

The Barcelona Process and the “Two States Solution”

The Aix Group Phase IV

EU-Med Team

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1. Introduction

This document reviews the ‘Euro-Mediterranean Partnership’ (EMP), also known as the ‘Barcelona Process’ or the ‘Euro-Med’, mainly with respect to the Israeli-Arab peace process and especially with respect to the Israeli-Palestinian track. The EMP was launched in Barcelona in 1995, following the Oslo agreement and the Peace between Israel and Jordan. It aims at increasing cooperation in the Mediterranean basin mainly between the European countries to the north of the sea, and the Arab countries to the south and east of the sea, including Israel and Turkey. The initiative has focused so far on promoting peace and stability, economic cooperation, and cultural relations.

The success of the Eu-Med initiative since 1995 has been quite insufficient. The major obstacle it faces is that the main conflict in the region, the Israeli-Arab conflict, is still unresolved and is actually in a much worse state than it was in 1995. Palestine is still not independent and under Israeli occupation. The final status negotiations failed in 2000 and since then the two sides are engaged in recurrent violent confrontations, which have caused many deaths and a large destruction. Although the international consensus on a ‘Two States’ solution to the Israeli-Palestinian conflict now seems to be even stronger than in 1995, and formally accepted even by the Israeli authorities, it seems that the progress toward this solution is barred by ever increasing obstacles.

The progress in economic integration between the two areas, Europe and the Southern Mediterranean, has also been disappointing. As we show in this document the amount of relative trade between the European countries and the other Mediterranean countries has declined, and especially between the Mediterranean countries and their European counterparts along the Mediterranean: Spain, France, Italy and Greece. This is in contrast to the increase in trade of these countries with other trading partners. The results with respect to Palestine have been even more disturbing. The Palestinian People suffers from a significant economic decline since 2000. Part of it is due to the periods of armed confrontations, part of it is due to the large number of obstacles to transportation imposed by the occupation, in the West Bank, between the West Bank and Jerusalem and between the West Bank and Gaza. Another reason for the economic decline is the rise of Hamas in the 2006 elections and the economic boycott on Hamas by Israel and other countries, which currently holds mainly on Gaza. All these developments show that at

least in this corner of the Mediterranean things have gone badly since 1995. Another reason for this setback is the Israeli non-recognition of the Palestinian – European Interim Association Agreement and the impediments to its implementation by the Israeli Authorities.

It is clear that most of these negative developments were not caused by the EMP but by the inability of the sides in the conflict to bridge their differences and to reach an agreement. But the inability of the EMP to contribute to a reduction of these negative developments casts a question mark on the role of this initiative and on its ability to improve coexistence around the Mediterranean. We believe that despite these shortcomings, this initiative can contribute and help in changing things for the better, especially with respect to the Israeli-Palestinian conflict. But in order to reach such changes the EMP must follow the two basic principles that we outline throughout our work: reverse engineering and symmetry. By reverse engineering we mean that in order to advance a solution we have to first outline the long-run contours of the solution and then examine backward how we move to this solution from the present on. By symmetry we mean that the solution between the two sides must put them on some equal footing of two independent states with equal access to freedom and prosperity. In this document we show how these two principles can lead the EMP to form some concrete policies and initiatives that can help the process.

Finally, this document offers a few general suggestions on how to make the EMP more effective and more visible to the peoples of the Mediterranean. Our main suggestion is to have greater equality between the different countries in the EMP, both in terms of personnel, in terms of location of offices and activities, and also in terms of finance of the activity of the EMP.

2. A Short History of the Barcelona Process

The Euro-Mediterranean Conference of Ministers of Foreign Affairs, held in Barcelona on 27-28 November 1995, marked the starting point of the Euro-Mediterranean Partnership, a wide framework of political, economic and social relations between the Member States of the European Union and Partners of the Southern Mediterranean. This

partnership was launched in the aftermath of the peace agreements signed between the PLO and Israel and Jordan and Israel.

The latest EU enlargement in 2004 has brought two Mediterranean Partners (Cyprus and Malta) into the European Union, while adding a total of 10 Member States. The Euro-Mediterranean Partnership thus comprises of 37 members, 27 EU Member States and 10 Mediterranean Partners (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia and Turkey). Libya has observer status since 1999. In addition, Mauritania and Albania joined the partnership in 2008.

The main objectives of the Euro-Mediterranean Partnership are (the first three were outlined in the original Barcelona Declaration and the fourth was added in the 2005 Barcelona summit):

1. Promoting peace and stability in the Mediterranean area through political and security dialogue.
2. Promoting shared prosperity through economic and financial partnership and through a gradual establishment of a free-trade area.
3. Bringing nations together through social, cultural and human contacts, by encouraging understanding between cultures and exchanges between civil societies.
4. Promoting cooperation on migration, social integration, and justice.

The Euro-Mediterranean Partnership operates in two complementary dimensions, bilateral and regional. Within the bilateral dimension the European Union carries out a number of activities with each country. The most important are the Euro-Mediterranean Association Agreements that the Union negotiates with the Mediterranean Partners individually. They reflect the general principles governing the EMP, although each contains elements specific to the Partner. Within the regional dimension the Partnership conducts regional dialogues that cover the political, economic and cultural fields, and also supports and finances many projects and programs. The amounts invested since 1995 have already passed €10 billion. Clearly, the two dimensions, the bilateral and the regional, complement one another.

