

Antonio Fazio: Welcome address for the Euro-Mediterranean Seminar

Welcoming address by Mr Antonio Fazio, Governor of the Bank of Italy, at the Euro-Mediterranean Seminar, Eurosystem and Mediterranean country national central banks, organised by the Bank of Italy and the European Central Bank, Naples, 14-15 January 2004.

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The twelve Mediterranean countries of Africa, the Middle East and Europe represented here by the governors of their respective central banks are members of the Euro-Mediterranean Partnership. They are Morocco, Algeria, Tunisia, Egypt, Israel, the Palestinian National Authority, Jordan, Lebanon, Syria, Turkey, Malta and Cyprus. They are joined by Libya in the capacity of observer.

The partnership between the European Union and the Mediterranean countries began in 1995 with the Barcelona Conference; it should lead, in 2010, to the creation of an area of free trade in goods and services. The signatories to the agreement have undertaken, in particular, to allow the reciprocal establishment of enterprises and to promote flows of direct investment in the less advanced economies. The commitments entered into at Barcelona have been followed by bilateral Association Agreements between the European Union and nearly all the Mediterranean countries, including measures to liberalize trade in manufactures as agreed during the Uruguay Round.

The gross domestic product of these Mediterranean countries is equal to 10 per cent of that of the euro area. They have a population of 250 million people, which is growing at an annual rate of 1.8 per cent; young people below 15 years of age are 33 per cent of the total.

The European Union has a population of 380 million; the proportion of young people under 15 is only 17 per cent. The proportion of over-65 year-olds is 16 per cent and is destined to rise substantially in the decades to come. The present birth rate is extremely low, only slightly higher than the death rate.

According to UN estimates, by 2015 Europe's population will have grown by 5 million, that of the Mediterranean countries by 60 million.

The per capita GDP of the twelve countries is showing a tendency to rise, albeit slowly; it still averages only 11 per cent of the figure for Europe.

Some years ago the Bank of Italy began a study of the economies of North Africa and the Near East.

The geographical proximity and already significant commercial ties with these countries, the migratory movements, and the prospect of financial integration prompted us, within the Eurosystem, to undertake a more systematic analysis of the scope for their development, which is of great importance for Europe as well.

The exports of the twelve countries and Libya are equal to around \$120 billion a year, 20 per cent of the area's gross product. More than half go to the European Union; 50 per cent of the goods exported to Europe are manufactures, the remainder consists mostly of energy sources and to a smaller extent of other raw materials and food products.

Over three quarters of the thirteen countries' imports from Europe consist of manufactured products; these imports account for about half their total merchandise imports.

Trade among the countries of the area is limited.

There are intense migratory movements from these countries to Europe, owing to their closeness and, above all, as a consequence of the large differences in per capita incomes and living standards.

In Italy, out of a total of about 1,400,000 immigrants, 160,000 come from Morocco, 50,000 from Tunisia, 25,000 from Egypt and 12,000 from Algeria. In Germany, out of a total of some 7,300,000 foreigners, about 2,000,000 come from Turkey. In France, out of a total of about 3,300,000 immigrants, more than 1,300,000 come from Morocco, Algeria, Turkey and Tunisia.

Migratory flows will undoubtedly increase owing to the ageing of the European population and the limited supply of workers to do unskilled and low-paid jobs.

A major social and political issue is how to control migration, to ensure that it will benefit rather than harm our economies, to guarantee that immigrants and their families are harmoniously inserted into

our societies; and to avoid the rifts, the marginalization and the problems of law and order caused by unregulated flows.

Voluntary organizations do commendable work in fostering the social integration of immigrants.

Many attempts, some very recent, to enter countries illegally with the complicity of criminal organizations have ended tragically, with women and children among the victims.

There is an increasingly urgent need to find suitable ways to regulate the phenomenon and prevent the suffering and loss of human lives, in combination with policies for the development of the countries of origin of the migratory flows.

An important shortcoming of the bilateral agreements between the European Union and the Mediterranean countries is the failure to liberalize trade in agricultural products, where the Mediterranean countries have a significant comparative advantage, to the benefit not only of their economies but also of ours.

