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WHICH ROAD TO LIBERALISATION?

A FIRST ASSESSMENT OF THE EUROMED ASSOCIATION AGREEMENTS

CRESCENZO DELL'AQUILA

AND

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WHICH ROAD TO LIBERALISATION?
A FIRST ASSESSMENT OF THE EURO-MEDITERRANEAN ASSOCIATION AGREEMENTS

ENARPRI WORKING PAPER NO. 2/OCTOBER 2003

CRESCENZO DELL'AQUILA AND MARIJKE KUIPER

Abstract

Since the Barcelona Conference (1995), the EMP represents an attempt of the EU to re-launch its global Mediterranean policy towards the twelve Mediterranean Partnership Countries (MPCs). Besides improving the limited results of the Mediterranean agreements concluded in the 1970s, the renewed effort is aimed at counterbalancing EU engagement in East European recovery and integration. The broad aims of the Barcelona Process are to promote political stability in this turbulent area, establish a free-trade area by 2010 and promote social and cultural interactions. These, in turn, imply a number of themes, common to all the agreements with MPCs: the institutionalisation of political dialogue and programmes for improving the respect for human rights and democracy; economic cooperation in a wide range of sectors; the definition of provisions relating to intellectual property, services, public procurement, competition rules, state aids and monopolies; and cooperation relating to social affairs and migration.

The prime instruments for achieving these objectives are the Euro-Mediterranean Association Agreements (EMAAs) and a financial support programme (MEDA). The aims of this study are to provide a broad assessment of the EMAAs and to identify key issues for analysis relating to the EMAAs, with particular reference to the agricultural sector. Much research has been done on the impact of the EMAAs, by institutes participating in ENARPRI, as well as by other research networks (FEMISE and MDF) and individual institutes. This paper combines the insights of these studies with current economic and trade data related to the implementation of EMAAs and agriculture.

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CRESCENZO DELL'AQUILA AND MARIJKE KUIPER*

1. Rationale and scope of the study

1.1 The Euro-Mediterranean partnership

As a whole, the Mediterranean region is often referred to as a geographically homogeneous unit. Nevertheless, if such homogeneity exists from the geo-climatic point of view, the same cannot be said for the political, economic or social characteristics of the countries bordering on the Mediterranean Sea. From the political point of view, the area includes some countries that were founding members of the EU (France and Italy) and others that have been members for a good number of years (Greece, Spain and Portugal). Others are queuing up to join (Malta, Cyprus and Turkey), but, especially along the southern and eastern shores of the Mediterranean, there are a number of highly diverse political situations, to say nothing of the political and military turmoil that has for many years disrupted parts of the Adriatic and the Middle East.

This study deals with twelve Mediterranean countries that, in different ways, are involved in the Euro-Mediterranean Partnership (EMP) with the EU.[1] Even when confining our attention to the so-called 'southern shore' of the Mediterranean basin, from an economic perspective, the situation is still varied: while three outsiders (Israel, Cyprus and Malta) share relatively high per-capita income levels – comparable to EU incomes – the Mediterranean Partner Countries (MPCs) are in the middle- to low-income bracket. Correspondingly, varied models of economic development are found: from countries opening frontiers to the world economic system, to others with marked protectionist tendencies.

Since the Barcelona Conference (1995), the EMP represents an attempt of the EU to re-launch its global Mediterranean policy towards the twelve MPCs. Besides improving the limited results of the Mediterranean agreements concluded in the 1970s, the renewed effort is aimed at counterbalancing EU engagement in East European recovery and integration. The broad aims of the Barcelona Process are to promote political stability in this turbulent area, establish a free-trade area by 2010 and promote social and cultural interactions. These, in turn, imply a number of themes, common to all the agreements with MPCs: from institutionalisation of political dialogue and programmes for improving the respect for human rights and democracy, to economic cooperation in a wide range of sectors, to the definition of provisions relating to intellectual property, services, public procurement, competition rules, state aids and monopolies and to cooperation relating to social affairs and migration.

The prime instruments for achieving these objectives are the Euro-Mediterranean Association Agreements (EMAAs) and a financial support programme (MEDA). Most of these agreements are effective or will become effective soon (pending ratification, the trade components of the agreements

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[1] The EMP gathers, besides EU members, three candidates to EU membership (Cyprus, Malta and Turkey) and nine countries negotiating new EuroMed Association Agreements (Tunisia, Morocco, Israel, the Palestinian Authority, Jordan, Egypt, Lebanon, Algeria and Syria).

may become effective after signing). Given the wide coverage of themes, implementation of the agreements will have a considerable impact on the (economic) relations between the EU and MPCs.

1.2 Aim and scope of the study

The aims of this study are to provide a broad assessment of the EMAAs and to identify key issues for analysis relating to the EMAAs, with particular reference to the agricultural sector. Much research has been done on the impact of the EMAAs, by institutes participating in ENARPRI, as well as by other research networks (FEMISE and MDF) and individual institutes. This paper combines the insights of these studies with current economic and trade data related to the implementation of EMAAs and agriculture.

The study is divided into two parts. The first part summarises information on the MPCs and the EMAAs agreements. It starts in section 2 with developing a theoretical framework for analysing preferential trade agreements, of which the EMAAs are an example. This framework serves as the backdrop for analysing different aspects of the EMAAs in the second part of the study. Section 3 provides a short description of the main features of the MPCs, focusing on their economic characteristics. Section 4 describes the main characteristics of the trade flows of the MPCs, to both the EU and the rest of the world. Section 5 proceeds by outlining the main features of the EMAAs, with special attention to the agricultural provisions, which are a strongly contested part of the agreements.

Together these sections provide a theoretical framework, the main features of the MPCs and their trade relations, and the main features of the EMAAs, paying explicit attention to the agricultural aspects of the agreements. These building blocks are combined in the second part of the paper, assessing the current state of the EMAAs and their impact. Section 6 applies the theoretical framework of section 2 to the EMAAs, relying on the background information provided in sections 3 through 5, and on findings from other studies. Section 7 concludes the paper by summarising the main findings and identifying key issues for future research.

2. Analytical framework for analysing preferential trade arrangements

2.1 Introduction

EMAAs between the EU and MPCs have been in place since 1995. These preferential trade arrangements are part of a global surge in regional trade agreements (RTAs) negotiated during the 1990s. Whereas in 1990 the WTO had been notified of 40 RTAs, this number had increased to 191 by 2000. Different reasons have been put forward for the recent surge in RTAs. One possible reason is disappointment with the multilateral trading system. Limited results obtained in the Uruguay round and the failure of the Seattle meeting are mentioned as causes for the increasing number of RTAs (Crawford & Laird, 2001).

A more fundamental reason is put forward by Fratianni and Pattison (2001). They argue that coordination and cooperation are facilitated by having a dominant party willing to take the lead and bearing a large share of the costs (since it also captures a large share of the benefits). As a result of the economic growth in the second half of the last century, the US has lost its dominant position (its contribution to global GDP has reduced from 60% after WWII to less than 30% in 2000). The more even distribution of economic strength has complicated multilateral cooperation. The formation of RTAs, especially recent ones including industrialised high-income and developing countries, recreate a structure with a dominant party willing to take the lead. Such a structure could speed up the liberalisation process compared with multilateral negotiations.

Irrespective of the causes of the increasing number of RTAs, they can be expected to stay around. This raises a discussion on the relation between RTAs, which are discriminatory by nature, and multilateral trade liberalisation based on the most-favoured nation (MFN) principle. The current discussion centres on the question whether RTAs are 'building blocks' or 'stumbling stones' for multilateral trade liberalisation. A short summary of arguments put forward for both positions is provided in the next section. The end conclusion is that the impact is indeterminate and depends, inter alia, on the way an RTA is shaped and functions.

The remainder of the section focuses in more detail on the potential costs and benefits of RTAs. The discussion provides a framework for analysing the establishment of an RTA, and its potential costs and benefits. This framework is used in section 6 for assessing the EMAAs.

2.2 Preferential vs. multilateral trade liberalisation

The recent wave in RTAs differs from RTAs established in the 1960s and 1970s. First, the environment in which the RTAs are established differs. The earlier RTAs were implemented at a time of inward-looking development policies, focusing on protecting domestic production from outside competition. The new wave of RTAs comes about at a time of outward-looking policies. During the time when the number of RTAs surged, WTO membership increased from 80 GATT partners in 1990 to 140 WTO members by 2001. In addition to this increased effort at multilateral trade liberalisation, a large number of developing and transition economies implemented unilateral trade liberalisation. The new RTAs are therefore much more committed to boosting instead of hampering international trade.

A second feature of the new RTAs is the acknowledgement that integration requires more than reducing tariffs and quotas in a limited number of commodities. The new RTAs have a much wider product coverage (although they are often still limited for agricultural products) and aim at a deeper level of liberalisation and harmonisation in the long run.

A third feature of the new RTAs is the combination of high-income industrialised countries with developing countries (for example, NAFTA, EU agreements with Eastern European and Mediterranean countries). In addition, new RTAs tend not to be limited to direct neighbours but extend over the globe. As a result, most countries are members of several RTAs that differ in terms of their regulations. This leads to the situation described by Baghwati as "a spaghetti bowl – to capture the challenge of multiplying rules of origin and the maze of non-tariff barriers that now apply almost everywhere to specific commodities" (quoted in Crawford & Laird, 2001:193).

Earlier empirical work on RTAs focused on two major effects: trade creation and trade diversion. *Trade creation* refers to the replacement of domestic production by imports of more efficient production from partner countries, increasing both domestic and general welfare. *Trade diversion* refers to replacing lower-cost imports from the rest of the world (still subjected to tariffs) by partner imports (no longer subjected to tariffs after the RTA has been established).

Reflecting the deeper integration aimed at in the new wave of RTAs, the more recent discussion on RTAs has shifted from analysing the balance between trade creation and trade diversion, to the relationship between RTAs and multilateral liberalisation. Regarding the interaction between RTAs and the multilateral system, there are three main issues: 1) the impact of RTAs on external policies, 2) the dynamics of RTAs and 3) the impact of RTAs on the multilateral trade efforts.

Theoretical models of RTA formation highlight the negative impact resulting from an increase in external tariffs. Membership of the WTO reduces the scope for increasing external tariffs when forming an RTA. In practice, however, this argument needs to be qualified. First of all, control of RTAs by the WTO is limited: while the WTO has been notified of 220 RTAs, no report has been adopted on any of them. In practice this means that all kinds of distortionary policies can be introduced through an RTA without being sanctioned (resulting in the current "spaghetti bowl" of trade barriers). Part of the problem with evaluating RTAs is the ambiguous description in Article XXIV of GATT on the coverage required by RTAs: "duties and other restrictive regulations of commerce… are eliminated on substantially all the trade between constituent territories" (Crawford & Laird, 2001:203). In most agreements, including the EMAAs, liberalisation of agriculture is limited, raising the issue whether these agreements cover "substantially all trade".

Second, WTO rules prohibit the increase of bound tariffs. Nevertheless many (developing) countries apply tariffs below their binding levels. This leaves room for raising tariffs for non-RTA members, while lowering them for RTA members, without violating WTO rules. In practice possibilities for raising external tariffs thus exist. This begs the question of whether or not the new wave of RTAs has indeed caused an increase in protectionism by RTA members. Empirical analysis of recently formed RTAs indicates that this is not the case. The surge in new RTAs was accompanied by ongoing

liberalisation. Indeed there seems to be an indication that a liberal trade policy is required for the formation of effective RTAs; highly protectionist countries will not liberalise trade even with their RTA partners (Foroutan, 1998).

The dynamics of RTAs could in theory lead to ever-expanding RTAs until global free trade results. Formation of a few competing large trade blocs, however, could also frustrate the movement to global free trade. Whether the trend towards large RTAs stimulates or hampers global free trade remains an empirical issue. One trend however is that the least-developed countries are left out of the blocs that are being formed (Crawford & Laird, 2001).

The last issue is the demand for resources by RTAs and multilateral trade negotiations. These resources are limited, even for high-income, industrialised countries. On the other hand, negotiation experience may be gained during RTA negotiations, and interest groups could be formed to share the burden of multilateral negotiations. In the end, the effect on the multilateral systems is therefore undetermined (Crawford & Laird, 2001).

In conclusion it seems that RTAs will continue to exist and expand while the effect on the multilateral system remains indeterminate. For specific countries the choice between unilateral, multilateral or RTA liberalisation will depend on the costs and benefits of these three options. The remainder of this section will look at the costs and benefits of forming an RTA from a theoretical perspective. This framework will be applied to the EMAAs in section 6, using the information provided in sections 3 through 5 on the general economic features of the MPCs, Mediterranean trade flows and the contents of the EMAAs.

2.3 Costs and benefits of RTAs

The driving force for regional trade agreements (RTAs) is usually political, not economic. Therefore this section starts with the political motivations for RTAs. Although political motives may be the reason for establishing an RTA, they will have economic effects. These effects may be positive, re-enforcing the RTA, or they may be negative, thwarting the RTA. The second part of this section therefore provides a short overview of the types of economic effects RTAs may have.[2] Theoretical analyses indicate the ambiguous economic effects of RTAs. Complete trade liberalisation increases welfare, but RTAs are a partial trade liberalisation. As with other second-best policies, the effects cannot be analytically determined. Empirical analyses of specific arrangements are therefore needed to establish the net effects. The last part of this section provides a short overview of empirical methods to estimate the economic impact of RTAs.

2.3.1 Political objectives of RTAs

RTAs may serve several political objectives: 1) security, 2) bargaining power, 3) cross-border projects, 4) policy lock-in, and 5) producer interests.

An important objective of RTAs is intra-regional *security*. Empirical evidence suggests that a doubling of trade reduces the risk of conflict by 17% (World Bank, 2000:13). One mechanism is the intertwining of economies through trade, making war materially impossible. A second mechanism is the building of trust among members through trade negotiations, which extends to other fields of interaction. For example, security provided an important motive for establishing the European Union. Whether or not an RTA fosters security depends on the economic effects of the arrangements. Historical evidence (the American Civil war, Bangladesh breaking away from Pakistan) indicates that an unequal distribution of the costs and benefits may also increase tension, resulting in a break-up of the RTA or even contribute to war. This underscores the importance of assessing the economic effects of an RTA, even if the RTA is established on political grounds.

RTAs can also contribute to extra-regional security. The underlying idea is that economic cooperation will make common action for security easier and a more credible threat. Examples of RTAs that serve

[2] The discussion of political objectives and economic costs and benefits of RTAs is derived from World Bank (2000).

an extra-regional security objective are the South African Development Coordination Conference (directed against South Africa) and the Gulf Cooperation Council (directed against Iran and Iraq). European Union membership of Central and Eastern European countries is also motivated in part by the potential threat posed by the Russian Federation. There is not enough empirical evidence to evaluate the effects of regional trade agreements on extra-regional security.

A more recent security objective of RTAs is to contribute to security through economic growth. This applies especially to the RTAs that involve north-south partnerships. The underlying hypothesis is that increasing economic prosperity will reduce social unrest, stabilise regimes and reduce the incidence of religiously inspired violence. In addition, the two major northern partners, the EU and US, have an interest in reducing illegal migration, which could be achieved by increased economic growth and employment in the southern partner countries.

A second objective for establishing an RTA is to increase *bargaining power*. The establishment of an RTA may make small countries more visible and can increase the concessions they are able to offer, allowing them to cut better deals than would have been possible individually. OPEC is one example, and the EU, partly inspired by increasing bargaining power relative to the US, is another example. In practice, joint bargaining is made difficult by diverging interests among members, making defection an attractive option. A side-effect of an RTA is that it may reduce the bargaining power of countries versus the multinationals. A multinational may be indifferent with respect to the country it locates its business in, but once inside the RTA it's products may be shipped throughout the RTA without restrictions. The members thus have an incentive to compete with each other in providing concessions to attract the multinational. This may result in more concessions than the individual countries would have been able to negotiate.

A third objective for establishing an RTA is the execution of *cross-border projects* affecting shared resources such as rivers, fishing grounds or rail connections. In the case of cross-border projects it is more difficult to agree to an arrangement, since an arrangement needs to be self-enforcing. RTAs can assist cross-border projects by creating trust among partners through repeated interactions and providing a broader range of activities in which members interact. This allows for a trade-off between activities, which may also reduce compensatory payments, and it offers scope for retaliation that may aid the enforcement of project agreements.

A fourth objective for establishing an RTA is *policy lock-in*. Especially in the case of drastic policy reforms it is important to commit to the reform, to assure producers that the reform will not be reversed, allowing them to make investments in line with the new policy. Trade policies could be locked-in by using the WTO, for example by binding tariffs. With respect to policy lock-in, RTAs therefore especially play a role for non-trade policies. Democracy, for example, is a condition for a number of RTAs (MERCOSUR, EMAA). The locking-in of policies only works if penalties for reversal are severe and are enforced. This amounts to all partners having a strong interest in the policies.

The fifth aspect of RTAs is promoting *producer interests*. For producers, RTAs are often more attractive than unilateral, nonpreferential trade liberalisation. RTAs offer the advantage of increased market size while limiting the amount of international competition. Because of producer lobbying, RTAs may be politically feasible when nonpreferential trade liberalisation is not.

2.3.2 Economic costs and benefits of RTAs

RTAs can have a wide range of effects on participating economies, which can either be positive or negative. There are four effects on domestic economies: 1) economies of scale, 2) reduced monopoly power, 3) increased efficiency, and 4) government revenue. In addition there are a number of effects involving shifts between economies: 5) changes in terms of trade, 6) increased foreign direct investment (FDI), 7) trade creation, 8) trade diversion, 9) agglomeration and 10) knowledge flows.

By abolishing tariffs among RTA members a larger market is created. Access to a larger market has a number of effects on the economies. If technologies display *economies of scale*, access to a larger market allows a reduction in production costs. Economies of scale may also generate monopolistic

power. When markets are integrated, more competition between previous monopolists occurs. The *reduced monopoly power* will generally lower prices and erode monopoly profit. Enlarged markets increase competition in general, which will stimulate the *increased efficiency* of firms. Generally, more than the abolishment of tariffs is needed to reap these benefits from increased competition. Other regulations, such as production standards, frontier 'red tape', and antidumping and countervailing duties may result in markets staying segmented after abolishing tariffs. Abolishment of non-tariff barriers is referred to as 'deep integration'. Abolishing tariffs may stimulate competition, but it also entails a loss of *government revenue*. Where there is a lack of alternative income-generating sources, as is often the case for developing countries, this implies a need for devising new sources of tax-income before engaging in an RTA.