Since 2003 the EMP has been connected also to the European Neighborhood Policy (ENP), which seeks to establish special relations with the neighboring countries in

Eastern Europe, in the Southern Mediterranean and in the Southern Caucasus for which accession is not in prospect. This policy was instituted to share the benefits of enlargement with the neighboring countries and to avoid the emergence of new divisions, and it is part of the European security strategy.

The record of the Euro-Mediterranean Partnership since 1995 has been mixed, combined of a number of achievements with many disappointments. The Barcelona Process is the only forum within which all Mediterranean partners exchange views and engage in constructive dialogues. It represents a strong commitment to regional stability and democracy through regional cooperation and integration. The partnership has also overseen efforts to strengthen democracy and political pluralism by the expansion of participation in political life and continues to promote all human rights and freedoms. However, the unresolved conflicts are adversely affecting progress in the partnership. This is particularly true in the Arab-Israeli conflict. The persistence and even deterioration of this conflict has hampered significantly the development of the partnership.

Significant success has been achieved in the field of education and training, mainly through the Anna Lindh Foundation for the Dialogue between cultures. There has also been progress in creating agreements toward economic integration aiming at a Euro-Mediterranean free-trade area by 2010. The agreements between the EU and the Mediterranean Partners have so far included goods and assets, but services and agriculture, accounting for two-thirds of GDP, are only now being added. As we show in Section 3 below, the results of these agreements in real economic activity have not been very satisfactory. Economic equalization and integration between the North and the South of the Mediterranean are still elusive goals, economic growth in the South has been good but insufficient, and Trade between the EU and the Partners has not grown sufficiently.

The general feeling of not reaching its main goals led many to consider a reform in the Barcelona Process. During his election campaign in 2007 the French President Nicolas Sarkozy proposed and promoted such a reform. Initially he raised the idea of the Mediterranean Union, which consists only on the Mediterranean countries, operating outside the EU but in close cooperation. The proposal raised much opposition from the EU non-Mediterranean members, but also from the Southern Mediterranean countries,

who did not want to lose trade links with the rest of Europe. In later discussions and negotiations the proposal was modified and it gradually became a major reform of the Barcelona Process, but without replacing it with another organization.

In March 2008 Nicolas Sarkozy presented these revised plans to the EU summit, which authorized them. On July 13 2008 the Paris Summit for the Mediterranean decided to adopt this enhanced framework of multilateral cooperation and to launch “The Barcelona Process: Union for the Mediterranean.” This new initiative is supposed to inject further momentum into the Barcelona Process, to address new issues like co-ownership between the North and the South and visibility to citizens. We present the main outlines of the new initiative in Section 4 below.

3. Problems and Shortcomings

As mentioned above, the record of the Barcelona Process so far has been mixed and on the whole not very successful. In this section we outline the specific problems and shortcomings that are related to the Israeli-Palestinian peace process. But the need for reform due to insufficient success of the EMP goes far beyond this specific corner of the Mediterranean. A number of shortcomings need to be addressed to make the Partnership a source of support to jointly agreed policies and to political, economic, social, and educational cooperation. There is a need to reassert in political terms the central importance of the Mediterranean on the political agenda of all participants. There is also a mutual concern about the perceived lack of co-ownership by Mediterranean partners. Another area to be addressed is the lack of institutional balance between the weight of the EU on one side, and the Mediterranean partners on the other. An additional deficit of the Barcelona Process has been its weak visibility and the perception by citizens that little is done to tackle their daily problems and take care of their real needs. Last but not least is the unresolved conflict in the Middle East, which needs to be addressed and to become a priority on the agenda of all partners. We turn to this issue now.

3.1. Peace and Security

The EMP was launched at a moment of considerable optimism over the future of the southern Mediterranean. This was largely due to the initial dynamics generated by the

Oslo Accords between Israel and the Palestine Liberation Organisation (PLO). Further negotiations between Israel and some Arab states created a propitious background for discussions over the possibility of developing a Euro-Mediterranean ‘zone of peace, stability and security’, as stated in the Barcelona Declaration. The events since 1995 did not follow these high hopes.¹ The main adverse development has been that instead of moving toward a solution, the Israeli-Arab conflict even deteriorated. The Oslo process was planned to lead to final status negotiations within 5 years since 1993. When these started with some delay in 2000 they ended with a terrible failure. That was combined with the outbreak of the Second Intifada in October 2000, which led Israelis and Palestinian to violent confrontations, which in some way continue to this day. 2000 has been a bad year also for the Israeli-Syrian conflict. The two countries engaged in very advanced negotiations, and were close to an agreement, but failed to reach one at the end. The lack of such an agreement was probably one of the reasons for the outbreak of the war between Israel and Lebanon in the summer of 2006.

