

Economic Integration in the Mediterranean: Beyond the 2010 Free Trade Area

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Political unrest and the focus on regional projects that the Union for the Mediterranean (UfM) has brought with it often make us forget that the Euro-Mediterranean project was, at the start and above all, a project for building an integrated economic area, and that its main instrument was, along with economic and financial assistance, the creation of a Euro-Mediterranean Free Trade Area (EMFTA) by 2010 (Martín 2007). It is therefore a good time to take stock of the situation and analyze the perspectives for this FTA. Moreover, it is a sphere in which the Mediterranean countries are in a relatively advanced state vis-à-vis the EU's neighbours in Eastern Europe, where the very concept of free trade with the European Union (EU) is still remote, and even more so such regional dynamics as regional diagonal cumulation of origin. Although it does not receive as much attention in the press as the UfM, the implementation of the EMFTA has been gradually following its course since 1995 and it is reaching its culmination in certain cases. From a political and institutional viewpoint:

- The network of bilateral free trade areas for industrial products between the EU and its nine Mediterranean Partner Countries (MPCs¹) was practically completed with the signing of the corresponding Association Agreements (except with Syria, pending signing and ratification), and the twelve-year transition period for their gradual implementation in each case is coming to a close (in Tunisia the transition period closed in 2008,

in Morocco and Israel it will be in 2012, in Jordan by 2014, and so on).

- In fact, FTAs have become part of the script for economic policies in all countries in the area, except perhaps for Algeria (which, after five years of application, has asked for a renegotiation of the tariff dismantling schedule with the EU) and Syria (which alleges the need to carry out impact analyses before signing the Association Agreement). There is hardly any controversy anymore over trade liberalization as a component of the development model.
- On the regional level, the Pan-Euro-Mediterranean Protocol on Rules of Origin – which should allow diagonal cumulation for export to the EU between the 27 EU Member States, the ten MPCs, including Turkey, and the four countries of the European Free Trade Association (EFTA) – has been included in the majority of Association Agreements (the corresponding bilateral protocols should soon be substituted by a regional convention including the Western Balkan countries as well and simplifying the current complex system of attribution of origin, with hundreds of pages of instructions). However, evidence indicates that the Protocol's rules of origin are not widely used, probably due to their complexity and the administrative costs they entail, as well as competition rather than complementarity among the MPCs (De Wulf and Maliszewska 2009).

Regarding the impact of the EMFTA:

- The implementation of the EMFTA has concurred with an increase of trade flows between the EU

¹ Morocco, Algeria, Tunisia, Egypt, Palestinian Authority, Israel, Jordan, Syria and Lebanon.

TABLE 10

Mediterranean Partner Countries (excluding Turkey), Trade with the EU

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	13.0	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	75,657	-6.5	42.6	45,656	-32.4	39.0	-30,001

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

and its Mediterranean Partner Countries (see Table 10), although, curiously, at a slower rate than that of the increase in MPC exports and imports with the rest of the world. In fact, econometric impact models have not revealed any significant positive effects of the EMFTA on the volume of trade flows (except in the cases of Tunisia and Egypt), and moreover, it seems clear that a significant part of the increase in MPC exports to the EU can be attributed to the rise in oil prices.

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- Insofar as its negative impact on employment and State tariff revenue, although there are yet few impact studies (cf. SIA-EMFTA Consortium 2007), estimations show it to be less than expected.
- To date, the EMFTA has also not resulted in diversification of MPC exports to the EU, as they continue to be focussed on textiles and clothing (30%) and on fuel products (25%). Nor has it resulted in a significant increase in foreign direct investment there (half of the FDI in the MPCs comes from EU countries).
- In contrast, over the past fifteen years the problem of the structural trade deficit of Arab Mediterranean Countries with the EU has grown worse (over €13 billion in 2008, not counting Turkey and considering the structural surplus

registered by Algeria, which more than doubled in 2009 due to the crisis – see Table 10), a hardly sustainable deficit that requires an economic policy response.

There are, however, several significant links missing to complete the 2010 Euro-Mediterranean Free Trade Area:

- Trade in agricultural, agrifood and fisheries products continues to be subject to product by product negotiation as per the Rabat Roadmap adopted by the EU in 2005. In 2008, agricultural liberalization agreements were signed with Egypt and Israel respectively, an earlier one had been signed with Jordan in 2006, and in late 2009, an agreement was reached as well with Morocco which is still pending ratification, but in all cases, significant restrictions remain in the form of quotas and restrictive export schedules for the most sensitive products. In other words, although the EU has expanded its concessions, in practice, it maintains the same system of trade restrictions (cf. Jaidi and Martín, p. 46-58).