The increased competition on the larger market owing to an RTA also affects exporters from the rest of the world. In response to the increased competition they may reduce their price, thus improving the *terms of trade* of the countries that are part of the RTA. This implies a transfer from the exporters of the rest of the world to the purchasers in those countries belonging to the RTA. Another impact on the outside world is a possible *increase in FDI* into the RTA region. A larger market, and possibly lower marginal costs owing to increased competition, may favour investments in production in the region, as opposed to exporting products from the outside to the RTA. A possible increase in FDI is based on the preferential nature of the RTA. As opposed to the previously mentioned costs and benefits, increasing FDI cannot be obtained through unilateral, nonpreferential liberalisation.

Two effects form the basis of much of the theoretical and empirical work on RTAs: trade creation and trade diversion. *Trade creation* refers to replacement of domestic production by imports of more efficient production from partner countries, increasing both domestic and general welfare. *Trade diversion* refers to replacing lower cost imports from the rest of the world (still subjected to tariffs) by partner imports (no longer subjected to tariffs after the RTA has been established). A prime example of trade diversion is the Common Agricultural Policy (CAP) of the EU, which protects members' agriculture from competition from the rest of the world. Trade diversion involves a transfer of tariff revenue to domestic consumers and exporters from partner countries.

Abolishment of tariffs among RTA members may involve a relocation of production activities. The balance between centripetal forces (knowledge spill overs, labour market pooling and supply linkages) and centrifugal forces (congestion, pollution and competition for immobile factors) will determine the *agglomeration* of production activities after establishing the RTA. For the distribution of costs and benefits of the RTA, it matters a lot whether agglomeration occurs at the sector level, allowing each partner to obtain certain sectors, or for manufacturing as a whole. In the later case, some countries lose from the RTA when all industrial activities relocate to a country that has a head start in, for example, infrastructure.

Finally, another effect of an RTA is a change in *knowledge flows* owing to changes in trade patterns. Where trade creation occurs, there will be an increase in knowledge flows. Where trade diversion occurs, there may be a decrease in knowledge flows, depending on the type of partner to which the trade flows are switching.

2.3.3 Concluding remarks

No general conclusions on the impact of an RTA can be derived. As the discussion above indicates, the impact depends on the contents of the agreement, the economic structure of the countries involved and on the trade flows. The following three sections focus on different topics that will affect the impact of the EMAAs. Section 3 discusses general economic features of the MPCs. Section 4 analyses current trade flows in general as well as trade between the EU and MPCs. Section 5 discusses the contents of the EMAAs. Together, these sections provide the background for assessing the impact of the EMAAs. Section 6 draws on this background, as well as other studies of the EMAAs, to assess whether or not the EMAAs are expected to achieve their aims. The analytical framework developed above serves as the structure of this discussion.

3. General features of the economy and agriculture of the Mediterranean partner countries

3.1 Introduction

From an economic perspective, the twelve Mediterranean partner countries (MPCs) involved in the Euro-Mediterranean Partnership are rather heterogeneous: while three outsiders (Israel, Cyprus and Malta) share relatively high per-capita income levels – comparable to EU incomes – the other MPCs are in the middle- to low-income bracket and can be better defined as developing countries (DCs). Varied models of economic development are also found, ranging from countries with policies accounting for the need to open up to the world economic system, to others with marked protectionist tendencies.

Despite basic diversities among the productive and marketing systems, it is still possible to identify certain common elements across the MPCs, above all focusing on the bigger DCs among them. An important feature is their relatively high population growth, which makes a faster pace of economic growth urgent. Also the role played by the agricultural sector attracts attention, both in macroeconomic terms (employment level and contribution to GDP) and in terms of trading ties with the EU.

Other relatively common features of the MPCs' agriculture relates to the structure of agricultural production, which tends to be specialised in cereals, fruit and vegetables. This, to a certain extent, can be explained by the nature of the system of production and the geo-climatic conditions of the Mediterranean area. Other factors driving this specialisation are the opportunities and constraints stemming from the international context.

The structure of many MPCs' agricultural systems is highly polarised between large scale capitalist farming – predominantly involving public or foreign-owned companies – and the very fragmented pattern of small, family businesses, often run on the lines of self-sufficiency. As regards to environmental conditions and the utilisation of natural resources, the fragility of the ecosystems and strong pressure on scarce resources are common features of both market-oriented and more subsistence-oriented types of Mediterranean agriculture. A fourth common feature of the MPCs is a scarce and uneven provision of inputs, above all land and water, representing a serious limiting factor for the development of agriculture. Other important environmental factors to be considered are desertification and soil erosion, caused by damaging agricultural practices such as overgrazing, excessive rotation and the abandonment of traditional methods of agriculture.

Alongside these structural problems, the MPCs pursued a set of highly controversial agricultural policies. These were applied mainly in the 1970s and 1980s, when a goal of self-sufficiency in food was pursued, along with general policies of 'import substitution' that did not foster long-term agricultural development. These policies, in addition to the growing urbanisation, ended up in many cases increasing, rather than decreasing, dependence on food imports.

This section takes a closer look at the economic structure and policies in the MPCs. The following section provides a concise summary of the main economic characteristics of the MPCs. Section 3 takes a closer look at the interrelated reasons for disappointing growth rates. From Section 4 the focus shifts to agriculture and agricultural policies.

3.2 Key economic characteristics

MPCs are a very mixed group, principally made up of countries that can be classified as DCs with a medium- to low-average per capita income (Table 1 presents economic characteristics and Table 2 shows the demographic data). Exceptions are Malta, Israel and Cyprus, categorised as high-income countries. As a whole, the Mediterranean developed countries emerged from colonialism or semi-colonialism only during or after the Second World War (with the exception of Turkey). Demographically, these countries are still rather dynamic, with strong emigration flows towards Europe and the Persian Gulf. Characterised by imbalances at both the general and the sector levels, their economies are often the subject of stabilisation and structural adjustment programmes with

organisations such as the World Bank and the IMF, as well as with the European Union within the framework of the Euro-Mediterranean Partnership (EMP).

As regards to development strategies, albeit with notable differences, for many years the majority of the Mediterranean DCs pursued a policy of fast transformation centered on industrial growth and capital accumulation in the manufacturing sector. These policies have had a particularly damaging effect on the agricultural sector and we can still find some of their typical distortions, above all in trade and exchange-rate policies (DeRosa, 1997). All this acquires particular significance, when we consider the importance of agriculture, in terms of both employment and GDP, for the countries in question (Table 3).

Table 1. Economic indicators of Mediterranean Partner Countries (2000)

	GDP level	**GDP growth 1990-2000**	**GDP /capita**	**Debt**	**Population growth**	**Annual inflation 1990-99**
	($ billion)	(%)	($1000)	(% of exports)	(%)	(%)
Algeria	48.8	-2.4	1.6	112	1.5	19.0
Cyprus	10.6	n.a.	14.1	n.a.	0.4	n.a.
Egypt	78.4	6.2	1.2	107	1.9	9.1
Israel	106.4	7.3	17.1	n.a.	2.1	10.6
Jordan	7.9	7.0	1.6	130	3.1	3.2
Lebanon	12.5	16.0	2.9	n.a.	1.3	24.0
Malta	4.0	n.a.	10.2	n.a.	0.5	n.a.
Morocco	39.3	4.3	1.4	124	1.6	3.2
Syria	13.6	1.0	0.8	290	2.5	8.7
Tunisia	23.6	6.7	2.5	112	1.1	4.7
Turkey	204.7	3.1	3.1	196	1.5	77.9
Palestinian Territories	4.1	n.a.	1.4	n.a.	4.3	n.a.

Source: Calculations are based on data from the World Development Indicators (World Bank, 2002).

Table 2. Demographic characteristics of the Mediterranean Partner Countries (1999)

	Population			**Labour force**		**Urban population**	**Unemployment[b]**
	total	growth[a]	density	total	growth[a]		
	(mil)	(%)	(pop/km^2)	(mil)	(%)	(%)	(%)
Algeria	30.5	2.2	12	10.6	4.0	59.6	26.4
Cyprus	0.8	n.a.	82	0.4		56.3	3.0
Egypt	62.4	1.9	58	26.0	2.9	45.0	11.3
Israel	6.1	3.0	269	2.7	4.1	91.1	7.7
Jordan	4.7	4.4	47	1.5	5.2	73.6	30.0
Lebanon	4.3	1.8	391	1.1	3.1	89.3	
Malta	0.4	n.a.	1184	0.1		90.3	5.3
Morocco	28.2	1.8	59	11.5	2.7	55.3	17.8
Syria	15.7	2.8	77	5.1	4.0	54.0	
Tunisia	9.5	1.6	58	3.8	2.8	64.8	16.0
Turkey	64.4	1.5	80	32.0	2.8	74.1	6.4
Palestinian Territories	2.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Notes: [a] annual growth 1990-1999; [b] average percentage of the labour force (1994-1997).
Sources: Calculations are based on World Bank and FAO data.

From historical, economic, demographic and political perspectives, on the other hand, the profile of the more developed MPC is quite different. Here Israel plays the most important role, given that

Cyprus and Malta – both well on their way to full EU membership – have a rather limited economic size. Israel is not only the economic leader among the MPCs, but is also a special case on account of its isolation from its Arab neighbours. In Israel, the primary sector is fundamental to the country's economic development, because of the close links between agriculture and rural development and the need for national security and self-sufficiency.

During the 1990s, many MPCs were involved in efforts to stabilise, restructure and re-launch their economies by tackling the inheritance of past development strategies and the difficulties of linking to the international economy. Although a number of countries managed to achieve by no means negligible results with stabilisation policies – in particular as regards to inflation and reduction of public debt – economic growth was insufficient to absorb the labour force surplus. Moreover, the performance of many macroeconomic indicators such as savings and investment, prices, the balance of trade and external debt were either unsatisfactory or insufficient (ERF, 2000). As regards to inflation, the situation of Turkey is particularly worrying; since the year 2000 Turkey has suffered repeated financial crises, characterised by sharp increases in interest rates, stock market and banking system instability, flights of capital and a dramatic devaluation of the Turkish lira.

Trade flows, traditionally characterised by significant imbalances (with the exception of Algeria) and a predominance of Turkey and Israel, recorded an increasing deficit, and consequently a growing economic dependence abroad. Although many MPCs showed signs of improvement in their balance of trade (Turkey, Morocco, Tunisia and Jordan, as well as Israel and Malta), export was not able to keep the pace with the considerable overall growth in world trade in the first half of the 1990s. This blow to expectations was similar to the situation in the 1970s, after the opening of the European Community markets to MPC industrial goods (ERF, 2000).

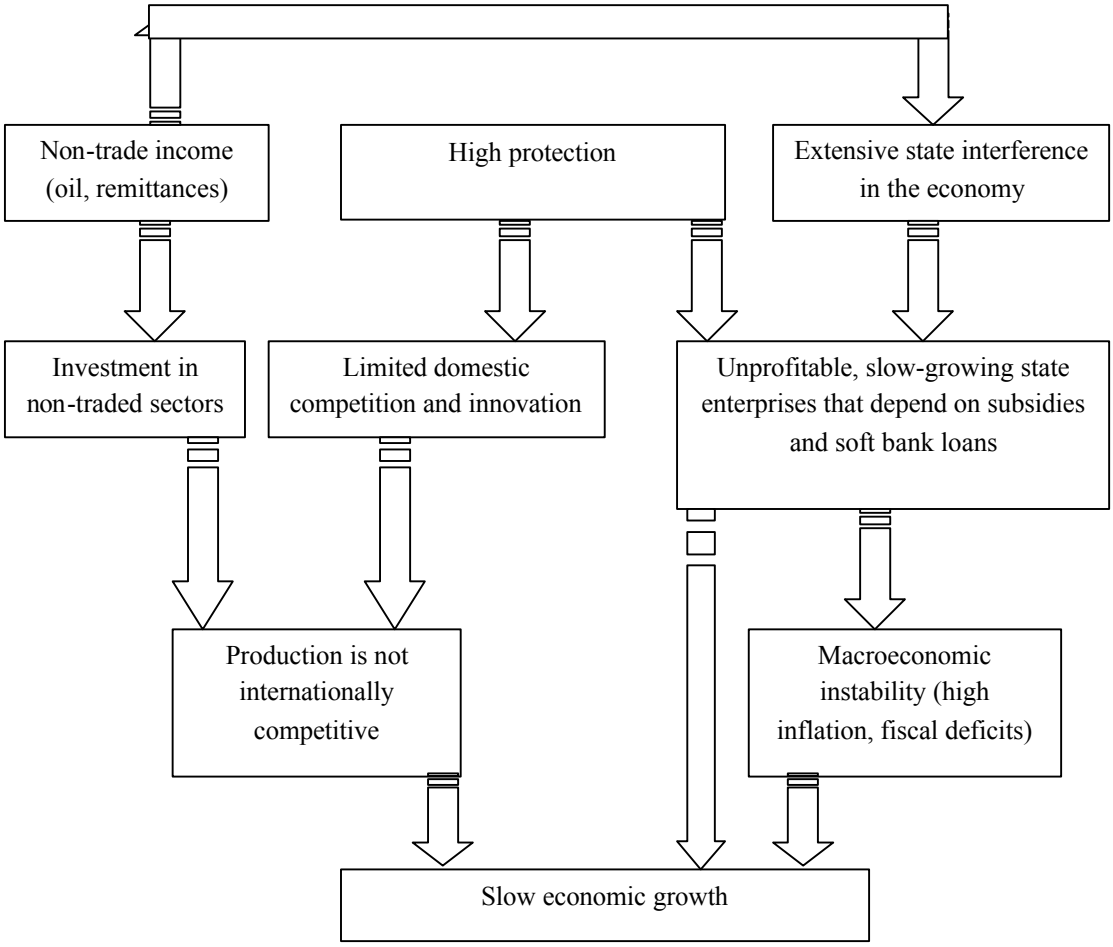
Foreign debt, still very high, also throws a considerable shadow on the prospects of growth for many of the countries in the study. Some smaller economies (i.e. Syria and Jordan) are more exposed than others, but the debt/GNP ratio is also notable for Algeria and Turkey, larger Mediterranean DCs that have shown the most discouraging trends in both economic growth and the size of macroeconomic unbalances.

The attempts of the Mediterranean DCs to move in the direction of a more open economy have been hampered by external economic factors, as well as domestic economic and policy contradictions, which have worsened public and foreign debt, making the financing of investment projects more expensive. On the other hand, the effects of the short-term stabilisation programmes have had adverse socio-economical effects, hampering the efforts of these countries to re-launch their economies. Many of the side effects of such programmes and certain adjustment measures contribute to a downward spiral of recession (cuts in public investment, increases in interest rates, job reductions and salary freezes in the public sector and reductions in food subsidies), which tends to discourage domestic and foreign investment. Also, the devaluation of national currencies often has stronger effects on the cost of imports, rather than on export competitiveness, and can lead to severe shortages of industrial inputs and the under-utilisation of machinery capacity (CIHEAM, 2001).

3.3 Causes of lagging economic growth in MPCs

A combination of relatively high population growth and extensive unemployment make economic growth a prime issue for MPCs. Nevertheless, the actual track record of the MPCs is rather disappointing, lagging behind the growth rates obtained by comparable countries in other parts of the world. Figure 1 sketches different, interconnected causes of the lagging economic growth in the MPCs, generalising about the different countries. Three main forces dragging economic growth are depicted in the first row of text blocks: non-trade income, high protection and extensive state interference in the economy.

Figure 1. Outline of causes of slow economic growth in MPCs



A first factor dragging economic growth is the presence of non-trade income. Oil exports and remittances are important sources of foreign exchange for a number of countries. Such a source of foreign exchange distorts the economy (the 'Dutch Disease') by boosting domestic demand. The resulting appreciation of the exchange rate promotes investments in non-traded sectors of the economy, while reducing investments in the traded sector. The distorting role of oil-income is relevant in Egypt, Algeria and Syria (Riess et al., 2001). The ratio of remittances to the value of exports approaches one in Egypt and Jordan, underscoring the role of (temporary) migration in MPC economies (Nassar and Ghoneim, 2002:5).

A second factor dragging economic growth is high protection owing to an inward-looking development strategy. High protection shelters domestic firms from international competition. This reduces incentives for efficiency improvements and investments in innovations. Combined with the focus on non-traded sectors induced by inflows of non-trade foreign exchange, this has resulted in a production structure that is not internationally competitive.

A third factor dragging economic growth is the extended influence of the state on the economy. This government influence takes the shape of an over-staffed public sector and a dominant presence of state enterprises. The bloated character of public sector employment is apparent from the fact that its share in (non-military) employment is twice the global average and, accounts for close to one-fifth of employment in MPCs. The state also plays a significant role on the production side, for example accounting for 30% of GDP in Egypt and Tunisia, and close to 60% in Algeria. Public investments were close to 40% of the total investment, which is double the middle-income average. Booming oil revenues in the 1970s and 1980s provided a further stimulus to increasing public sector expenditures in oil exporting countries (Bulmer, 2000; Riess et al., 2001).

High protection and extensive government involvement in the economy has led to unprofitable state enterprises that are maintained with subsidies and soft loans. This puts a high pressure on state budgets, causing severe macroeconomic instability. This macroeconomic instability makes reforms both necessary and difficult. Tariff revenues comprise an important part of the government budgets. Countries with high import ratios from the EU will be faced with significant losses in income, necessitating a restructuring of their economies.

3.4 MPC agriculture

Although agriculture is an important sector across the MPCs, its role in the economy differs by country (Table 3). In occupational and social terms, the distinction between the developing and more advanced countries in the region is evident: in the former the proportion of people working in agriculture varies widely, from a maximum of 46% in Turkey to a minimum of 12% in Jordan, whereas in the more advanced countries this proportion is less than 10%.

In terms of GDP, agriculture is a major sector, again mostly for the developing MPCs and contributes as much as 24% to GDP in Syria. Jordan seems to have a more particular economic structure; although agriculture contributes significantly to employment (supplying 12% of employment), its contribution in terms of share of GDP is limited to 3%.

