Economic governance and the necessity of power relations perspectives: The case of the Euro-Mediterranean Development Bank

Abstract

The literature on governance studies has recently revealed a growing tension between a techno/managerial account of governance and a power sensitive approach. In this article, I argued that the tendency of the former approach to downgrade the importance of power relations is significantly problematic and counterproductive. Building on the case of the Euro-Mediterranean Development Bank, I showed how the EU's articulation of the first approach produces serious negative implications. On one hand, it evoked the embedded long term power asymmetries that characterised the EU's general governance attitude towards its Mediterranean Partners. On the other hand, it scrutinised the credibility of EU policies in addressing and pressuring for further reforms in the Mediterranean region.

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Introduction

Since the beginning of the 1990s, the 'governance' literature has increasingly gained salient importance among development practitioners and academics. Many reasons accounted for this ascendancy. The end of the Cold War, the proliferation of Non Governmental Organisations (NGOs) and the emergence of relatively new concepts and practices such as human intervention and human rights agendas, illustrate some the driving forces lying behind this phenomenon[i]. These developments have also elicited new forms of conceptualisations whereby the term 'governance' was no longer associated with the State and the machinery of governments, but was broadened to incorporate all sorts of networks and informal institutions that co-exist and interact with the public sector in any organised community.

Unsurprisingly, the term has been defined in a variety of ways depending on the field of study where it was used. In Public Administration, for example, governance referred more to questions addressing the ways in which public bureaucrats can steer inter and intra organisational networks under a process of public sector reform,[ii] while its usage in the field of International Relations was deployed more or less as a critique towards the once dominant Neo Realist paradigm, which perceived States as the principle unit of analysis.[iii] Similarly, governance was conceived as a novice way to capture State-Civil Society interactions in the field of Comparative Politics,[iv] while the literature on the New Institutional Economics (NIE) located it within the process of incremental institutional design where the institutionalisation of property rights constitutes one of the major determinants for longer term economic performance.[v] In parallel, the term has also been associated with various adjectives: Good, bad, global, regional, local, corporate and sectoral all designated how vast the subject matter is and how complex and interdependent are the debates entrenched with it.

Yet, the debate surrounding the nature of governance and its analytical framing remains a major fundamental issue that cuts across all these intricate interfaces. As Hout and Robison[vi] have pointed out in a recent publication, two distinctive approaches to governance can be visibly detected across all fields. The first one, often associated with the World Bank publications, major international donors/organisations and national developmental agencies, tend to define and analytically treat governance as a technocratic construction exhibiting research and policy concerns about the design, sequencing, implementation and enforcement of institutional reforms. In this vein, governance epitomised a 'techno-managerial' fix aiming at the institutional engineering of areas such as anti corruption, decentralisation, accountability, transparency, rule of law that complement and strengthen the efficiency of market institutions. Consequently, this instrumental view of governance, it has been argued, seems to facilitate a notion of insularity where the governance agenda provides a platform to circumvent direct political issues in societies.

The second approach, on the other hand, is a power relation perspective par excellence. As such, governance hereby denotes an acute understanding of 'conflicts over power and wealth underpinning the establishment of authority in market societies'.[vii] In other words, the problems encountering any process of institutional reform cannot be simply attributed to capacity building considerations or to prevailing weak institutions. They rather reflect power dynamics that are embedded in any particular context. Therefore, governance in this analysis implies a direct engagement with the politically contentious issues existing in any polity.

In this article, I show that the European Union's (EU) economic governance strategy in its Euro-Mediterranean policies fully embodies the first approach presented above. Drawing on the interesting case of the Euro-Mediterranean Development Bank (EMDB), whereby the European Commission has repeatedly failed to endorse such an important institution, I demonstrate how the two analytical approaches to governance were mirrored during the policy deliberations of this process. I argue that the implications of the eventual prioritisation of the first 'technical' approach over the 'power sensitive' one pose two specific problem areas for the EU. The first one exposes the nature of the EU's governance approach in its Mediterranean policies and highlights the fragility of its argument in linking the slow pace nature of reforms to problems of implementation not sufficiently addressed by the Mediterranean Partners (MPs). The second one directly affects the credibility of the EU's overall strategy in the region as it exposes the Union's constraints in anchoring reforms and in bringing the MPs' economies closer to the Single Market.

To elucidate my argument further, the next section will tackle the reasons why the first analytical approach to governance is inherently insular from power dynamics followed by a general background of the Euro-Mediterranean policies. Then, I present the EMDB case study before I conclude with the two problematic implications I highlighted above.

