2010 EUROMED SURVEY ECONOMIC INTEGRATION IN THE EURO-MEDITERRANEAN: SELECTED ISSUES[1]

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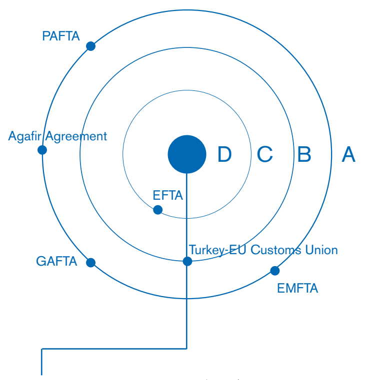
I. Regional Economic Integration EU-MED: Focus on the Free Trade Area

Euro-Mediterranean relations have since the mid-1990s been guided by a number of initiatives and programs. The Barcelona Process continued the process of creating an area of shared prosperity in the Mediterranean, started in the late 1970s with the establishment of Cooperation Agreements with many countries in the Mediterranean region, with an emphasis on creating a Free Trade Area (FTA).

BOX 1: Different levels of trade integration agreements



Economic Union (EU)
Process of harmonising the economic and monetary policies of the Member States of the Union with a view to the introduction of a single currency (the euro in the European Union).

Economic union is established through trade pact (in 1999 the process of European economic integration started its final stage of Economic and Monetary Union [EMU] as established by the Maastricht Treaty)

A. Free Trade Agreement (FTA)
Extensive reduction or elimination of tariffs on substantially all trade allowing for the free movement of goods and in more advanced agreements also reduction of restrictions on investment and establishment allowing for the free movement of capital and free movement of services.
Examples: Agadir Agreement, Greater Arab Free Trade Area (GAFTA), Pan-Arab Free Trade Area (PAFTA), Gulf Cooperation Councul (GCC)

B. Customs Union (CU)
Trade agreement by which a group of countries charges a common external tariff to non-members while granting free trade among themselves. Offers an intermediate step between free trade zones and common markets (which, in addition to the common tariffs, also allow free movement of resources such as capital and labour between member countries.
Examples: Turkey-EU Customs Union, East African Community (EAC)

C. Common Market (CM)
Composed of a free trade area (for goods) with common policies on product regulation, and freedom of movement of the factors of production (capital and Labour) and of enterprise and services. A common market is a first stage towards a single market, and may be limited initially to a free trade area with relatively free movement of capital and of services, but not so advanced in reduction of the rest of the trade barriers. The European Economic Community (EEC) was the first example of a both common and single market.
Examples: European Free Trade Association (EFTA), Switzerland – European Union

D. Economic Union (EU)
Other examples: CARICOM (Single Market and Economy of the Caribbean Community Union State of Russia and Belarus.

1. This comment on the Survey draws largely on work undertaken in the context of the following EC contracts. (i) De Wulf, L., Maliszewska, M., et al., *Economic Integration in the Mediterranean Region*, 2009 and (ii) papers produced in the context of the MEDPRO (Mediterranean Prospects) project (www.medproforesight.eu), a three-year project funded under the Socio-Economic Sciences and Humanities Programme of DG Research of the European Commission's Seventh Framework Research Programme and coordinated by the Centre for European Policy Studies (CEPS).

This led to the signing of Association Agreements (AAs) with Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, and Tunisia. An interim Association Agreement guides the relations between the EU and the Occupied Palestinian territory. The timing of the signing and enactment of these AAs varied across countries. While the Tunisia AA was the first to come into force (1998), the Lebanon AA came into force only in 2006 (Table 1).

Table 1: Barcelona Process: Association and Cooperation Agreements

Country	Association Agreement was signed	Association Agreement came into force
Algeria	2002	2005
Egypt	2001	2004
Israel	1995	2000
Jordan	1997	2002
Lebanon	2002	2006
Morocco	1996	2000
Occupied Palestinian Territory	Interim Association Agreement 1997	
Syria	Association Agreement initiated in December 2008	
Tunisia	1995	1998
Turkey	EU-Turkey Customs Union 1995	
Libya	Observer status since 1999	

Source: *Economic Integration in the Euro-Mediterranean Region.* De Wulf and Maliszewska (eds.) (2009), p. 23

These AAs provide for the gradual establishment of a free trade area for goods originating in the EU and the signatory country over a twelve year period as of the coming into force of the AA. Different provisions are provided for industrial and agricultural commodities. Goods need to have a certificate that complies with the rules of bilateral cumulation of origin with the EU to benefit from the preferential tariff rates. Exceptions are provided for goods listed in the Annex of the AA, in the context of protection of infant industries, for goods that originate in industries that are being restructured and have serious social consequences. Goods with an agricultural component are subject to Community rules for agricultural imports.

The liberalization of agricultural and fishery products are subject to detailed rules that provide for the elimination or reduction of customs duties, and tariff quotas for goods specified in the Agreement. These negotiations are ongoing and proceed at rhythms that differ across countries. The AAs provide for suitable and effective protection of intellectual, industrial and commercial property rights, in line with the highest international standards.

Also, non-legally binding provisions of the AA include:

- right of establishment of one Party's firms on the territory of the other,
- deepening the commitments to the stipulated adhesion to the WTO GATS obligations, particularly the obligation to grant reciprocal most-favored-nation treatment in the service sectors covered by that obligation,
- enforcement of competition rules, including state aid, with some exceptions, cooperation for standardization and conformity assessments,
- commitment to enhance intra-regional trade with the Maghreb countries,
- investment promotion and protection measures, and
- trade facilitation pertaining to the simplification of customs checks and procedures.

The dismantlement of tariffs on EU imports has largely proceeded as scheduled but, with its late, start tariffs on EU imports are still substantial and differ across MED countries (Table 2).[2]

Table 2: Average tariffs applied by MED countries on their imports

(% Unweighted Average)[3]

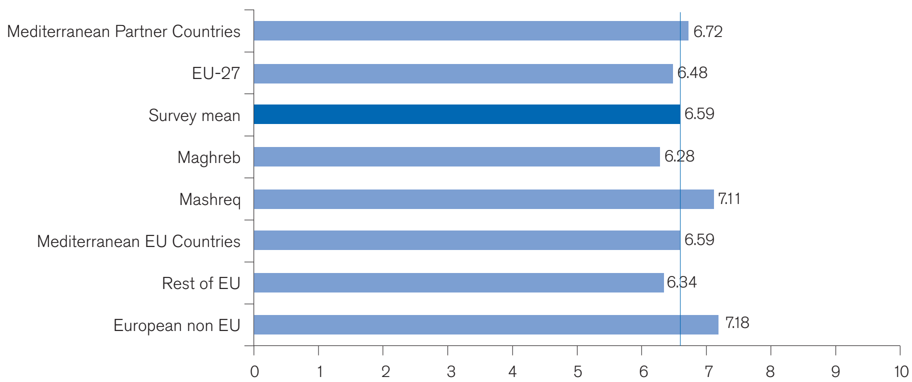
Country	Tariffs with all countries	Tariffs with EU	Share of duty free EU lines
Algeria (2009)	14.1	12.9	n.a.
Morocco (2009)	8.2	3.9	51
Tunisia (2006)	22.2	18	39.2
Egypt (2008)	9.4	10.1	6.2
Lebanon (2007)	5.1	5.4	n.a.
Israel (2008)	2.1	0.1	95
Jordan (2007)	10.1	11	38.3
Syria (2002)	12.8	14.1	n.a.
Turkey (2009)	1.2	0.1	n.a.

Source: TRAINS; De Wulf and Maliszewska (eds.) (2009); n.a. not available

The Survey's respondents show a great awareness of the contribution that the Euro-Mediterranean FTA can make to the region and how the added value gained from the FTA compares with the added value obtained from globalization in general and from global trends of trade liberalization. Only 7% of respondents indicate that they have no opinion, which is low compared with the responses to the other Survey questions. The general average of all respondents is slightly positive (6.6 out of 10), and does not differ substantially from that of the respondents from the Mediterranean Region (Graph 1).

Graph 1: The added value of EMFTA in relation to the general process of globalization and trade liberalization

(average on a scale of 0-10, where 0 stands for no added value, and 10 for very high added value)

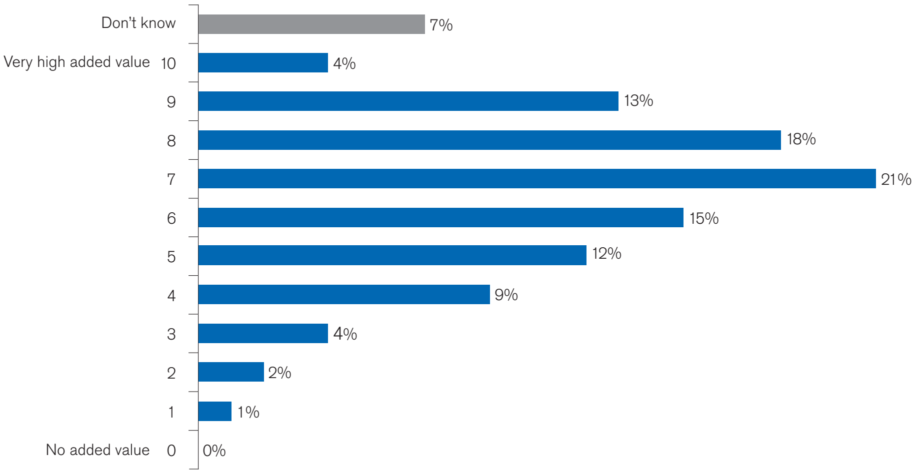


Source: Compiled by the IEMed based on the results of the 2nd Euromed Survey

2. Moreover, negotiations regarding the further liberalization of trade in agricultural products are presently ongoing. Such negotiations have recently been concluded with Egypt (2009), Israel (2008) and Jordan (2006) and are in progress with Morocco. Negotiations on services had been initiated with Morocco, Algeria, Egypt and Israel while negotiations on standards for industrial products (ACAAs) were under preparation (and were launched with Israel for the pharmaceutical sector).