Table 3. The contribution of agriculture to GDP and employment in MPCs

	Composition GDP (%)			**Agricultural labour force (% total labour force)**	
	Agriculture	Industry	Services	1990	1999
Algeria	9	60	31	26	24
Cyprus	6	25	70	14	9
Egypt	17	34	49	40	33
Israel	3	30	67	4	3
Jordan	3	25	73	15	12
Lebanon	12	22	66	7	4
Malta	3	35	62	0	2
Morocco	14	32	54	45	36
Syria	24	30	46	32	28
Tunisia	12	29	59	29	25
Turkey	16	25	59	54	46
Palestinian Territories	8	27	66	n.a.	n.a.

Sources: World Development Indicators (World Bank, 2002) and FAOSTAT. GDP data are for 2000. Exceptions are the contributions to GDP by sector for Malta and Cyprus (WDI data for 1993) and for Israel (2001 estimates are from the *CIA World Factbook,* CIA, 2002).

Production composition varies considerably from country to country, but is polarised on cereals and fruit and vegetables, followed by other staple foodstuffs or typically Mediterranean products (meat, milk, potatoes, sugar, pulses, nuts, olives and olive oil). The importance of agricultural raw materials, such as tobacco, cotton and sugar beet, on the other hand, is more limited. The main producers are Turkey and Egypt, especially, but not exclusively, for staple foodstuffs; however, other countries – the Maghreb, Israel and Syria – are often important players for particular markets.

Besides the fundamental climatic and geographic features of the Mediterranean area, the composition of production is affected by long-term trends in world prices and the relatively lower level of protection of some target markets for Mediterranean products (fruit and vegetables, olive oil). Products that are not strictly Mediterranean (cereals, meat and milk) maintain a high level of importance in the agricultural system, because of their role in providing subsistence to peasant farmers and also, in some cases, because of policy support and trade protection aimed at reducing dependence on imported food (INEA, 2002; DeRosa, 1997).

The main issues in MPC agriculture can be summarised under three headings: polarised production structure, production limitations and food security. There is a marked and growing polarisation between large-scale, capitalist company farming and small family holdings. Institutional factors, insufficient public intervention in the reform of land ownership and, for some MPCs, strong government support for agricultural exports have accentuated this duality. Large firms complain above all about the lack of adequate services, while small farmers suffer from the difficulties of extracting sufficient revenues by traditional farming. This is because of natural and technical restraints, obstacles to mechanisation and other structural limitations, but also price dynamics and the conditions of marketing channels (INEA, 2002).

Environmental, climatic and technological limitations impose restrictions on the expansion of arable land and create problems for the sustainability of traditional agricultural methods and ecosystems. The lack of fertile land and water is an evident limitation to agricultural development, while the goal of increasing yields creates further problems, owing to the chemical inputs already used on a massive scale. Desertification, soil erosion and infertility are serious problems brought about by overgrazing, intensive crop rotation and the abandonment of traditional agricultural practices. Inefficient and insufficient consideration of soil characteristics are often a feature of the management of water resources and can lead to the soil becoming too saline or alkaline, as happens in Syria and Egypt, or to soil erosion, which is widespread in Turkey, Syria, Lebanon and the Maghreb[3] (Makhlouf et al. 1998; Lacirignola-Hamdy, 1995).

The question of food security is still a crucial issue for several Mediterranean DCs. In many countries, domestic production, relatively neglected compared with the industrial and service sectors, is often insufficient to cope with the increased food consumption, fuelled by population growth, urbanisation, increasing incomes and diet changes. The availability of low-cost subsidised food exports from developed countries has indirectly contributed to these processes (INEA, 2002).

3.5 MPC agricultural policies[4]

The orientations and tools of agricultural policy also differ from country to country. The priorities of the more developed MPCs are strongly influenced by specific external restraints. In the case of Malta and Cyprus, the overriding objective is the harmonisation of those policies and regulations required as stepping stones to full EU membership. In the case of Israel, agricultural policy has been influenced since its foundation by the need to combine agricultural development with national security and self-sufficiency in food production, given its hostile geopolitical environment. As regards to the Mediterranean DCs, agricultural policy decisions have been mainly oriented towards dealing with structural problems and related issues. In this context, the major priorities of agricultural policy are to improve the performance of the sector and the level of food security. These minor – but by no means negligible – objectives relate to improving linkages between vertical stages of agro-food systems (competitiveness, marketing, etc.), as well as environmental protection, and food quality and safety.

Measures of producer support and market regulation evolve slowly within the context defined by adjustment programmes, WTO commitments and preferential deals with the EU. All imply, for Mediterranean DCs, a fundamental change in price policies, with the aim of restoring the market mechanism and improving its operation. Liberalisation and structural adjustment have important implications for agriculture. Oriented to both sustaining traditional agriculture and improving the performance of competitive sectors at international level, agricultural policy reform aims at opening domestic markets, reducing protection differentials among agriculture and other sectors, but also to reducing government support for production prices (and/or reducing consumer subsidies), while reducing input subsidies.

Some countries have made considerable strides in this direction. Egypt above all, as well as the Maghreb countries, has modified its policies considerably in order to reduce protection in the

[3] The Maghreb countries include Morocco, Algeria and Tunisia.

[4] This section is based on INEA (2002).

industrial sector and re-launch agriculture by improving market efficiency. The most important measures are the following:

- reform at the level of infrastructure, particularly for the collection and transfer of water resources, particularly in the Maghreb;
- promotion of privatisation, private investment and a more dynamic land market (in the Maghreb, Egypt and Jordan), though within the strict budget limitations allowed by stabilisation and adjustment programmes;
- significant interventions in agricultural development services and marketing coordination (especially all in the Maghreb).

The effects of the reforms vary depending on the starting point of the country concerned and the level of social consensus, but the overall picture is still characterised by hefty government regulation of agricultural markets, through intervention on prices (consumer and producer subsidies), quantities (quotas) and tariffs. In fact, the reform process has been rather selective: government support and trade protection are still considered indispensable for certain products, while forms of policy intervention, aimed at either controlling food prices or extracting surplus from the agricultural sector, are still in place. Moreover, there are still cases where agriculture suffers from an overvaluation of real exchange rates and trade protection in the manufacturing sector.

4. Trade flows in the Mediterranean region

4.1 Introduction

The establishment of a Mediterranean free-trade area is a junction in the development of the EuroMed Partnership, and also in the perspectives in which the EuroMed Association Agreements have been built. This section aims at describing the MPCs' current trading context and their relationship with the EU.

The first part looks at the general pattern of trade by the MPCs and the developments over time. It discusses trade balances, the openness of the MPC economies and the composition of trade. The EU is a main trading partner of the MPCs. Section 4.2 therefore looks at the composition of trade with the EU, trade flows between countries and the importance of the EU as a trading partner for individual MPCs. The Mediterranean free-trade area (FTA) implies free trade among the MPCs. Section 4.3 therefore describes the composition of trade among MPCs, trade flows between individual MPCs and the importance of MPC trade for individual countries.

The following three sections describe patterns over time and the geographical orientation of MPC trade. Section 4.5 takes a more detailed look at the composition of trade for individual countries, using an index of comparative advantage. Section 4.6 takes a closer look at the composition and destination of agricultural food trade-flows. Although composing a relatively small share of current trade, agricultural trade plays an important role in nearly all of the countries in the region, although for differing reasons (i.e. employment, export revenues, supplementing shortfalls in domestic production). Issues of competition between EU and MPC producers play an important role in negotiations on agriculture. Section 4.7 summarises the findings on the specialisation of products and regions, and similarities in EU and MPC trade.

4.2 General trade patterns

The trade balance of MPCs as a group is negative (see Table 4). Exceptions to this pattern are Syria and Algeria, both of which rely on the export of fuels. The levels of imports and exports differ considerably, reflecting the different sizes of the MPC economies. Changes in the export and import levels in the 1997-2001 period also display a diverse picture. About half the countries (Algeria, Morocco, Israel, Malta and Lebanon) have high export growth rates, in most cases matched by high import growth rates. Algeria and Lebanon are exceptions, having a low or even decreasing change in imports and indicating an improvement of trade balances. Other countries have relatively low export growth rates (Tunisia, Egypt, Jordan and Turkey) or even a decrease in exports in the case of Cyprus. These countries have low or decreasing import rates as well.

Table 4. Exports, imports and trade balance for the MPC countries

	Exports		Imports		Trade balance
	Value (2000/2001, $1 bil.)	Change (1997-2001, %)	Value (2000/2001, $1 bil.)	Change (1997-2001, %)	Value (2000/2001, $1 bil.)
Algeria	22.031	59	9.152	5	12.879
Cyprus	0.386	-10	3.885	5	-3.500
Egypt	4.165	7	12.756	-3	-8.591
Israel	31.407	40	35.742	23	-4.335
Jordan	1.433	11	4.442	16	-3.009
Lebanon	0.802	25	6.759	-9	-5.957
Malta	1.991	36	3.063	20	-1.072
Morocco	7.432	59	11.533	46	-4.102
Syria	4.634	n.a	3.815	n.a	0.819
Tunisia	5.850	5	8.566	8	-2.716
Turkey	29.410	12	47.774	-2	-18.365
MPC	109.540	36	140.444	6	-30.904

Note: for Syria, only data for 2000 were available.

Sources: The calculations are by the Landbrouw Economisch Instituut (LEI), The Hague, based on data from the ITC and the WTO.

Next to Algeria and Syria, Egypt also has a significant share of fuels in its exports. Manufactured goods and machines dominate the exports of Israel, Malta, Turkey and Tunisia, and play an important role in the exports of the other countries as well. Exports of food and live animals take a relatively large share of exports in Cyprus and Morocco; Algeria is the only country not exporting food or live animals (see Tables 5a and 5b for the composition of exports and imports by country).

To put the developments into the perspective of the MPCs, Figure 2 presents the openness of MPC countries over time. The openness of MPC economies (measured as the share of exports and imports in GDP) is above the world average. There are, however, large differences between countries. Presenting data for different groups of MPCs reveals that trade levels for most of the years are lowest for the EU accession countries (Cyprus, Malta and Turkey). Their low trade levels and the increase of these at the end of the 1990s are because of Turkey. The high degree of openness of the Middle Eastern and North African countries is to a large extent due to the exports of fuels by Syria, Egypt and Algeria. Israel, furthermore, has relatively high trade levels, increasing the group average of the Middle Eastern countries.

The exports of MPCs are dominated by fuel, because of the fuel exports by Algeria and Syria (see also Figure 3). The size of the two webs again shows the negative trade balances; except for fuels and miscellaneous manufactured goods (mostly clothing), imports exceed exports in all categories of trade. This also holds true for food and animal products, where imports are 50% higher than exports.

Figure 2. Share of exports and imports in GDP (World Bank, 2002)[5]

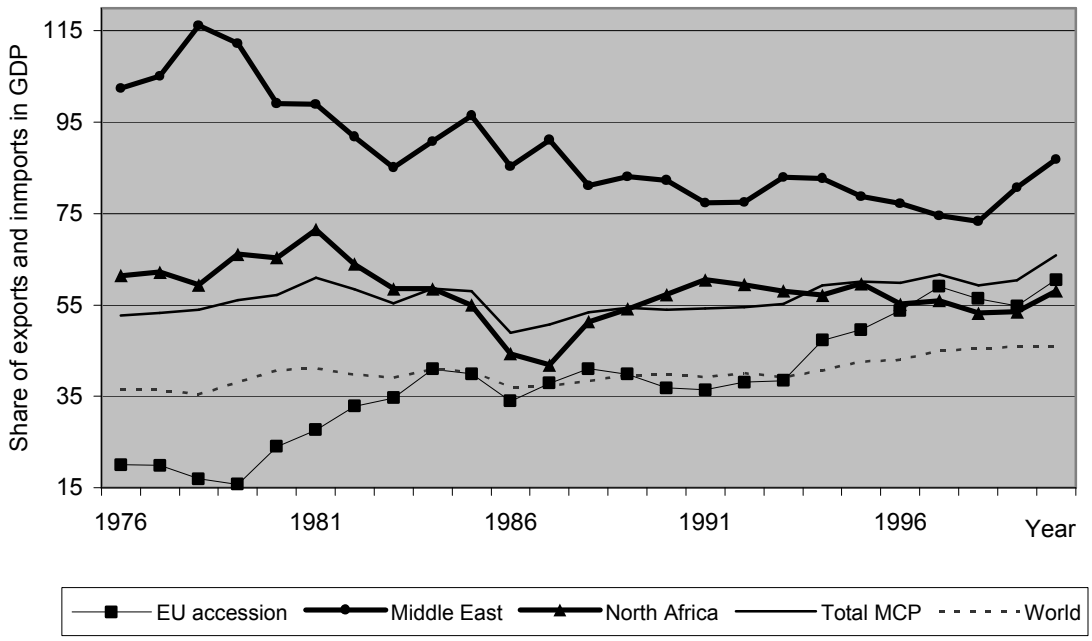
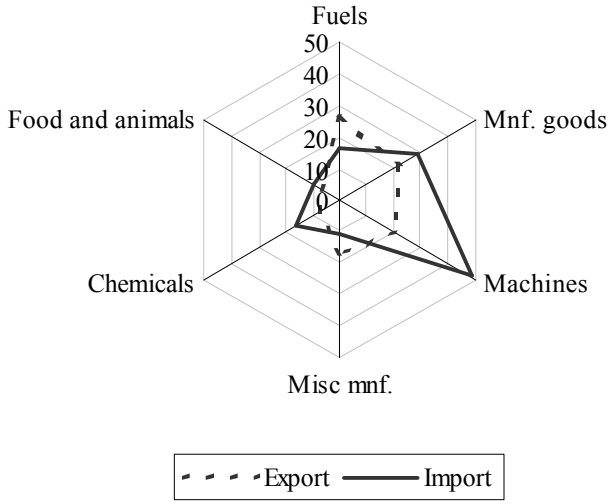


Figure 3. Composition of total trade by MPCs ($1 bil., ITC/WTO data for 2000)



The aggregate composition of trade for the MPCs as a group obscures the differences between the countries. Tables 5 and 6 present the composition of exports and imports by major categories. A number of countries specialise in a single category of exports, either fuel (Algeria, Syria and Egypt) or manufactured goods and machines (Israel, Malta and Turkey). Jordan and Tunisia have the major part of their exports in two categories (fuels and chemicals, manufactured goods and machines), while Lebanon and Morocco have the most diversified export pattern, divided over three categories (food and live animals, fuels and chemicals, manufactured goods and machines).

[5] The data of the following countries were used: Cyprus, Malta and Turkey (EU accession countries); Israel, Jordan, Syria (Middle East); Algeria, Egypt, Morocco and Tunisia (North Africa). Data of individual countries are weighed by GDP to get group averages. For Cyprus and the world total no data were available for 2000, thus, these were set to be equal to their 1999 values.

The composition of imports shows a more similar pattern across the countries, with manufactured goods being the single largest category for all countries. The second largest type of imports is fuels and chemicals for most countries. The exceptions to this trend are Algeria and Egypt, for which food and animals are the second largest group of commodities.

Table 5a. Composition of exports by country (%)

	Food & live animals	Crude materials	Fuels & chemicals	Manufactured goods & machines
Algeria	0	0	99	1
Cyprus	27	3	25	19
Egypt	9	7	48	20
Israel	2	2	14	72
Jordan	10	18	26	22
Lebanon	11	9	11	32
Malta	3	0	5	89
Morocco	21	9	16	17
Syria	8	5	77	4
Tunisia	4	2	23	21
Turkey	11	2	5	53

Note: the data may not sum to 100% since only the major categories are included.

Sources: the calculations are by LEI, The Hague, based on data from the ITC and the WTO.

Table 5b. Composition of imports by country (%)

	Food & live animals	Crude materials	Fuels & chemicals	Manufactured goods & machines
Algeria	26	3	13	52
Cyprus	8	1	21	42
Egypt	22	7	17	39
Israel	4	2	19	65
Jordan	15	3	25	46
Lebanon	13	3	28	39
Malta	9	1	16	61
Morocco	11	5	26	49
Syria	13	6	17	51
Tunisia	7	5	19	57
Turkey	2	6	30	47

Note: the data may not sum to 100% since only the major categories are included.

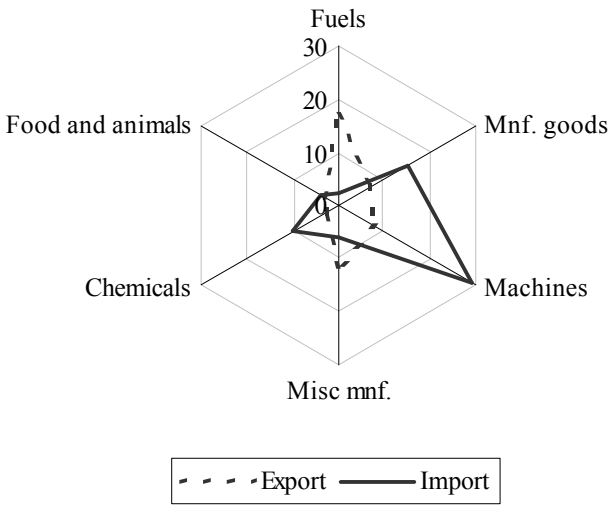
Sources: the calculations are by LEI, The Hague, based on data from the ITC and the WTO

4.3 Trade between the EU and the MPCs

The first thing to note about the trade between the MPCs and the EU is the large difference in relative importance. Imports from the EU compose 44% of total imports into the MPCs, while exports to the EU are 48% of total MPC exports. The EU is thus a major trading partner for the MPCs. The opposite is not true: imports from the MPCs are 2% of total imports into the EU, while exports to the MPCs are 3% of total exports.

Figure 4 displays the composition of MPC trade with the EU. The overall pattern is similar to the total trade pattern of the MPCs, except for the limited import of fuels from the EU. Again imports exceed exports, except fuels and miscellaneous manufactured goods (mostly clothing). Imports are dominated by machines and manufactured goods.