Why governance as 'techno-managerialism' is power insular

Governance as techno-managerialism and its theoretical underpinnings

The shift from 'government' to something beyond the realm of governments has significantly altered the manner in which we conceptualise governance. Yet, if governance is to be generally understood as the setting, application and enforcement of the rules of the game, as Kjaer[viii] points out, then the institutional grounding of the term is unavoidable. Due to the emphasis on the distinction between formal and informal institutions, governance studies immensely benefited from the rise of the literature on the new institutionalism in social sciences where institutions simply mattered again after several decades of neglect caused by the individualist ontology of behavioural and rational choice approaches. Nonetheless, this neo institutionalist counter revolution has soon evolved into a broad church of thinking in itself as one can easily distinguish nowadays between seven or nine variations across all fields. While some of these variations were considered complementary, others were specifically created to challenge some of the conceptual and practical tenants held by certain forms of neo institutionalisms. [ix]

Nevertheless, the theoretical underpinnings of the 'techno-managerial' account of governance are arguably inspired by the insights drawn from the literature on the New Institutional Economics (NIE) and its equivalent in the field of political science: Rational Choice Institutionalism (RCI). Both theoretical constructs attempted to address the serious limitations postulated by the frictionless world of neo classical economics (NCE) and Rational Choice (RC). Although it has been argued that NIE and RCI only extended the theoretical range of NCE and RC[x], many prominent scholars in the field insisted that apart from the axioms of 'marginalism' and the 'law of scarcity', NIE and RCI mark several fundamental departing points of analysis with the previous orthodoxy.[xi]

The nature of 'markets', for instance, constituted a major point of divergence. Under NIE and RCI, markets ceased to be treated as abstract arenas expressing impersonal logics of commodity exchange. They are instead, following Ronald Coase's seminal work on the theory of the firm and Oliver Williamson's interpretation of it, institutions of capitalism that minimise transaction costs by providing higher levels of predictability and hence reducing uncertainty for agents or players[xii]. This novice way of thinking about markets shifted the nature of economic analysis from a NCE mode, primarily concerned with production costs, to a mode which emphasises the cost of exchange accompanying production processes. Whereas NCE took relative prices in equilibrium as a given unit of analysis, NIE studied the transactions associated with the negotiation, contracting and enforcement of these prices. Consequently, markets as institutions, in this understanding, articulated various modes of governance characterised by different logics of organisation. Douglas North delved further into this research area and famously distinguished between institutions (which set the rules of the game) and organisations (the players, agencies etc).[xiii] This complex interplay between institutions and organisations explains NIE and RCI's approaches towards change, continuity and economic performance which I will illustrate later in this section.

In addition to the nature of markets, the NIE and RCI literatures challenged the rationality of actors assumption classically espoused by the proponents of NCE/RC. Douglas North, for instance, vehemently opposed the ‘instrumental rationality’ proposition inherent in NCE modelling. He instead stressed the importance of ‘mental models’ and how perceptions of reality shape our daily practices and understanding of rules, norms and values. These mental models, according to him, exemplify why ‘lock in’ or ‘path dependency’ effects occur and persist over time, even when the will for reform or change is apparent. In his own words, ‘history demonstrates that ideas, ideologies, myths, dogmas and prejudices matter’.[xiv] Alternatively, most NIE and RCI scholars build on the concept of ‘bounded rationality’ coined by Simon.[xv] In this context, actors’ rationality is both constructed and constrained by the institutional contours they are embedded within. Consequently, and unlike the NCE/RC tradition which developed actors’ preferences from a *tabula rasa* by treating them as exogenous factors, the NIE/RCI literature considered these preferences to be simultaneously exogenous and endogenous. Hence, an actor’s preference for utility maximisation can be taken as exogenously given; yet, the perception and the usage of this preference greatly depends on the rules, norms and values of the institution he/she is dealing with. [xvi]

From this perspective, the NIE/RCI literature distanced itself from the ‘economic man’ or *Homo Economicus* concept and elaborated further on the notion of ‘opportunism’. Contrary to the NCE/RC tradition, human beings cannot be modelled as rational actors whose calculus logic of costs and benefits is consistently deployed across all situations and contexts. Instead, human beings, under NIE/RCI lenses, are prepared to cheat, lie, consciously distort data and deviate from previously acknowledged rational trajectories to defend their perceived interests[xvii]. As such, it is argued that these inherent opportunistic characteristics are ‘real’ and need to be taken seriously in any political or economic modelling.

