Outcome of Fifty Years of Euro-Mediterranean Trade Partnership and DCFTA Perspectives

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Fifty Years of Trade Agreements between the EU and Mediterranean Countries

The first Association Agreements with Mediterranean Non-Member Countries (MNCs) were signed nearly 50 years ago. These agreements have evolved greatly over time but continue to be the object of much criticism, particularly regarding insufficient market access in trade between the two shores of the Mediterranean (in particular for agricultural products from the South), the presence of too many non-tariff barriers (NTBs), the significant differences in the sphere of standards and norms (particularly technical ones) and the insufficient financial aid granted by the EU. This article reviews the past 50 years of EU-MNC cooperation: Outcome? Bottlenecks? Prospects for Deep and Comprehensive Free Trade Agreements (DCFTAs)?

From the First Association Agreements…

The first Association Agreements consisted essentially of customs duty reductions applicable to exports to the European Economic Community (EEC) from these countries. In any case, the tariff reductions were quite limited, in particular for agricultural products. Moreover, these preferential tariffs were not harmonised, such that for a single product the MNCs enjoyed different reductions. Hence, as of 1972, the EEC established a Global Mediterranean Policy (GMP) in order to extend preferences and harmonise all the MNCs. This gave rise to cooperation agreements, which included bolstering trade preferences for agricultural products and implementing a financial aid policy consisting of preferential loans from the European Investment Bank (EIB) through instruments called MEDA.

The next stage followed the enlargement of the EEC to Spain and Portugal in 1986. This led the EEC countries to extend the preferences initially granted to the MNCs to take said enlargement into account. The new agreements (Additional Protocols to the Agreements) were signed in 1988 to eliminate customs duties for MNC exports alongside those for exports from Spain and Portugal, particularly for agricultural products.

… to the Barcelona Agreements…

But the most important stage of these past 50 years was certainly the conclusion of the Barcelona Agreements in 1995, which allowed the progressive establishment of a Free Trade Area (FTA) between EU countries and the MNCs. Thus the preferences that had remained unilateral until then progressively became bilateral until full establishment of the FTA in 2010. This stage was also concomitant with accession by a non-negligible number of MNCs to the General Agreement on Tariffs and Trade (GATT) / World Trade Organization (WTO) since the 1980s. The Barcelona Agreements likewise allowed a deepening of financial instruments, thenceforth called FEMIP.

1 The MNCs include all EU non-member countries in the Southern and Eastern Mediterranean region, namely North African countries (Morocco, Algeria, Tunisia, Libya and Egypt), as well as Jordan, Syria, Lebanon, Turkey, Israel and the Palestinian Territories.


... to Attempts at Deepening Trade Liberalisation

In 2004, the EU enlarged to include certain Central and Eastern European Countries (CEECs), likewise allowing an enhancement of the Barcelona Agreements via the newly-established European Neighbourhood Policy (ENP). The main goal of this policy was to strengthen the regional integration process between the expanded EU and its new eastern and Southern neighbours, providing for the progressive application of the Community Acquis and the four freedoms (free movement of goods, services, capital and people) in this new area. The reality has, however, proved somewhat different, insofar as the objectives of deeper regional integration have generally not been attained, for various economic and political reasons. The same is true of the 2008 launching of the Union for the Mediterranean (UfM), which was to create new opportunities in terms of regional integration and new projects (energy, de-pollution of the Mediterranean, infrastructures, universities, etc.) as well as a new governance in the Euro-Mediterranean area, with its co-presidency and Secretariat. In fact, the UfM has never truly come into its own.

The Euro-Mediterranean agreements, and in particular the Barcelona Agreements, have had but a limited effect on trade and little or no effect on reducing the economic gap between MNC and European income levels

Hence, this first assessment of EU-MNC agreements makes it clear that the most successful accords are the Barcelona Agreements, which allowed the creation of an FTA. However, there is no denying that, since these agreements, efforts at deepening trade liberalisation have remained limited.

Mixed Results...