Figure 4. Composition of trade with the EU ($1 bil., ITC/WTO data for 2000)



The aggregate analysis for the EU and the MPCs obscures the differences in trade flows for the different countries. Analysing export and import flows among individual countries reveals a limited number of major players (Tables 6a and 6b). For exports and imports the same EU countries appear: Belgium/Luxembourg, France, Germany, Italy, the Netherlands, Spain and the United Kingdom. Among the MPC countries, Algeria, Israel, Morocco, Tunisia and Turkey appear as major players for both imports and exports. In addition, Syria has a significant share of exports (due to its fuel exports), while Egypt and Lebanon take a significant share of imports from the EU.

Table 6a. Main export flows from MPC to EU countries (% of exports from the MPCs to the EU)

	Algeria	Israel	Morocco	Syria	Tunisia	Turkey	**Total**
Belgium/Luxembourg	1.2	3.5				1.3	5.9
France	5.4	1.4	4.6	1.9	2.9	3.5	19.7
Germany	1.4	2.8			1.3	9.9	15.4
Italy	8.2	1.5		2.7	2.5	4.3	19.2
Netherlands	3.1	1.7				1.6	6.4
Spain	4.3		1.8			1.8	7.8
United Kingdom	1.2	2.5	1.3			4.0	9.0
Total	24.6	13.3	7.7	4.7	6.7	26.4	83.4

Notes: the most recent data (2000 or 2001) are used; only entries larger than 1% are included.
Sources: the ITC and the WTO.

Table 6b. Main import flows from the EU to MPC countries (% of imports from the EU to the MPCs)

	Algeria	Egypt	Israel	Lebanon	Morocco	Tunisia	Turkey	**Total**
Belgium/Luxembourg			5.5				1.5	7.0
France	3.3		1.8		4.3	3.5	3.5	16.4
Germany	1.1	1.5	4.1			1.3	8.2	16.2
Italy	1.3		2.7	1.1		2.5	5.4	12.9
Netherlands			2.2				1.6	3.8
Spain			1.1		1.8		1.6	4.5
United Kingdom			4.2		1.1		3.0	8.2
Total	5.7	1.5	21.5	1.1	7.1	7.3	24.9	69.0

Notes: the most recent data (2000 or 2001) are used; only entries larger than 1% are included.
Sources: the ITC and the WTO.

The number of entries in the two tables provides an indication of the geographical diversification of trade. Israel and Turkey take a large share of the exports (13.3 and 26.4%) and imports (21.5 and 24.9%), while also trading with a large number of EU countries. Analysis of the underlying data indicates that besides having geographical diversification, Turkey and Israel also have a more diversified composition of their trade. There is a surprisingly strong trade link between Turkey and Germany (9.9% of exports and 8.2% of imports), despite the lack of historical ties.

The EMAAs are expected to stimulate trade among the MPCs and the EU. Part of the impact of the EMAAs (such as the amount of trade diversion) depends on the current levels of trade among the MPCs and the EU. Table 7 presents the share of trade with the EU as a part of the total trade by MPCs in 1993 and 2000. Comparing these two points of data indicates a decreasing importance of the EU both for exports and imports. Moreover, decreases are stronger than increases. The only exception is Morocco, which shows a 12% increase in the share of EU exports as a part of total exports.

Exports to the EU are double digit numbers for all countries. The major exception is Jordan, with only 5% of its exports going to Europe. For Egypt, Israel, Lebanon and Malta exports to the EU are less than 50% of their total exports. Imports from the EU are at least 30% of their imports, but around 50% for most countries.

Table 7. Share of trade with the EU for MPC countries (% of total exports and imports)

	Exports			**Imports**		
	1993[a]	2000	Trend	1993[a]	2000	Trend
Algeria	70	63	-	61	57	-
Cyprus	57	48	-	57	52	-
Egypt	44	33	-	40	33	-
Israel	31	27	-	51	43	-
Jordan	6	5	-	33	35	+
Lebanon	23	20	-	48	44	-
Malta	75	34	-	73	60	-
Morocco	63	75	+	57	58	+
Syria	n.a.	66	n.a	n.a.	31	n.a.
Tunisia	79	80	+	74	70	-
Turkey	50	52	+	47	49	+
MPC	52	50	-	54	49	-

Notes: [a] the earliest points of data point differ for Egypt (1994), Jordan (1995) and Lebanon (1997). For Syria, only data for 2000 are available.
Sources: the ITC and the WTO.

4.4 Trade among the MPCs

The objective of the Barcelona process extends beyond establishing a bilateral free-trade area between the EU and MPCs. The eventual objective is to create a free-trade area in the whole EuroMed region, thus including free trade among MPCs. Trade among the MPCs is therefore analysed in a similar way as trade with the EU.

The composition of trade among MPCs shows the same pattern as that of the EU, being dominated by fuels. The second largest group of commodities is manufactured goods. The trade flows between countries shows a different pattern, reflecting the political situation in the region (Table 8). Where exports from Turkey again display the same geographical diversification as that of the EU, exports from Israel are limited to Cyprus and Turkey.

Exports to the MPCs are less important than exports to the EU, except for Jordan (Table 9). Where only 5% of its exports were destined for the EU, 21% is exported to other MPCs. MPCs also account for 19% of the exports by Lebanon and Syria.

Figure 5. Composition of trade among MPCs ($1 bil., ITC/WTO data for 2000)

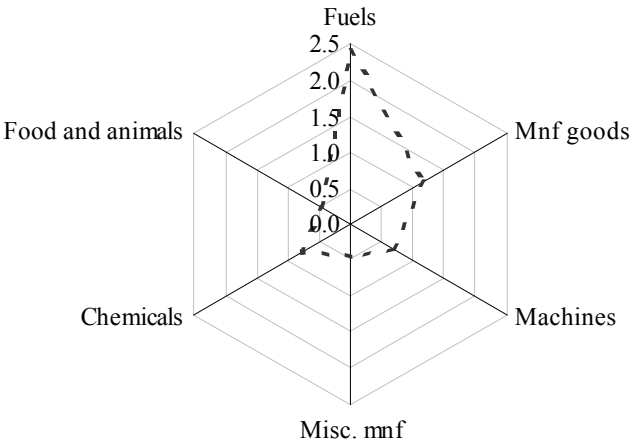


Table 8. Trade flows among the MPCs (% of total intra-MPC trade in 2000)

Importing countries	**Exporting countries** Algeria	Israel	Jordan	Syria	Turkey	**Total imports**
Algeria					5.9	5.9
Cyprus		2.6		1.7	3.9	8.2
Israel			1.2		9.8	11.0
Jordan					1.6	1.6
Lebanon				3.0	2.0	5.0
Malta	1.4				1.1	2.4
Morocco	2.7				1.1	3.7
Syria					2.9	2.9
Tunisia	1.2				2.5	3.7
Turkey	20.9	6.8		7.6		35.3
Egypt					5.8	5.8
Total exports	26.1	9.4	1.2	12.2	36.5	85.4

Sources: **the ITC and the WTO.**

Table 9. Share of exports to MPCs in total exports (%)

	Export		
	1993[a]	2000	Trend
Algeria	2	8	+
Cyprus	13	16	+
Egypt	13	11	-
Israel	1	2	+
Jordan	10	21	+
Lebanon	19	19	0
Malta	0	0	0
Morocco	5	2	-
Syria	n.a.	19	n.a
Tunisia	5	3	-
Turkey	7	8	+
MPC	4	6	+

Notes: [a] the earliest points of data point differ for Egypt (1994), Jordan (1995) and Lebanon (1997). For Syria, only data for 2000 are available.

Sources: the ITC and the WTO.

4.5 Comparative advantages of MPCs

In order to assess the products in which MPCs have a comparative advantage, the Balassa Index of Revealed Comparative Advantage (RCA) is calculated for the MPCs.[6] Table 10 presents the aggregate categories in which individual countries have a comparative advantage, i.e. an RCA greater than one. The RCA gives an impression of the current position in the export markets. It is not a 'clean' indicator of comparative advantage in the sense that current export patterns are influenced by trade policies that may distort the trade pattern.

Table 10. Revealed comparative advantage of MPC countries (2000)

	MPC	Algeria	Cyprus	Egypt	Israel	Jordan	Lebanon	Malta	Morocco	Syria	Tunisia	Turkey
Agricultural products			4.4	1.3		1.9	2.4		2.7	3.9	1.1	1.6
Non-agricultural crude materials	1.1			3.2		9.0	3.5		4.3	9.6		
Chemicals			1.8		1.3	2.5	1.2		1.2		1.1	
Energy	2.8	11.7		4.8						3.1	1.3	
Machines and transport								1.7				
Manufactured goods	1.5			1.3	2.6		1.3					2.1
Miscellaneous products	1.2		1.3			1.3	2.0	1.2	2.4		3.1	1.9

Notes: the average of data for 2000/2001 is used; the highest RCA score is underlined for each country.
Sources: the ITC and the WTO.

All countries have at least one category in which they have at least a slight comparative advantage, but there are clear differences between the countries. Most countries have an above average export level in three or more categories. Algeria is the exception, specialising in energy exports. Despite having an advantage in multiple categories, one category stands out for most countries. These categories are used to group the countries as having an advantage in agricultural products (Cyprus), non-agricultural crude materials (Jordan, Lebanon, Morocco and Syria), energy (Algeria and Egypt), machines and transport (Malta), manufactured goods (Israel and Turkey) and miscellaneous products (Tunisia). It should be noted that countries could have a comparative advantage in specific products (specific fruits or vegetables for example), but not for the category as a whole.

Table 11 takes a more detailed look at the comparative advantage of the countries, by identifying the top-three commodities in terms of RCA (based on a three-digit classification). The entries indicate that commodities in which countries have a comparative advantage compared with world trade flows are not necessarily their largest trade flows.

Algeria, Israel and Malta have a strong concentration of their exports, with three goods accounting for 41%, 31% and 72% of exports, respectively. This reflects their concentration of exports as indicated in Tables 5a and 5b. In the case of Israel and Malta exports are even strongly concentrated in a single commodity (pearls/precious stones and transistors, respectively).

Jordan, Morocco and Tunisia have a strong comparative advantage in fertilizer exports, although for Morocco and Tunisia these are only a minor share of total exports. Although agricultural products account for a limited share of total exports, six countries have agricultural products in their top-three products with a comparative advantage: Cyprus (vegetables), Egypt (cotton and rice), Jordan (vegetables), Lebanon (tobacco), Morocco (crustaceans) and Syria (cotton and spices).

[6] Balassa Index of Revealed Comparative Advantage (Nagarajan, 1998:17): $RCA_j^i = \frac{x_j^i / X_j}{x_W^i / X_W}$ where x^i_j is the export of good *i* by country *j*, Xj is total export by country *j*, x^j_w is the total world export of good *i*, and X_W is the total world export.

Table 11. Top-three commodities and exports share by country (2000/2001)

Country	Category	RCA	Share(%) over total export	
Algeria	342 - Liquefied propane, butane	73.3		10.4
	343 - Natural gas	29.2		30.6
	244 - Cork, natural, raw; waste	12.8		0.0
			cumulated share:	*41.0*
Cyprus	054 - Vegetables	22.9		8.2
	122 - Tobacco, manufactured	21.9		5.6
	661 - Lime, cement, constr. matl.	21.6		4.1
			cumulated share:	*17.9*
Egypt	263 - Cotton	48.1		4.5
	325 - Coke, semi-coke, ret.carbn	37.8		1.5
	042 - Rice	35.4		3.4
			cumulated share:	*9.4*
Israel	667 - Pearls, precious stones	28.9		30.9
	277 - Natural abrasives, nes	17.5		0.3
	272 - Fertilizers, crude	10.5		0.2
			cumulated share:	*31.4*
Jordan	272 - Fertilizers, crude	837.3		15.0
	431 - Animal, veg.fats, oils, nes	44.2		2.4
	054 - Vegetables	19.0		6.8
			cumulated share:	*24.2*
Lebanon	269 - Worn clothing, textl.artl	96.7		2.5
	121 - Tobacco, unmanufactured	41.5		3.6
	897 - Gold, silverware, jewl nes	26.5		9.3
			cumulated share:	*15.4*
Malta	776 - Transistors, valves, etc.	15.6		63.2
	629 - Articles of rubber, nes	11.8		2.3
	841 - Mens'/boys' clothng,x-knit	10.6		6.2
			cumulated share:	*71.7*
Morocco	272 - Fertilizers, crude	292.8		5.2
	244 - Cork, natural, raw; waste	93.4		0.3
	036 - Crustaceans, molluscs etc.	35.6		8.5
			cumulated share:	*14.1*
Syria	263 - Cotton	167.2		15.6
	272 - Fertilizers, crude	121.5		2.2
	075 - Spices	68.0		2.3
			cumulated share:	*20.1*
Tunisia	272 - Fertilizers, crude	33.1		0.6
	421 - Fixed veg. fat, oils, soft	25.4		3.7
	841 – Mens',boys' clothng,x-knit	22.9		13.4
			cumulated share:	*17.7*
Turkey	845 - Othr. textile apparel, nes	8.9		8.1
	842 – Women/girls'clthng,xknit	8.4		5.3
	676 - Iron, stl. bar, shapes etc.	9.7		3.8
			cumulated share	*17.2*

Note: an average of data for 2000/2001 is used.

Sources: the ITC and the WTO.

4.6 Composition and destination of agricultural trade

Agricultural trade plays an important role in nearly all of the countries in the region, although the reasons differ among countries. Turkey, Israel and Morocco are the main agricultural exporters of the

area, but agricultural exports make up a high proportion of total exports for many other countries. Nevertheless, there is a marked deficit in the aggregate agricultural trade balance for the twelve countries in the study ($7.5 billion in the two-year period of 1998-1999), and the last decade shows an increasing gap between exports and imports. Cereals and animal products (meat and cheese) show the most significant deficits, while there are only surpluses for fruit and vegetables, and for fish.

As regards to trade with the EU, the situation is broadly similar, but in this case the deficit is declining. This suggests that in the last decade some of the major MPCs have improved the trading performance of their agricultural systems, despite the presence of notable export restrictions, such as quotas, on many agricultural products traditionally exported to the EU. Especially for the DCs in the region, the detected shortfalls confirm a dependence on a foreign food supply and an increasing influence of consumption patterns stemming from more developed countries. Food trade deficits have become a relevant restriction in the operation of stabilisation and structural adjustment policies, in particular for countries such as Algeria and Egypt (INEA, 2002).

As Table 11 indicates, the majority of MPCs have a comparative advantage in at least one agricultural product. This may partly explain the reluctance of the EU to include agricultural concessions in the EMAAs. Tables 12a and 12b present a break-down of agricultural exports and imports by category and destination.

Table12a. Value and destination of agricultural exports by MPCs (2000)

	Export composition		**Destination(% by category)**			
	($1 mil)	(% of total agricultural exports)	EU	MPC	OECD, non-EU	Rest of world
Vegetables and fruit	3567	43	58	4	12	26
Fish, crustaceans, mollusc	1167	14	65	2	27	6
Tobacco, tobacco manuf.	656	8	12	30	7	51
Cereals, cereal preprtns.	587	7	28	14	31	26
Crude animal, veg.materl.	451	5	71	5	16	8
Misc.edible products etc.	368	4	16	14	13	57
Fixed veg. fats and oils	320	4	22	11	4	63
Sugar, sug.preptns, honey	319	4	59	9	12	19
Coffee, tea, cocoa, spices	246	3	24	13	19	44
Live animals	120	1	4	2	3	91
Beverages	115	1	51	8	8	33
Dairy products, bird eggs	95	1	14	7	6	74
Meat, meat preprtns.	69	1	55	5	11	29
Cork and wood	55	1	64	3	1	32
Oil seed, oleaginus fruit	55	1	65	7	12	16
Animal, veg.fats, oils, nes	53	1	2	39	2	58
Hides, skins, furskins, raw	41	0	26	9	7	59
Animal feedstuff	31	0	27	38	4	31
Animal oils and fats	5	0	42	12	37	8

Notes: data for Egypt are missing for 2000, so data for 2001 are used instead.

Sources: the ITC and the WTO.

Vegetables and fruit are to a large extent the most important export product for the MPCs as a whole. This category includes products that are considered especially sensitive because of direct competition with production in southern EU member states in citrus products, tomatoes and olive oil. The break-down by destination indicates that the EU is the most important destination for the top-two export products: vegetables and fruit, fish and crustaceans. Significant trade among the MPCs only occurs in tobacco and related products. Apart from cereals (31%) and fishery products (27%) non-EU, OECD countries (including the US) play a limited role as export destinations

Table 12b shows that cereals are the single largest type of agricultural imported commodity, accounting for 28% of total agricultural imports. Most cereals are imported from the US. Distribution

across the other categories of imports is rather even. Compared with exports, the EU has to share its dominant position in imports with other OECD countries (mainly the US). Imports from other MPCs play only a minor role. The share of vegetables and fruit imported from MPCs, is the exception, but it represents less than 1% of total agricultural imports.

Table 12b. Value and origin of the agricultural imports of MPCs (2000)

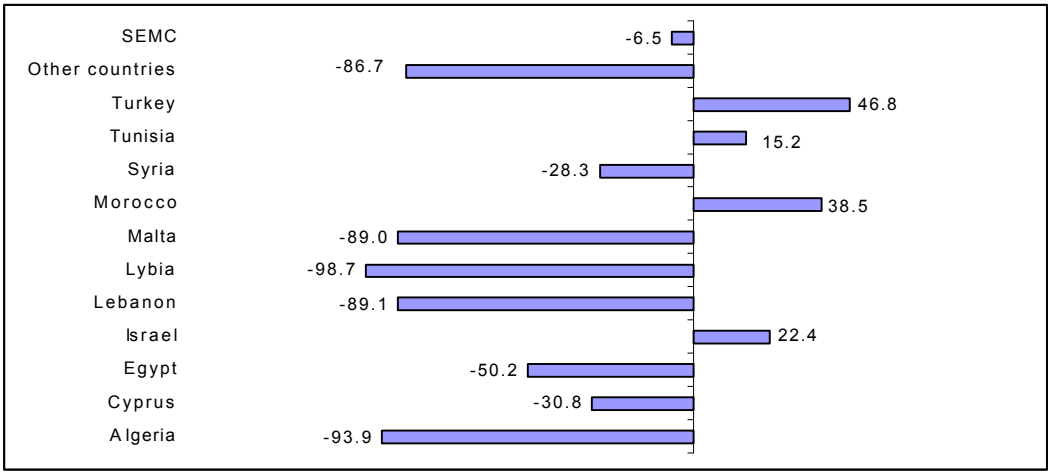
	Export composition		Origin (% by category)			
	($1 bil.)	(% of total agricultural imports	EU	MPC	OECD, non-EU	Rest of world
Cereals, cereal preprtns.	4924	28	28	4	59	10
Cork and wood	1362	8	43	0	4	53
Tobacco, tobacco manuf.	1356	8	17	2	64	17
Vegetables and fruit	1321	7	28	14	32	26
Animal feedstuff	1121	6	19	3	35	42
Dairy products, bird eggs	1022	6	66	1	27	6
Fixed veg. fats and oils	1022	6	26	6	15	53
Coffee, tea, cocoa, spices	910	5	21	3	5	71
Sugar, sgr.preptns, honey	865	5	60	3	6	31
Oil seed, oleaginus fruit	737	4	14	1	37	48
Misc.edible products etc.	677	4	67	9	23	2
Meat, meat preptrns.	522	3	20	0	16	63
Live animals	468	3	42	1	42	15
Fish, crustaceans, mollusc	466	3	33	8	19	41
Crude animal, veg.matl.	300	2	57	8	15	20
Hides, skins, furskins, raw	228	1	54	1	22	23
Beverages	175	1	81	1	7	11
Animal, veg.fats, oils, nes	155	1	47	2	16	34
Animal oils and fats	129	1	7	12	53	27

Note: Data for Egypt are missing for 2000, so data for 2001 are used instead.