Similarly, this rejection of ‘rationality as consistency’ maxim modified the manner in which information is conceptually analysed. Unsurprisingly, information available to players and agents in a NIE/RCI mindset is neither perfect nor exogenously given. As Furubotn andRichter pointed out, the literature on the economic theory of contracts, a sub field of NIE, deals essentially with incentive and asymmetric information problems. The latter can be generally divided into two areas. The first one tackles asymmetric information between certain players over a contract, while the second one focuses on asymmetric information between contractual players on one side and a third party (a court for example) on the other. The central goal of these studies seeks to prevent repeated occurrence of post contractual opportunistic behaviour that may be encountered by third parties while verifying the implementation of contractual obligations. Consequently, concepts such as ‘credible’ and ‘self enforcing’ commitments constitute important topics in this field.[xviii]

Finally, the NIE/RCI literature departed from the ‘Walrasian’ general equilibrium techniques which typified the NCE/RC methods and methodology. As Aoki has demonstrated, NIE and RCI enormously benefited from advances made in the field of game theory whereby a John Nash led style of modelling indicated the existence of multiple equilibria.[xix] Drawing on the work of Boyd and Richerson[xx], North extensively used these findings to show how culturally derived, widely variant and path dependent mental models lead to many and not one determinate position. In other words, a singular optimum trajectory or outcome within an institution does not exist. This has led to the rise of various stochastic models that seek to understand how these multiple equilibria contribute to the 'lock in' effects manifested in many institutions.[xxi]

Continuity, change and economic performance in NIE/RCI

Due to all these departing points, the NIE/RCI's treatment of topics such as continuity, change and economic performance significantly contributed to our understanding of governance. As I have pointed out earlier, the process of change for NIE/RCI scholars is incremental and progressive. Although Denzau and North maintained that such a process can occur due to changes in relative prices, preferences, or behaviour of certain entrepreneurs, they also insisted that shifts in mental models and belief systems play an important role. Accordingly, changes in formal institutions are expected to be achieved relatively easier than in informal ones given the time lag associated with adjusting mental models.[xxii] Nonetheless, institutional change in these approaches is not only gradual but also conscious. Key to this process here is the analytical separation and the concomitant interaction between institutions and organisations. Following North's seminal contribution to the literature, an important distinction is made between institutions (formal and informal) seen as aggregations of rules that define how the game (human interaction) is played, and organisations which consist of groups of individuals guided by the pursuit of common objectives in different spheres (political, economic, social, educational). This analytical distinction is almost balanced by a Giddens-esque line of argumentation whereby institutions shape and condition the type of organisations created, while organisations investing in skills, knowledge and technology for their own survival are the source and motor of institutional change. For North,

> 'The organisations that come into existence will reflect the opportunities provided by the institutional matrix. That is, if the institutional framework rewards piracy then piratical organisations will come into existence; and if the institutional framework rewards productive activities then organisations-firms-will come into existence to engage in productive activities'.[xxiii]

Hence, if the process of change is attributed to the synchronisation between organisations and institutions, then the institutional anchoring of incentives which protect and safeguard property rights lies at the heart of NIE/RCI's approach towards medium and long term economic performance. Since the institutional framework, or matrix, comprises opportunities and constraints where the organisations or players are rationally bounded, 'one gets efficient institutions by a polity that has built-in incentives to create and enforce efficient property rights'.[xxiv] From this perspective, property rights constitute the core economic institutions in society[xxv]; however, the usage of the term hereby is not restricted to the economic side but also entails the political system and the reigning norms that co-exist with it.

In relation to the political system, the literature emphasises how incremental yet conscious institutional engineering renders the rules of formal institutions enforcing property rights more transparent, accountable, predictable and streamlined[xxvi]. In parallel, it addresses the incentive structure upon which the compliance of rationally bounded actors with these 'new' rules becomes desirable. Therefore, the more rational it is for players to stick to these property rights sensitive rules of the game, the better economic performance this process will yield in the long run[xxvii]. These are themes that have inspired many World Bank publications[xxviii] on good governance, anti corruption and decentralisation policies where the reference to North and Ostrom's work has been quite noticeable.

NIE/RCI and power insularity

Clearly, the NIE/RCI literature is not void of its critics. March and Olsen, the architects and intellectual founding fathers of the institutionalist counter revolution in the 1980s, have criticised the calculus logic of analysis still persisting in this dominant variation of institutional theory. Seen today as the proponents of the so called 'normative' or 'sociological' institutionalism, they opposed a 'logic of consequentiality', so inherent in the RC/RCI tradition, to a 'logic of appropriateness' where actors are contextually and culturally norm driven.[xxix] Seeking to transcend this dualism that marked the institutionalist literature in the early 1990s, certain proponents of 'historical institutionalism' justified the ontological distinctiveness of their approach by paying greater attention to the legacy of the past, and how policy choices made when institutions were created have a determinant effect on the trajectory of these policies. In so doing, they presented an eclectic theory that stresses the importance of structures and agents, top down and bottom up approaches, and an amalgam of 'calculus' and 'sociological' logics of institutional behaviour.[xxx] In addition, research stemming from the field of network analysis provides us with yet another variant, network institutionalism, which does not challenge the ontological premises of RCI but criticises its neglect of policy networks and epistemic communities in its institutional analysis.[xxxi]