The main objective of all these agreements was to boost trade relations between the EU and the MNCs in order to provide support for their economic growth. Though the majority of impact studies conclude that there is a positive effect on trade, this effect remains limited. Péridy and Roux (2012), for instance, indicate in a survey that the effects on trade are estimated at an increase of roughly 25%, but slowing towards the end of the period, primarily due to restricted access to the European market for agricultural products from the MNCs. Effects vary, moreover, from one MNC to another, with highly positive effects for Tunisia but negative ones for such countries as Algeria. There are very few studies available on the impact of the Euro-Mediterranean agreements on MNC growth and their convergence towards the EU in terms of wealth. In any case, Péridy and Bagoulla (2012) conclude that there is an absence of significant effects. All of these results thus indicate that the Euro-Mediterranean agreements, and in particular the Barcelona Agreements, have had but a limited effect on trade and little or no effect on reducing the economic gap between MNC and European income levels.

...and Many Obstacles

The minor impact of the Euro-Mediterranean Partnership can be attributed to numerous economic and political obstacles. First of all, it is important to emphasise that, despite the establishment of an FTA in 2010, the MNCs have not fully eliminated their customs duties on European imports. Moreover, non-tariff barriers (NTBs), in particular technical and sanitary barriers, remain at very high levels. Calculated in tariff equivalents based on Kee et al. (2009), Chart 14 shows that the majority of MNCs apply NTBs representing over 20% in tariff equivalents, which is much more than the majority of OECD countries or other emerging countries. Algeria, Egypt and Morocco display the same rates of nearly 40% or over, indicating significant protection against imports. If we combine customs duties with NTBs, it is clear that the MNCs are far from reaching a sufficient level of trade liberalisation, with the exception of Turkey. This clearly explains why the effects of the Barcelona Agreements on trade are limited. There is a similar impasse concerning the absence of real liberalisation of trade in services, which likewise remain subject to significant protection in the majority of MNCs (Turkey ex-
cluded), although certain countries are beginning to institute reforms in this regard (Morocco, Tunisia, Jordan, Lebanon, Egypt).

Among other economic obstacles, let us note the existence of other trade costs, such as logistics costs that continue to be excessive. Table 7 shows that, when the Logistics Performance Index developed by the World Bank (2014 edition) is broken down, the MNCs are generally very poorly ranked, particularly Syria, Tunisia, Algeria and Lebanon, with many indicators with a value above one hundred, such as the efficiency of customs procedures, the quality of organisation of international shipments, the logistics competence (i.e. quality of service), tracking and tracing of shipments, and timeliness. Certain countries, however, are not so badly ranked, as for instance, Turkey, Israel and even Morocco, which has made great efforts over the past few years to

### Table 7: Country Rankings According to their Logistics Performance Index (2014 World Bank Rankings of 160 Countries)

<table>
<thead>
<tr>
<th>Country</th>
<th>Average</th>
<th>Customs</th>
<th>Infrastructure</th>
<th>International Shipments</th>
<th>Logistics Competence</th>
<th>Tracking &amp; Tracing</th>
<th>Timeliness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>30</td>
<td>34</td>
<td>27</td>
<td>48</td>
<td>22</td>
<td>19</td>
<td>41</td>
</tr>
<tr>
<td>Israel</td>
<td>41</td>
<td>43</td>
<td>45</td>
<td>96</td>
<td>36</td>
<td>46</td>
<td>12</td>
</tr>
<tr>
<td>Morocco</td>
<td>50</td>
<td>65</td>
<td>39</td>
<td>46</td>
<td>59</td>
<td>58</td>
<td>53</td>
</tr>
<tr>
<td>Egypt</td>
<td>62</td>
<td>57</td>
<td>60</td>
<td>77</td>
<td>58</td>
<td>43</td>
<td>99</td>
</tr>
<tr>
<td>Jordan</td>
<td>68</td>
<td>78</td>
<td>76</td>
<td>65</td>
<td>60</td>
<td>96</td>
<td>58</td>
</tr>
<tr>
<td>Lebanon</td>
<td>85</td>
<td>124</td>
<td>89</td>
<td>118</td>
<td>67</td>
<td>44</td>
<td>108</td>
</tr>
<tr>
<td>Algeria</td>
<td>96</td>
<td>66</td>
<td>87</td>
<td>117</td>
<td>102</td>
<td>109</td>
<td>94</td>
</tr>
<tr>
<td>Tunisia</td>
<td>110</td>
<td>146</td>
<td>118</td>
<td>73</td>
<td>120</td>
<td>124</td>
<td>80</td>
</tr>
<tr>
<td>Syria</td>
<td>155</td>
<td>142</td>
<td>144</td>
<td>150</td>
<td>159</td>
<td>158</td>
<td>145</td>
</tr>
<tr>
<td>MENA Average</td>
<td>77</td>
<td>84</td>
<td>76</td>
<td>88</td>
<td>76</td>
<td>77</td>
<td>77</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on 2014 World Bank data.
improve the quality of its infrastructures (road network, railways, Port Tanger-Med, etc.).
Another significant impediment concerns the type of exports by MNCs, too often oriented towards products of low added value, as indicated in Chart 15. Hence, less than 25% of MNC exports involve high-quality products, which naturally dampens the impact of trade liberalisation with Europe.
A last factor of economic impediment relates to the segmentation of MNC markets. In fact, the absence of South-South integration does not allow opportunities for economies of scale in production processes and curbs the effectiveness of trade with Europe. Despite attempts to create a major Arab Free Trade Area, intra-MNC trade remains low, on the order of 12%, as compared to 66% for intra-EU trade.
If we add to these economic obstacles the numerous political constraints associated with governance, not to mention the effects of the Arab revolutions, it is, after all, not very surprising that the overall effects of the Euro-Mediterranean Agreements have been limited.