To present the full picture, there were some positive developments in the Israeli-Arab conflict since 1995, but they were not sufficient to change the overall picture. One was the Arab League Initiative, which offered Israel full peace and normalization with all Arab countries, once it reaches peace agreements with Palestine and Syria.² The Arab League Initiative is clearly a radical and important move, which can give a significant push to the peace process, but so far it has failed to materialize. Another positive development has been the greater acceptance of the idea of a ‘Two States’ solution. This is now accepted not only universally, but by the two important countries who opposed it in the past, namely Israel and the US. But it seems that despite the verbal acceptance, the willingness to pay the price of the ‘Two States’ solution is still missing. Hence, we are afraid that we are much farther today from this solution than we were in 1995.

The deterioration of the Israeli-Arab conflict during the years of the Barcelona Process presents some tough questions on the effectiveness of this process and on the possible roles it can play in the region. Can this partnership contribute directly to the

¹ Actually, already the initial Barcelona conference was held only three weeks after the assassination of Yitzhak Rabin, which was a first ominous sign for the derailment of the peace process.

² An agreement with Lebanon is required as well, but that is a minor problem already, as Israel controls only a small area of Lebanon.

peace negotiation between the sides? Can this partnership present some significant potential benefits to the sides in the conflict that will help them overcome the obstacles and reach the desired peace agreements? Can this partnership put some pressures, economic, political or moral, on the sides that can further push them toward some agreements? These are questions that must be dealt within the Euro-Mediterranean partnership, since no such partnership can exist for a long time if some of its members are engaged in such a deadly conflict.

3.2. Economic Integration

As stated above, one of the three targets of the Barcelona Process has been to support economic growth and integration in the Mediterranean region by increasing trade among member countries. In this section we examine the developments in trade in the region between 2000 and 2006.

Our main variables of interest are the volumes of exports to various trading blocks. We examine both exports relative to GDP and also exports to specific trading partners relative to total exports. The export data and the GDP data are taken from the IMF.³ We divide the countries in the Barcelona Process to three main trading blocks and we focus mainly on aggregated trade between them. The trading blocks are: the ‘Non-EU’ countries, which are actually the Mediterranean Partners in EMP, the EU countries and the ‘Mediterranean EU countries,’ which are the European countries on the Mediterranean.⁴ The Non-EU economies vary significantly, so in some of the analysis we examine two sub groups: North-African countries and Middle-East countries.⁵

³Exports data are taken from IMF, Direction of Trade Statistics, January 2008, and GDP from IMF, World Economic Outlook Database, April 2008.

⁴ The Non-EU countries are: Albania, Algeria, Egypt, Israel, Jordan, Lebanon, Lybia, Mauritania, Morocco, Syria, Tunisia and Turkey. The Palestinian Authority is not included here due to missing data in the IMF. The PA is discussed below in Sub-Section 3.3. Its exclusion here does not affect the results significantly. The ‘Mediterranean EU’ countries are: Cyprus, France, Greece, Italy, Malta, Slovenia and Spain.

⁵ The North-African countries include: Algeria, Egypt, Libya, Morocco and Tunisia, and the Middle-East countries include: Jordan, Lebanon and Syria..

Between 2000 and 2006 exports of goods as share of GDP in the Non-EU countries grew from 17.8% to 26.1%. This impressive growth has been higher than the global growth in trade, which grew from 20.1% of World GDP in 2000 to 24.7% in 2006.

Table 1: Export of Goods from the Non-EU Countries in
2000 and 2006, as percent of GDP

	2000	2006
Algeria	39.9%	46.8%
Egypt	6.4%	19.2%
Libya	35.2%	79.1%
Morocco	20.0%	20.3%
Tunisia	30.8%	38.3%
North Africa	22.0%	37.7%
Jordan	15.2%	38.1%
Lebanon	4.2%	11.1%
Syrian Arab Republic	24.0%	35.1%
Middle East	15.0%	28.1%
Albania	7.1%	7.7%
Israel	26.4%	32.7%
Mauritania	49.0%	51.6%
Turkey	10.5%	16.2%
Non Eu	17.8%	26.1%
Mediterranean EU	21.7%	20.5%
EU	38.9%	42.9%
World	20.1%	24.7%

While all the Non-EU countries increased their exports as share of GDP during this period, the sub-groups performed differently. Exports from North Africa increased from 22.0% to 37.7% of GDP, and exports from Middle East from 15.0% to 28.1%. Comparatively, in Israel and Turkey (which together are 60% of the total Non EU GDP in 2006) exports increased from 26.4% to 32.7% and from 10.5% to 16.2% respectively (most of the increase in turkey was between 2000 and 2001). These differences in trade

growth reflect the differences between the economies. Israel can be classified as a developed economy and about 75% of its exports originate from high-tech or medium-high-tech industries. The rest of the economies in the region are less developed and in some most exports are raw materials and especially crude oil or natural gas. These countries are Libya, Algeria, Syria and to a lesser extent Egypt. As a result, their exports are vulnerable to changes in prices of these products. The sharp increase in the price of oil between 2000 and 2006 contributed significantly to the fast growth of exports to GDP in those countries.⁶

The EU is the main market for exports from the Mediterranean partners. Their exports to the EU were more than 50% of total exports in all years, and they even grew between 2000 and 2006 from 9.8% to 13.4% of GDP. But their exports to other countries increased by more. The share of exports to EU from total exports of Non-EU countries declined from 54.9% in 2000 to 51.2% in 2006. Furthermore, the share of exports from Non-EU partners to the Mediterranean EU countries from total exports declined by even more, from 27.1% in 2000 to 17.8% in 2006.

