

**THE REVIEW OF THE EUROPEAN NEIGHBOURHOOD POLICY:
HOW TO MAKE IT WORK FOR THE ARAB MEDITERRANEAN?***Rym Ayadi*^{*1}*Salim Gadi*^{**}**Introduction**

The uprisings in the Arab Mediterranean have urged the international community and chiefly the EU to revise its policies towards the region. While the EU has proved to be a committed and reliable donor, its cooperation policies have done little in enhancing socioeconomic development prospects in the Southern Mediterranean. The new policies put forward by the European Commission in May 2011 as part of the European Neighbourhood Policy review aim at addressing the changing situation in the Arab Mediterranean. While many of the initiatives brought forward in the European Commission's Communication *A New Response to a Changing Neighbourhood* can potentially bring benefits for Southern Neighbours, most of them remain too shy, short-term and lack a strategic vision of the EU's future role in the region. After describing the context of the European Neighbourhood Policy review, this paper reviews the Commission's proposals to support free trade and democratisation outlined in its May 2011 Communication and provides recommendations to dynamise the EU's actions in these areas.

1. Context of the New European Neighbourhood Policy

Seven years after its creation the European Neighbourhood Policy (ENP) is reviewed. European Commission's (EC) services undertook the process in late 2010, but as the unemployed graduate Mohamed Bouazizi set himself on fire sparking a latent revolt against poor socioeconomic conditions across the region, what was supposed to be a treadmill exercise turned into a very challenging one:

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1. MEDPRO is a €3 million project under the Seventh Framework Programme – MEDPRO, www.medpro-foresight.eu. Prospective Political, Economic and Social Analysis in the Mediterranean Region. MEDPRO is a network of 17 research institutes from both shores of the Mediterranean funded under the FP7. The project aims to undertake a deep foresight analysis of the development issues in eleven countries in the Southern and Eastern Mediterranean participating in the Barcelona Process and in the Union for the Mediterranean. The project will undertake an analysis of the current state and prospective development in the main areas of socio-economic development: geopolitics and governance; demography, ageing, migration, health and gender issues; sustainable development, management of resources, adaptation to global warming; energy and climate change mitigation; economic development, trade and investment; financial services and capital markets and human capital, education and development of skills. It will then bring the partial foresight analyses in these areas into a broader framework of quantitative general equilibrium modelling, and be completed with qualitative scenarios for regional and broader integration within the region and with the EU and policy conclusions for the EU approach. Countries include Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestinian Authority, Syria and Tunisia and Turkey.

that of quickly devising a policy response towards a Neighbourhood undergoing sudden, radical and profound transformations.

The EU's policies towards the Arab Mediterranean can be traced to the 1970s when South Mediterranean Countries (SMCs)² signed cooperation agreements foreseeing trade liberalization in exchange for development finance (grants and concessional loans). Since then Euro-Mediterranean policies has undergone several changes driven by the geopolitical shifts caused by the EU's enlargements and the end of the cold war. Notwithstanding different policies, the objectives pursued and the assumptions underlying the EU's relations with its Arab Mediterranean Neighbours remained fairly similar across policy periods. Building on enlargement logic, Brussels sought to create a stable Neighbourhood by promoting closer economic integration with Europe, hoping the process would foster socioeconomic development.

A cornerstone in Euro-Mediterranean relations was reached in 1995 with the creation of the Barcelona Process (BP), under which the language shifted away from "Mediterranean Third Countries" to "Mediterranean Partners" and regional relations were enacted. By creating an ambitious institutional framework structuring of Euro-Mediterranean relations, the EU and SMCs sought to deepen political, security, economic and cultural cooperation both at the bilateral and the regional levels. One of the key objectives in Euro-Mediterranean relations was the creation of a Free Trade Area (FTA), since higher trade flows were supposed to act as catalysts of socioeconomic development. In spite of the commitments for deeper cooperation between the EU and SMCs, the BP failed to instil a take off on socioeconomic development paths of SMCs. Against the backdrop of stagnating socioeconomic conditions, the EU renewed its proposals for deeper integration with the creation of the ENP in 2004 and its "offer of a stake in the internal market" (De Ville and Reynaert, 2010). The invitation to join some segments of the EU's internal market was seen as an incentive to drive both economic and political reforms so as to comply with the European acquis, the process being ultimately seen again as a driver of socioeconomic development. In total, since the creation of the BP, EU institutions have committed approximately €13 billion in official development assistance (ODA) to facilitate the implementation of reforms in the Arab Mediterranean. In 2008, owing to a socioeconomic stalemate in the region, relations sought to be further deepened at the regional level with the creation of the Union for the Mediterranean (UfM). Contrary to other EU policies, the UfM is not centred on cooperation projects but on the realisation of "six concrete initiatives", namely: the de-pollution of the Mediterranean; the creation of maritime and land highways; civil protection;

2. Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia and Turkey.

the promotion of alternative energies and the Mediterranean Solar Plan; a Euro-Mediterranean University (inaugurated in 2008 and based in Slovenia); and, the Mediterranean Business Development Initiative. Owing to political problems chiefly due to the Middle East conflict, the UfM has not yet delivered significant outcomes.

The Arab Spring and the manifest failure of the EU's Mediterranean policies question their accuracy and highlight their flaws. Brussels' approach consisting of emphasising economic integration as a driving factor of political reform proved to be wrong. While such a framework proved to be adapted to Central and Eastern European countries which were given tangible membership prospects, it flagrantly showed to be ineffective – if not counterproductive – in the Arab Mediterranean context. Several motives can be put forward to explain this failure. First, SMCs lacked the membership prospects Central and Eastern European countries were given, and hence lacked proper incentives to engage in reforms, owing to a one-size-fits-all approach to its diverse Neighbourhood. Second, in spite of a high rhetoric of democracy and human rights promotion, little if nothing had been achieved in fifteen years of Euro-Mediterranean cooperation. In fact, many scholars argue that EU support for SMCs in these fields was motivated by security and migration concerns rather than anything else (Booth, Scarpetta and Swidlicki, 2011; Holden, 2008; Tocci and Cassarino, 2011; Youngs, 2006).

Hence, after two ousted dictators, a civil war, some reform promises and massive demonstrations, the EU had to devise a new approach to the events shaking the present and shaping the future of the Arab Mediterranean. Two Commissions' Communications – *A Partnership for Democracy and Shared Prosperity*; and *A New Response to a Changing Neighbourhood* – outline the EU's approach in dealing with the Arab Spring. The first one, (*A Partnership for Democracy and Shared Prosperity*) details a series of emergency measures to cope with the exceptional events in the region; while the second unveils a broad medium and long-term approach to Euro-Mediterranean relations.

Central to this new approach is the emphasis in bilateral relations on the concept of “differentiation”. With Commissioner for European Commissioner for Enlargement and Neighbourhood Policy Štefan Füle admitting “Europe was not vocal enough in defending human rights and local democratic

Besides the introduction of negative conditionality, the ENP's new initiatives outlined in the Communication *A New Response to a Changing Neighbourhood* (hereafter referred to as "the Communication") broadly point at the continuation of a strategy towards the Arab Mediterranean based on the enlargement experience: a predominant focus on bilateral relations, a reinforcement of trade policies and increased support for democratisation. Many of the initiatives put forward in the Commission could bear important benefits for the Arab Mediterranean. However, owing to a lack of clear strategy, most fail to keep pace with the changes taking place in SMCs while ultimately casting doubts about the EU's commitments to the region.

2. The EU's New Trade Policies towards the Arab Mediterranean

On trade grounds, the EC Communication puts forward a series of short- and medium to long-term measures, designed to first alleviate the socioeconomic pressures stemming from six months of turmoil; and second, to revive the prospects of reaching a Euro-Mediterranean FTA.