Sources: the ITC and the WTO.

Looking at agro-food trade balances by country reveals a diverse pattern. From 1998 to 1999, only four MPCs were net exporters (Turkey, Tunisia, Morocco and Israel); all the others were net-importers. Particularly, Malta, Libya, Lebanon and Algeria depend heavily on EU imports as shown by their standardised deficits, going beyond the –80% figure (see Figure 6).

Figure 6. MPCs' agro-food standardised trade balance with EU (1998-99)



Source: dell'Aquila and Velazquez (2002).

4.7 Specialisation and similarity in EU-MPC agricultural trade[7]

Compared with EU imports from non-EU countries, MPC exports to the EU are specialised in fruit and vegetable products (whose relevance in many MPC countries is well known), followed by citrus fruit, dried fruit and processed vegetables. For certain products such as flowers and ornamental plants, dried fruit, oils and fats, there is a very close product/country link and therefore little competition between countries in those markets. On the other hand, several countries have a high degree of specialisation in fresh vegetables (Cyprus, Egypt and Morocco), citrus fruit (Cyprus, Israel and Morocco) and fishery products (Malta, Morocco and Libya). This implies more competition among MPCs for these products. Exports of the EU to the MPCs are specialised in fibre crops, cereals, live animals, oilseed products and dairy.

Comparing the structure of exports by EU members and MPCs with the EU indicates the importance of fruit and vegetable products (both fresh and processed), fishery products and olive oil (INEA, 2002). The countries competing with each other differ by product. For olive oil, only Tunisia appears to be in rivalry with EU members. In the category of preserved fruit, Turkey, Israel and Cyprus are competing. For fresh fruit the relevant set of countries changes to Israel and Tunisia, while for processed vegetables, Morocco, Turkey, Lebanon and Israel are important players.

In summary, competition between the EU and MPCs is concentrated in Mediterranean products and mainly involves southern EU members. As already pointed out elsewhere, EU-MPC competition and its impact affects a limited number of regions of the EU Mediterranean countries, particularly, those where Mediterranean products account for over 40% of agricultural production values (García Alvarez-Coque, 1999).

There appears to be a correlation between preferential agreements and Mediterranean trade flows, with MPCs' export specialising in products that enjoy preferential access to EU markets: fresh vegetables, citrus, nuts, processed fruit and vegetables, oils and fats, and flowers. EU exports to MPCs specialise in fibre crops, cereals and live animals, oilseed products and dairy, which enjoy preferential access to MPC markets within EMAAs. A study of export similarity suggests that, over a gradual and partial liberalisation process, Spain, Greece, the Netherlands, Italy and Portugal could face greater competition from MPC exports. MPC import complementarity with EU exports is stronger for imports from Belgium, Germany, the Netherlands and France, while it is lower for southern EU countries (Greece, Italy and Spain).

5. Instruments of the Euro-Mediterranean Partnership and the treatment of agriculture[8]

5.1 Introduction

Since the Barcelona Conference (1995), the EMP represents the attempt of the EU to re-launch its global Mediterranean policy towards the twelve MPCs. Besides improving the limited results of the Mediterranean agreements concluded in the 1970s, the renewed effort is aimed at counterbalancing EU engagement on Eastern Europe recovery and integration. The broad aims of the Barcelona Process are to promote political stability in this turbulent area, establish a free-trade area by 2010, and promote social and cultural interactions. These, in turn, imply a number of themes, common to all the agreements with MPCs, including: institutionalisation of political dialogue and programmes for improving the respect for human rights and democracy; economic cooperation in a wide range of sectors; the definition of provisions relating to intellectual property, services, public procurement, competition rules, state aids and monopolies; and, cooperation relating to social affairs and migration. The main instruments to shape all these dimensions of cooperation are the EMAAs and a financial support programme (MEDA).

The next section provides some background information on the EMP. Section 5.3 takes a closer look at the two main instruments of the Euro-Mediterranean Partnership: EMAAs and MEDA. Section 5.4

[7] This paragraph draws upon dell'Aquila and Velazquez, 2002.

[8] This chapter draws upon INEA (2002) and further updates.

looks at the treatment of agriculture in the EMAAs. While providing a broad picture of agricultural provisions, this section focuses especially on the policy tools involved in the definition of preferential treatments, providing a general overview of the current features of preferences agreed by the EU and the MPCs on agricultural trade. Section 5.5 concludes by summarising the state-of-play for some of the major MPCs.

5.2 The Euro-Mediterranean Partnership

The Euro-Mediterranean ministerial conference, held in Barcelona on 27-28 November 1995, gave rise to the Euro-Mediterranean partnership (EMP) between the EU and the twelve MPCs, re-launching the 'global' approach to Mediterranean policy begun by the Union back in the 1970s.

The EMP identifies three major chapters of intervention:

- *Political and security partnership*, promoting mechanisms to establish a common area of peace and stability, by strengthening political dialogue and observance of basic principles, such as human rights, fundamental freedoms, the development of the rule of law and democracy in the political systems;
- *Economic and financial partnership*, promoting a Euro-Mediterranean area of shared prosperity, by building an FTA and strengthening economic and financial cooperation. Economic cooperation comprises a wide range of fields (the FTA, national and foreign investments, environment and natural resources, the role of women in development, agriculture, infrastructures and research) and states the need to boost the south-south dimension of cooperation in order to avoid the establishment of a 'hub-and-spoke' system of economic relationships in the area. Financial cooperation is meant to be strictly correlated to the construction of the Mediterranean FTA. The substantial increase in financial assistance, which must encourage the mobilisation of local economic operators, is to be managed consistently with the transition of beneficiaries to sound macroeconomic policies; and,
- *Social, cultural and human affairs partnership*, promoting a decentralised cooperation in several fields and providing for the involvement of the civil society in the areas of education and training, youth activities, mass media, health and migration management. Guidelines for cooperation are provided also for fighting illegal immigration, as well as drug trafficking, international crime and corruption.

Although a detailed comparison between the old and new waves of the Mediterranean policy is beyond the purpose of this report,[9] some similarities with the 1970s association or cooperation agreements are worth mentioning. First, in more general terms the rationale for a global dimension of the EU's intervention in the area remains the need to boost economic development of MPCs and reduce the gap between the EU and its Mediterranean neighbours, which is a prerequisite for political stability in the area. Further, the need to strengthen integration between the two regions is common to the previous and current streams of Mediterranean policy, although the Barcelona Process represents an ambitious attempt to deepen and widen the set of political, economic and social-cultural dimensions of regional integration.

In the Barcelona Declaration, agriculture is accounted for as a sector involved in both the construction of the Mediterranean FTA and relevant for the purpose of economic cooperation. Under the first profile, the absence of a defined prospect for liberalisation must be stressed:

> …taking as a starting point *traditional trade flows*, and *as far as the various agricultural policies allow* and with due respect to the results achieved within the GATT negotiations, trade in agricultural products will be progressively liberalised through reciprocal preferential access among the parties (EU, 1995, emphasis added).

[9] Elements of the historical background on the previous seasons of EU Mediterranean policy are available in CIHEAM (2003) and INEA (2002).

As a result, at least as far as EU concessions are concerned, the solutions taken on agricultural trade have a similar structure to those adopted in the 1970s. A rather sceptical interpretation of the Barcelona Declaration is that there will be no liberalisation of agriculture, apart from commitments made within the GATT negotiations that cannot be withheld from most MPCs by the MFN principle. This interpretation seems to fit observed behaviour: there have been no significant new concessions by the EU for agricultural products in the EMAAs (Garcia-Alvarez-Coque, 2002:402). This implies both contradictions among the policy tools implemented in the different sectors (sector asymmetry in liberalisation) and contradictions between the tools and objectives of the EMP (the development of MPC agricultural sector and reduction of migration) (INEA, 2002).

5.3 Association agreements and financial cooperation

The first main instrument of the EMP is the association agreement. With respect to these agreements there is a difference between the relations with the three EU member candidates (Cyprus, Malta and Turkey), which are defined on the basis of old association agreements, their further revisions and the state of the accession partnership each country has with the EU. With these three partners, trade commitments have been reciprocal since the 1970s, although asymmetrical in favour of the three MPCs.

As regards to the other nine countries, the relationships are defined by new EMAAs or, should these not yet be in force (as in the case of Egypt, Lebanon, Algeria and Syria), by the 1970s cooperation agreements (Table 13). The EMAAs are almost completed – only the negotiations with Syria are still ongoing – and discipline the political, economic and social-cultural relations in a relatively standard way, stemming from the basic chapters of the Barcelona Declaration and pursuing the goal of creating a Mediterranean FTA. Further, the EMAAs' trade commitments are reciprocal and the liberalisation process varies considerably depending on whether manufacturing, agriculture or services sectors are considered.

Under the ambitious goal of creating a Mediterranean FTA by 2010,[10] concessions on manufacturing goods provide for a well-defined, progressive tariff, dismantling over a time span of twelve to sixteen years. Agricultural trade is to be gradually liberalised, based on the traditional trade flows, through periodical revisions of agricultural protocols. Finally, as long as services are concerned, the commitment is to abide by the results of multilateral negotiation (GATS).

The EMAAs' reciprocity represents a significant step forward compared with the first generation of agreements that (apart from Israel) provided for unilateral concessions by the EU. As a good share of MPC manufacturing exports already have free access to EU markets through old cooperation agreements, the new industrial trade preferences are going to be of a quasi-unilateral kind, favouring exports from the EU. For agricultural products the liberalisation process, albeit gradual and partial, entails the new commitment by MPCs to introduce preferential measures favouring EU exports.

The other cornerstone of the EMP is the new modality of managing financial cooperation, which is closely linked to the prospect of creating a Mediterranean FTA. It is based on an autonomous financial regime with a single budget for the whole Mediterranean area (MEDA).[11] MEDA replaces the old five-year protocols stipulated with each country, entailing a considerable increase in the financial endowment provided by the EU (4.6 billion euros in 1995-1999, three times the former level), as well as relevant procedural changes and a notable enlargement of issues to be tackled. Some of the MEDA interventions are meant to support MPC agriculture to improve economic performance and openness to trade, as well as support rural development (i.e. technical assistance, training, product diversification, environmental and social protection measures).

[10] The reference to the deadline of 2010 may be better understood as an expression of political will that should provide a common discipline to the contracting parties. As a matter of fact, trade protocols attached to EMAAs provide schedules for tariff cuts that are not consistent with such a time target. Because of the usually very long process of negotiation and ratification of the agreements, only the EMAA with Tunisia shows a calendar of liberalisation fully compatible with the end of the decade.

[11] EC Regulation No. 1488/96 and EC Regulation No. 2698/2000 (MEDA II).

Table 13. The state of Mediterranean agreements and trade negotiations

Country	Agreements[a]	State of negotiations[b]
Cyprus	Association agreement towards CU (1973) +second phase CU (2002) + accession partnership (1998);	Accession negotiations concluded;
Malta	Association agreement towards CU (1970) + accession partnership (1999);	Accession negotiations concluded;
Turkey	Association agreement towards CU (1963) + CU (1996) + accession partnership (2001);	Preliminary accession partnership;
Tunisia	EMAA towards FTA (1995);	EMAA in force in 1998; new agricultural trade protocols in 2002;
Morocco	EMAA towards FTA (1996);	EMAA in force in 2000; negotiations ongoing for new agricultural trade protocols;
Israel	EMAA towards FTA (1995);	EMAA in force in 2000; negotiations ongoing for new agricultural trade protocols;
Palestinian Authority	Interim EMAA towards FTA (1997);	Interim EMAA in force in 1997;
Jordan	EMAA towards FTA (1997);	EMAA in force in 2002;
Egypt	EMAA towards FTA (2001) + cooperation agreement (1977);	EMAA ratification pending; old cooperation agreement in place; interim agreement on trade probable;
Lebanon	EMAA towards FTA (2002) + Interim agreement on trade (2003) + cooperation agreement (1977);	EMAA ratification pending; interim agreement on trade and an old cooperation agreement in place;
Algeria	EMAA towards FTA (2002) + cooperation agreement (1976);	EMAA ratification pending; old cooperation agreement in place;
Syria	Cooperation agreement (1977) + EMAA towards FTA;	EMAA negotiations since 1997;

Notes: [a] EMAA = EuroMediterrean Association Agreement; FTA = Free Trade Area; CU = Customs Union;
[b] Agreements considered 'in force' have fully completed the ratification procedure, even though some parts of the agreements may come into operation before this.

Sources: European Commission and the European Council.

The MEDA budget is divided into bilateral (the EU to a single MPC) and regional chapters.[12] As far as bilateral chapters are concerned, funds accrue to an MPC based upon the level of implementation of structural adjustment programmes and reforms that support the transition to an open economy. Over the time span covered by MEDA I (1995-1999), about 86% of the commitment credits have been addressed to bilateral cooperation and are shared in a number of fields: structural adjustment (15%), economic transition support (30%), socio-economic balance support (29%), environment (6.8%) and rural development (4.5%). Actual MEDA payments, however, have been much lower than the commitments (26%), because of the length of the implementation period for some projects and the need to negotiate the controversies and cumbersome procedures for project approval and management. MEDA II makes available 5.35 billion euros over the period 2000-2006, while the programme is involved in the wider process restructuring of EU cooperation towards development (European Commission, 2001).

5.4 Preferences in Mediterranean agricultural trade

From various perspectives, agriculture should play an important role in the new wave of Mediterranean agreements. Both the crucial importance of the sector in the economic structure of many MPCs and the weight of agro-food in MPC trade with the EU, as well as the MPC's remarkable potential absorption for EU agro-food surpluses, would suggest substantial static gains from increased openness. Instead, the importance of agriculture in EMAAs appears to stem much more from the

[12] Cyprus, Malta and Israel have access to regional funding only, although specific bilateral funding is provided to the two EU candidates in pre-accession frameworks.

troublesome negotiations on agricultural protocols and from the length of the lists of exemptions and restrictions to liberalisation that can be derived from those protocols.

Although the profile of agricultural trade preferences differs among countries and products, the common feature is still that of an 'agricultural exception' to liberalisation (CIHEAM, 2003; INEA, 2002). Regarding the idea of a very gradual liberalisation on a reciprocal basis, as stated by the Barcelona Declaration, EMAAs lay down a succession of deadlines for the revision of current protocols on the basis of an examination of the current trade situation and the prospects for further openings (but no defined schedule for phasing out tariffs and nontariff barriers [NTBs] is provided for).

Moves towards liberalisation for agricultural products are limited to improving, on the basis of traditional trade flows, the previous preferential regime. With Cyprus, Malta and Turkey, the prospect of joining the EU, however, depicts a clear pathway towards reciprocal liberalisation. 'Traditional' trade flows embody the effects of decades of strong protection of 'sensitive' products on the EU side and 'strategic' products on the MPC side,[13] which provide a fairly reliable guideline on where liberalisation is likely to take place: the more sensitive/strategic the products are, the more limited are the concessions.

Table 14. The main agricultural products/product groups involved in major EMAAs

Country	Products involved:	
	EU trading preferences	**MPC trading preferences**
Tunisia	Live animals (horses); meat (sheep, goat); animal products; flowers; fruit and vegetable products; citrus fruits; potatoes; olives; olive oil; processed fruit, vegetable and citrus products; wine; cereal residues.	Live animals (bovines); beef; milk in powder; butter; cheeses; eggs; seed potatoes; potatoes; wheat; other cereals; seed oil; sugar; feedstuff.
Morocco	Live animals (horse, sheep, goat); horse meat; flowers; fruit and vegetable products; citrus fruits; potatoes; olives; processed fruit, vegetable and citrus products; olive oil; wine.	Live animals (bovines); beef; milk in powder; butter; seed potatoes; wheat; barley; corn; oilseeds; seed oil; sugar.
Israel	Meat (turkey, goose); flowers; fruit and vegetable products; citrus fruits; potatoes; sweet corn; processed fruit, vegetable and citrus products; baby food; bakery products.	Beef; milk in powder; butter; cheeses; flowers; seed potatoes; potatoes; fruit and vegetable products; wheat; barley; other cereals; seed oil; sugar; processed vegetable and fruit products; feedstuff.
Egypt[a]	Flowers; fruit and vegetable products; citrus fruits; potatoes; spices; rice; processed fruit and vegetable products; cereal residues.	Live animals (bovines); beef; milk in powder; butter; cheeses; fruit; seed potatoes; oilseeds; seed oil; feedstuff.
Algeria[a]	Live animals (horse, sheep, goat); meat (horse, sheep, goat); fruit and vegetable products; citrus fruits; potatoes; olives; dates; olive oil; sunflower-seed oil; processed fruit, vegetable and citrus products; wine.	Live animals (bovines); beef; milk in powder; seed potatoes; wheat; barley; seed oil.

Notes: [a] Products listed in the new EMAA, which is not yet in force.

Sources: EU Official Journal.