3. Data for "all countries" and "with EU" are not strictly comparable due to the method of calculating these tariffs. The TRAINS (UNCTAD Trade Analysis and Information System) database reports a zero applied tariff if there is no trade between Mediterranean countries and the EU for a given product, which introduces a bias since, for this product, tariffs are not necessarily equal to zero.

Graph 1a: Grading the added value of EMFTA in relation to the general process of globalisation (%)



Source: Compiled by the IEMed based on the results of the 2nd Euromed Survey

1.1. Euro-Mediterranean FTA Performance on Trade

A recent study that analyzed the trade between the EU and eight Mediterranean countries between 1996 and 2006 suggest that exports from these MPCs to the EU rose by an annual rate of 6.4% versus a rate of 15.6% to the rest of the world (hereafter, ROW) (see Table 6). Moreover, exports to NAFTA countries rose by an annual rate of 14%, while those to the Gulf Cooperation Council (hereafter, CCG) rose by an annual rate of 18%. Notwithstanding, nearly half of all exports of MPCs are directed towards the EU, confirming the dominant position of the EU in Mediterranean trade relations (Table 3) despite some exceptions (Table 4). In contrast, it must be stressed that, in terms of trade, MPCs are secondary partners for the EU (Table 5).

Table 3: Mediterranean Partner Countries' (excluding Turkey) trade with the EU (2004-2010)

Year	Imports (M)	Annual Variation (%)	EU Share of M (%)	Exports (X)	Annual Variation (%)	EU Share of X (%)	Balance
2004	57,662	12.4	43.9	49,281	25.1	46.8	-8,391
2005	60,275	4.5	43.9	50,202	1.9	44.7	-10,072
2006	63,612	5.5	41.5	56,744	13	43.2	-6,868
2007	72,596	14.1	41.3	55,997	-1.3	41.0	-16,599
2008	80,875	11.4	40.3	67,580	16.6	42.0	-13,295
2009	69,460	-14.1	41.1	46,516	-31.2	40.0	-22,944
2010	84,527	21.7	40.5	55,585	19.5	38.5	-28,942

Source: European Commission, see: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113485.pdf

Table 4: MPC's trade relations by origin and destination

		Imports		Exports	
		Partner	**% share**	**Partner**	**% share**
Algeria	1	EU-27	**53.4%**	EU-27	**46.4%**
	2	China	**10.8%**	United States	**25.2%**
	3	Tajikistan	**4.5%**	Canada	**6.4%**
		Turkey	**4.1%**	Turkey	**3.8%**
		MEDA-9	**3.3%**	MEDA-9 Region	**3.0%**
Israel	1	EU-27	**34.8%**	United States	**32.8%**
	2	United States	**13.0%**	EU-27	**26.3%**
	3	China	**8.3%**	Hong Kong	**6.4%**
		Turkey	**3.2%**	Turkey	**2.4%**
		MEDA-9	**0.7%**	MEDA-9	**0.6%**
Lebanon	1	EU-27	**35.0%**	Syria	**24.2%**
	2	United States	**11.0%**	United Arab Emirates	**13.9%**
	3	Syria	**8.8%**	EU-27	**10.3%**
		Turkey	**3.7%**	Turkey	**5.8%**
		MEDA-9	**13.0%**	MEDA-9	**32.7%**
Syria	1	EU-27	**18.7%**	Iraq	**30.3%**
	2	Saudi Arabia	**11.3%**	EU-27	**29.0%**
	3	China	**10.7%**	Lebanon	**10.1%**
		Turkey	**8.1%**	Turkey	**4.1%**
		MEDA-9 Region	**8.9%**	MEDA-9 Region	**15.1%**
Egypt	1	EU-27	**33.5%**	EU-27	**32.1%**
	2	United States	**12.3%**	United States	**8.2%**
	3	China	**10.9%**	India	**5.7%**
		Turkey	**4.1%**	Turkey	**3.3%**
		MEDA-9	**2.1%**	MEDA-9	**13.0%**
Jordan	1	EU-27	**20.7%**	United States	**15.6%**
	2	Saudi Arabia	**18.9%**	Iraq	**15.3%**
	3	China	**11.1%**	India	**13.2%**
		Turkey	**3.8%**	Turkey	**1.0%**
		MEDA-9	**9.0%**	MEDA-9	**14.5%**
Morroco	1	EU-27	**57.2%**	EU-27	**59.3%**
	2	China	**8.2%**	India	**5.2%**
	3	United States	**6.3%**	United States	**4.4%**
		Turkey	**2.0%**	Turkey	**2.3%**
		MEDA-9	**3.7%**	MEDA-9	**2.1%**
Tunisia	1	EU-27	**67.2%**	EU-27	**74.5%**
	2	China	**4.7%**	Libya	**5.8%**
	3	Turkey	**3.4%**	Algeria	**3.2%**
		Turkey	**3.4%**	Turkey	**1.7%**
		MEDA-9	**3.8%**	MEDA-9	**5.5%**

Source: DG Trade 2010 "Bilateral relations". No data available for the Occupied Palestinian Territory

Table 5: EU trade relations by destination, 2010

	EU Imports by destination		EU Exports by destination		Imports + Exports by destination	
Regional Partner*	**€Million**	**% over the total**	**€Million**	**% over the total**	**€Million**	**% over the total**
ACP	64793.1	**4.3%**	68722.2	**5.1%**	133515.3	**4.7%**
Andean Community	12198.6	**0.8%**	7905.9	**0.6%**	20104.5	**0.7%**
ASEAN	86373.8	**5.8%**	60635.1	**4.5%**	147009.0	**5.2%**
BRIC	505863.7	**33.7%**	265708.2	**19.7%**	771572.0	**27.1%**
CACM	7576.1	**0.5%**	4504.6	**0.3%**	12080.7	**0.4%**
Candidate Countries	48616.5	**3.2%**	73897.7	**5.5%**	122514.2	**4.3%**
CIS	200474.7	**13.3%**	123694.2	**9.2%**	324168.8	**11.4%**
EFTA	167022.8	**11.1%**	150030.1	**11.1%**	317052.9	**11.1%**
Latin American Countries	90034.3	**6.0%**	84013.5	**6.2%**	174047.8	**6.1%**
MEDA (excl. EU and Turkey)	60624.3	**4.0%**	80733.3	**6.0%**	141357.6	**5.0%**
Mercosur	43955.3	**2.9%**	40104.0	**3.0%**	84059.2	**2.9%**
NAFTA	202632.3	**13.5%**	290074.1	**21.5%**	492706.4	**17.3%**

Note:* EFTA: Iceland, Liechtenstein, Norway, Switzerland; Candidates: Croatia, FYR of Macedonia, Turkey; Andean Community: Bolivia, Colombia, Ecuador, Peru; CIS: Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Kazakhstan, Republic of Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan; CACM: Honduras, El Salvador, Nicaragua, Costa Rica, Guatemala, Panama; Mercosur: Argentina, Brazil, Paraguay, Uruguay; NAFTA: Canada, Mexico, United States; Latin America Countries: CACM, Mercosur, ANCOM, Chile, Cuba, Dominican Republic, Haiti, Mexico, Panama, Venezuela; BRIC: Brazil, Russia, India, China; ASEAN: Brunei Darussalam, Indonesia, Cambodia, Lao People's Democratic Republic, Myanmar, Malaysia, Philippines, Singapore, Thailand, Vietnam; ACP: 79 countries; MEDA (excl. EU and Turkey): Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Occupied Palestinian Territory, Syrian Arab Republic, Tunisia.
Source: EC-Directorate-General for Trade, see http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113485.pdf

The slower growth rate of exports to the EU (Table 6) is explained by the fact that
- MPCs already enjoyed basically duty-free access to the EU before the coming into force of AAs,
- that during this period the EU grew at a slower pace than the rest of the world and
- international trade negotiations led to substantial worldwide reduction in Most Favored Nation (hereafter, MFN) tariffs, thereby reducing the tariff preference enjoyed by the MPCs in trade with the EU. Also, exports from these MPCs to the EU are slowed by a considerable array of Non-Tariff Measures, which on balance are more stringent trade restrictions than the tariff measures themselves.[4] However, it is paramount to note that differences across countries are very significant.[5]

During this same period imports from the EU into MPCs rose by an annual rate of 4.7% as compared with a rate of 11.6% for imports from the ROW. In 2004, imports to MPCs from the EU stood at 45%, again confirming the dominant position of the EU-MEDS trade relations. The slow growth of EU imports is also in part explained by the gradual nature of the tariff dismantlement as discussed above and by the late coming into force of some AAs. Again, in regard to MPCs, differences across countries are very significant (Table 6).

4. This issue will be discussed in greater detail later in this document when addressing "Deep versus Shallow Trade Integration". Suffice to note here that these tariff and non-tariff measures convey an anti-export bias to the economies of the MPCs, containing exports below their potential
5. Jordan's exports to the EU, for instance, rose by a much lower rate than most of the other countries, while its exports to the ROW was much higher than the regional average. Exports of non-oil commodities to the EU actually fell in Algeria but rose to the ROW).