2.1. Short-Term Initiatives: Asymmetric Trade Concessions and Trade Facilitation Measures

2.1.1. Trade Concessions

In the short term, the EC Communication proposes "to extend asymmetric trade concessions, especially in [...] sectors most likely to offer an immediate boost to partners' economies" without entering into further detail. While this is good news for SMCs since not all trade is liberalized with the EU, sadly enough and despite being crucial for SMCs, the Communication fails to mention agriculture. Between 2000 and 2009, the share of agriculture in SMCs' GDP has amounted to approximately 12% and concentrated as much as 25% of the local labour force.⁴ In spite of its importance for Arab Mediterranean countries and the EU's willingness to establish a Euro-Mediterranean FTA, the contentious nature of the sector has left it aside from general negotiations on tariff dismantlement. Since SMCs enjoy the same comparative advantages as some regions located in the EU's southern countries (France, Greece, Italy, Spain) agriculture liberalization negotiations have been confined to separate protocols in a bid to protect EU farmers. As a result, agriculture is subject to a set of complex protectionist measures, depending on the commercial partner, the period of the year and the sensitiveness of the product. Among these: entry price mechanisms, quotas, and sometimes a combination of both (Jacquet et al., 2007), have partly been responsible for the Euro-Mediterranean FTA failure.⁵ In total, SMCs face tariff quotas on some 60 basic agricultural products

4. Average share of agriculture in SMCs' GDP and labour force. Source: World Bank, World Development Indicators Database.

5. The Council Regulation No. 747/2001 details protection measures for each product and partner.

(Booth, Scarpetta and Swidlicki, 2011). For Egypt, Jordan, Morocco and Tunisia – countries that at the moment the Communication was written have engaged in democratic reforms – agricultural exports to the EU accounted for a total of €26 billion between 1995 and 2009, a share of 10% of their total exports.⁶ Over the period considered, they grew at the same yearly rate as total exports. In light of the importance of agriculture in SMCs' GDP, labour force and exports, the EU should consider partially lifting some of the protectionist measures SMCs products are subject to.

Moreover, in line with the EC's willingness to "strengthen trade ties" with SMCs, agriculture should be fully part of ENP's medium term trade policy. Short term asymmetric concessions on some products can work to provide some relief to SMCs; but they can also be the first step towards the inclusion of agriculture in free trade negotiations. This is especially the case since partial liberalization emerges as the preferred option for both EU farmers and SMCs. Since European and Arab Mediterranean countries broadly have the same comparative advantages, full tariff and quotas dismantling could prove counterproductive (Jacquet et al., 2007).

Fears on the losses farmers from both shores would incur as a consequence of liberalization explain both why agricultural products have been sidelined from the Euro-Mediterranean FTA and not mentioned in the EC Communication. Yet, these are not only small but can be compensated. In the EU, they are concentrated in a few southern regions, and the recent proposal by the EC to open the European Globalisation Fund (EGF) to farmers opens the door to indemnification. For the SMCs, losses could be counterbalanced by a renewed focus on rural development programmes supporting the emergence of more efficient and sustainable agricultural practices. As this is a point the EC Communication emphasises, future commitments in this field should be part of an integrated approach bridging trade, environment and agriculture so as to ensure greater consistency in the ENP's endeavours (Jaidi and Martín, 2010).

2.1.2. Trade Facilitation

Apart from the commitments to grant asymmetrical trade concessions, the Communication pledges "to implement rapidly [...] the new convention on Pan Euro-Mediterranean rules of origin (ROO)," which also is a welcome step in Euro-Mediterranean trade relations. Current frameworks managing ROO in the Arab Mediterranean consist of an entangled patchwork of 60 bilateral protocols.⁷ Moreover, only Maghreb countries (Algeria, Morocco and Tunisia) fully benefit from their FTA with the

6. Own calculations based on UNCTAD Stat online database. The share of agriculture in total exports was calculated by adding exports to the EU in the following categories of the SITC Nomenclature: food and live animals, beverages and tobacco, oil seeds and oleaginous fruits.

7. http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/preferential/article_783_en.htm.