Nonetheless, this academic challenge of NIE/RCI, whether it is couched in ontological or methodological differences or both, revolves more around the *mechanics of institutional analysis*, and not much about the fundamental *formation and post formation questions that surround the genesis of these institutions.* By mechanics of institutional analysis, I mean the manner in which institutions were defined, how they operate, and how political behaviour and important themes such as institutional continuity, change and performance have been studied in different analytical and methodological lenses. Nonetheless, all of these variations, including the institutional tinkering patterns of NIE/RCI, are very silent about where these institutions do come from, how they are formed, to whose perceived interests they relate, and how they are legitimised.

For instance, NIE/RCI's upshot argument rests on the careful design of 'economic' and 'political' institutions effectively concretised by the institutionalisation of property rights. Apart from typologising different sources of property rights variations across time and space, little analysis is provided about how these rights were created in the first place and how they have evolved in different spacio-temporal settings.[xxxii] The historical institutionalism variant might claim that it actually deals with such questions given the scope of its study. Nonetheless, its focal point of analysis emphasises the persistence of institutional inertia and the conditions under which it can change. In this regard, its treatment of fundamental initial moments has largely been dubbed descriptive as it informs us about the genesis process but does not analytically explain it.[xxxiii] On the other hand, one of the strongest critiques channelled against sociological/normative and network institutionalisms indicate how both approaches take the formation of institutions as given and hence, evidently silent about such analytical queries.[xxxiv]

These formation/post formation silences have prompted the emergence of a whole array of institutional approaches that aimed to essentialise power relations perspectives as unavoidable yardsticks for the study of institutions (thysmology). Constructivist institutionalism, for example, focuses on the independent causal role of the 'ideational' and the 'discursive' in its analysis of institutional formation. Institutions hereby are permanently in a state of disequilibrium due to the constant construction/deconstruction of ideas and their appropriation by human agency. This approach also accords much importance to post formation analysis evident in its usage of 'path shaping' trajectory, a concept coined to mark its distinctiveness from 'path dependency' in an attempt to analytically capture the discursive links between formative and post formative institutional junctures.[xxxv] In economic sociology, Swedberg and Nee's relatively new variant, Interest Based Institutionalism, views institutions as models of dominant interests in society. Interests hereby are not solely conceptualised in the economic mould, and are not articulated by consistent rational actors. On the contrary, they are multivariate (religious, sectoral, personal etc) and relational in the sense that they denote a particular activity directed towards other members in the community. Consequently, actors who are in the process of realising their own interests strategically 'orient themselves to' a relevant institution instead of 'following the rules' of these institutions as advocated by NIE/RCI scholars. Through this interest based concept of institutions, both scholars hoped to go beyond analysing the rules of the game per se by trying to discern the power dynamics that surround their existence.[xxxvi] In a similar fashion, the French regulation school approached institutions as an ensemble representing major interests in society. It focuses more on the proliferation of various growth regimes under capitalism and how they have been institutionalised by different configurations of power spatially and temporally.[xxxvii]

Clearly, the ontological, epistemological and methodological differences between these approaches are evident. Nevertheless, what distinguish and distance these approaches from NIE/RCI and other forms of institutional theories is the centrality of power relations in their institutional analysis. This does not mean, as Hout and Robison have argued, that the proponents of governance as techno mangerialism and its theoretical underpinnings do not deal, or not aware of politics, conflicts and power relations.[xxxviii] Yet, the way in which governance has been explicated and exemplified under this approach has permitted a certain dilution of the 'political' by setting aside the centrality of power relations from their analytical and policy repertoire. In the next two sections, I will trace the evolution of Euro-Mediterranean policies before I contextualise these two approaches of governance within the specific case of the Euro-Mediterranean Development Bank.

Economic governance in recent EU Mediterranean policies: A brief background[xxxix]

European Mediterranean Partnership (EMP)

The EMP was launched in the mid 1990s in an attempt to reinvigorate the EU's various yet static Mediterranean policies. Central to these new EU objectives were the consolidation of reciprocal trade concessions and the regulation of increasing illegal immigration flows to the Union. In 1995, 27 member states representing EU-15 and 12 MPs [xl] met in Barcelona and agreed to create a partnership based on three objectives[xli] (Barcelona Declaration):

- To establish an area of peace and stability reinforced through political and security dialogue (Political and Security Chapter).
- To construct a zone of shared prosperity, and to establish a free trade zone in order to integrate Mediterranean partners into this new regional partnership (The Economic and Financial Cooperation Chapter).
- To build a rapprochement between civil societies in the region (Social Dialogue and Cooperation in Humanitarian Affairs).