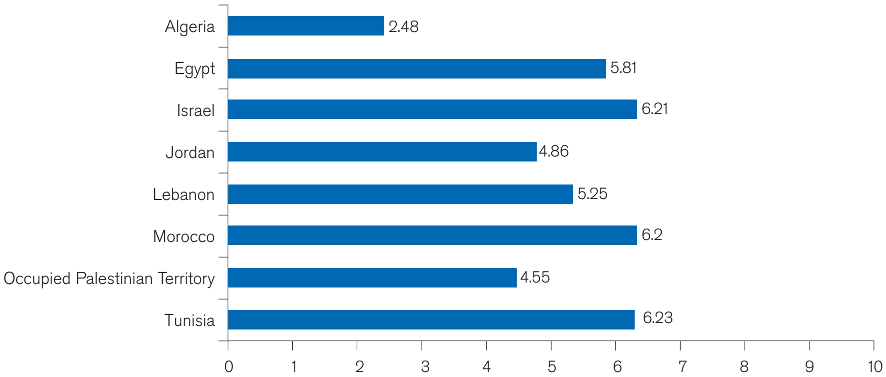
Table 6: Annual growth rate of non-oil trade (1996-2006)

	X-EU	X-ROW	M-EU	M-ROW
Algeria	-10.2	18.3	10.7	17.5
Morocco	6	9.9	6.7	15.7
Egypt	11 .7	23.7	2.7	7.9
Israel	4.9	10.7	2.6	8.0
Jordan	3.6	25.8	9.5	17.6
Libya	12.1	21 .7	3.4	15.9
Syria	5.6	20	6.9	16.4
Tunisia	7.6	12.7	5.9	10.9
Average	**6.4**	**15.6**	**4.7**	**11.6**

Source: De Wulf and Maliszewska (eds.) (2009), p. 51

Accordingly, the responses in relation to the progress of the implementation of the Euro-Mediterranean Free Trade Area differ greatly according to the nationality of the respondents (Graph 2). For instance, Algerian respondents rank the added value of the EU-MED FTA at 2.5, the lowest of all responses to this question. This should not come as a surprise when considering that exports from Algeria to the EU fell by an annual 10% between 1996 and 2006, while exports to the ROW rose by an annual rate of 18%.

Graph 2: Assessing the progress of the implementation of the Euro-Mediterranean Free Trade Areas between the EU and its Mediterranean Partner Countries. Nationals respondents assessing their own country (average on a scale of 0-10, where 0 stands for very disappointing, and 10 for very positive)



Source: Compiled by the IEMed based on the results of the 2nd Euromed Survey

In regard to trade dynamics in FTAs, the analysis of the use of the rules of origin by traders is of the utmost importance. The Pan-Euro-Med system used to determine the origin of a product system, and, thus, its access to preferential tariff treatment permits diagonal cumulation – which means that products which have obtained originating status in one of the 43 countries may be added to products originating in any other of the 43 without losing their originating status within the Pan-Euro-Med zone. In practice, countries of the Pan-Euro-Med zone can only cumulate originating status of the goods if the free trade agreements including a Pan-Euro-Med origin protocol are applicable between them. This is the case for the countries that have an AA or cooperation agreement with the EU.

A smooth functioning of the AAs requires that partners can actually take advantage of the preferences available, which implies that they can produce certificates of origin without incurring excessive costs. Various Business Surveys have illustrated that traders complain about a complex system and that the hassle and cost of obtaining these certificates of origin at times exceed the tariff preferences granted upon import into the EU. A recent study of imports into the EU for five MPCs suggested that in excess of 80% or more of exports came in duty-free, leaving up to 10% of exports (18% for Jordan) in categories where there should have been a zero tariff but where a non-zero MFN rate was actually paid. Some products are more likely than others to enter the EU without the certificate of origin; these include articles of apparel, mineral fuels and edible vegetables. This is thought to be a common issue where tariff preferences are very low and the cost of obtaining certificates of origin is high. Misclassification and high cost of obtaining the certificates of origin are also thought to be responsible for this non-use of certificates of origin. Another reason for the low utilization of the Pan-Euro-Med Rules of Origin is that inputs from the EU zone are expensive compared with inputs from other countries.

The Survey results in part agree with the findings of the above analysis in that they report the system to be complex (28% of responses), not well adapted to their needs (12%) and costly to operate (8%). Importantly, however, the majority of respondents (41%) note that trade operators are not well informed about the system, which suggests that a greater effort should be made to better disseminate the cumulative system and assist traders to implement the system.

II. FTA and Liberalization of Services

As far as liberalization of services is concerned, negotiations were opened in 2005 – in the framework of the ENP – for a restricted number of countries: Morocco, Egypt, Israel and Tunisia. As for the FTA negotiations, services are classified in four different ways depending on how they can be supplied. These are known as “modes” in GATS terminology: cross-border supply, consumption abroad, commercial presence, and presence of natural persons. In the negotiations on the FTA in services that the EU has concluded so far (Mexico, Chile, and Caribbean countries), modes 1 (cross-border supply) and 3 (commercial presence) were the primary objectives of services liberalization negotiations.[6]

6. Tovias, A., *A Deeper Free Trade Area and Its Potential Economic Impact.* 10 Papers for Barcelona 2010, IEMed, EUISS.

BOX 1: Trade in services between the EU and the MPCs

"(…) As a matter of fact, the current extent of trade in services between the EU and the MPCs is not that significant. Taking all countries together, EU service exports to MPCs accounted for less than 2% of the overall EU service export volume as of 2007. The EU exports a larger share to ACP countries, Latin America, and even to Gulf States than to the MED region. The share of EU imports from MPCs is not much higher either – less then 3% of the overall EU imports in 2007. The US represents the most important partner for the EU in trade in services – accounting for more than 10% of overall trade flows."*

"(…) Most of the MPCs are members of the WTO; however, as many authors stress, they are lagging behind the commitments made within the GATS. Not only are a number of sectors subjected to GATS disciplines limited, but also the commitments made are very shallow – Tunisia has bound only 3 out of 11 possible sectors, Egypt 4, Morocco 7, and Jordan 11 . Among the most frequently bound sectors are: tourism and financial services, (by four of the eight Arab MPCs), followed by communications, construction, and transport services (bound by three countries each).

Sectors Bound under GATS (2002)

Sector	Egypt	Jordan	Morocco	Tunisia	**Total**	Israel	Turkey	WTO*
Business		x	x		2	x	x	71%
Communications		x	x	x	3	x	x	68%
Construction	x	x	x		3		x	51%
Distribution		x			1			36%
Education		x			1		x	32%
Environmental		x	x		1	x	x	37%
Financial	x	x	x	x	4	x	x	73%
Health/Social		x			1		x	33%
Tourism	x	x	x	x	4	x	x	88%
Recreational		x			1			43%
Transport	x	x	x		3		x	58%
Total	**4**	**11**	**7**	**3**	**24/77**	**5**	**9**	

Source: D. Müller Jentsch, *Deeper Integration and Trade in Services in the Euro-Mediterranean Region, Southern Dimension of the European Neighbourhood Policy,* World Bank, 2005, p. 26.

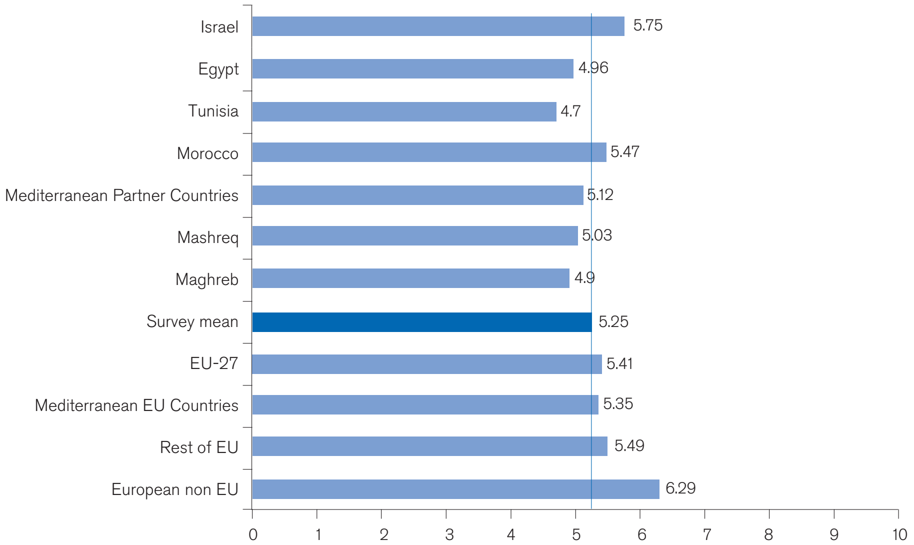
"With respect to services, the EU would like to start with financial services, IT, transport and energy. Some of the services, after having the multilateral basis, could be further deepened on a regional or bilateral basis. Generally, binding a greater number of sectors and deeper commitments on the side of MPCs could be treated as 'an important signal to investors, it can externally anchor domestic reforms, and it discourages vested interests to lobby for trade protection.' An ambitious deal on services is a goal of the EU, but significant progress would be made only when there is a movement in agricultural and industrial market access although some reports show that more could be gained, by both developing and developed countries, from a 25% cut of the barriers in services than from a 70% tariff cut in agriculture in the North and a 50% cut in the South."**

*Tovias, A. (2010) *A Deeper Free Trade Area and Its Potential Economic Impact.* 10 Papers for Barcelona 2010, IEMed, EUISS.
** Zukrowska, K., et al. *Building Euro-Med Free Trade Agreement - How to Improve the Bilateral Management Strategies?* Go Euromed Working Papers, 2008.