Direct investment in the Mediterranean countries, the most effective way of disseminating technological know-how, has been on a limited scale up to now. At the end of 2002 it amounted to €103 billion, or less than 20 per cent of the GDP of the countries of the area. A quarter of this investment was by EU businesses, 2 per cent by Italian ones.

Firms from Mediterranean countries play only a small role in Italy, almost exclusively in the energy and media sectors; there are a few cases of equity interests in Italian banks and industrial companies. Closer links exist with the productive sectors of other European countries, but they are still of marginal importance.

The openness of the Mediterranean countries' financial systems, centred on banks, is limited. In many countries banks are still largely owned by the state. The development of the financial system is hindered by shortcomings in the legal framework and the governance rules for firms and markets.

The key feature of the Euro-Mediterranean Partnership is a new strategic approach on the part of the European Union to the problem of these countries' development.

No longer are they seen as single entities to trade with and provide with technical assistance through bilateral agreements, but as an area in which to promote the start of a process of faster growth through institutional and economic reforms and the coordination of private and public investment.

To this end there needs to be a continuing financial commitment on the part of the European institutions but also more intense contacts and exchanges of experience between the institutions and operators of the Mediterranean countries on the one hand and their European counterparts on the other.

The decision taken in Naples last December to establish a Euro-Mediterranean Foundation can reinforce the links between the countries involved through training programmes and initiatives aimed at fostering mutual understanding and a dialogue between cultures.

In the last few years the drive to bring about a radical renewal of the Mediterranean economies has lost momentum, partly as a consequence of the prolonged stagnation of the world economy.

Progress has been made, albeit to a varying extent, in all the Mediterranean countries in terms of institutional reforms, market building, liberalization programmes and reducing the role of the state in the economy; coordination of the action aimed at the integrated development of the area is still lacking. There are risks of marginalization with respect to a world economy that is changing rapidly.

This seminar, organized by the European Central Bank and the Bank of Italy, can be a stimulus to renew the initiative. In three working sessions, reserved to the central banks, it will address a series of problems regarding economic integration, exchange rate management, and banking and financial systems.

It is our hope and intention that the seminar will not remain an isolated event. The Bank of Italy, in close accord with the Eurosystem, is willing to offer the necessary support for the creation of an institutional framework for the start of a long-lasting collaboration. Meetings like the present one can be held periodically on specific topics of interest to the central banks.

In classical antiquity the Mediterranean did not constitute a barrier between the populations living on its shores. Rather, it was a basin of communication for intense trade in commodities and goods, for cultural exchange, for often peaceful, sometimes belligerent relations.

In the words of Fernand Braudel, "The Mediterranean is the world's most ancient crossroads. For thousands of years everything has converged here, mixing, enriching its history: men, beasts of burden, machines, goods, ideas, religions, ways of life".

This ancient unity, the Greek *koine* and the Roman empire, were followed by centuries of troubles and division. The unity that wars had shattered was laboriously but admirably restored in the Middle Ages at the cultural level, with the contribution of great Arab and Jewish philosophers, with the recovery of ancient learning, with the synthesis of Scholasticism.

Today, however, we come from a long period, many centuries, of division, conflict, and war between the peoples of the Mediterranean, of profound upheaval in Europe as well.

In the last fifty years, after the Second World War, our continent has taken a great stride forward in its history; fifteen peoples who at times had fought each other fiercely over the centuries have decided to unite in taking a path of economic and civil advancement.

These peoples will shortly become twenty-five.

Today, we are taking the first small but sure steps towards building a new unity of intent in the quest for shared progress around the Mediterranean, sustained by the values and cultures of the peoples of Africa, the Near East and Europe and the desire to exchange goods and experiences.

Peace and trade will necessarily bring prosperity.

The importance of the financial dimension for economic development must emerge clearly from today's seminar.

Let us proceed with humility, but also with commitment, in the search for a common language and shared objectives.

This invitation is addressed to those participating in the seminar, but also to the wider financial, economic and civic community which, responding to our call, has welcomed us to this ancient but also modern and beautiful city of Naples.