MPC concessions in favour of the European Union are not going to be discussed here in detail. Nevertheless it must be mentioned that, at least in principle, a preferential treatment for EU agricultural exports is a brand new feature for the nine MPCs not involved in the next EU enlargement. Compared with European Union concessions, MPC preferences are more limited, both in

[13] According to the Commission, 'sensitive' products on the Mediterranean scene are: tomatoes, olive oil, almonds, oranges, mandarins, lemons, grapes, melons, strawberries, flowers, potatoes, rice and wine (European Commission, 1997). The definition of 'strategic' products varies among MPCs, but the bulk of these products are made of staple foodstuffs (cereals, meat and dairy products).

terms of the share of preferential over total trade flows and in terms of tariff reductions. The products concerned are largely staple foodstuffs or 'continental' products (see Table 14).

On the side of EU preferences, generally speaking the treatment within the six EMAAs whose agricultural protocols are already in force is comparable to the treatment granted to the three EU candidates (owing to the recent interim agreement with Lebanon, only with Egypt, Algeria and Syria are the trading relationships still based on 1970s cooperation agreements and further revisions). All these countries benefit from a rather wide coverage of traditional trade flows and, for these flows, a lowering of *ad valorem* tariff which now stands at 100% for nearly all products. Products involved are mainly 'Mediterranean' (fruit and vegetables, citrus fruits, olive oil, wine), although for some countries the range is wider.

Table 15. EU agricultural preferences on entry prices of fruit and vegetable products (2001)

Product/Country	Calendar of the implementation of the preferential EP	Preferential EP quota (tonnes)[a]	Preferential EP (euro/tonnes)	% Reduction on MFN EP[b]
Tomatoes				
Morocco	1 October-31 March, of which:	150,676	461	15-45%
	October	5,000	461	15%
	November-March[c]	145,676	461	27-45%
Courgettes[d]				
Morocco	1-31 January		424	13%
	1-20 April	5,600	424	38%
	1 October-31 December		424	13%
Artichokes				
Morocco	1 Nov.-31 Dec.	500	571	39%
Cucumbers				
Morocco	1 November-31 May	5,000	449	11-58%
Tangerines				
Morocco	1 Nov.-end of Feb.	110,000	484	25%
Oranges				
Morocco	1 December -31 May	300,000	264	25%
Israel	1 December -31 May	200,000	264	25%
Cyprus	1 December -31 May	48,200	264	25%
Egypt[e]	1 December -31 May	34,000	264	25%

Notes: [a] Preferential EP quotas can differ from preferential tariff rate quotas.

[b] When the MFN EP varies by sub-calendars, only minimum and maximum percentage reductions are reported.

[c] From November to March a further monthly break-out of the EP quota exists, with the option of forward or backward loading of 20% to the stated amount.

[d] The EP quota refers to a global time span of the three periods specified in the calendar.

[e] Concessions are currently applied on the basis of 1970s agreements and further revisions.

Source: INEA (2002).

The economic relevance of tariff cuts, in terms of product coverage and preference margins, varies among MPCs. In the case of Tunisia, the coverage of traditional trade flows is above 90%; the same holds for Turkey, while for Morocco and Israel the product coverage is 88% and 71%, respectively (WTO, 2001; Tangermann, 1996). Tangermann, through a comparison with the pre-EMAAs agricultural protocols, showed an increase in the degree of product coverage in the cases of Morocco and Israel (about 20%), while a slight decrease would characterise Tunisian preferences (-2.6%) owing to a narrower definition of the quality of olive oil suitable for preferential export to the EU. The aggregate value of the preference margin moved accordingly, increasing to 77 and 47 billion ecus, respectively for Morocco and Israel, and slightly reducing to 33.6 billion ecus for Tunisia (Tangermann, 1996).

Once we move to NTBs, the concessions on specific duties imposed on a number of fruit and vegetable products, as well as other Mediterranean products and some staple foodstuff products, are

much less incisive. In particular, for fruit and vegetables no preferential measures are foreseen regarding specific duties on a number of products subject to *entry price,*[14] although there are some important concessions for certain countries on the level of some prices in question (Table 15). With reference to this, it has to be stressed that both the management of the entry price system emerging from the Uruguay Round and the concessions on some of these prices can determine a notable advantage for favoured exporters against rival contenders for EU market quotas (Cioffi-dell'Aquila, 2003; Tangermann, 1996).[15]

The effect of the reduction in tariffs and NTBs is reduced by numerous exceptions, on a seasonal and/or product basis, which, taken as a whole, render the current EU agricultural preferences very similar to those characterising the old 1970s agreements (INEA, 2002). Seasonal suspension of preferences resembles the seasonality of protection, restoring higher tariffs and entry prices for the majority of fresh fruit and vegetables in specific periods of the year, which is compatible with the harvesting within the EU. Other exceptions cover a very small number of fresh or processed fruit and vegetables, some tropical products and a certain number of minor products, whose tariff reduction is less than 100%.

Furthermore, a variety of quantity restrictions of the preferential treatment indicate that the EU is still pursuing a combination of Mediterranean preference with the protection of domestic production, manipulating the concessions in order to avoid radical changes in consolidated trade flows. Tariff rate quotas (TRQs) are currently imposed on imports of a large number of fresh fruit and vegetables and some dried or processed ones, as well as flowers, Tunisian olive oil and all qualities of wine. Usually TRQs restrict the preferential treatment; nevertheless, there are a number of cases in which the excess quantity itself enjoys a tariff reduction, though a lower one. In many instances, instead of TRQs, reference quantities (RQs), or the right to impose RQs, are defined, so that the Commission has the option to submit a product to a TRQ. RQs are imposed on many fresh fruit and vegetables, some dried or processed ones, nuts, and fresh and preserved tropical fruit (Table 16).

The restrictions in question are relevant not only for domestic protection purposes, but also for both the distribution of the preference margin between importers and exporters and their forms of coordination. In the case of fruit and vegetable products, the wedge between preferential and MFN pricing is a preference margin that makes room for non-competitive behaviour among traders. Pricing at the lowest level (preferential entry price) implies that the margin is completely spent in order to increase the market share on the EU market, while higher prices allow some extra gain. The degree of exploitation of preferential quotas, the features of licensing systems (if any), as well as other factors affecting the concentration on both imports and exports, will affect the actual pricing and distribution of the preference margin between operators (Cioffi and dell'Aquila, 2003).[16]

More generally, quotas, being defined on a product/country basis and coordinated with seasonal restraints, can be rather helpful in distributing EU market shares among preferential partners. Finally, another general reason for focusing the discussion on quantity restrictions is that there is little room left for further tariff concessions. Quantity restrictions thus define the major ground for further developments of Mediterranean agricultural trade liberalisation (INEA, 2002).

[14] The system implies that a relevant surcharge (maximum tariff equivalent [MTE]), over the normal tariff, is applied on imports whose cost insurance and freight (CIF) price is below the entry price bound in the WTO schedule of the EU.

[15] The entry price system allows the preferred exporter to undercut the price of any MFN exporter, not incurring in the prohibitive MTE, because of the concession on the level of both tariff and entry price.

[16] If a licensing system is in place and the TRQ is actually binding, the 'owner' of the licence is likely to attract most of the preference margin, as he/she is in a quasi-monopolist position. Monopoly export agencies may determine similar results (Tangermann, 1996). Nevertheless, both the traditional licensing systems implemented by the EU (giving licences to trading companies registered in the EU) and the MPCs' marketing boards have weakened or been dismantled in recent years.

Table 16. EU restrictions on the preferential treatment of agricultural exports from major MPCs by main products/product groups (January 2002)

Country	Tariff rate quotas (TRQ)		Reference quantities (RQ)		Potential RQ
	product	tonnes	product	tonnes	product
Turkey	Preserved tomatoes	30,000	n.a.	n.a.	n.a.
	Watermelons	14,000			
	Prepared tomatoes	8,000			
	Onions	2,000			
Tunisia	Olive oil	50,000	Almonds	1,120	Tomatoes
	Oranges	35,123	Apricots	2,240	Capers
	Potatoes	16,800	Dried oranges	1,680	Garlic
	Preserved tomatoes	4,000			Asparagus
Morocco	Oranges	380,800	Preserved apricots 1	7,560	Olives
	Tomatoes	168,757	Preserved apricots 2	7,200	Capers
	Mandarins and tangerines	168,000	Sweet peppers	3,360	Beans
	Cucumber	5,600	Dried citrus	1,120	Peas
Israel	Cut flowers	19,500	Avocados	37,200	Grapefruits
	Orange juice	92,600	Grapefruit juice	34,440	Dates
	Oranges	200,000	Grapefr. in segments	21,440	Mangoes and trop. frt.
	Mandarins	21,000	Table grapes	2,280	
Egypt[a]	New potatoes	130,000	n.a.	n.a.	n.a.
	Dried onions	[b]16,000			
	String beans	[b]15,000			
	Oranges	50,000			

Notes: [a] TRQ to be applied following the implementation of the EMAA (first year of implementation).

[b] TRQ gathering also on other vegetable products and pulses; n.a. = not applicable.

Source: INEA (2002).

5.5 Agreements and agricultural negotiations with major MPCs

The state of the negotiations and the way in which agriculture is dealt with differs by country. This section describes key features of the agreements with the major MPCs.

5.5.1 Turkey

This country only officially became a candidate for EU membership in the year 2000. The accession partnership was set up in 2001 but accession negotiations have not started yet. Turkey is still considered far from meeting the convergence criteria (Copenhagen criteria) and agriculture is one of the sectors where little progress has been achieved in aligning legislations (European Commission, 2002). Trade relations with the EU can be seen in the context of the 1963 association agreement and later revisions, as well as the Customs Union (CU) that came into force in 1996. Drawing upon these legal bases, the Decision of the EU-Turkey Association Council of February 1998 set up the current reciprocal agricultural concessions (EC-Turkey Council, 1998).

The preferential regime envisages widespread exemptions of *ad valorem* duties and preferential measures on specific duties for certain products, roughly covering 93% of traditional exports to the EU. For many products, tariff exemptions or reductions are to be bound by TRQs (sheep, goat and turkey meat, sheep cheese, fresh and processed fruit and vegetables) and import calendars (fresh fruit and vegetables). The EU enjoys preferential treatment on 33% of its exports to Turkey, with lower to zero TRQs for several products (cattle, frozen meat, dairy products, bulbs and plants, fruit, cereals, vegetable oil, sugar and tomato purée).

5.5.2 Israel

Signed in 1995, the EMAA became fully operational in June 2000, substituting the cooperation agreement made in 1975 and revising the free trade agreement for industrial products, in force since 1989. The main differential features of Israel's Euro-Mediterranean Association Agreement, when

compared with other agreements, concern non-agricultural matters such as industrial trade, trade marks, capital mobility, scientific and technological cooperation.

Some improvements in the liberalisation of agricultural trade offer Israel concessions mainly on Mediterranean goods, including the application of a preferential entry price for oranges, the widening of TRQs on cut flowers and orange juice, a more favourable import calendar for table grapes and the opening of a new TRQ for turkey meat. Minor concessions are envisaged for many other products, nearly all involving the setting of the *ad valorem* tariff to zero, although the structure of quantitative restraints and the calendar suggests a certain amount of caution on the part of the EU. On the other side, the results have eased access to Israeli markets for EU cheese, beef, potatoes and certain types of prepared fruit; meanwhile a voluntary limitation on Israeli exports of maze and goose liver has also been obtained. The TRQs obtained for cereals and powdered milk are also significant.

The activation of the new agreement was followed by a request by the Commission for a mandate to open negotiations for the revision of agricultural protocols. The new round of negotiations is still ongoing and should focus on further reciprocal tariff reductions, as well as further increases of TRQs on citrus juices and slight enlargements of the calendars for Israeli imports.

5.5.3 Morocco

The EMAA signed in 1996 became fully operational in March 2000, substituting the cooperation agreement made in 1976. The new deal envisages the creation of an FTA to be set up over a twelve-year period through a progressive dismantling of customs duties on EU industrial products and gradual reciprocal concessions for agricultural products.

In agricultural trade, the EMAA guarantees Morocco the setting to zero of *ad valorem* duties for nearly all products, albeit often within the framework of quotas, and effective or potential RQs. Calendars impose temporal restrictions on fresh fruit and vegetables. Foremost among the fresh or processed fruit, vegetables and citrus (representing the main body of the agreement) are: oranges and other fresh citrus, tomatoes, potatoes, cucumbers, beans, strawberries, dried apricots and orange juice. Imports of oranges, clementines, tomatoes, cucumbers, courgettes and artichokes are also helped by concessions on the entry price system for these products, but here too there are quantitative and calendar restrictions. Overall, the EU has maintained a rather cautious approach in its dealings with a trading partner that is directly competing with EU-grown Mediterranean produce.

As with other countries, the EMAA with Morocco offers the EU a number of favourable concessions, such as TRQs for many staple foodstuffs and processed products – products that often exceed EU internal market absorption. The most important of these are cereals, dairy products, oils and fats, sugar and seed potatoes. Moreover, Morocco has committed itself to applying further reductions on customs duties for products where quotas are not completely filled.

The application of the agreement was followed by a request from the Commission for a negotiating mandate for a widening of agricultural concessions. The new round of negotiations is still underway and should focus on refinements of the system to manage the TRQs on tomatoes and also further reciprocal tariff reductions and increases of TRQs.

5.5.4 Tunisia

The EMAA signed in 1995 became fully operational in March 1998, substituting the old cooperation agreement made in 1976. The new deal envisages the creation of an FTA, to be set up through a progressive dismantling, over twelve years, of Tunisian customs duties on industrial goods from the EU and the gradual introduction of reciprocal concessions for agricultural goods.

From the Tunisian point of view, the main beneficiary is olive oil: the 2000 renegotiation of the agricultural protocols of the EMAA brought the current duty-free quota to 53,000 tonnes. Each year the TRQ is gradually increasing (1500 tonnes yearly) to reach 56,000 tonnes by January 2005. Following this increase, the Commission tightened the procedures for management of the TRQ on olive oil and broken it into monthly sub-quotas. The other important products are fresh and slightly processed fruit and vegetables (especially dates, fresh oranges, early potatoes, apricot pulp and tomato

purée), wine and a wide range of minor products. Quantitative restrictions are frequently applied, although recourse to TRQs is relatively minor. This would suggest that the main worry for the EU is Tunisian olive oil.

Among the major novelties of this EMAA is the introduction of agricultural preferences in favour of the EU. *Ad valorem* duties are set to zero or reduced for many products, which are mainly staple foods (live animals, beef and poultry, dairy products, cereals, seed oil, sugar, potatoes and tobacco). For all of these products preferences are subject to TRQs.

5.5.5 Algeria

The negotiations on the EMAA to substitute the 1976 agreement were concluded in December 2001 and the signing took place in 2002. Its structure is similar to other EMAAs and the main purpose is to create a free-trade area within a twelve-year time span. Once it is implemented, the new agreement will significantly broaden the current trading preferences. At the moment, tariff exemptions or reductions – unilaterally favouring Algeria – derived from the old 1976 agreement and later the 1987-1988 revisions of the protocols are applied on a certain number of products, including fruit and vegetable products, dates, oranges and all qualities of wine. The only TRQ is on wine.

Because of the EMAA, Algeria will introduce concessions favouring the EU, progressively eliminating obstacles to imports of industrial goods from the EU and applying preferential customs duties on imports of a number of agricultural products, such as cattle, beef, milk in powder, seed potatoes, cereals, oilseeds and sugar. For its part, the EU will grant zero tariff to imports of a wide range of agricultural products (live animals, fruit and vegetable products; citrus fruits; potatoes; olives; dates; olive oil; processed fruit, vegetable and citrus products, and wine), with widely unrestricted access apart from a limited number of products, which will be subject to TRQs.

5.5.6 Egypt

An EMAA was finally reached in June 2001 and the process of ratification is still ongoing. The new agreement will probably be implemented over the next year (by either speeding up the ratification procedure or adopting an interim agreement on trade), substituting the 1977 cooperation agreement that laid down rather limited concessions in favour of Egypt. The FTA is to be set up through the progressive dismantling of customs duties on industrial products coming from the EU and bilateral concessions are also envisaged for agriculture.

On the Egyptian side, certain fruit and vegetables, as well as cut flowers, will benefit the most from the new EMAA, including: oranges (which already enjoy an entry price reduction), string beans, new potatoes and strawberries. There will not be any new concessions for rice. Considerable increases in quotas with tariff exemptions have been introduced to meet Egypt's requests. These have been made, not on the basis of current trade flows, but with a view to their potential development. EU products benefiting from import TRQs include cheese, creamy products and animal fodder.

6. An assessment of the Euro-Mediterranean Partnership

6.1 Introduction

Sections 2 through 5 have provided a general background of the MPCs' trade flows with the EU and the EMAAs. The negotiations on the EMAAs have generated a stream of studies on their effect on the EU and especially on MPCs. This section aims to summarise the findings of this literature, against the backdrop of the information provided in the previous sections. Section 7 will combine the different parts of this study to indicate areas in which future research could contribute to a further understanding of the impact of the EMAAs.

An assessment of the impact of the EMAAs can be approached from a wide variety of angles. To structure the discussion, the framework provided in section 2 is used, dividing this section into 13 topics: security, cross-border projects, policy lock-in, producer interests, economies of scale, reduced monopoly power, increased efficiency, changes in the terms of trade, increased FDI, trade creation,

trade diversion, agglomeration and knowledge flows. As differences in the length of the discussion of these topics indicate, research has concentrated on certain subjects.

6.2 Security

Security issues feature prominently in the EMAAs. Of the three major chapters on intervention, two of these deal with security issues. The first chapter is about a political and security partnership, aiming at stabilising the region and promoting democracy. The social, cultural and human affairs partnership includes cooperation to deal with immigration and international crime. The Barcelona process also features in the recently launched proposal for a European security strategy (Solana, 2003), stressing the importance of political stability and economic growth at the southern borders of the EU.

In terms of the security issues discussed in section 2, the EMAAs address the security through increased economic growth and intra-regional security through linking the MPCs. Promoting economic growth serves the security interests of both the EU and the MPCs.