Table 2: Non-EU Countries' Exports of Goods by Partners

	2000	2001	2002	2003	2004	2005	2006	Change 2000-2006
Exports to GDP								
Total	17.8%	19.6%	20.4%	21.1%	24.9%	24.1%	26.1%	46.5%
To Non-EU	1.2%	1.4%	1.4%	1.4%	2.1%	1.8%	1.9%	66.6%
To EU	9.8%	10.5%	10.8%	11.5%	13.2%	12.5%	13.4%	36.6%
To Mediterranean EU	4.8%	4.6%	4.5%	4.6%	4.6%	4.5%	4.6%	-4.1%
To US	2.9%	3.0%	3.2%	3.1%	3.5%	3.5%	4.0%	39.1%
To Other Countries	4.0%	4.8%	5.0%	5.1%	6.1%	6.2%	6.8%	70.2%
Share of Exports by Partners								
To Non EU	6.5%	6.9%	6.9%	6.8%	8.6%	7.6%	7.4%	13.7%
To EU	54.9%	53.6%	53.0%	54.3%	53.0%	51.9%	51.2%	-6.7%
To Mediterranean EU	27.1%	23.5%	21.9%	21.7%	18.4%	18.8%	17.8%	-34.6%
To US	16.2%	15.2%	15.8%	14.9%	14.0%	14.7%	15.4%	-5.1%

⁶ The price of an oil barrel doubled during this period from 27.4 US\$ in 2000 to 58.3 US\$ in 2006 (in nominal terms).

To Other Countries	22.4%	24.2%	24.4%	24.0%	24.3%	25.8%	26.0%	16.2%
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These results are surprising, as we would expect trade to the European countries to increase by more than trade to other regions due to the trade agreements with the EU. One possible explanation to this outcome could be that these years were also years of rapid growth in Asia, mainly in China and in India. As a result Asia imported many raw materials and thus the share of these exports increased significantly in the exports of the Mediterranean Partners. This is indeed part of the explanation. As we see in Table 2 in the last row, exports to other countries (non EU and non US) increased significantly, both relative to total exports and relative to GDP. But in Table 2 we also see that trade to the US increased by more than trade to the EU, despite the Barcelona Process. Hence, either trade is not significantly affected by trade liberalization, at least not in the short-run, or the trade liberalization entailed in the Barcelona Process has been rather minor. Similar patterns are shown in Table 3 as well.

Interestingly, although trade within the Non-EU countries increased significantly relative to GDP, this trade is basically very low and is equal to less than 2% of GDP. As share of total exports the trade within the Non-EU block increased from 6.5% to 7.4%. The main reason for the relatively low level of trade within the Non-EU countries is that these economies are relatively small economically (in 2006 their aggregate GDP was about half of the French). As a result their demand for imports is limited. This fact enhances the importance of the EU being a close and very large economy as a trade partner to the Non-EU countries. Another result of the low economic power of the Non-EU countries is that they are a very limited market for the EU. Between 2000 and 2006 the share of the EU exports of goods to the Non-EU countries (out of their total export of goods) remained between 2.9% to 3.4% with no significant trend.

Table 3: North Africa and Middle East Exports of Goods by Partners

	2000	2006	Change 2000-2006
Exports to GDP – North Africa			
Total	22.0%	37.7%	71.0%
To Non EU	1.6%	2.7%	72.7%
To EU	15.5%	22.6%	46.4%
To Mediterranean EU	10.8%	16.0%	47.8%
To North Africa	0.5%	0.9%	70.2%
To US	1.8%	5.5%	200.3%
To Other Countries	3.2%	6.8%	115.2%
Share of Exports by Partners – North Africa			
To Non EU	7.2%	7.3%	1.0%
To EU	70.1%	60.0%	-14.4%
To Mediterranean EU	49.0%	42.3%	-13.6%
To North Africa	2.5%	2.5%	-0.5%
To US	8.3%	14.6%	75.6%
To Other Countries	14.3%	18.0%	25.8%
Exports to GDP – Middle East			
Total	15.0%	28.1%	87.7%
To Non EU	2.8%	6.2%	123.1%
To EU	7.1%	6.3%	-10.8%
To Mediterranean EU	3.4%	2.4%	-29.1%
To Middle East	0.9%	3.5%	283.0%
To US	0.6%	2.3%	304.1%
To Other Countries	4.5%	13.3%	194.5%
Share of Exports by Partners – Middle East			
To Non EU	18.5%	22.0%	18.8%
To EU	47.6%	22.6%	-52.5%
To Mediterranean EU	22.6%	8.5%	-62.2%
To Middle East	6.1%	12.5%	104.0%
To US	3.8%	8.2%	115.2%
To Other Countries	30.1%	47.2%	56.9%

The more detailed data of the sub-regions, which is presented in Table 3 above, shows similar patterns. Exports from North Africa increased significantly relative to GDP. But the share of exports from these countries to the EU and especially to the Mediterranean-EU out of their total exports declined between 2000 and 2006 from 70.1% to 60.0% and from 49.0% to 42.3% respectively. In the Middle East countries a decline was recorded both in the exports to the EU (and to the Mediterranean-EU) relative to GDP and much more significantly relative to total exports, which declined by more than 50%. The internal trade between the Middle East countries increased significantly both as measured by the exports to GDP ratio and as a share of their trade.