EU since they are the only countries to enjoy “full accumulation” of ROO. Full accumulation allows these countries to import goods from anywhere in the world, process them in their economies and re-export the final product to the EU enjoying preferential market access – provided however some requirements are satisfied (Booth, Scarpetta and Swidlicki, 2011).⁸ The Pan Euro-Mediterranean system of ROO will allow countries to cumulate origin across the 42 member countries of the Euro-Mediterranean Partnership,⁹ a characteristic referred to as “diagonal accumulation”. Yet, if the EU is to genuinely commit to increase trade with SMCs, it should consider granting full accumulation rights to SMCs, a point not mentioned in the Communication. Full accumulation rights would allow SMCs to benefit from the changing trade dynamics in the region, while keeping preferential access to the EU market. If the EU remains the key commercial partner of the Arab Mediterranean, emerging economies are increasingly important trade partners. For example, between 1995 and 2009, SMCs’ imports from China grew at a yearly rate higher than 20%; while at the same time imports for the EU grew at a yearly rate of 6%.¹⁰ Absolute figures still put the EU well ahead of China with €392 billion of exports to the region compared to €17 billion over the period considered, but full accumulation rights would allow SMCs to take advantage from cheaper inputs for products exported to the EU. The extension of full accumulation rights would be beneficial for all industries, especially for those such as textiles, where the combination of cheap inputs and geographical proximity with the EU plays a crucial role in exports (World Bank, 2006). Bearing in mind that textiles concentrate an important share of the local industrial labour force, granting supportive measures such as full accumulation of ROO would be valuable under the new ENP devised.

2.2. Medium and Long-Term Measures: The Promotion of “Deep and Comprehensive FTAs”

Apart from offering asymmetric trade concessions and pledging to engage in more comprehensive trade facilitation measures, the revamping of EU trade policies in the Neighbourhood is now set to promote the conclusion of so-called “deep and comprehensive FTAs (DCFTAs).” The Communication defines DCFTAs as “broader than traditional FTAs and containing provisions for legislative approximation in trade related areas such as sanitary and phyto-sanitary measures, animal welfare, customs and competition.” However, most of these provisions – customs, competition, intellectual property rights, government procurement, plant health, and health – are already embedded in the

8. The EU uses value added and technical requirements in its ROO. For more information, see: Woolcock (2007) and European Centre for International Political Economy (2007).

9. Euro-Mediterranean Partnership countries are: Albania; Algeria; Austria, Belgium; Bosnia and Herzegovina; Bulgaria; Croatia; Cyprus; Czech Republic; Denmark; Egypt; Estonia; Finland; France; Germany; Greece; Hungary; Ireland; Israel; Italy; Jordan; Latvia; Lebanon; Lithuania; Luxembourg; Malta; Mauritania; Monaco; Montenegro; Morocco; Netherlands; Palestinian Authority; Poland; Portugal; Romania; Slovakia; Slovenia; Spain; Sweden; Syria; Tunisia; Turkey; United Kingdom.

10. Own calculations of compound average rate of growth. Source: UNCTAD Stat online database.

majority of Association Agreements (AAs) the EU concluded with SMCs. Yet if marginal differences exist between AAs, all contain provisions on legislative approximation specifying that “cooperation shall be aimed at helping [the country] to bring its legislation closer to that of the Community in the areas covered by the agreement.” This leaves the impression that the DCFTA concept has been “poorly worked” (Emerson, 2011).

2.2.1. The Absence of Reference to Trade in Services Liberalization

Despite commitments to develop legislative approximation between the EU and SMCs, regrettably, the Communication fails to make an even slight reference to trade in services and their liberalization, casting doubts about the depth and comprehensiveness of the future Euro-Mediterranean FTA. This is especially the case since, together with agriculture, trade in services liberalization has been a contentious point in Euro-Mediterranean relations, both on trade grounds and beyond.

If trade in services is not being addressed in the Communication; the ENP framework provides instruments that can allow overcoming divergences to eventually reach a mutually beneficial “deep and comprehensive FTA.” Total trade in services between the EU and SMCs amounted to €156 billion for the 2004-2009 period,¹¹ a figure that highlights the importance of services in Euro-Mediterranean commercial relations. While different interests and preferences have prevented an agreement from materializing, complementarities between both regions allow for tradeoffs. The EU has a comparative advantage in cross-border supply of services as well as in services involving a commercial presence abroad (according to WTO terminology, modes 1 and 3 respectively). Conversely, SMCs have comparative advantages in services involving consumption abroad and services requiring the presence of natural persons abroad (resp. modes 2 and 4). Since the EU is reluctant to make concessions on services requiring the presence of natural persons abroad, the Arab Mediterranean did not grant the right of establishment to EU-based companies. Within the framework of the Communication, the EU could take a step towards liberalization of services requiring the presence of natural persons abroad by first establishing *mobility partnerships* with countries moving faster in reforms. Second, since Member States have always been reluctant to ease free movement of persons due to fears over increased migration inflows, the *mobility partnerships* could integrate provisions to create a mechanism allowing EU-based companies to temporarily hire workers of SMCs for a set of definite tasks clearly stipulated in the labour contract. Such a mechanism shifting employment from a temporal base to a task base would not only decrease the incentives towards illegal migration but would also have the advantage of overcoming the obstacle of mutual recogni-