The Survey shows that one third of respondents are not aware of the progress regarding these negotiations. Box 4 shows the complexity of being updated on these negotiations. Among those who responded, there was a moderate to positive opinion and a slightly more positive assessment was seen among EU countries (Graph 3). This could be explained because while the EU has a comparative advantage in modes 1 (cross-border supply) and 3 (commerce presence) the MPCs have interests in liberalization of modes 2 (consumption abroad) and 4 (presence of natural persons). The European member states are reticent to make concessions on mode 4, which discourages the MPCs from granting right of establishment for service providers to European companies.[7]

Graph 3: Assessment on the progress of on-going negotiations for services liberalization by origin of the respondents

(average on a scale of 0-10, where 0 stands for very negative, and 10 for very positive)



Source: Compiled by the IEMed based on the results of the 2nd Euromed Survey

1.3. Euro-Mediterranean FTA's Performance on Foreign Direct Investment Promotion[8]

AAs identified the objective of improving the investment climate and of promoting foreign direct investment (FDI). The anticipated positive effects of FDI on the host economy have widely served as a basis for policies recommending the opening up of the economy to foreign investors. Attracting FDI also provides an impulse to improve the investment climate in general and create much needed employment growth. Policymakers in developing countries have increasingly viewed FDI as the best and fastest way to get access to foreign technologies, markets, and increase foreign currency earnings as well as building domestic production capabilities and exports. But policies that aimed at greater reliance on FDI in several countries needed to overcome fears about their possible negative effects in terms of increased competition with established national firms and had to counter political criticism, seen among developing coun-

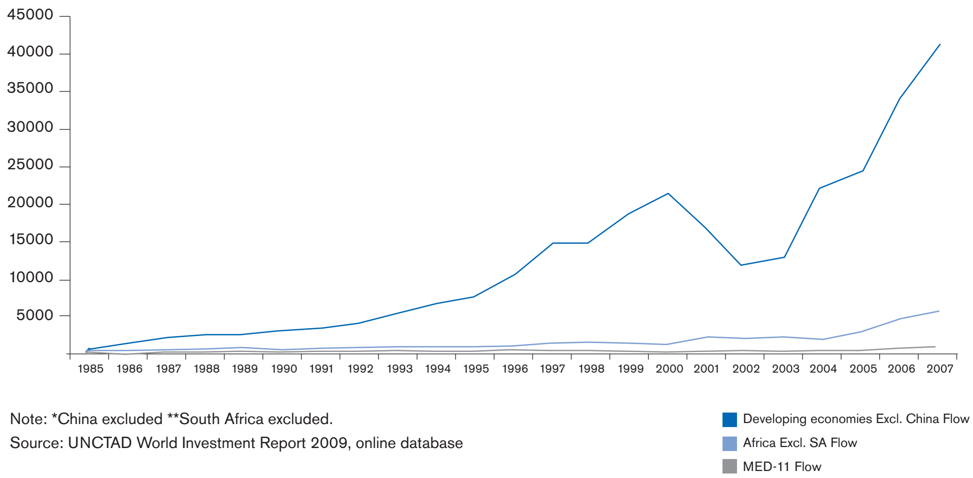
7. De Ville, F. and Reynaert, V., "The Euro-Mediterranean Free Trade Area: an Evaluation on the Eve of the (Missed) Deadline", *L' Europe en formation*, No. 356, 2010.

8. Based largely on Sekkat, K, *The Determinants of Foreign Direct Investment in MED-11 Countries: Summary of the Literature,* prepared in the context of the MEDPRO project.

tries as a colonial relic aimed at taking control of national resources.[9] Based on this suspicion of the impact of FDI, many developing countries passed legislation restricting foreign ownership, repatriation of capital, conditioning FDI on performance requirements and technology transfer, among others. The official aim was to maximize the benefits of foreign participation in national economies using public policy as a tool to channel investments to critical sectors, gather knowledge and protect the economy from international competition. Arab and Southern Mediterranean countries were not exceptions to this trend and imposed for some time strict limits on FDI. However, these attitudes have gradually changed and restrictions on FDI have slowly been eased. As a result, inflows have slowly increased partly as a result of a less restrictive framework. Yet they remain still highly disappointing and most probably below their potential. Data on FDI in the Mediterranean region are very weak and are available with great delay, also because such data often refer to FDI-financed projects rather than to FDI actual transfers.

Graph 4 presents the figures of FDI in the region compared to developing economies (except China) and African economies (except South Africa). Overall, the region receives a small share (1.2%) of the world's total flow of FDI. Between 1995 and 2004, the MED-11 received on average little more than $8 billion against $17 billion received by the new EU Member countries. But the MED11FDI/GDP ratio rose from 1.1 in 1998 – amongst the lowest globally – to 5.6% in 2006, when it was the highest followed by Europe and Central Asia where the ratio stood at 5.1%.

Graph 4: FDI inflows in the MED-11 area in relation to developing economies* and africa, 1985-2008**

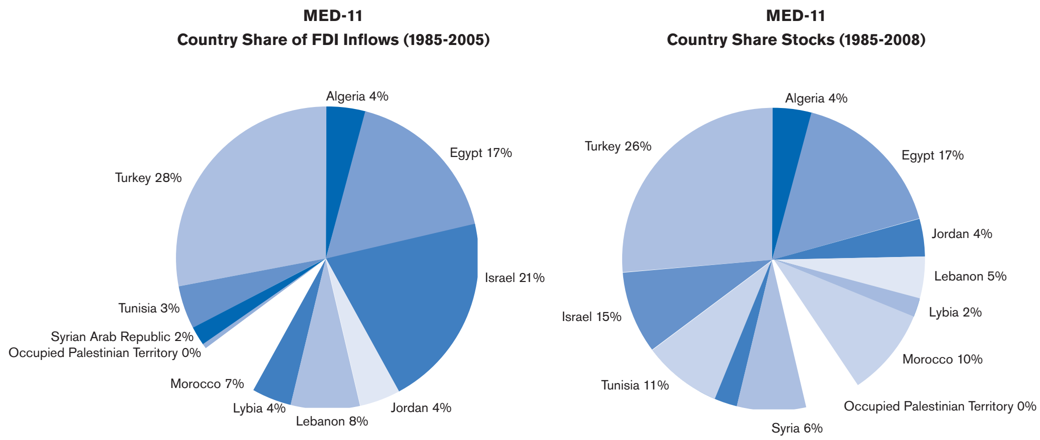


Note: *China excluded **South Africa excluded.
Source: UNCTAD World Investment Report 2009, online database

There are, however, notable differences across countries. Abstracting from Israel and Turkey, which accounted for about half of the inflows to the Region in 1985-2008, FDI went predominantly to a few countries such as Tunisia, Egypt and Morocco, while the others and particularly Libya were the lowest recipients (Graph 5). Inflows were particularly directed to tourism, banking, telecommunications, manufacturing and construction activities, probably reflecting market and efficiency-seeking investments.

9. Without digressing too much it might be useful to keep in mind that the impact of FDI on GDP growth and employment is an issue that is still widely debated by professional economists. To quote Dani Rodrick: "Today's policy literature is filled with extravagant claims about positive spillovers from FDI but the evidence is sobering." The prior 10 years of research have confirmed that the (aggregate) evidence is still sobering. Yet evidence based on micro-data shows that firms investing and producing in foreign countries have superior productivity at home, so that it is reasonable to assume that foreign affiliates should also enjoy a productivity advantage compared with local firms in the host economy.

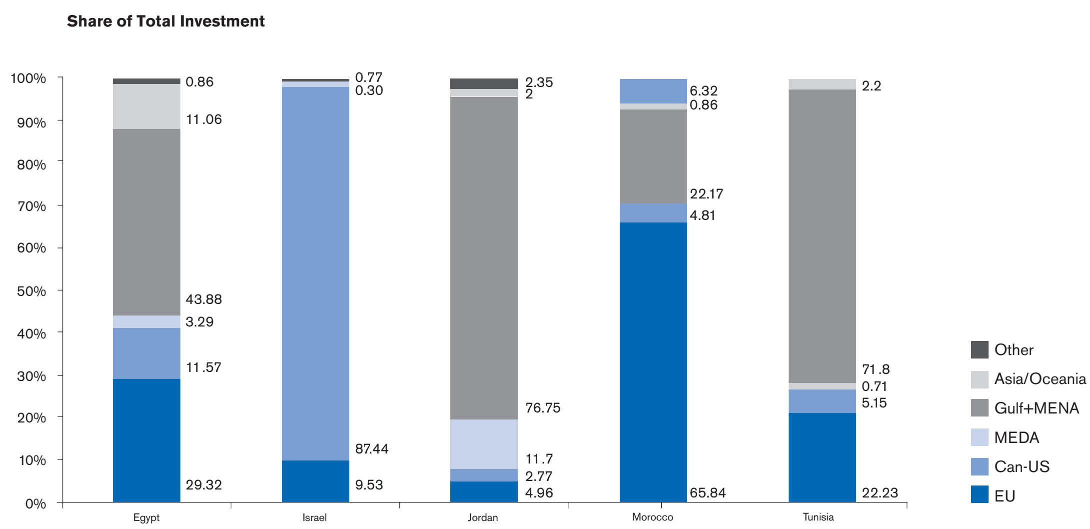
Graph 5: MED-11 country share of fdi inflows (1985-2005) and stocks (1985-2008)



Source: UNCTAD World Investment Report 2009, online database

The origin of FDI differs greatly from country to country and reflects cultural and other ties between the recipient country and the country where FDI originates (Graph 6). Based on the analysis for a subset of the countries with which the EU singed an AA, EU investment represents 65% of the total FDI in Morocco, as compared to only 5% in Jordan. Investments originating in the Gulf countries and MENA dominate FDI in both Tunisia and Jordan. FDI from the US-Canada dominate in Israel with a share of 87%.

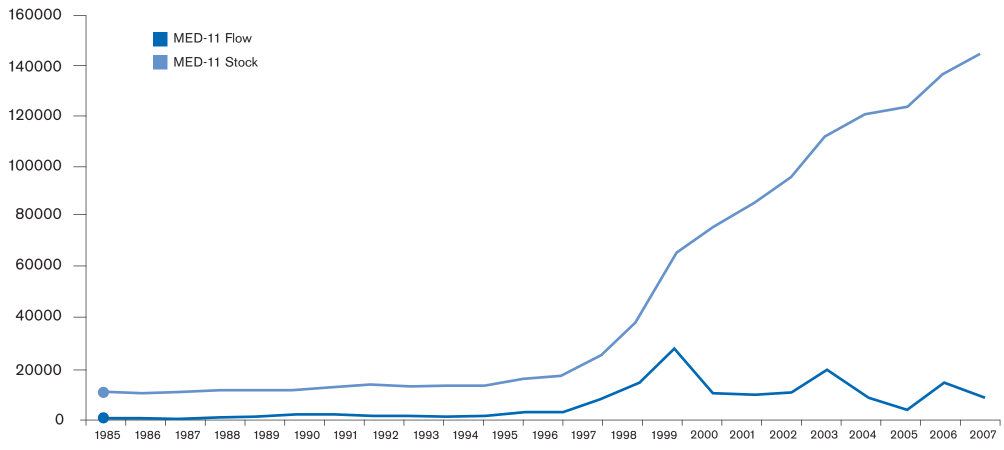
Graph 6: FDI inflows into MED5 by origin 2003-2007



Source: Sekkat, K. (2011). The *Determinants of Foreign Direct Investment in the MED-11 Countries: Summary of the Literature,* University of Brussels and FEMISE.