These findings cast some doubts on the success and the effectiveness of the Barcelona Process in the last decade. We would expect that the free trade agreements signed between the EU and the Mediterranean Partners, which are called 'Non-EU' in the tables above, would have increased trade between them relative to trade with others. Instead we see that the relative trade between the Mediterranean partners and the EU declined. We do not have a full explanation to this finding. It could be that this is a sign of maturity for these Mediterranean countries that now develop new trade partners in addition to the EU. It could be a result of the emergence of new markets in Asia. But we find this result disturbing nonetheless.

3.3. Palestinian Economic Performance

As shown above the trade relations and the economic convergence of the Non-EU Mediterranean countries to the global frontiers and to their European partners were not satisfactory. The performance of the Palestinian Authority was much worse. As a result of the almost continuous bursts of violence since 2000, the physical strict limits on mobility throughout the Palestinian territory, and as a result of various other obstacles, economic development and trade suffered severe blows since the year 2000.

The rate of growth of the Palestinian economy fluctuated significantly since 2000. It declined significantly in 2001-2002 following the Second Intifada in late 2000. It grew again in 2003-2005, but then developments in the Gaza led to a reversal and to a sharp decline in GDP in 2006. As can be seen in Table 4 Real GDP in 2007 is virtually the

same as in 2000. Since population increases rapidly in the Palestinian territory, GDP per capita has declined significantly in these eight years.

Table 4: PA GDP: Levels and Rates of Growth, 2000-2007
In Constant 1997 Prices, US\$ millions

	2000	2001	2002	2003	2004	2005	2006	2007
GDP	4,119	3,765	3,264	3,750	4,197	4,479	4,107	4,133
Change		-8.6%	-13.3%	14.9%	11.9%	6.7%	-8.3%	0.6%

Source: PCBS

We next turn to examine the trends in Palestinian international trade, which are described in Tables 5 and 6. Generally, these have followed the overall fluctuations of GDP. The years 2001-2002 witnessed a significant decline of both exports and imports, while since 2003 international trade increased and in 2007 there was a significant improvement. What is remarkable about Palestinian international trade is the wide gap between exports and imports, which results in a very large deficit in the current account of the balance of payments. In 2007, for example, exports as share of GDP reached 12.4% while imports as share of GDP were as high as 76.0%.

Table 5: Palestinian Exports, 2000-2007, US\$ millions at current prices

	2000	2001	2002	2003	2004	2005	2006	2007
Total Exports	400.9	290.3	240.9	279.7	312.7	335.4	366.7	513.0
To Israel	370.0	273.0	216.0	256.0	281.1	290.6	326.6	455.0
To EU	1.7	2.5	8.9	7.0	7.0	11.4	2.6	18.1
Share of Exports to Israel	92.3%	94.0%	89.7%	91.5%	89.9%	86.6%	89.1%	88.7%
Share of Exports to EU	0.4%	0.8%	3.7%	2.5%	2.2%	3.4%	0.7%	3.5%
Exports/GDP Ratio	9.6%	7.5%	7.0%	7.3%	7.4%	7.5%		12.4%

Source: PCBS

Table 6: Palestinian Imports, 2000-2007, US\$ millions

	2000	2001	2002	2003	2004	2005	2006	2007
Total Imports	2,382.8	2,033.6	1,515.6	1,800.3	2,373.2	2,667.6	2,758.7	3,141.3
From Israel	1,739.0	1,352.0	1,117.0	1,309.6	1,747.9	1,872.9	2,002.2	2,307.0
From EU	263.6	358.8	161.2	154.6	205.1	250.4	225.6	246.4
Share of Imports from Israel	73.0%	66.5%	73.7%	72.7%	73.7%	70.2%	72.6%	73.4%
Share of Imports from EU	11.1%	17.6%	10.6%	8.6%	8.6%	9.4%	8.2%	7.8%

Imports/GDP Ratio	56.8%	52.2%	44.2%	46.9%	56.5%	59.5%		76.0%
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Source: PCBS

Tables 5 and 6 also show the Palestinian economy's large reliance on Israel. During 2000 to 2007 Palestinian exports to Israel were around 90% of total Palestinian exports. The Palestinian economy is also dependent on Israel for imports, as over 70% of Palestinian imports come from Israel. In contrast, Palestinian trade with the EU is very limited. Palestinian exports to the EU were in the range of 0.4% to 3.7% of total exports between 2000 and 2007. Though exports to the EU increased from 2.6 US\$ millions in 2006 to 18.1 millions in 2007, this figure is still surprisingly small. In comparison, the EU exports to the PA in 2007 were much larger and amounted to 246.4 US\$ millions. What also is obvious from these tables is that the trade with EU did not develop much during the years 2000-2007 (except for 2007). Hence, the membership of the PA in the Barcelona Process did not materialize. This is of course mainly because of local specific problems, like violence, mobility restrictions, etc., but it shows that the EMP was not sufficiently effective to overcome these obstacles.