11. Source: Eurostat online database. Services are recorded under the balance of payments' statistics.

tion of diplomas (Hoekman and Ozden, 2009).¹² In exchange for such an arrangement, SMCs could grant right of establishment to EU-based companies and take advantage of the Communication's commitment to strengthen the twinning instrument so as to engage in deep regulatory harmonisation (Diop, 2010).

Benefits from reciprocal liberalization of trade in services are manifold. First, it would strengthen the liberalization of trade in goods, since the absence of liberalized trade in services increases the actual rate of protection for goods (Muller-Jentsch, 2005). Second, the conclusion of mobility partnerships to allow free movement of temporary workers would translate into higher inflows of remittances from SMCs, which would alleviate pressures on their current accounts¹³ while enhancing the skills base of local economies. Third, granting right of establishment to EU companies would allow them to invest in Arab Mediterranean countries and strengthen their presence in these markets (Muller-Jentsch, 2005; Hoekman and Ozden, 2009).

Broadly speaking, if trade policies put forward in the EC Communication are not irrelevant for SMCs, their feebleness and lack of integration into a strategy coordinated with other layers of support gives the impression the EU fails to keep pace with the momentous changes of the Southern Neighbourhood. This lack of strategy bears the risk of – once again – failing to provide countries with clear incentives to advance in EU advocated reforms while decreasing the EU's leverage in the region (Kausch, 2011).

The lack of a strategic approach is even more noticeable in the EC's proposals in the fields of support for democratisation and human rights, where the Communication signals likelihood to continue past policies while at the same time attempting to commit more to democracy support.

3. The EU's Renewed Support for Democratisation and Human Rights

The Communication takes stock of the developments south of its shores and pledges to support "deep democracy", partnerships with civil societies while at the same time vowing to intensify political and security cooperation. Few novelties then on this side, aside from the hazy concept of "deep democracy" which is set to be inclusive of: "Free and fair elections; freedom of association,

12. Other mechanisms can also be devised to decrease incentives towards illegal migration by temporary workers such as bank deposits and social security contributions refunded upon return, among others. For detailed measures, see Hoekman and Ozden (2009).

13. According to World Development Indicators, on average SMCs have received \$32 billion in remittances for 2009, which is seven times the average GDP in the region.

expression, assembly and press; respect for the rule of law administered by an independent judiciary; fighting against corruption; and security sector reforms with the establishment of a democratic control over armed and security forces.”

Several elements are advanced to support the emergence of deep democracies in the EU's Neighbourhood. Parallel to a reinforcement of human rights dialogues, two new cooperation instruments will be created: a European Endowment for Democracy (EED) and a Civil Society Facility (CSF). Until 2011, EU support for democratisation was implemented by the European Instrument for Democracy and Human Rights (EIDHR), which mandate is to support organisations' or individuals' initiatives promoting human rights.¹⁴ The Communication does not make a reference, even a slight one, to how the EED, the CSF and the EIDHR would coordinate.

3.1. European Endowment for Democracy

The EED is expected to become a key element for democratisation support. Its mandate is set to support political parties, unregistered non-government organisations (NGOs) and/or trade unions committed to democratic change but unable to access EU funding. The idea of such an endowment is not new, and was proposed by the Polish government under its own cooperation strategies in 2007 (Youngs, 2008).

Although the idea had been put forward well before the Arab Spring, there are no indications on how the endowment would specifically function, which institution would be responsible for its management, and actually on the specific initiatives it would undertake, beyond the general ones outlined in the Communication. As far as the operational mandate of the EED is concerned, observers report a duel between the EC and the European Parliament (EP), the latter strongly advocating it should be responsible for the implementation of the EED's actions (Emerson, 2011).