The Economic and Financial Chapter in this declaration envisaged the creation of Euro-Mediterranean free trade area by 2010. Its economic approach deployed a standard mix of policies identical to those normally recommended by the World Bank and the IMF reform package. These reforms revolve around:

- Elimination of tariff and non tariff barriers to trade in manufactured goods and services between partners.
- Policy design based on principles of market economy
- Priority to the development of the private sector
- Establishment of an appropriate institutional and regulatory framework for a market economy capable of attracting foreign direct investment
- economic development must be accompanied by internal savings mobilisation as well as foreign direct investment
- sound macroeconomic management
- Importance of developing physical infrastructure for the process of economic growth and development.
- Creation of social safety nets in order to mitigate the impact of structural adjustment in relation to the neediest population.[xlii]

European Neighbourhood Policy (ENP)

The ENP is a relatively new policy (March 2003) which covers geographically countries that were drawn closer to the EU after the recent Eastern enlargement in May 2004. Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine, and the non-EU members of the EMP represent the countries operating under the aegis of the ENP. The objective of this policy is to share the benefits of the recent EU enlargement (stability, security and, well being), and to prevent the emergence of new dividing lines between the enlarged Union and its new neighbours. Through this policy, the EU wished to offer its neighbours the chance to participate in various activities through close political, security, economic and cultural cooperation.

To meet the goals explained above, the Commission proposed a new method known as the jointly agreed Action Plans, where it defines with the partner countries a list of common priorities.[xliii] The Action Plans constitute a commitment to shared values revolving around the respect for human rights, minority rights, rule of law, good governance, promotion of good neighbourly relations, principles of market economy, sustainable development, and cooperation in certain key foreign policy goals. The pace upon which the EU will develop its links with each partner depends on the extent to which these common values are effectively shared and respected.[xliv] The major priority areas within these values comprise the following:

- Political Dialogue: This includes the fight against terrorism, proliferation of weapons of mass destruction and regional conflict resolution
- Economic and social development policies: hereby, the EU offers neighbour countries i) a stake in the EU internal market based on legislative and regulatory approximation, ii) participation in a number of EU programs (education and training, research and innovation), iii) improved interconnection and physical links with the EU (energy, transport, environment and information society).
- Trade: The EU will undertake a greater market opening in accordance with the WTO standards.
- Justice and Home Affairs: This will involve close cooperation in border management, migration, the fight against terrorism, trafficking in human beings, drugs and arms, organised crime, money laundering and financial and economic crimes.

The economic approach under ENP offered MPs the opportunity for a greater regulatory convergence, wider participation in certain policies (education mobility for example), and an improved physical infrastructure connectivity. These offers were seen as further incentives or ‘additional carrots’ for a closer level of economic integration since they do not deviate from the economic template already adopted under the EMP. All specific tailor made action plans signed with most MPs act as further endorsements to the already existing Association Agreements. Indeed, ENP action plans are far more specified and contain clearer road maps for policy implementation. Similarly, they encourage a convergence with EU regulatory standards as opposed to a harmonisation process previously envisaged under EMP. To fund these activities, the EU created the European Neighbourhood and Partnership Instrument (ENPI) which will be endowed with €12 billion between 2007 and 2013.[xlv]

Barcelona 2005 initiative

Acknowledging the multiple difficulties that accompanied the process of policy implementation and the delicate socio-economic situation encountered by most MPs, the EU launched a new bid to reinvigorate the EMP in a meeting held in Barcelona in November 2005 celebrating the 10th anniversary of the whole process. For the purpose of this meeting, the European Commission drafted a detailed work programme proposal which was fully endorsed by the Foreign Affairs ministers’ summit in Barcelona. The proposal aimed to place the EMP in line again with its declared 2010 objectives, and to enable MPs to meet the challenges they are facing across all three 'Barcelona' chapters (political, economic and social chapters).[xlvi]

Under the economic and financial cooperation chapter (chapter two), the European Commission found that the partnership has been successful in achieving a Euro-Mediterranean free trade area in industrial goods, but felt short from expanding its overall scope. It held that progress towards a number of the goals set out in the Barcelona Declaration has been somehow slow. This has been partly due to the occasional reluctance of many MPs in committing themselves to some principles to which they have signed up, the difficulties caused by continuous conflicts in the region, and because consensus on some particular reforms has not been fully achieved. In a context characterised by increasing political and economic interdependence, the European Commission considered that the EMP has been marked by a certain lack of economic assertiveness which prohibited many MPs from concretising a qualitative leap in the level of their economic wealth generated by pursuing economic reforms and addressing the challenges of economic and trade liberalisation. In order to overcome these difficulties, the Commission maintained that,