From the EU perspective, increasing the standard of living in the MPCs is deemed essential for preventing political conflicts, with its associated risk of large-scale economic migration to the EU. Limiting migration has become a more prominent policy concern with the substantial unemployment in southern European member countries and an increase in extreme right political parties all over Europe. Integrating the small Mediterranean economies into the EU economy is expected to promote their economic growth (Riess et al., 2001).

The promotion of trade to reduce migration pressure assumes that trade and migration are substitutes. Theoretical literature on migration, however, indicates that trade and migration can be complements as well as substitutes, depending on the specific modelling assumptions. The link between trade and migration is therefore ambiguous. The wide variety of (partly unobservable) variables involved, makes empirical estimation complicated. The correlation of crude measures of migration to trade does not indicate a relationship between MPC-EU migration and trade (Nassar and Ghoneim, 2002).

Apart from being a desirable objective itself, the MPCs have an interest in increased economic growth to deal with internal conflicts. Economic growth makes it easier to increase overall income levels in the economy; distributing new income is easier than redistributing existing income. Furthermore, their fast growing populations imply an equally fast growth in demand for new jobs, requiring an increased economic growth to prevent social unrest.

Whether the interests of the EU and the MPCs in economic growth can be served through trade liberalisation seems questionable since the poor growth record of MPCs is largely home-grown. The interplay of non-trade income, high protection and state interference has led to lagging economic growth in the past decades. The reduction of trade barriers with the EU reduces protection, thus targeting only one out of three main factors dragging growth. Given the interplay between the different factors, the impact of the EMAAs on economic growth will be limited, if it is not accompanied by more structural changes in the MPCs' economies. This is reflected by the limited static welfare gains estimated with computable general equilibrium (CGE) models (Stern, 2001).

Recognising the important role of tariff revenues in MPC government budgets, the EU is supplying funds to deal with the short-term adjustment costs of the reforms. In the 2000-2006 period, these funds have been provided through the MEDA programme (5.5 billion euros) and through the European Investment Bank (7.5 billion euros). Together this amounts to about a half percent of the total MPC GDP (Riess et al., 2001:74). These funds further signal the interest the EU has in promoting economic growth in the region. Whether the funds will be effective remains to be seen; disbursement rates have been low until now (Garcia-Alvarez-Coque, 2002).

Although the supply of funds by the EU signals its interest in the MPC region, in practice domestic interests seem to outweigh this foreign policy objective. As will be discussed in more detail in the section on producer interests, the actual scope of the EMAAs is limited to liberalising trade in manufactured products. The MPCs have already had preferential access to European Union markets since the 1970s. Thus, the impact of the Euro-Mediterranean Association Agreements is limited to opening the MPC markets to European Union exports of manufactured goods.

The two pillars of most MPC economies – agriculture and (temporary) migration – are both excluded from the EMAAs. The liberalisation negotiated in GATT or GATS will be extended to the MPCs, which is not surprising given the MFN nature of WTO negotiations. The EMAAs, however, do not offer the MPCs preferential access to the EU for their agricultural products. The virtual absence of agricultural liberalisations in the EMAAs limits the scope for reducing poverty, which is concentrated in the rural areas (Garcia-Alvarez-Coque, 2002:403). The lack of provisions on the movement of natural persons ignores another important way of reducing poverty and providing badly needed employment.

A second security objective of the EMAAs is to reduce external conflicts, of which the region has a longstanding tradition. This is not directly achieved by the EMAAs since these are limited to liberalising trade with the EU. Promotion of intra-regional trade, however, may be encouraged by the EMAAs. The resulting outward orientation will make it easier to agree on regional trade liberalisation. A note of caution is advisable about the possibility of agglomeration if regional trade is liberalised (see below). An unequal distribution of benefits, for example a relocation of manufacturing to a single country, may actually increase regional tensions.

In summary, increased market access resulting from the EMAAs will not suffice to increase economic growth. Domestic policies have to be geared towards exploiting the opportunities of increased trade, and to dealing with the short-term transition costs of a fundamental reorientation of the economy (Garcia-Alvarez-Coque, 2002:404). Apart from the domestic causes of the lagging economic growth, the scope of the EMAAs is limited to liberalising trade in manufactured products, excluding the two pillars of MPC economies, agricultural and (temporary) migration.

6.3 Cross-border projects

Literature on the impact of the EMAAs or the prospects for intra-regional integration does not refer to cross-border projects. The increased scarcity of water, possibly worsened if horticultural production expands, may increase regional conflicts on water and the scope for cross-border projects on water.

Cross-border projects can also play a role in promoting economic growth through ‘growth-triangles’. Such arrangements facilitate sub-regional economic cooperation among complementary factors that are geographically close but in different countries. By eliminating border restrictions and charges in these areas, vibrant economic zones can be created. Examples include the collaborations between Taiwan and China, industrial development along the US-Mexican border, and activities in the border region of Germany, Austria, Poland, the Czech Republic and Hungary.

The key element of successful economic zones is the large disparity in comparative advantage within a small geographical area. In the context of the MPCs, there is potential for such a cross-border initiative between Israel (capital-rich and having relatively high technology) and its Arab neighbours (rich in labour, energy and land). Despite the economic rationale of such cooperation, the current political situation seems prevent to it. Nevertheless, political tensions in other growth triangles, such as Taiwan-China, measure up to those in the Middle East, so there may still be scope for such initiatives in the Middle East (Petri, 1997:50).

6.4 Policy lock-in

As mentioned before, the reforms needed to increase economic growth rates in the MPCs are about as badly needed as they are difficult to achieve. Reducing the size of the public sector involves a fundamental change in the distribution of state resources, with high political and adjustments costs. Public lay-offs have therefore been rare (Bulmer, 2000).

The EMAAs signal the willingness of governments to engage in these adjustments. Given current high protection rates, the establishment of an FTA with the EU implies a large loss in tariff income. A reduction in government expenditures (and thus a decrease in the size of the public sector) will be required. By committing to a more liberal trade policy the MPC governments thus lock-in a public sector reform, which may not be achievable without the agreements.

The extent of trade liberalisation in the EMAAs determines the extent to which governments are able to lock-in the further reform of their economies. The limited scope of the current agreements also reduces the scope for reforms of MPC economies. Extending trade liberalisation to agriculture can play an important role in achieving a shift to a more outward-oriented policy in the MPCs. The comparative advantage of MPC agriculture can generate benefits that may compensate for the costs of transitions in the less competitive manufacturing sectors (Garcia-Alvarez-Coque, 2002:403).

Despite the qualifications with respect to the scope of the agreements, the major benefit of the EMAAs for the MPCs is the tilt of the political balance towards a more open orientation of their economies, which is hard to achieve by the MPCs themselves. Benefits from the EMAAs may provide an incentive to extend the reforms to sectors not included in the EMAAs (Petri, 1997:46).

6.5 Producer interests

Producer interests play an important a role in the pace and scope of trade liberalisation. The prime example is the virtual absence of agricultural liberalisation from the EMAAs, despite the crucial role of agriculture in the MPC economies. The importance of agricultural producer interests is illustrated by the fact that the ratification of most EMAAs has been delayed by objections against agricultural provisions (Garcia-Alvarez-Coque, 2002:400).

The interests of producers in liberalisation depend on their comparative advantage. European manufacturers have an interest in the scheduled liberalisation of the trade in manufactured goods, being more competitive than the MPC producers that are still shielded by tariffs. The MPC producers have an interest in stalling reforms of the manufacturing sector, which can be illustrated by the case of Tunisia.

Tunisia is ahead of the other MPCs in reforming its economy and was the first MPC to sign an EMAA. After a crisis in the mid-1980s, reforms transformed Tunisia into a market-based economy. Macroeconomic stability (reached by fiscal discipline, low inflation and exchange-rate stability) played a key role in this transformation. Trade has diversified with increasing exports of manufactured goods and recently FDI has been increasing as well. Tunisia thus has implemented a range of major reforms, except for an abolishment of trade barriers. If the liberalisation of manufactured goods was implemented overnight, one-third of the industrial firms would become bankrupt. An adjustment programme therefore has been implemented to prepare firms for the competition of free trade. The success of this programme is limited and there is an increasing pressure on the government to push-back the deadline of 2008 for full liberalisation (Riess et al., 2001:69-70).

EU and MPC producers change positions when moving from the manufacturing to the agricultural sector. Here EU producers push for protection of Mediterranean products ('sensitive' products), and MPC producers push for protection of staple foodstuffs ('strategic' products), which is reflected in the pattern of exceptions to agricultural liberalisation. Although static gains may be limited, the dynamic gains of liberalisation after a period of five years are considerable for MPCs: 1.4% of GDP for Morocco, 2.3% for Turkey, 3.3% for Egypt and 0.4% for Tunisia. The impact for the EU is limited, with a projected increase in sensitive imports of 11% (Lorca and Vicens, 2001).

In line with the limited projected impact on the EU, the European Commission does not consider Mediterranean imports a threat to European agriculture. Objections by farmers' interest groups against the liberalisation of agricultural trade are based on fears of job losses and local interests. Although MPCs have lower labour costs, competitiveness in horticultural production is also determined by product differentiation, marketing, (post-harvest) technologies and transport, as is illustrated by the Dutch share in horticultural trade. The opening of trade is therefore not expected to lead to widespread job losses. Even if production shifts to the MPCs, the crop areas in EU countries can be reallocated to other productive uses (Garcia-Alvarez-Coque, 2002:410-411) .

Although the overall impact of trade liberalisation on the EU will be limited, the regional impact on southern EU countries may still be significant. Apart from local concerns, the asymmetric protection offered by the CAP (limited protection for horticultural products mainly produced in the south and extensive protection for cereals mainly produced in the north) reduces the willingness of southern EU

members to liberalise agricultural trade with the MPCs. They are joined by Dutch, German and Belgian producers pushing for limits on imports of Moroccan and Egyptian cut flowers, tomatoes and potatoes. Since the imports into the MPCs are mainly northern European products, while exporting commodities compete with southern European products, there seems little scope for reciprocal reductions in protection by MPCs and the EU (Garcia-Alvarez-Coque, 2002:411-413).

Quality standards may be used as NTBs, if applied in favour of domestic producers. Egypt, Israel and Tunisia (and Lebanon to a limited extent) apply quality measures that discriminate against foreign products. Morocco, Algeria and Jordan follow international criteria that do not discriminate among local and foreign products. A survey among importers and exporters indicated that the main NTBs hampering trade in the Mediterranean are port and transport services, together with long and unclear (and sometimes arbitrary) custom clearing (Handoussa and Reiffers, 2002:6-7).

The most promising road to dealing with the southern EU opposition to the liberalisation of agricultural trade seems to be the upcoming eastward expansion of the EU with the Eastern European accession countries. This increases the market for horticultural products and could reduce the impact of liberalising Mediterranean trade on the southern producers (again, it is easier to redistribute additional income than to redistribute fixed income). Issues that require additional research are the local effects of liberalisation and the effects on agriculture-related manufacturing when investments relocate to MPCs (Garcia-Alvarez-Coque, 2002:413-415).

To summarise, even with limited liberalisation of agricultural trade, the EMAAs offer substantial, dynamic welfare gains for the MPCs. These gains, however, are preceded by a large shock to the manufacturing sector and depend strongly on the impact of improved market access and productivity increases (Augier and Gasiorek, 2001:29-30).

6.6 Economies of scale

Access to a larger market allows producers to benefit from economies of scale. Such economies of scale mainly occur in manufacturing, being of limited importance in agriculture. The EU abolished its trade barriers for manufactured products from the MPCs with the first cooperation agreements in the 1960s and 1970s. Gains from economies of scale owing to the EMAAs can thus only be expected for EU producers. At first sight this gain seems limited given the small size of MPC economies. Nevertheless, because of the hub-and-spoke structure of the EMAAs, EU manufacturers have unrestricted access to all of the MPCs, while the MPC manufacturers continue to face trade barriers with other MPC countries. This gives EU producers an edge on MPC competitors.

Tariffs form only part of the trade barriers among countries. Harmonisation and mutual recognition of standards as envisaged in the EMAAs will reduce uncertainty and transaction costs for both MPC and EU manufacturers. A deeper integration of EU and MPC markets can result in further gains from economies of scale. The distribution of the benefits of economies of scale between EU and MPC producers thus depends on the level of integration achieved by the EMAAs. Abolishment of MPC protection of manufactured goods benefits EU producers, while deeper integration will benefit both MPC and EU producers.

The hub-and-spoke structure of the EMAAs plays a prominent role in the discussion of the distribution of economies of scale. If the MPCs establish an FTA among themselves, this would reduce the competitive advantage of EU producers located in the hub. In absolute terms, the current trade among MPCs is limited. In addition to trade barriers, the small size of the economies, similar production structures and vertical integration with the EU provide obvious reasons for this limitation. A more detailed look at the trade levels using trade intensity indexes (which control for size of trading partners) and gravity models suggest that the observed regional trade levels and patterns are in line with what can be expected given the endowments of the countries. Large increases in regional trade therefore seem unlikely (Petri, 1997).

Despite these qualifications, further integration may still be desirable. Gravity models, being econometric models, are not well suited to address the impact of large structural changes, such as far-reaching trade liberalisation. Attracting FDI by creating a larger market can be another incentive for

regional integration. Finally, analyses of intra-regional trade flows tend to focus on aggregate trade flows, ignoring possibilities for specialisation.

Comparing intra-regional trade patterns to EU trade patterns indicates the presence of (limited) complementarities, which would allow for specialisation. As the development of the EU has shown, integration can foster specialisation and trade. Trade among the MPCs has been increasing lately, which could indicate the start of the dynamic effects of integration as observed in the EU (Handoussa and Reiffers, 2002:iii-iv). An interesting feature of the regional trade is the higher contribution of non-traditional goods (processed agricultural goods, basic manufactured goods and intermediates) compared with trade with the EU and the rest of the world. The forward and backward linkages of these regionally traded goods can provide a basis for developing a more competitive manufacturing sector. Deeper integration among the MPCs could aid the diversification of exports and aid the transformation of the MPC economies by increasing research and development and learning-by-doing (Devlin and Page, 2001:212,221).

Efforts at achieving regional integration have a bad track record. During the 1960s and 1970s, over 45 bilateral treaties were concluded. The lack of time-tables and numerous exceptions have made these treaties largely ineffective. In 1997, a 1981-treaty was revived. A treaty to establish a Greater Arab Free Trade Area (GAFTA) was signed by 18 Arab states. Among these Arab countries, there are seven MPCs: Algeria, Egypt, Jordan, Morocco, Lebanon, Syria and Tunisia (Devlin and Page, 2001:191,228). Furthermore, Tunisia, Morocco, Jordan and Egypt negotiated the Agadir agreement in 2003, also aiming at liberalising trade in the region.

The commitments in the context of the GAFTA are more specific than in previous arrangements. With respect to its contents, it moves further than the EMAAs for agricultural commodities, while having fewer provisions on rules and standards. The commitment to liberalisation that MPCs have made by entering the EMAAs also makes it more likely that GAFTA will beat the bad track record of past regional integration efforts, providing an integrated regional market in which economies of scale can be achieved.

6.7 Reduced monopoly power

Reducing the protection of manufactured goods will increase competition and reduce the power of (state) monopolies. Furthermore, extending EU policies on competition to MPCs means that state monopolies and enterprises need to conform to EU laws. The EMAAs allow state-aid for disadvantaged regions, but no subsidies to compete for FDI with other MPCs (Zarrouk, 2001:250).

The virtual lack of agricultural concessions in the EMAAs, however, implies that state monopolies in agriculture can maintain their position. This can hamper the development of the private sector, as the case of olive oil in Tunisia illustrates. The imports of olive oil to the EU from Tunisia are limited by (binding) quotas. These quotas are largely granted to a state enterprise, forcing private enterprises to export to less lucrative markets than the EU. Liberalising trade in olive oil would provide private enterprises with access to the EU markets, reducing the power of the state monopoly (Economic and Social Commission for Western Asia, 2001).

6.8 Increased efficiency

Studies of the impact of the EMAAs indicate limited static effects. The dynamic gains from increased efficiency owing to increased competition are therefore a main motivation for the agreements (Augier and Gasiorek, 2001:4).

Despite a *de facto* limitation of the EMAAs to manufacturing, the scope for efficiency gains can still be expected to be large, given the current high tariffs that exceed 30% (Lahouel, 2001:95). Among the industrial sectors, protection in MPCs tends to be highest in the agro-food sector. The tariffs for the agro-food sector (ISIC 311:314), for example, are 31% in Egypt (1995), 26% in Jordan (2000), 48% Morocco (1995), and 36.4% in Tunisia (1995) (Augier and Gasiorek, 2001:9). Trade liberalisation, removing barriers against cheap imports, will have a strong impact on these sectors. Although

consumers can benefit immediately from cheaper European imports, the sector needs to go through a (painful) restructuring to become competitive with imported goods.

6.9 Changes in the terms of trade

A study of the terms of trade in the MPCs indicated that i) the volatility of the terms of trade has declined, ii) the terms of trade are improving, especially with the geographic region a country trades with most, and, iii) import prices have declined and export prices have improved (Handoussa and Reiffers, 2002:28).

The decreased volatility of the terms of trade is related to an increased diversification of production from primary to labour-intensive manufactured goods. The improvement in terms of trade can largely be attributed to a decrease in import prices, reflecting the increasing competitive environment in the MPCs. Instances where export prices increased involved exports of high-tech goods produced by foreign firms (Handoussa and Reiffers, 2002:28-30).

6.10 Increased FDI

Attracting FDI is one of the most often mentioned reasons for entering a regional trade arrangement, as opposed to multilateral liberalisation. Expectations with regard to FDI where high when signing the EMAAs, but proved too optimistic. While FDI increased globally by 70% from 1992 to 1996, inflows to the MPCs decreased slightly. As a result, the MPCs' share in FDI flowing to developing countries decreased from 2.1 to 1.2%. Although it can be argued that this period is too short to address the impact of the EMAAs, the poor record of the MPCs in attracting FDI does not offer much optimism for future developments (Lahouel, 2001:87-88). European investors moved from Eastern Europe to Latin America to benefit from MERCOSUR, ignoring the Mediterranean countries (Handoussa and Reiffers, 2002:ii). Three main reasons can be cited to explain the disappointing trend of FDI flows to the MPCs: limited agricultural liberalisation, postponement of negotiations on investment and the hub-and-spoke nature of the EMAAs.