We next wish to focus on one of the main obstacles facing Palestinian-European trade, which is the bureaucratic obstacle. This obstacle is directly related to the Euro-Mediterranean Partnership. As explained above, a significant activity in the Barcelona Process has been to sign Association Agreements between the EU and each of the Mediterranean Partners. Accordingly, the Palestinian Authority signed an Interim Association Agreement with the EU in 1997. The implementation of this agreement has faced severe obstacles from the Israeli trade authorities. Whenever a European exporter applies for a supply of goods to the Palestinian Authority, this exporter is required to state on which agreement the export is based. When the reference is to the IAA, the Israeli Custom Authorities do not recognize it and thus exports to the PA cannot benefit from this agreement. In a survey of Palestinian importers done by the EU the picture is similar: exports to the PA are delayed by more than exports to the same towns if the Country is identified as Israel. Sometimes exports are not released until new papers arrive with destination changed to Israel. These delays cost Palestinian importers significantly.

4. The New Initiative: Union for the Mediterranean

The “Barcelona Process: Union for the Mediterranean” will be a multilateral partnership, which includes all EU Member States and the European Commission, together with the other members and observers of the Barcelona Process (Mauritania, Morocco, Algeria, Tunisia, Libya, Egypt, Jordan, Palestinian Authority, Israel, Lebanon, Syria, Turkey and Albania), and also 4 new members which are Mediterranean coastal states (Croatia, Bosnia and Herzegovina, Montenegro and Monaco). This new initiative is supposed to inject new impulse to the Barcelona Process in at least three important ways: by upgrading the political level of the EU's relationship with its Mediterranean partners, by providing more co-ownership and by making these relations more concrete and visible through additional regional and sub-regional projects. The new initiative will be based on equality between all member countries, and on building consensus.

The new initiative constitutes a continuation of the Barcelona Process and will be loyal to its goals and objectives. But the new initiative intends to change some of the ways and means to reach these goals. The main planned changes are:

1. Upgrading of Political Relations: This will be done at all levels, from bi-annual summits of heads of states, which will endorse two-year work programs and concrete regional projects, to annual meetings of foreign ministers that will review implementation of summits' conclusions, to senior officials, who will deal routinely with all aspects of the initiative. This updating will also include creation of parliamentary bodies like the ‘Euro-Mediterranean Parliamentary Assembly’ (EMPA) and similar regional bodies to provide a framework of debate, open dialogue and free exchange of views.
2. Co-Ownership in Multilateral Relations: Improvement of co-ownership will be implemented by application of the co-presidency principle and by establishing new institutions to achieve the political goals of the initiative.
 - a. Co-Presidency: Establishing co-presidency will improve the balance and the joint ownership of cooperation. One of the co-presidents should be from the EU and the other from the Mediterranean partner countries. The co-presidency principle will be applied to all levels of meetings of the Partnership.

- b. Institutional Structures of the ‘Barcelona process: Union for the Mediterranean:’ An advanced system of institutional governance is planned for enhancing co-ownership. The main institutions will be:
- i. *Seniors Officials:* The Senior Officials from each country will be mandated by the Foreign Ministers to deal with all aspects of the Partnership.
 - ii. *Joint Permanent Committee:* The Joint Permanent Committee will be based in Brussels. It will prepare the meetings of the SO, ensure the appropriate follow-up and will also act as a mechanism of rapid reaction to exceptional situations.
 - iii. *The Secretariat:* The Secretariat of the Union for the Mediterranean will coordinate and monitor all the activities of the Partnership. It will be of a technical nature, while the political mandate will remain the responsibility of the Heads of States, Foreign Ministers and the Senior Officials. The secretariat will work under their instructions on the implementation of all decisions. The composition of the Secretariat will reflect the principles of co-ownership and participation together with competence. The Secretariat will be funded by an operating grant on a shared and balanced basis by the Euro-Mediterranean partners. The seat of the Secretariat will be in Barcelona.
3. Visibility and Relevance for the citizens: The project dimension will be at the heart of the new initiative. The projects will be aimed at promoting regional cohesion and economic integration, and developing infrastructural interconnections. The “Union for the Mediterranean” will increase funding from the EU for projects in the region and will also raise funding from private sector participation, from Mediterranean partners, and from international financial institutions. The main tools for raising finance will be the Euro-Mediterranean Investment and Partnership Facility (FEMIP), and the European Neighborhood Policy Investment Facility (ENPI), which already programmed € 50 million per year for the period 2007-2010. The new projects will be in the areas of Political

and Security dialogue, Maritime Safety, Economic and Financial Partnership, and Social, Human and Cultural cooperation. In addition to these many projects there are more concrete plans for 6 new initiatives:

a. The de-pollution of the Mediterranean:

Projects on both side of the Mediterranean related to integrated water management Water Strategy in the Mediterranean.

b. Maritime and land highways:

The aim of this initiative is to make easier and safe the flow of goods and people so as to enhance regional trade.

c. Civil Protection:

Development of a Euromed Programme for Prevention, Preparedness and Response to Natural and Man-made Disasters (PPRD).

d. Alternative Energies: Mediterranean Solar Plan

This is a Mediterranean Solar Plan, focused on market deployment as well as research and development of all alternative sources of energy.