> 'Partners should now take the necessary measures to expand the scope of this core free trade area, in deepening trade liberalisation in agriculture and fish products and in further opening markets to new areas such as services'[xlvii]…'Mediterranean Partners are encouraged to make full use of the Economic Dialogues provided for in the Association Agreement in order to consolidate progress in macroeconomic stabilisation and growth policies, as indicated in the ENP Action Plans'.[xlviii]

In sum, the EU five- year strategy for reform, endorsed by all MPs, sought to consolidate the economic approach exhibited under EMP and ENP. It comprised of the following objectives:

- Maintenance of a sound macroeconomic environment.
- Liberalisation in Trade in Services.
- Completion of the liberalisation process in agricultural and fishery products.
- Possible creation of a Euro-Mediterranean Development Bank .
- Convergence and harmonisation of all technical legislation matters.
- Completion of South-South economic integration.
- Development of regional infrastructure for transport and energy.
- Contribution to a better education, vocational training and mobility in higher education.
- Sustainable development for the region.[xlix]

Barcelona Process: Union for the Mediterranean (2008)

Influenced by the French presidency in the second half of 2008 (1 July- 31 December 2008), the Union for the Mediterranean (UM) is a recent Euro-Mediterranean policy whose principles were approved by the European Council meeting on the 13/14 of March 2008 and publicly launched during the Paris Summit held on July 13 2008.

The UM seeks to build on the achievements of the Barcelona Process especially in terms of promoting multilateral and bilateral relations, but also addresses the shortcomings and difficulties encountered with this project. Key to the qualitative and quantitative change intended by this policy is to reassert the political co-ownership of the Barcelona process and to increase its visibility vis-à-vis its citizens.[l]

In order to tackle the issue of co-ownership, the UM proposed the institutionalisation of a co-presidency (two presidents one representing the EU and the other consensually representing the MPs) which should be 'compatible with the provisions on the external representation of the EU in the Treaty of the European Union and the Treaty establishing the European Community'.[li] To balance this proposed co-ownership and strengthen its visibility, the UM suggested the setting up of a Brussels based committee appointed by representatives from all EU Member States, MPs, and the European Commission called 'Joint Permanent Committee'. The UM will only be a multilateral partnership focusing on regional and trans-national projects (de-pollution of the Mediterranean sea, civic protection against natural disasters, establishment of maritime and land highways and energy solar plans) with the aim to increase the potential for regional integration and cohesion. In this sense, the UM will build on and reinforce the other Euro- Mediterranean policies and should not be seen as a completely separate institutional development.[lii] The economic dimension under UM specifically encourages the strengthening of the Euro-Mediterranean Investment and Partnership Facility (FEMIP)[liii] to which I will discuss with further length in the next section.

The Euro-Mediterranean Development Bank

The creation of a Euro-Mediterranean free trade area by 2010 is one of the EU's major ambitious targets in the region as I have previously indicated. Yet, to overcome the many political and economic challenges that accompany such a process, countries in questions need to ensure high levels of economic growth in order to offset the various social and fiscal dislocations engendered by such a process. Mediterranean Partners (MPs) are not an exception in this case given their high level of trade dependence vis-à-vis the EU and the general protectionist nature of their trade regimes prior to the inception of the EMP. Building on a consensus among the Council of Ministers in the EU (Council), the Commission and the EIB that the Mediterranean's long term economic development extensively relies on private sector development and investment, the Laeken European Council (14-15 December 2001) invited the Council and the European Commission to examine the setting of a Euro-Mediterranean Development Bank (EMDB).[liv]

In response to this request, the European Commission drafted a proposal in 2002 where it embraced this idea, and called for an EIB majority owned subsidiary dedicated for Mediterranean Partners after having considered several funding options.[lv]Accordingly, the ECOFIN (meetings of Economic and Financial ministers operating under the Council of Ministers in the EU) and European Council meeting in 2002 endorsed this consensus and decided to enhance the EIB's existing involvement in the region through the creation of FEMIP (Facilité Euro-Méditerranéenne d'Investissement et de Partenariat) , a financial facility dedicated for private sector development in the EMP. In addition, the meeting concluded that a decision on the incorporation of FEMIP into an EIB subsidiary should be considered after one year.[lvi]

Anticipating the ECOFIN meeting of November 2003, the Commission prepared a communication where it presented two options for examination. *The first option was defined as a further development of the newly established FEMIP, with a private sector development mandate.* Under this scenario, FEMIP remains a department within the EIB where it would be operated by its staff members, and included under its statute and financial policies. Financially, the facility would operate mainly from Council lending mandates, Community Budget guarantee and contribution from the EC budget for technical assistance support to its risk capital operations and interest rates subsidies for environmental projects. Accordingly, the headquarter remains in Luxembourg with the possibility of having few regional offices.[lvii]