Agriculture is the main sector for most MPCs. Excluding agriculture from the reciprocal concessions in the EMAAs thus reduces opportunities for increased FDI in the region (Garcia-Alvarez-Coque, 2002:403). Similar to agriculture, negotiations on investment are postponed when signing the agreements. As a result, domestic polices unfavourable to foreign investors remain unaltered. In Tunisia, for example, foreign ownership is unrestricted only in manufacturing activities that export at least 80% of their output; Jordan restricts foreign ownership to less than 50% in certain sectors. Although there are changes in government attitudes towards private enterprises, there are still a large number of impediments to FDI: cumbersome custom clearance, inefficient commercial dispute settlement and the high costs of telecommunications (often still a public monopoly) (Lahouel, 2001:92).

The lack of commitments on investment is especially important for the service sector, which most often requires a local establishment. Services in their turn are important for competitiveness in the global economy. If there are no improvements in the legal and regulatory framework to promote both domestic and foreign investments, the increased competition from imports will not be balanced by investments, possibly leading to a significant negative impact of the EMAAs for the MPCs (Stern, 2001:23).

While the shallow nature of the EMAAs does not support the inflow of FDI, their hub-and-spoke character may have actually reduced the incentives for FDI. Tariff-jumping was an incentive for FDI before the EMAAs. With the EMAAs in place, but lacking regional integration, companies could relocate to the EU, and serve the MPCs from here. Economies of scale coupled with the small size of the individual MPC economies, reinforces such a reduction of FDI in favour of investments in the EU (Lahouel, 2001:102).

The capacity to attract FDI therefore depends on the extent to which regional trade agreements manage to provide horizontal linkages among MPCs (Garcia-Alvarez-Coque, 2002:409). The hub-and-spoke structure of the EMAAs, however, promotes a similar development of production structures in MPCs.

This reduces the complementarity of MPC economies, which may partly account for the protectionism in the region and hampers south-south integration (Handoussa and Reiffers, 2002).

If the MPCs should succeed in increasing their share of global FDI flows, the positive impact on their economies may still be limited. Empirical evidence suggests that the benefits from FDI, spill over effects and productivity growth mostly accrue from trade among advanced countries, as opposed to trade among advanced and developing countries (Stern, 2001:24-26).

6.11 Trade creation and diversion

Trade creation and diversion play a central role in the debate on preferential versus unilateral or multilateral liberalisation. Trade creation occurs by reducing trade restrictions. Given that the MPCs are one of the most protected regions, there is scope for trade creation (Handoussa and Reiffers, 2002:4-5).

Although the removal of trade restrictions is important, it may not be sufficient to increase the export of horticultural products by MPCs. Additional hurdles to increasing exports are high marketing costs (such as logistics, transport and post-harvest handling) and quality specifications (grades, packaging, environmental procedures and time of delivery). A limited number of retail holdings dominate the European food retail market, allowing them to impose quality standards. These standards cannot currently be met by all MPC producers, despite their comparative advantage in terms of climate and labour costs (Garcia-Alvarez-Coque, 2002).

Trade diversion is not an issue for countries in which the EU is already the major trading partner or for MPCs that have preferential trade arrangements with other major trading partners (Israel, for example, has also signed an FTA with the US). Considering the geographical orientation of trade, Egypt, Jordan and Lebanon have the most diversified trade patterns, thus running the risk of trade diversion because of the EMAAs (Petri, 1997:46).

Ex ante CGE modelling for Morocco, Tunisia and Egypt indicates that the costs of a possible trade diversion would be exceeded by dynamic welfare gains, especially if the EMAAs could result in the reduced administration costs of trade, a harmonisation of standards and export-related, dynamic productivity effects. Short-term (comparative static) gains from unilateral and multilateral liberalisation exceed the gains from the EMAAs. These results again underscore the importance of accounting for the dynamic aspects of the EMAAs (policy credibility, capital accumulation, FDI, industrial location, knowledge accumulation and spill overs) (Stern, 2001).

6.12 Agglomeration

The EMAAs are not implemented at the same time. Tunisia is often used in empirical analyses of the EMAAs, being the first country to sign an EMAA. The similarities in endowments and production structures, small economies and a different pace of implementing the EMAAs raise concerns about agglomeration effects.

Although integration of the MPC economies may be crucial for attracting FDI, it can also lead to a concentration of benefits in a limited numbers of countries. Given the small size of the MPC economies, their markets could be served from a single location in one of the MPCs. If linkages exist between different industries this could lead to an inflow of FDI to a single country, which then serves as the regional 'hub'. Certain countries may be a preferred location because they are at a further stage of liberalisation, have a better infrastructure or more supportive domestic policies. Such a development could increase tensions in the region since, while all countries face the adjustment costs of reducing tariffs on manufacture goods, only a few would enjoy the benefits of additional investments.

In the literature used for this section no references were made to such agglomeration effects. A major problem is the lack of data, since a data for individual countries is required. There are CGE models of individual countries (Egypt, Morocco, Tunisia and Turkey) and there is one model that has most of the MPCs separately included (a CGE model of industrial sectors developed by Augier and Gasiorek, 2001). The model by Augier and Gasiorek could be used for a study of agglomeration since it accounts

for economies of scale (an important driving force of agglomeration). In their simulations, such effects are ignored; they assume that all MPCs implement the liberalisations at the same time.

6.13 Knowledge flows

The increasing in trade following implementation of the EMAAs could increase the flow of knowledge and stimulate domestic innovation. This knowledge-effect of trade, however, can be limited by the preferential nature of the liberalisations, if it leads to a diversion of trade from the US and Japan to the EU, as the US and Japan have the highest stocks of knowledge (Stern, 2001:27).

An increase in trade in industrial products, as may be expected with the current liberalisation pattern, would promote a stronger flow of knowledge if production is relocated to the MPCs. This effect again argues in favour of achieving regional integration in order to attract FDI.

The current export-composition from MPCs does not favour a build-up of knowledge. Their production and export focuses on primary production, while lagging in terms of manufacturing. The current trade pattern lacks the dynamism of comparable countries in terms of development level (Petri, 1997:39).

7. Conclusions and the identification of key issues for analysis

7.1 Introduction

This section summarises the findings of the preliminary assessment of the EMP and identifies key issues for further analytical work.

The EMP represents an ambitious attempt to re-launch the EU's role in the Mediterranean and it is broadly aimed at promoting political stability in the area by improving economic integration and increasing incomes. Section 7.2 assesses whether these ambitious aims can be met in the near future. Coherence of the EMAAs' aims with the actual policies, especially in the treatment of agriculture, is an important issue in this respect.

Section 7.3 provides an identification of the topics to be dealt with in order to deepen the analysis of EMAAs. Besides a number of specific options, there seems to be a more fundamental choice to be made between studying marginal changes in agriculture and broadening the scope to wider issues related to the development of MPC economies.

7.2 Broad assessment of the EMP

The main aim of the EMAAs is to spur economic growth in the MPCs, serving both EU and MPC security interests. Whether the EMAAs will succeed seems highly questionable, for four reasons:

1) the poor growth record of the MPCs has largely domestic causes;

2) the liberalisation in the EMAAs has a very limited scope;

3) the hub-and-spoke structure of the Euro-Mediterranean RTA; and,

4) contradictory EU policies, especially in agriculture.

7.2.1 Poor growth record

Given current levels of unemployment and population growth, increasing economic growth is vital for the MPCs. Their track record is, however, not promising, with growth lagging compared with countries that have similar endowments. Lagging economic growth in the MPCs is to a large extent a home-grown problem and can be attributed to the interplay of three factors:

- *Biased sources of foreign exchange.* Oil exports and remittances are important sources of foreign exchange for a number of countries. This distorts the economy towards non-traded sectors of the economy, reducing investments in the traded sector (the 'Dutch Disease').
- *High protection levels*. MPCs are among the most protected economies in the world, sheltering domestic firms from international competition. Combined with the focus on those non-traded

sectors that are induced by inflows of non-trade foreign exchange, this resulted in a production structure that is not internationally competitive.

- *Strong state intervention*. MPC governments play an active role through a dominant presence of state enterprises and an over-staffed public sector that employs a large part of the labour force.

In summary, MPC economies have a highly protected production structure that is not internationally competitive, high government expenditures (partly financed by tariff revenues), high population growth and extensive unemployment.

Liberalisation in the context of the EMAAs, (especially in the current limited form) only targets one of these causes – high protection rates. More fundamental changes will be needed to put economic growth in the MPCs back on track. The EMAAs may aid increased economic growth. To capture the potential gains, effective domestic policy changes are needed, as well as complementary measures in a multilateral trade-setting.

7.2.2 Limited scope of liberalisation

Despite the broad intentions voiced in the Barcelona Declaration, the trading component of EMAAs provides for a liberalisation of trade in manufactured products by the MPCs in exchange for financial support through the MEDA programme and the European Investment Bank. These funds are meant to cover part of the adjustment costs of the highly protected MPC economies (actual disbursement of the funds is limited to 25% of the commitments).

Agriculture plays an important role in most countries, in terms of contributing to GDP as well as a source of employment. A more outward orientation of the economies may contribute to an increase in economic growth, but will require major changes in government spending and in production structures. Adjustment costs are high and may exceed the benefits of liberalisation in the short term.

Paradoxically, the distinguishing feature of the EMAAs – which is their reciprocal nature – allows the EU to ask MPCs to open their (highly protected) manufacturing markets, while keeping the MPCs' agricultural and other 'sensitive' products out of its own market. In fact, for industrial products the EU market has already been largely open since the agreements of the 1970s, while agriculture and a few other labour intensive production sectors are treated as 'exceptions'.

The agreements do not include specific timetables for liberalising agriculture, investments or services. Liberalisation for these sectors is *de facto* out of reach in the near future. With respect to agriculture, the general consensus is that the EU is not granting any noteworthy new concessions. With respect to investments, most MPCs restrict foreign investments and seem reluctant to liberalise. As for services, the current political landscape in Europe does not seem to favour liberalisation, which may involve (temporary) migration.

In summary, the EMAAs are asymmetric owing to the postponement of negotiations on difficult issues such as agriculture, investment, and migration. Short-term effects on MPCs are limited and can even be negative, reducing the incentives for continuing liberalisation. Long-term gains could be significant if MPC economies are able to adjust to the increased competition.

7.2.3 The hub-and-spoke structure of the Euro-Mediterranean RTA

The EMAAs are bilateral agreements between the EU and individual MPCs, and do not include provisions for agreements among MPCs. In practice, the EMAAs result in a hub-and-spoke RTA mainly benefiting the EU, and are still far from achieving the deep integration envisioned in the Barcelona Declaration.

In order to create a Mediterranean free-trade area the MPCs will need to negotiate bilateral agreements among themselves. The Greater Arab Free Trade Area (GAFTA) seems a potential structure for arriving at such an expanded free-trade area. Among the Arab countries that signed GAFTA are seven MPCs: Algeria, Egypt, Jordan, Morocco, Lebanon, Syria and Tunisia. The Agadir agreement is another step towards regional integration.

Intra-regional trade levels are currently low in absolute terms. Whether they will increase if a Mediterranean free-trade area is established remains an open question. Econometric models based on gravity equations suggest that regional trade flows are at their 'appropriate' level. If a Mediterranean FTA balances the current strong orientation towards the EU, there may be scope for increased specialisation and trade.

A Mediterranean FTA is also necessary to compete with other FTAs (especially MERCOSUR) in attracting FDI. FDI flows to the MPCs are low and decreasing. In the absence of a Mediterranean FTA, the EMAAs may actually further decrease FDI. With the EMAAs in place, but lacking regional integration, companies can relocate to the EU and serve all of the MPCs from there. The economies of scale, coupled with the small size of the individual MPC economies, reinforce such a reduction of FDI in favour of investments in the EU.

7.2.4 Contradictory EU policies, especially in agriculture

As a whole, the treatment of agricultural trade appears to fall short of the liberalising project of the EMP and there are some contradictions between the objectives and policy instruments that the negotiating parties have agreed upon.

The MPCs are going to face problems with the prospect of opening up their economies, such as a fall in tariff revenues, international competition, sector adjustments and asymmetry in the pace of trading reform between agricultural sectors, as well as between the agricultural sectors as a whole when compared with other sectors.

On EU side, the *de facto* approach is in contrast with the set-up of an EMP technical and financial cooperation aimed at re-launching MPC agriculture. While MPCs are helped to rebuild their agricultural policies and improve their trade performance, EU agricultural markets remain substantially locked in the traditional protectionist framework. In addition, such an approach of protecting agriculture is in contrast with the prevailing EU member policies on immigration, since containing MPC agricultural growth compromises job creation in MPC agriculture and encourages migration.

In summary, despite an understanding of the links between trade liberalisation and other policies aimed at developing and integrating in the Mediterranean basin, actual trading preferences are not consistent with (and often conflict with) a number of other policy dimensions relevant to the EMP objectives.

Besides these policy contradictions within the EMP, the EU's treatment of trade in the agricultural chapter of the current Mediterranean agreements shows two main shortfalls:

- the difficulty of pushing through sufficient trade concessions to effectively support the strengthening of the EU's role in the Mediterranean;
- the weakness of the current protectionist framework for the purpose of supporting Mediterranean EU producers. While on EU fresh product markets (i.e. fruit and vegetables) non-price factors are becoming increasingly important for successful marketing, inward-looking trade policies keep dealing mainly with the cost and price factors of competitive advantage. In the long run, the lack of suitable structural policies – which deal with marketing systems, quality, and technologies for product management and delivery – may eventually displace many EU producers as the leading trade companies and operators (usually European as well), no matter the level of border protection.

7.3 Key issues for future analysis

As has been mentioned in section 6, there is a significant amount of research on the impact of the EMAAs on the MPCs and on the EU and its member countries. Based on the literature used for this study, a number of issues can be identified that seem relevant but are not covered by existing studies.

Non-tariff barriers

Liberalising trade may not be sufficient to offer MPCs access to European markets. Especially in horticultural markets a limited number of retailers pose demands (on grades, packaging, environmental conditions, certification and so on) that may not be met by MPC producers. Despite a comparative advantage in terms of labour costs and climate, some countries may not be able to gain access to EU markets, even if they become liberalised. Additional research on the structure of the EU market and the extent to which MPCs can meet its requirements could help in making the EMAAs more effective.

Trade barriers at the MPC side

The current study, as most studies on the EMP, is biased towards the (agricultural) trade barriers of the EU. The trade barriers erected by the MPCs have not been discussed in detail, mainly since limited information is available. In order to understand the scope for liberalisation, as well as its impact, a more detailed understanding of the protection on the MPC side (tariffs, non-tariff barriers and subsidies) would be useful. Apart from analysing specific trade barriers such as tariffs and quotas in more detail, the impact of lengthy and uncertain custom procedures seems to strongly affect trade in the region. This affects both EU exporters and those MPC producers willing to export.

Distribution of benefits among MPCs

Differences in the pace of signing and implementing the EMAAs and in the institutional and structural features of MPCs will result in an uneven distribution of the benefits and costs of the liberalisations. This effect will be stronger if a Mediterranean FTA is negotiated. The agglomeration of activities in a few countries may actually increase tensions in the region. Existing studies focus on a single country or assume that the agreements are implemented simultaneously in all countries.

Linking the eastward and southward expansion of the EU

The interests of producers in southern EU states play an important role in the virtual absence of agricultural concessions in the EMAAs. The eastward expansion of the EU may offer a window of opportunity for opening EU agricultural markets. The expansion of the markets will reduce the negative impact of the liberalisation (dividing additional income is easier than redistributing current income) and make it more palatable to southern EU producers.

Local effects on EU countries

Most studies indicate a limited aggregate impact of the EMAAs on the EU, even with full liberalisation. Local effects on specific regions, especially in the southern EU states can be significant. Estimates of these local effects seem to be missing in existing studies.

Cross-border initiatives

The establishment of 'growth triangles' that combine the different factor endowments of neighbouring countries may be an interesting option, from an economic as well as a political point of view. The large differences in the

The resource endowments between Israel and its Arab neighbours seem promising for increasing the stability in the region. Research into the possibility and feasibility of such triangles could offer an alternative option for achieving (partly) the aims of the Barcelona Process.

Finally, it is notable that the direction of future research within ENARPRI seems to be the (non-exclusive) choice between studying marginal changes in agriculture (which could still have large local effects in particular regions in the EU and the MPCs) and broadening the scope to more general trade and development issues (such as the direct and indirect effects of opening the manufacturing markets in MPCs).

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ABOUT ENARPRI

ENARPRI is a network of European agricultural and rural policy research institutes formed for the purpose of assessing the impact of regional, bilateral and multilateral trade agreements concluded by the European Union or currently under negotiation, including agreements under the WTO, EU accession, Everything But Arms (EBA), EuroMed and Mercosur. It also addresses the wider issues of the multifunctional model of European agriculture and sustainable development of rural areas. Participants in the project include leading national institutes and research teams from 13 countries (11 EU member states and 2 accession countries).

AIMS

- Creation of an institutional structure linking key research institutes with major benefits for improved exchange of information and policy analysis both in the short and long run,
- Development of improved tools for impact assessment,
- More effective impact assessment of trade agreements on a variety of important social, economic, and environmental indicators and an assessment of multi-functionality, and
- Clearer analysis of the need for EU policy adjustments.

PARTNER INSTITUTES

- **CEPS**, Centre for European Policy Studies (Belgium)
- **FAL**, Federal Agricultural Research Centre (Germany)
- **FOI**, Danish Research Institute of Food Economics (Denmark)
- **IEEP**, Institute for European Environmental Policies (UK)
- **INEA**, Istituto Nazionale di Economia Agraria (Italy)
- **INRA**, Institut National de la Recherche Agronomique (France)
- **IRWIR PAN**, Institute of Rural and Agricultural Development/Polish Academy of Sciences (Poland)
- **LEI**, Landbouweconomisch Instituut (The Netherlands)
- **MTT**, Agrifood Research (Finland)
- **TEAGASC**, Rural Economy Research Centre (Ireland)
- **UPATRAS**, Department of Economics, University of Patras (Greece)
- **UPM-ETSIA**, Universidad Politécnica de Madrid – Escuela Técnica Superior de Ingenieros Agronomos (Spain)
- **VÚZE**, Research Institute of Agricultural Economics (Czech Republic)

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