Higher Education and Research, Euro-Mediterranean University in Slovenia: The Euro-Mediterranean University in Slovenia was inaugurated in Piran, 9 June 2008. There is now a Moroccan initiative to host a university with Euro-Mediterranean vocation in the city of Fez.

e. The Mediterranean Business Development Initiative:

This is a concerted effort to provide financial support to SMEs (small and medium enterprises).

5. Recommendations Regarding the Israeli-Palestinian Peace Process

In its previous work the AIX Group came to the conclusion that in order to reach an agreement and to implement it the two sides should follow two basic principles: reverse engineering and symmetry. The first principle means that instead of the gradual approach, the two sides should agree first on the long-run solution on all its aspects. Then they should plan the short-run and the middle-run process in the best way that leads to this long-run solution. The second principle is symmetry. It means that despite the fact that the two sides are far from being symmetric today, militarily, economically and

politically, the only way they can reach a solution is to try to reach a symmetric solution, that puts them on some equal footing. Such is the “Two States” solution, since its goal is a division of the land between two states, both independent, both sovereign over their territory, and both can conduct independent legal, economic, and commercial policies. Of course, no solution is completely symmetric, and the division of the land along the 1967 borders is far from being equal, but except for that, the two parties should strive for maximum symmetry. Otherwise the solution will not be reached, or it will be rejected by those who feel discriminated against in the agreement. In this section we raise various ideas of moves that the EMP can follow to improve the situation between Israel and Palestine, which are based on these two principles.

5.1. EU Trade with Palestine

The Palestinian Authority is one of the members of the EU-Med, even though it is not an independent state yet. As such it should benefit from removing trade restrictions with the EU as all other members of the EU-Med benefit. This means first of all enabling the Interim Trade Agreement between the EU and the PA. As shown in Section 3.3 this agreement has become non-operative due to the restrictions imposed by Israel trade authorities. We think that this is a short-sighted policy of Israel and it does long-term damage to Palestine, to its economic development, and thus to Israel as well, since poor neighbors are not good neighbors. We believe that the EMP can put pressure on Israel to rectify this issue and enable the Palestinian to implement the Interim Association Agreement. This is important for a number of reasons. First, it should be a signal from the EU to the two parties in favor of a symmetric approach to the conflict. The PA should get access to trade with the EU, which is similar to the access that Israel has. Second, the ability to reduce trade barriers with the EU will contribute significantly to economic development in the PA. This will significantly increase the chances for progress in the peace process.

Clearly, the barriers to trade faced by the Palestinians are not only a lack of a recognized and implemented agreement with the EU, as important as it can be. A major barrier is the dismal state of mobility and transportation in the Palestinian territory and from it to outside. The large number of check-points and road-blocks makes any transfer

of goods into a nightmare. Trade within the Palestinian area is negatively affected and exports from it have become virtually neither profitable nor competitive. The EMP should consider this problem as well and try to improve it in order to make trade not only formally possible but also realistic. One possible way to cope with such international trade from the territory is to shift the responsibility of transporting goods from the Palestinian sellers to the European buyers. In other words, European importers from Palestine can try and form a mechanism that will purchase and deliver the goods from the production site, or at least from the nearest roadblock. Hopefully, the European buyers or their delegates will find the road blocks easier to avoid. In any case the key principle should be that partnership is not just a benefit, but a requirement as well, and this requirement applies to Israel as to all other partners in the EMP.

5.2. The Economic Development of Palestine

It seems almost obvious that the obstacles on the road to economic development of Palestine are huge as long as it is still under occupation. The area of the West Bank is divided to three different zones, with very limited control over the land, which makes it very hard to construct large infrastructure projects. Trade is significantly hampered by a matrix of check-points and road blocks. Jerusalem, which is the center of the West Bank, is closed for entry to Palestinians from the West Bank. That also makes transportation between the two parts of the West Bank, the North and the South, harder by the day. In addition to that, Gaza is almost completely closed to the rest of the world and especially to the West Bank. These obstacles make current moves toward economic development seem almost impossible. But should all such moves be delayed until the final agreement is reached and Palestine achieves its independence? We believe strongly that the answer to it should be no. Economic well being is important both for the lives of Palestinians today, for improving their future, and even for Israelis, who might have neighbors who care more about what they can gain than about what they have lost. And since time is so important we must not lose time.

What can be done? There are many development projects that can begin already today, despite all the difficulties described above. Following is a small list that will give

an idea of the type of potential projects, where the partners in the Barcelona Process, especially the EU, can contribute significantly to the economic development of Palestine:

- Planning of infrastructure projects in Palestine. Planning takes quite a lot of time and it therefore should start as soon as possible. Planning is almost not disturbed by the physical difficulties described above, and it is a labor intensive activity.
- An example of important required planning, which should start immediately, is the planning of the Jordan Valley. This is planned by the Palestinians to be their major agricultural region and its detailed planning is supposed to take some time and should therefore start as soon as possible.⁷
- Beginning projects of infrastructure that can be isolated in location, such as building a port in Gaza, an airport in the West Bank, and two large electric power stations in Gaza and in the West Bank. Other examples are some of the projects planned for the Jordan Valley, like an agro-industrial park near Jericho, another agro-industrial area in the north of the Valley, and more. If such projects will be built with European partners on location, it will be much harder for the occupation to stop or abort such projects, as was done in the past.
- Building a significant high-tech Palestinian sector. The Palestinians are very well suited for such a project. They have a relatively large pool of human capital, they can specialize in developing products for the whole Arab world, and they can learn from cooperation with the large high-tech sector in Israel that many of its workers would like to give a hand and support this initiative.
- Improving the system of higher education in Palestine. There are today 7 universities in Palestine, which contribute significantly both to education and to nation building, but they still lack in the area of research. A reform and upgrading of these universities is highly required. If Palestine can develop a university system that excels in research it will become one day a great attraction for students from all Arab countries. This could be a very successful export sector.