The second option called for the establishment of a majority-owned EIB subsidiary. Under this scenario, the new subsidiary will have its own staff, statute, financial policies, and a private sector development mandate. However, staff number would substantially increase in this case to reflect the resource-intensive development of the subsidiary's private sector operations. In addition, the new subsidiary would be expected to offer a broad range of financial products, and have a similar profile to that of multilateral development banks with a particular financial standing and a capital base aimed at securing a best creditor status and a Triple A rating. Its operations would be centrally managed from its headquarters, with an important role provided for local country offices. Although the EIB would retain a majority shareholding position in this subsidiary, the capital base will be open to Member States within the EU, the European Community and the MPs. Accordingly, the governance of this subsidiary will mirror its shareholding structure.[lviii]

After a lengthy deliberation where the Commission studied the feasibility of both scenarios via the standard Extended Impact Assessment tools[lix], it concluded that both options provide a substantial contribution to private sector development in the region. However, the commission favoured the second option for a variety of factors. First, it argued that this option would have higher degree of flexibility in addressing private sector needs due to a less risk adverse profile. Second, private sector financial needs can be better satisfied under this scenario given the broader range of the state-of- the-art financial products that it would be equipped with. Third, capitalisation costs are relatively lower than scenario one due to a wider umbrella of potential financial donors. Equally important, the commission held that the second option would increase the ownership and the visibility prospects of the EMP, and ensures that an adequate governance arrangement of that sort would provide MPs with a stronger incentive to consolidate the process of economic reform. The commission also indicated that most MPs were also in favour of this scenario. Due to institutional, financial and political implications bestowed on the Council from such a policy action, the commission maintained that it would settle for the first option if the Council vetoed its proposal, but will attempt to use FEMIP as a transitional stage towards the implementation of an EIB majority owned subsidiary. [lx]

Yet, the ECOFIN meeting held in November 2003 did not endorse the Commission's proposal, and decided to review the FEMIP mandate in another three years when its progress will be assessed again. In line with its preference ordering, the commission tried to keep the second option alive as it tabled it as one of the reforms needed to rejuvenate the process of economic reform under the Barcelona 2005 initiative.[lxi]

Nevertheless, the ECOFIN meeting in December 2006 rejected the proposal for a third consecutive time and opted to strengthen FEMIP's budget, operations and modality.[lxii] In this regard, the commission's first option became a *de facto.* Between October 2002 and December 2008, the facility has invested €8.5 billion in the Mediterranean with a mandate focusing on supporting the private sector and creating an investment friendly environment in the region.[lxiii]

The two faces of governance and their implications

In the world of policy-making, there is nothing exceptional about the constant process of upgrading and downgrading policy options due to the multitude of factors and opposing trends which inhibit policy makers. In this regard, one can argue that there is nothing surprising about the manner in which the EMDB process has unfolded. Nevertheless, the interesting part of this case study lies in the way in which it mirrored the interplay between the two approaches (faces) of governance that I have discussed earlier in this article. Indeed, the two options considered here were both plausible, and offered clear incentives for players to deepen the process of economic reform within the Euro-Mediterranean policies' template. The first option, however, was more technical and managerial in its nature in the sense that it aimed to create an institution, FEMIP, endowed with some financial capacity to assist MPs in developing their private sector and in removing the obstacles that impeded the growth of their economies. The second option, by contrast, was more power sensitive, not only because the potential development bank would be more independent in its operations and status, but also because it anchors the commitments of the EU into the Mediterranean region and provides the MPs with a stake in the process.

However, the eventual prioritisation of the 'technical/managerial' option over the 'power sensitive' one poses serious implications for the EU. Undoubtedly, one implication raises many questions about the EU´s involvement in this partnership and exposes the nature of its governance structure. Irrespective of the variety of reasons that prevented the Council from launching the EMDB on three consecutive occasions, it is clear that Euro-Mediterranean relations are not high on the EU´s agenda. *In fact, this is reminiscent of the argument that the lack of progress and the slow pace nature of reforms undertaken by MPs are not solely attributed to problems of implementation or lack of political will. Instead, the major obstacle is deeply rooted in the way these policies were formed and enacted.*

For example, Youngs showed how MPs had little to say about the content of these policies, and how they had to face a 'take it or leave it' scenario prior to the EMP inauguration.[lxiv] On the other hand, Joffe indicated how the EU constantly pushed MPs for further reforms during the early days of the EMP, but turned a blind eye to certain areas that were politically sensitive for the Union (liberalisation of agriculture).[lxv] Similarly, when the EU introduced the concept of ownership under the prospects of the ENP, many scholars pointed out how these tailor made action plans were in essence non contextually sensitive and reflective of EU´s interests and perceptions of development.[lxvi] In addition to these chronic problems of functional governance, one should not discard the fact that the high scale of political, economic and social restructuring the EMP/ENP envisage, accompanied by the MPs´ non-eligibility for EU membership, highlight a gulf between different perceptions, expectations and interests that cannot be sustainable in the long run. For all these reasons, the downgrading of the power sensitive option in this case further accentuates the asymmetrical power relations embedded in this partnership and dents the credibility of the EU in undertaking reforms in the region.