Available data also suggest that overall FDI inflows into the MED region remain very low and stagnate over time while FDI stocks grow faster than inflows, suggesting that established companies become either more profitable (which may increase their share value), reinvest a part of their profit or become more indebted to their parent companies (Graph 7). FDI flows are greatly affected by the business climate. Data provided by the *Doing Business Survey*, annually produced by the World Bank, suggest that – aside from Israel, Tunisia and Turkey – the other Mediterranean countries score rather low. To the extent that the EU-Mediterranean FTA improved this climate it will benefit these flows.

Graph 7: FDI flows and stocks in the MED-11 area (in millions of current USD), 1985-2008

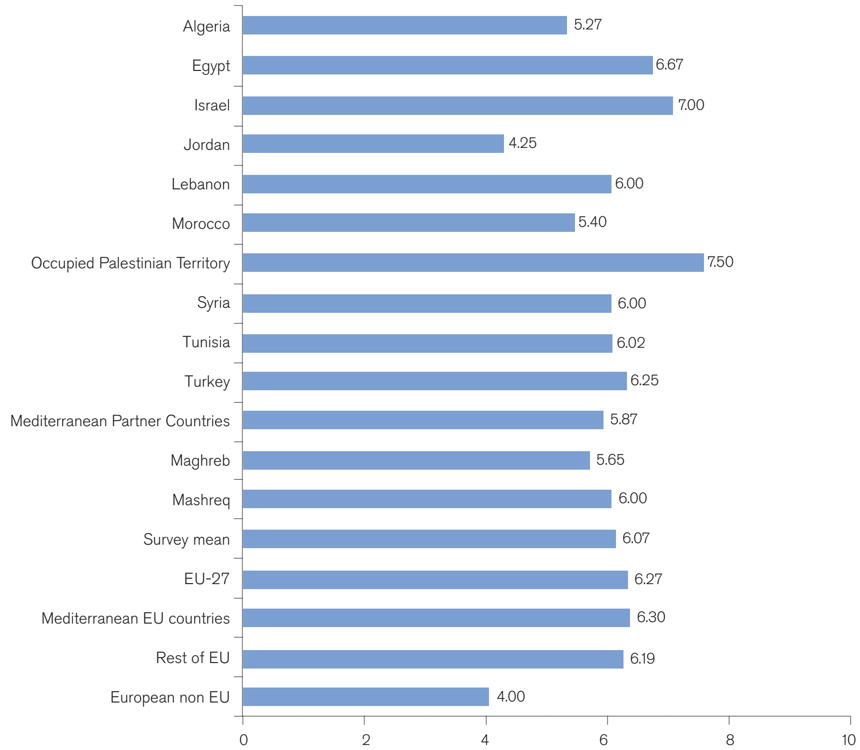


Source: UNCTAD World Investment Report 2009, online database

Respondents to the Survey indicate, in general, their positive view of FDI with about three out of four respondents indicating a positive or very positive view (given a 5 or more as response). Respondents from Turkey and Syria followed by Egypt give the most positive view of FDI while respondents from Algeria and Palestine give a rather disappointing view (Graph 8).

Graph 8: Assessment on the impact of the EMFTA on economies of MPCs in terms of impact on growth, competitiveness and FDI

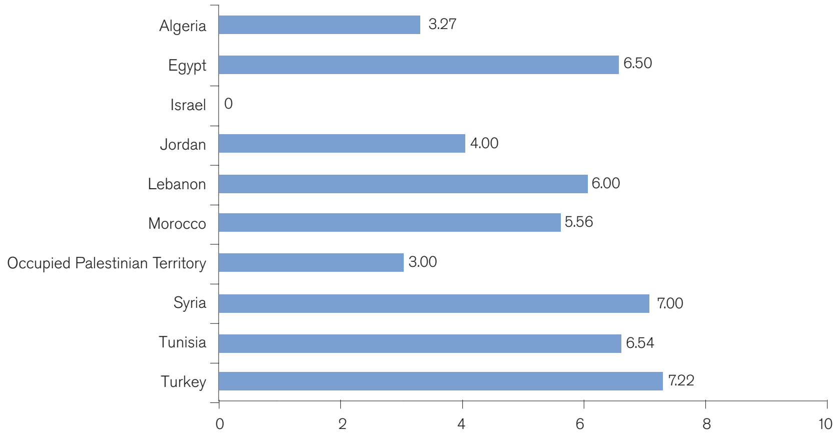
(average on a scale of 0-10, where 0 stands for very negative impact, and 10 for very positive impact)



Source: Compiled by the IEMed based on the results of the 2nd Euromed Survey

Graph 9: Assessing the impact of the EMFTA in the economies of the Mediterranean Partner Countries in terms of: impact on growth, competitiveness and Foreign Direct Investment. Nationals respondents assessing their own country

(average on a scale of 0-10, where 0 stands for very disappointing, and 10 for very positive)



Source: Compiled by the IEMed based on the results of the 2nd Euromed Survey

1.4. Euro-Mediterranean FTA Impacts on Domestic Economies of MPCs

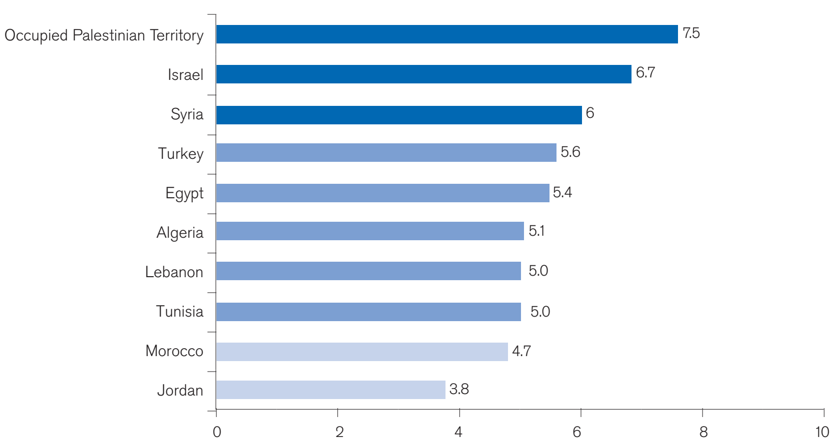
1.4.1. FTA and State Revenue

As import tariffs deriving from the trade activities of MPCs with the EU were a major source of MPCs' revenues, trade liberalization trends, in general, and the Euro-Mediterranean FTA, in particular, are bound to have detrimental effects on state revenue in light of the implied reduction and eventual elimination of tariffs. With customs revenue still an important source of fiscal revenue in many Mediterranean countries, these trends need to be compensated with greater emphasis on the non-distortional revenue sources, such as value added taxes. A number of countries have efficiently replaced the customs duties with value added taxes. Others have been less successful at this switch in revenue sources.

Respondents appear evenly distributed amongst those that hold a positive, very positive and negative view on the impact of the FTA on state revenue (Graph 9). This is likely to reflect the success with which countries have been able to undertake this shift in state revenue sourcing.

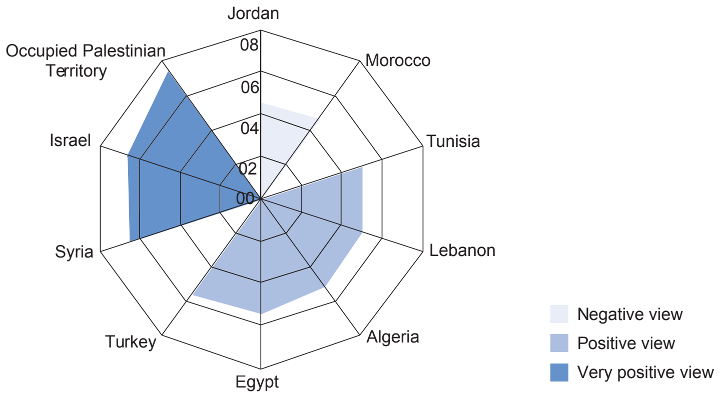
Graph 10: Assessment on the impact of the EMFTA on economies of MPCs in terms of fiscal impact

(average on a scale of 0-10, where 0 stands for very disappointing, and 10 for very positive)



Source: Compiled by the IEMed based on the results of the 2nd Euromed Survey

Graph 11: Assessment on the impact of the EMFTA on economies of MPCs in terms of fiscal impact
(average on a scale of 0-10, where 0 stands for very disappointing, and 10 for very positive)



Source: Compiled by the IEMed based on the results of the 2nd Euromed Survey

1.4.2. FTA and Employment

As is generally agreed, FTA impacts on employment are narrowly related to the comparative advantages of products being traded. As international trade models show, countries will export products that use their abundant and cheap factor(s) of production and import products that use the countries' limited factor(s).[10] This trade dynamic has its specific outcomes, among others entailing social impacts. For the Euro-Mediterranean Free Trade Area, as the Sustainability Impact Assessment (SIA) study identifies,[11] some social impacts in MPCs are beneficial in the short term as well as the long term, and others may be significantly adverse unless effective mitigating action is taken (BOX 2).

In addition, the SIA identifies the potential impacts of greater concern that should be object of appropriate preventive and mitigating measures, including a significant short-term rise of unemployment due to industrial and agriculture trade liberalization between the European Union and the MPCs. Increased unemployment will bring a fall in wage rates. There are other impacts not strictly related to unemployment but, added to a rising unemployment scenario, alerts on the need for effective mitigating measures for the trade liberalization process to success. Namely, we can mention:[12]

- a significant loss in government revenues in some countries, with potential for consequent social impacts through reduced expenditure on health, education and social support programs;
- greater vulnerability of poor households to fluctuations in world market prices for basic foods;
- adverse effects on the status, living standards and health of rural women, associated with accelerated conversion from traditional to commercial agriculture.