**New Perspectives through Deep and Comprehensive Free Trade Areas (DCFTAs)**

Aware of the obstacles indicated above, EU and MNC leaders have launched a process to deepen the FTA through DCFTA initiatives. Thus the European Commission was given the green light to initiate negotiations on DCFTAs with Egypt, Jordan, Morocco and Tunisia in December 2011, as part of the EU's response to the political developments in the Arab world. Morocco and Tunisia were the first of four countries to take a seat at the negotiation table, with official negotiations starting in 2012 and 2013. The aim of the DCFTAs is to go beyond liberalisation of trade and elimination of customs duties by focusing on greater economic integration. The DCFTAs cover various spheres, including public markets, technical regulations for industrial products, customs procedures, sanitary and phytosanitary measures, intellectual property rights, competition, energy trading, commercial aspects, sustainable development, etc. This in turn should improve market access opportunities, the investment climate, support for economic reform and consumer choice. Particular priority is granted measures designed to foster European investment, improve economic governance and step up regional economic integration. There is also an environment facet to these agreements. EU financial support should also be increased. Note that this DCFTA agreement follows other recent trade agreements, namely those between the EU and Morocco in 2012 on improved access to the European market for Moroccan agricultural products.
Impact Studies Forecast Positive Effects for Morocco and Tunisia

The two main impact studies point towards overall positive effects for Morocco and Tunisia, but negligible ones for the EU. With regard to Morocco, ECORYS (2014a) predicts an effect on the Moroccan GDP of approximately 1.6% in the long term, as well as a 15% increase in exports and an 8% rise in imports. There are, however, sector differences, with positive effects for Morocco in produce and machinery due to lower European NTBs. On the other hand, the cereals sector will likely shrink because of the alignment of Moroccan NTBs with those of the EU. The consequences on salaries should be generally positive (+1.5%). And finally, the impact on the Decent Work Agenda will be limited and environmental effects will vary according to type of pollution, with an uncertain overall effect.

In conclusion, DCFTAs will allow further gains, but improvements are desirable. These would particularly involve moving towards EU-MNC sectoral regulatory convergence, increasing the added value of exports, boosting support for the internationalisation of SMEs and the business climate (namely through FDI, improved education, and investment in human capital), pursuing targeted reduction of NTBs and accelerating trade facilitation, accelerating reform relating to governance and the role of the State, improving the quality of logistics infrastructure, pursuing social dialogue and taking into account the coming environmental challenges.

The aim of the DCFTAs is to go beyond liberalisation of trade and elimination of customs duties by focusing on greater economic integration

Tunisia should enjoy more significant effects (ECORYS, 2014b), with a 7% rise in GDP. This sharp increase is essentially tied to the reduction of NTBs and customs duties on agriculture. The predicted effects on trade are likewise significant, with a rise of 17% in imports and 20% in exports. Moreover, with effects on prices limited to +2% and salaries increasing by 10%, the effect on Tunisian purchasing power is expected to be largely positive. Effects on poverty and employment should likewise be positive, while, as with Morocco, the overall environmental effects will be difficult to predict. The most positive sectoral effects will be in vegetable oil and produce, due to the reduced EU protection. Machinery and transport equipment should also experience a production increase, as will activity in certain service sectors. The textile, leather and petrochemical industries, on the other hand, are expected to shrink.

References