On a parallel level, the credibility of a policy cannot only be couched in terms of its nature and substance. It also revolves around the capacity of a policy in commanding compliance from the players in question. Given the EU's reluctance to institutionalise a fully fledged development bank, one can plausibly wonder about the extent to which the EU's expectations of MPs' compliance with the implementation of further reforms are realistic. Seen by the EU as key area of reform[lxvii], the liberalisation of services agenda is clearly a prime example here.

As I have previously showed in this article, the Barcelona 2005 initiative expressed the EU's dissatisfaction about the slow progress made in relation to this agenda after 10 years of negotiations and implementation. This prioritisation of the services agenda took further momentum with the appearance of a joint World Bank/European Commission publication in the same year[lxviii]. In this study, the liberalisation of services was considered the vehicle for deeper integration between the two sides of the Mediterranean. It argued that since the services sector accounts for 57% of GDP in eight MPs, the removal of tariff and non tariff barriers would yield substantial economic welfare benefits. It also highlighted how the liberalisation deepening of the so called backbone services (telecommunications, transport, financial services and electricity) would anchor the MPs further into the Single Market, for it will necessitate a partial or complete regulatory harmonisation with EU standards. In fact, the Jentsch study preferred a partial harmonisation over the complete adoption of the acqui communautaire. Nevertheless, a later document from the European Commission emphasised on benefits accrued from fully adopting the acqui as this will elicit greater confidence in the structure of MPs' markets and boost their ability to attract Foreign Direct Investments (FDI).[lxix]

Even though the deadline set for the launch of the free trade area is approaching fast (2010), progress on this agenda is unsurprisingly slow. The most recent European Commission communiqué about the status of implementation within the ENP indicated that even the four MP front runners (Egypt, Jordan, Morocco and Tunisia) are lagging behind on this important reform.[lxx] Clearly, the MPs' resistance against the liberalisation of services is attributed to many other factors and is rooted prior to the initiation of the EMDB process. Nonetheless, the two processes are not unrelated. After all, FEMIP directly deals with the financial services that are incorporated under backbone services, while the development of the private sector in economies characterised by a substantial services sector is at the heart of FEMIP's mandate. But the major question here remains the same. If the EU refrains from politically institutionalising an EMDB and opt for a less committed technical approach, then how it can realistically expect MPs to advance an already problematic process of services liberalisation which entails a complete loss of regulatory sovereignty. For all of these reasons, I argue that *the prioritisation of the techno/managerial option over the power sensitive one will further exacerbate existing problems within the partnership rather than offering a solution to them.*

Conclusion

Undoubtedly, governance à la 'techno/ managerialism' is applicable and can offer various solutions for collective action problems. Nevertheless, the tendency inherent in this approach to sideline power analysis, or in other words, to artificially separate between the 'technical/managerial' and the 'political', does not allow it to unravel the deep rooted dynamics that are at play behind any policy and/or institution. For the EU, the prioritisation of the techno managerial option over the power sensitive one is not only symptomatic of its general governance approach towards the MPs, but can also be self limiting in its credibility and appeal. If the Union is serious about its engagement in the Mediterranean region, then an alternative 'governmentality' needs to be in place where power considerations are not an option in policy deliberations but a must. On a more optimistic note, the recent UM policy seems to be departing from the functional approaches of governance that marked its predecessors due to its direct institutional intentions to rectify embedded power asymmetries. It is hard to make an argument about such a relatively recent development, but this can definitely be a potential area for future research.

End Notes

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[lvii] Ibid p 5.

[lviii] Ibid p 5.

[lix] Extended Impact Assessments are tools used by the European Commission to improve the policy development process. They examine the main choices and potential impacts of a particular policy decision based on an ex-ante perspective. In so doing, they identify the likely positive and negative impacts of a potential policy action, enable informed policy judgments and identify trade offs between competing policy targets. The criteria taken by the Commission in this study focused on: risk profile, intensity of resources, corporate culture, partnership, interaction with local economic reforms, long term political commitment and visibility and over all costing. See Ibid, pp 9-15.
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