Notwithstanding, the EMFTA impact on employment as well as its social impact has an intermediate evaluation. This could be based on the expectations so far (BOX 3) even if the assessment by countries shows a heterogeneity from positive to negative impact on employment (Graph 9).

10. Blaug, M., *The Methodology of Economics, or, How Economists Explain*, Cambridge University Press, 1992, p. 286.
11. *The European Union's Sustainability Impact Assessment (SIA) Study of the Euro-Mediterranean Free Trade Area (EMFTA).* SIA-EMFTA Consortium, 2007.
12. *The European Union's Sustainability Impact Assessment (SIA) Study of the Euro-Mediterranean Free Trade Area (EMFTA).* SIA-EMFTA Consortium, 2007.

BOX 2: FTA and impact on employment in different economic sectors

For industrial products, employment in MPCs will decline initially in those sectors where domestic production is replaced by imports, and rise in those where an increase in production is stimulated. The net short-term impact in the absence of effective mitigation is assessed to be significantly negative. Overall long-term effects will depend on policies affecting wage rates, re-training, and the extent to which the exposure to competition generates consistent long-run economic growth. Unemployment is likely to remain high in MPCs throughout the period of adjustment, as starting levels of unemployment are high, and additional pressures will arise as employment shifts from uncompetitive sectors to competitive ones.

For agriculture, the overall employment effects are expected to be small, but with significant positive and negative short-term local effects in MPCs and southern EU countries. New jobs will be created in MPCs in the production of fruit, vegetables, olive oil, fish and some other products, but partly countered by loss of jobs in products such as cereals, livestock and dairy produce, and incentives to increase productivity. Following consultation on the findings of the Phase 2 study, priority was given in Phase 3 to small-scale agriculture and the non-farm rural sector. Agricultural liberalization as a whole is not expected to have a significant short-term impact on overall levels of unemployment. Unless accompanied by successful domestic policies for integrated rural-urban development, the longer-term impact on employment of agricultural liberalization may be significantly adverse in both rural and urban areas.

For services, no significant adverse impacts on employment are expected in the EU. In MPCs there will be negative adjustment effects in the short run as sectors become more efficient and productive. Impacts are expected to be small overall, and restricted to service sub-sectors in which productivity increases rapidly. In comparison with similar changes associated with privatization and other domestic reforms, impacts from services liberalization in the EMFTA are not likely to be more than minor in significance.

For liberalization of South-South trade, the employment impacts are expected to be smaller than those for liberalizing trade with the EU. There may however be significant short-term adverse impacts in Mashreq countries for agricultural and other products for which comparative advantages are similar.

Source: *The European Union's Sustainability Impact Assessment (SIA) Study of the Euro-Mediterranean Free Trade Area (EMFTA)*. SIA-EMFTA Consortium, 2007.

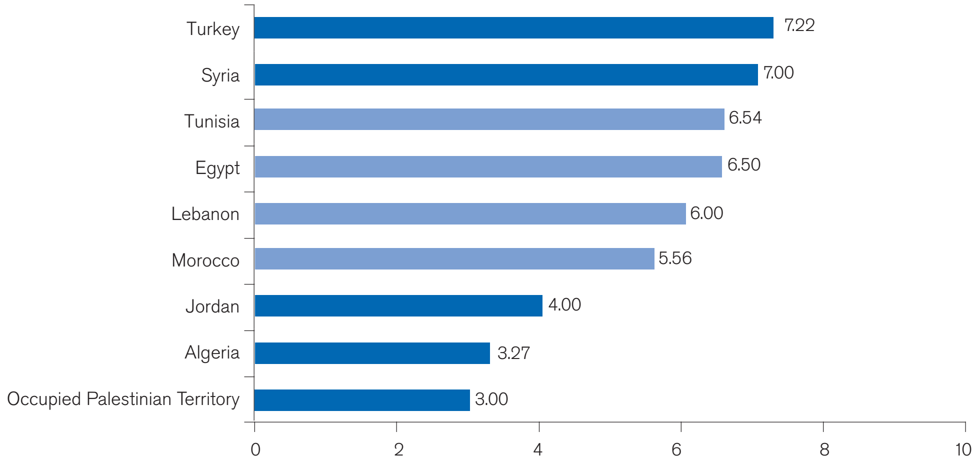
BOX 3: FTA and unemployment

"During the last decade, the eight Arab Southern Mediterranean Partners that have Association Agreements with the EU, among other Arab countries, have witnessed a **structural disconnect between their economic growth policies, including trade policies, and the development challenges they face**. Despite achieving high economic growth rates and higher liberalization of markets and trade, most of them witnessed increasing poverty and some of the highest unemployment rates.* Evidence from a 2009 research by FEMISE,** focusing on Egypt and Morocco, shows that the trade liberalization they have undertaken has clearly contributed to restructuring of the labor markets and to sectoral change in employment. The international crisis, with its economic and developmental dimensions, aggravated these existing developmental challenges. However, the fora and mechanisms for addressing such a structural policy problematic is still lacking among Arab countries."

*Arab Monetary Fund (2009); *Joint Arab Economic Report*, p. 3.
**FEMISE (2007-2008); "Unemployment, Job Quality and Labour Market Stratification in the MED Region: The cases of Egypt and Morocco".
Mohamadieh, K., "Euro-Mediterranean Trade and Development Policies: The Challenges of Achieving Coherence", FOCUS article, IEMed, 2010.

Graph 12: Assessment on the impact of the EMFTA on economies of MPCs in terms of impact on employment and social impact. Nationals of each country assessing their own country

(average on a scale of 0-10, where 0 stands for very negative, and 10 for very positive)

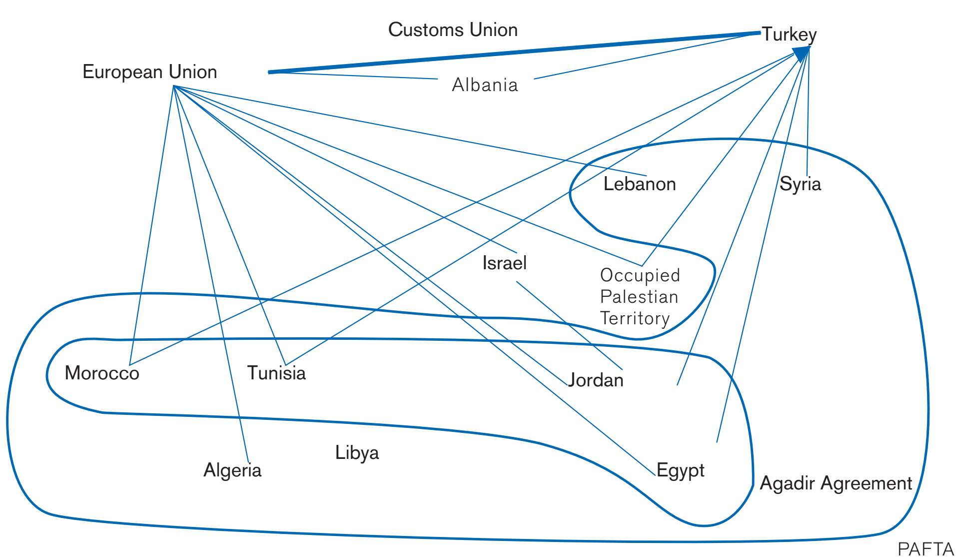


Source: Compiled by the IEMed based on the results of the 2nd Euromed Survey

II. Implementation of South-South FTA: PAFTA, General Arab Free Trade Agreement, Arab Maghreb Union

All AAs stressed the importance of enhancing South-South trade integration. In this respect, two main agreements are currently operating. Firstly, the Pan Arab Free Trade Area (PAFTA), which came into force in 1998 and liberalized nearly all tariff lines amongst its signatories. Secondly, the Agadir Agreement (Egypt, Jordan, Morocco and Tunisia), which came into force in 2007, created an FTA amongst its signatories. Where lowering tariff rates stimulate trade and cause the familiar trade creation and trade diversion forces, the Agadir Agreement did not see any major changes in 2007, given that all its signatories were already party to the PAFTA agreement. Hence the shallow integration effects of this agreement are hard to capture and to disentangle from the shallow integration effects of the PAFTA agreement (Graph 11).

Fig 1: Preferential trade agreements in the Euro-Mediterranean region 2008



Source: WTO, notified regional trade agreements

Despite the existence of the aforementioned South-South Free Trade Areas, intra-regional trade is rather small (Table 7)[13] mainly due to factors related to MPCS' production structures. Namely, the potential benefit from integration between MPCs can be analyzed by comparing a country's exporting structure with the importing structures of the partners of the regional integration initiative. The more similar these structures are the more scope there is for trade creation – such as contracting with trade diversion – as regional supply can potentially respond to regional demand. An analysis of data for 2006 suggests little evidence that MPCs' supply structures are well suited to other demand structures of MPCs. Moreover, a comparison of export structures (such as proxy for production structure) of a select group of Mediterranean countries in order to find the potential for intra-industry trade – which has proven to be a very potent source of bilateral trade – also suggest that the scope for intra-industry based trade creation is at present rather low. Both facts suggest that the potential for strong trade effects from S-S integration is likely to be modest. In addition to structural constraints, the low level of intra-regional trade is also related to the high level of non-tariff measures (barriers) in trade between MPCs. Indeed, after the elimination of tariffs under PAFTA, new non-tariff measures (barriers) have been used excessively by MPCs in order to protect domestic industry and agriculture.