Amid these uncertainties, what is sure is that the idea of such an instrument has been inspired by the American US National Endowment for Democracy (NED). The NED is engaged – among others – in party political development by collaborating with the US Democratic and Republican parties' foundations. For example, in 2004 the NED engaged in party development activities in Iraq by setting up computer resources centres and providing training for poll watching activities. Such bottom-up initiatives undertaken by the US contrast with EU support for democracy, which has been predominantly followed a top-down approach centred on state capacity building (Huber, 2008).

14. http://ec.europa.eu/europeaid/how/finance/eidhr_en.htm.

If the EU's willingness to create a democracy endowment signals a shift towards a more bottom-up approach of democracy support, its pallet of support initiatives will have to take into account different national sensitivities and realities. For example, in Morocco, civil society organisations (CSOs) are not only allowed to use foreign funding, but are encouraged to do so to finance their activities. However, in spite of some donors being ready to provide financial support, Moroccan CSOs decline such offers, putting a premium on other forms of cooperation. When asked about their position, they argue – perhaps surprisingly – that it is not a question of local perceptions considering that CSOs accepting foreign funding are “sold to foreign interests.” Rather, it is the willingness to become more efficient and engage in learning activities that is put forward by these actors when asked about their refusal to accept foreign funding. However, it is far from certain whether SMCs' CSOs in other countries would adopt the same attitudes (Kheeka et al., 2008). This example highlights the need to develop flexible mechanisms of support under the EED rather than proposing a rigid menu of cooperation options to SMCs' CSOs. Moreover, in a context of political transition, where local entities will strive to build their own identities, tailoring support to a country specific context is of the utmost importance for the efficiency of the EED's future activities.

As for the institutional questions agitating Brussels' stakeholders, the participation of the EP's political parties is indispensable, since they enjoy both the potential and legitimacy to engage in party development activities. For other activities to be undertaken by the EED, the participation of EU-based CSOs would also be highly suitable in order to develop relations and provide support to fellow organisations south of European shores. If the participation of the EP parties and EU-based CSOs is very necessary, the management of the instrument should rest on EC services since they benefit from an established bureaucracy, contacts with delegations and are the best positioned to manage EU programmes.

3.2. The Civil Society Facility

If the EED's initiatives are yet to be determined, the CSF's mandate is even blurrier. In describing its activities, the Communication details activities already undertaken by the EIDHR: enhancement of CSOs' advocacy capacities, promotion of rule of law and protection of human rights. This raises concerns about a possible duplication of actions between the two instruments.

The only indication given by the Communication is that “inter-country delegations will seek to bring countries' governments and civil society together in a structured dialogue on key areas of [...] cooperation.” If such a framework might work for the EU's Eastern Neighbourhood, it neglects the fact that in the Arab Mediterranean an important number of CSOs have been co-opted by local regimes, which in the current situation raises questions about their independence and degree of

commitment towards genuine democratisation. While this might not be of concern once countries engage in genuine democratic transition, the current situation south of the Mediterranean casts doubts on the efficiency of such a framework.

Current indications on the functioning of the CSF point at a reinforcement of the EU's cooperative approach towards democracy promotion, whereby emphasis is put on institutionalising relations between CSOs, local governments and EU structures (Stahn and Van Hulen, 2007) to the detriment of an approach not necessarily including governments. Whereas such an approach to democracy promotion might prove optimal to achieve co-ownership, since it apparently excludes negative conditionality, it might not be the best fitted to promote democratisation on the southern shores of the Mediterranean. Moreover, the Communication implicitly states that governments will be willing to engage with potentially opposed CSOs, which is a questionable assumption.

As is the case with trade policies, the EU's response to the changes in the Southern Neighbourhood fails to deliver a clear strategic vision of reform, raising again the risk of multiplying uncoordinated ad hoc initiatives with questionable impact (Aliboni, 2005).

Conclusion

As the Arab Spring unfolds and gives rise to a situation where in most countries democratic transition is all but granted, the EU needs to develop a clear and coordinated strategy towards the Mediterranean. While the enactment of differentiation is a welcome step from EU institutions, a strategy providing Southern Mediterranean countries with enough incentives to develop deeper relations with the EU should be devised. Such a strategy could be based on more ambitious commitments to deepen trade relations, grant mobility partnerships and engage in specific measures for democracy assistance. Without clear commitments and a clear strategy, the EU risks losing its leverage in its Southern Neighbourhood.

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