5.3. Greater Involvement in the Peace Process by the EMP

⁷ More details on the Jordan Valley plans are in a special AIX document on this topic.

We should remember that the first goal of the Barcelona Process is promotion of peace and security in the Mediterranean community of countries. This goal has failed miserably since 1995. We believe that the EU-Med should exercise its potential and get involved in this issue to the best of its ability. It should use its moral and political ability to put more pressure toward reaching the goal of peace, end of occupation and the ‘two states’ solution. It should do it of course in the name of symmetry. It is impossible to have a union of countries where one country is occupying the other. The EU-Med should put all the pressure it puts to make an end to this terrible state of affairs and to promote peace, which also means equal chance to all member countries in the EMP. On first sight the ability of such a partnership to exert pressure is limited. In the past the European played a minor role in the attempts to settle the Israeli-Arab conflict. But the world is now much more global and countries are much more dependent on one another than ever before. Hence it is possible that the Euro-Mediterranean Partnership can put some additional pressure on both sides to advance toward an agreement.

6. General Recommendations

The Euro-Mediterranean Partnership is an organization of countries that live around the Mediterranean. Clearly, it is a very equal organization. The EU countries are much more developed economically, and much more united among them, as they share a union and a currency among many other things. If such an organization wants to give a sense of partnership and membership to all countries in it, as the new initiative claims to do, the two sides of the Mediterranean, the north and the south, should be treated more equally. Right now the only things that are shared equally are the representation of officials in the institutional structure of the EMP. But as seen in Section 4 even this new initiative is far from being equal. This is revealed for example in the locations of activities of the new initiative, which are all in the North: Brussels, Barcelona, and the Mediterranean university in Slovenia. As a result, most of the professional personnel in the EMP will be from the North. This should change. The location of the headquarters of the EMP should move to one of the capitals of the south and the various centers of operation of the various activities should be spread equally on the north and south of the Mediterranean. Finally, the personnel of the EU-Med should be divided equally between all member

countries, proportional to their populations, in order to boost professional activity in these countries.

Also, in order to avoid a feeling by the Mediterranean Partners of European paternalism in the initiative, it is suggested that all partner countries will finance the EMP equally, based on their economic capacity. Namely, each country should contribute to the EMP a specific (small) percentage of its GDP. Only countries with GDP per-capita below some minimum level, which should be determined by the EMP, should be exempt from these payments.

7. Summary

The Barcelona Process began in 1995 following the beginning of the peace process between Israel and its neighbors. The goal of this Euro-Mediterranean Partnership was to promote peace and security around the Mediterranean, promote economic integration and convergence, and support understanding between cultures. These lofty goals met a harsh reality. Since 1995 the Israeli-Arab conflict did not reach its end in an agreement, and it burst into a number of bloody confrontations. Economic trade across the water of the Mediterranean increased but less than trade with other partners. And more than any member else, the Palestinian Authority suffered a significant decline, political, economic and mostly in terrible loss of lives. Such developments stand in sharp contradiction with the goals of the Barcelona Process. This document raises the question whether the Euro-Mediterranean Partnership can overcome these obstacles and whether it can do something to offset these adverse developments.

This is not an easy question to answer, but in a way we think that answering it is crucial for the new initiative. It is true that the main broker in the Middle East is the United States. It is a huge force, politically, economically and militarily, and it is deeply involved in the region. But if a large and strong organization like the Euro-Mediterranean Partnership, will give up completely any attempt to affect the Middle East and get involved in finding a solution to the conflict, it is not clear whether it will have any reason to exist and operate at all. And what is required initially amounts to a few relatively small steps, which can have a clear positive effect. For example, there is an urgent need to activate the trade agreement between the Palestinian Authority and the

EU, namely the Interim Association Agreement. This agreement is very important for economic development in the Palestinian Authority, and it signals the spirit of equality and co-ownership, which is so desired in the EMP. It is also our belief that this agreement will can be tolerated by the Israeli authorities, as it has a minor economic effect on Israel. Another way the EMP can have an effect on the conflict and on the well being of people in this country is by supporting the Palestinians in some projects of economic development. This document suggests some specific projects that can be carried out immediately even in the state of harsh limitations to mobility in the Palestinian area: planning infrastructure, building infrastructure projects in small specific locations, developing a high-tech sector and reforming the university system. The new initiative “Union for the Mediterranean” will be tested by its ability to promote some significant activities or projects in Palestine, such as a branch of the EU-Med University, or a regional development project in the Jordan Valley. Such moves and similar others may look small, but together they can make a dent in the walls of hostility and despair.