Table 7: Trade flows between MED countries in 2007

		Algeria	Egypt	Israel	Jordan	Lebanon	Libya	Mauritania	Morocco	Palestinian T.	Syria	Tunisia	Turkey	Intra - MED	Total
Algeria	Imports	–	0.9	0	0.4	0.1	0	0	0.2	0	0.1	0.8	3.3	5.8	$27,631,203,951
	Exports	–	0.7	0	0	0	0	0.1	1	0	0	0.1	3.4	5.4	$60,163,160,346
Egypt	Imports													3	$26,928,845,762
	Exports	0.4		0.1	1.9	2	1.5	0.2	1	0.3	1.3	0.8	2.7	12	$16,100,640,388
Israel	Imports	0	0.2	–	0.1	0	0	0	0	0	0	0	2.8	3.1	$56,619,379,000
	Exports	0	0.3	–	0.5	0	0	0	0	0	0	0	2.2	3	$54,091,395,000
Jordan	Imports	0	4.4	1.1	–	0.8	0	0	0.2	0.2	2.7	0	2.9	12	$13,531,100,490
	Exports	2	1.4	2.7	–	2.2	0.6	0	0.2	0.9	4.7	0.3	0.4	15	$5,700,016,552
Lebanon	Imports	0.1	5.5	0	0.8	–	0.4	0	0.4	0	2.2	0.1	4	14	$11,814,556,538
	Exports	0.5	4.6	0	3.5	–	0.1	0.1	0.6	0	8.6	0.5	4.6	23	$2,816,320,674
Libya	Imports														
	Exports														
Mauritania	Imports	0.1	0.7	0	0	0	0	–	1.5	0	0	0.6	0.4	3.4	$1,430,418,276
	Exports	0.3	0	0	0	0	0	–	0	0	0	0	0	0.3	$1,353,710,449
Morocco	Imports	2.5	1.1	0	0	0.1	0.3	0	–	0	0.1	0.6	2.7	7.4	$31,650,391,538
	Exports	0.5	0.3	0	0.2	0.2	0.3	0.3	–	0	0.3	0.6	0.9	3.5	$14,607,345,568
Palestinian T.	Imports	0	0.9	74	1.4	0	0	0	0	–	0	0	2.6	78	$3,141,279,290
	Exports	0.3	0.2	85	6.7	0	0	0	0	–	0	0	0.2	92	$512,982,820
Syria	Imports	0.6	4.4	0	1	1.2	0.8	0	0.2	0	–	0.1	3.9	12	$14,655,130,254
	Exports	2.5	3.8	0	4.6	3.2	1.7	0.1	1.9	0	–	0.8	5.2	24	$11,545,710,211
Tunisia	Imports	1.6	1.1	0	0.1	0.1	3.4	0	0.4	0	0.3	–	2.6	9.5	$19,099,373,217
	Exports	1.9	0.6	0	0	0	4.6	0.1	1.1	0	0	–	1.2	9.6	$15,165,396,232
Turkey	Imports	1.2	0.4	0.6	0	0.1	0.2	0	0.1	0	0.2	0.1	–	3.1	$170,062,714,501
	Exports	1.2	0.8	1.6	0.4	0.4	0.6	0	0.7	0	0.7	0.5	–	7.1	$107,271,749,904
MED	Imports	0.9	1	1	0.1	0.1	0.4	0	0.1	0	0.3	0.2	1.6	5.8	**$376,564,392,817**
	Exports	0.7	0.8	0.8	0.5	0.3	0.6	0.1	0.7	0	0.5	0.3	1.6	6.9	**$289,328,428,144**

Source: CASE Network Report and COMTRADE

13. Except for the Palestinian Territory where intraregional trade is very high given its landlocked and particular geopolitical circumstances – intraregional trade at 10% for exports and 8% for imports.

Consistently, respondents had a very negative view of the South-South trade initiatives whether it refers to the Agadir Agreement, the Pan Arab Free Trade Agreement or the Arab Maghreb Union (their implementation is respectively ranked at 4.72, 4.22 and 3.58 out of 10). This is likely to reflect the low level of intra-regional trade and the remaining barriers to such trade.

III. A Step Forward Towards Economic Integration: EU-Turkey Customs Union

Turkey applied for associate membership of the EU – then the European Economic Community (EEC) – as early as 1959. The application ultimately resulted in the signing of the Association (Ankara) Agreement in 1963. The Additional Protocol to the Ankara Agreement was signed in 1970, and became effective in 1973. More than 20 years later, in 1995 a Customs Union (hereafter, CU) between Turkey and the EU was agreed upon to start on 1st January 1996 (BOX 4)

BOX 4: Turkey's commitment under 1996 Customs Union

• eliminates all customs duties, quantitative restrictions, all charges having equivalent effect to customs duties and all measures having equivalent effect to quantitative restrictions in trade of industrial goods with the EU as of 1st January 1996.
• adopts the Common Customs Tariff (CCT) against third country imports by 1st January 1996 and adopts all of the preferential agreements the EU has concluded with third countries by the year 2001 .
• approximates and implements the EU's commercial policy regulations, including procedures for anti-dumping rules, administering quantitative quotas and procedures for officially supported export credits.
• incorporates within five years into its internal legal order the Community instruments relating to the removal of technical barriers to trade (TBTs). The list of these instruments is to be laid down within a period of one year. Effective cooperation is to be achieved in the fields of standardization, metrology and calibration, quality, accreditation, testing and certification.
• adopts the EU's customs provisions in the fields of (i) origin of goods, (ii) customs value of goods, (iii) introduction of goods into the territory of the CU, (iv) customs declarations, (v) release for free circulation, (vi) suspensive arrangements and customs procedures with economic impact, (vii) movement of goods, (viii) customs debt and (ix) right of appeal.
• adopts the EU competition rules, including measures regarding public aid within two years. Turkey shall ensure that its legislation in the field of competition rules is made comparable with that of the Community, and is applied effectively.
• ensures adequate and effective protection and enforcement of intellectual, industrial and commercial property rights. Turkey will implement the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement by 1999.

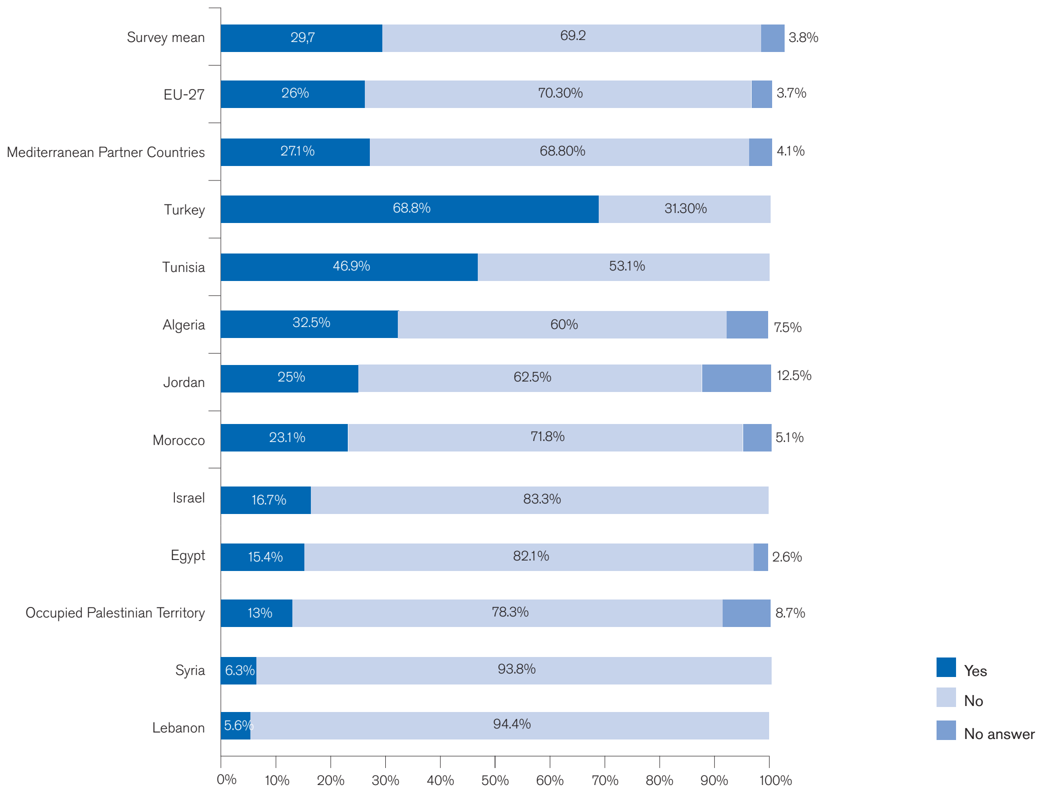
A recent evaluation of this CU concluded that the EU-Turkey CU of 1995 has been a major instrument of integration into the EU and global markets, offering powerful tools to reform the Turkish economy.[14] By opening its market to EU competition and streamlining its customs procedure, the CU has credibly locked Turkey into a liberal foreign trade regime for industrial goods and holds a promise of Turkey's participation in the EU internal market for industrial products. As a result, Turkish producers of industrial goods have become exposed to competition from imports and they operate in one of the largest, if not the largest, free trade areas for industrial products in the world. They are now protected by tariffs from external competition to exactly the same extent as EU producers are and as such face competition from duty-free imports of industrial goods from world-class pan-European firms. In return, Turkish industrial

14. Subidey, T., *Turkey-EU Customs Union*. This paper was produced in the context of the MEDPRO (Mediterranean Prospects) project (www.medproforesight.eu), a three-year project funded under the Socio-Economic Sciences and Humanities Programme of DG Research of the European Commission's Seventh Framework Research Programme and coordinated by the Centre for European Policy Studies (CEPS).

producers have duty-free market access to the European Economic Area (EU-27 and EFTA).[15] Fulfilling the requirements of the CU has been challenging for Turkey, particularly with respect to the elimination of Technical Barriers to Trade (hereafter, TBTs), adoption and implementation of the EU's competition policy provisions on state aid, and ensuring adequate and effective protection of intellectual property rights.

69% of respondents from Turkey noted that they have a good knowledge of the impact of the EMFTA and the EU-Turkey CU which reflects both the recent discussion between Turkey and the EU regarding EU membership and the visibility of these discussions in the Turkish political arena as well as the impact that the establishment of the CU had on producers and consumers alike.

