experience and contacts and a potential to contribute further to economic growth. This would increase the potential gains for both recipient and sending countries, and strengthen the link between the two regions.

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