Graph 13: Awareness Rate on the Impacts of EMFTA and EU-Turkey Customs Unions.
Knowledge or a clear perception of the impact of the Euro-Mediterranean Free Trade Area and the EU-Turkey Customs Union: MPC respondents by country (%)



Source: Compiled by the IEMed based on the results of the 2nd Euromed Survey

In contrast, 70% of all respondents to the Survey appear to be unaware of the Turkey-EU CU and the EMFTA suggesting that this aspect of economic integration has received little visibility in the Mediterranean region and that the lessons learned from this initiative could still be more broadly disseminated.

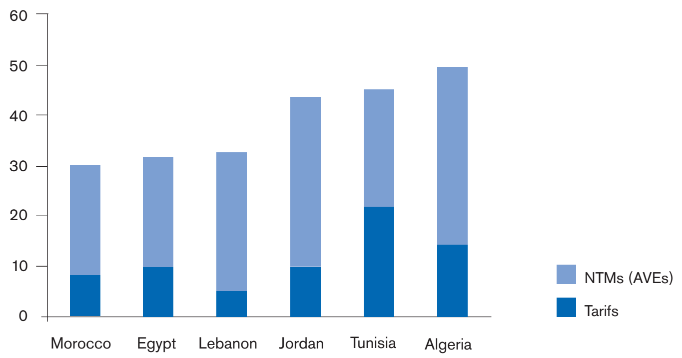
15. EFTA's current members are: Liechtenstein, Iceland, Norway and Switzerland.

IV. Final Considerations: Deep versus Shallow Integration

Free Trade Agreements that focus solely on the reduction of tariffs foster trade integration, but by leaving outside of the negotiation many factors that inhibit trade. Such negotiations have been termed "shallow" integration compared with "deep" integration, which refers to trade agreements that, in addition to reducing tariffs, aim at reducing all other elements that impact on trade flows. These other factors include both Non-Tariff Measures[16] (hereafter, NTM) whose effect or objective is to protect domestic production against imports, as well as other structural elements that impact on trade, such as competition policies, procurement rules, standards and conformity assessments.

In recent years, several efforts have been made to quantify NTMs and compare their trade impact with the tariffs. In the process, researchers have calculated *ad valorem tariff equivalents* (AVE) for the NTM. Péridy has build on earlier methodologies to estimate the AVEs for a selection of six MPCs.[17] Graph 14 compares the levels of tariffs with the levels of AVE for these countries. An inspection of that table suggests that the AVE levels are high in these countries and higher than tariff levels; in combination, the overall protection granted to domestic producers remains significant in Mediterranean countries despite efforts to reduce tariffs. The relative importance of NTM versus tariff levels as protection arsenals has been confirmed by a recent World Bank report on MENA countries which identified that NTMs remain a significant barrier to enhancing trade in general and exports in particular in this region.[18] Hence, trade integration initiatives need to be broadened to include those NTMs whose objective is to protect domestic producers. Also, those NTMs that a have legitimate objectives – which can often be excessively cumbersome in their implementation phase either by design or enforcement – need to be considered.[19] Support for such initiatives could come in the context of support for "deep" integration initiatives of the FTA.

Graph 14: Overall protection in Mediterranean Countries: tariffs and NTMs (%)

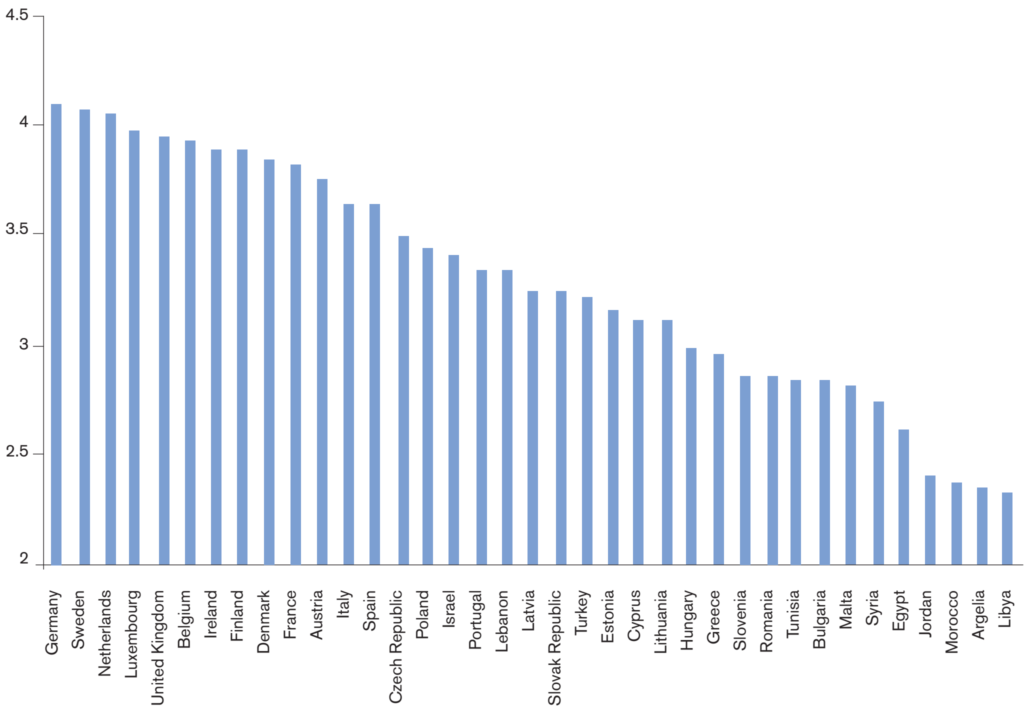


Source: Péridy, N., *The Euro-Mediterranean Partnership: Simulating the Effects of Shallow versus Deep Integration* (forthcoming)

16. The term "Non-Tariff Measures" has replaced the term "Non-Tariff Barriers" (NTBs) since some measures do not always intend to be explicitly protectionist (e.g. some regulations or standards designed at increasing consumer safety).
17. Péridy, N., *The Euro-Mediterranean Partnership: Simulating the Effects of Shallow versus Deep Integration.* Paper prepared under the MEDPRO project (forthcoming).
18. World Bank, (2011), "Sustaining the Recovery and Looking Beyond, Middle East and North Africa Region", Washington DC, p. 63.
19. This situation can be helped by well-targeted initiatives. For instance, ensuring that controls to guarantee that sanitary and phyto-sanitary standards (SPS) are adhered to require that the country has the necessary standards equivalence agreements and infrastructure to verify and enforce the adherence to the generally accepted standards. Support for such initiatives could come in the context of support for "deep" integration initiatives of the FTA.

Another aspect of "deep" trade integration and that in the last few years has attracted substantial attention relates to the transport costs and other logistics costs affecting trade costs. The World Bank has now issued its second Survey of Trade Logistics Indicators (TLI)[20] (World Bank, 2011b). These TLI are substantially better in European countries than in Mediterranean ones (Graph 14). For instance, Lebanon's TLI, which are the best of the MED region, are still substantially lower than the TLI of the average EU member state. Yet they are much better than those recorded for Jordan, Morocco, Algeria and Libya. Péridy estimated how improvements in these TLI could expand imports from the EU into the MED region and exports from the MED region and found that both transport costs and low TLI substantially hamper trade. Reducing tariffs further would only marginally lead to trade expansion between the EU and MED, but reducing transport costs and improving the TLI would result in substantial trade expansion.

Graph 15: The Logistics Performance Index in the Euromed area, 2010

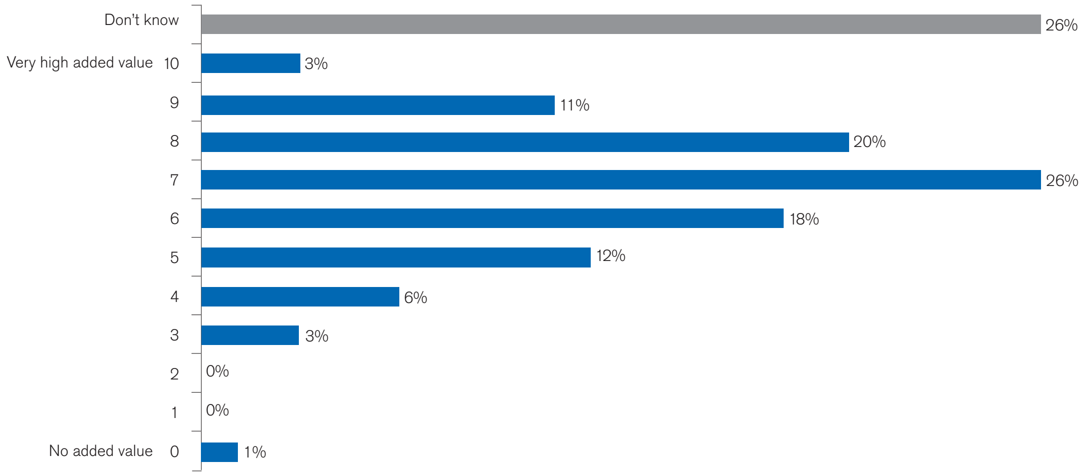


Source: Derived from the World Bank, 2011, "Connecting to Compete"

Question C11 provided a "targeted" definition of deep integration with explicit reference to liberalization of agricultural and service trade as well as approximation of standards and technical legislation, which can be understood by the respondents to refer to the issues covered by NTM. The various respondents to the Survey indicate their general agreement with the view that deep integration would provide considerable added value over and above the shallow integration that is based solely on tariff reductions. Nearly 90% of respondents that expressed any view on the subject indicated that "deep" integration would have positive and very positive added value.

20. World Bank, (2007), "Connecting to Compete: Trade Logistics in the Global Economy", Washington DC.

Graph 16: Assessment on the added value of the New Deep and Comprehensive Free Trade Areas to be established by the EU with the MPCs



Source: Compiled by the IEMed based on the results of the 2nd Euromed Survey

V. References

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