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- Insofar as liberalization of the service sector and the right to establishment are concerned, although four bilateral agreements are being negotiated in the region since 2005 (Egypt, Israel, Tunisia and Morocco) in accordance with the

non-binding Regional Framework Protocol adopted in Istanbul in 2004, concrete progress is scarce. The service sector continues to represent only 5% of Euro-Mediterranean trade, and the EU wishes to impose deep liberalization in the sectors in which it has a comparative advantage (banking, telecommunications, transport and the like), yet refuses to make any sort of concession in sectors that could result in an advantage for Mediterranean Partner Countries, such as the so-called Mode 4, with temporary movement of labour force (cf. Jaidi and Martin, p. 59-64).

“Beyond” Free Trade

The latest agreements (Advanced Status Agreement with Morocco, EU Eastern Partnership) have reflected the emergence of a new concept in the “tool box” of the EU’s free trade with its neighbours: the *Deep and Comprehensive Free Trade Areas*, a new generation of free trade agreements evolving beyond the conventional ones and calling for “deep integration” and not merely the elimination of tariff barriers. The aim is not only to accomplish industrial liberalization, but also agricultural and service sector liberalization (a matter that was already on the agenda and in relation to which the EU is making no new offers), as well as to complement the simple elimination of tariffs with harmonization in the fields of competition policy, State contracts, intellectual property and the technical and administrative rules affecting trade. In other words, the goal is to unite trade liberalization with aligning the partner countries with the *acquis communautaire* (the body of EU legislation, in this case economic), in line with the principles of the European Neighbourhood Policy (ENP), with the aim of being able to integrate in the EU Single Market and simultaneously eliminate significant non-tariff barriers. Key instruments to this effect are the sector by sector Agreements on Conformity Assessment and Acceptance (ACAAs) of industrial products between the EU and each partner country to obtain recognition for its systems of standardization and quality certification and therefore eliminate technical barriers to access to the EU market that persist. For the time being, however, the EU has only advanced on a single agreement of this type, namely with Israel in the pharmaceutical sector. With regard to its doctrine, this new approach originated in the Roadmap for the Creation of a Free

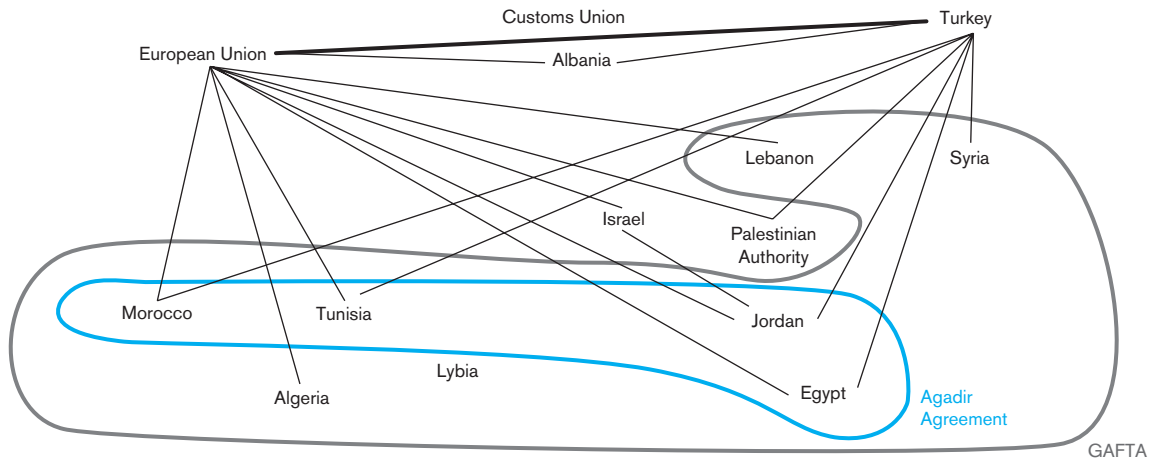
Trade Area by 2010 included in the Five-Year Work Programme approved at the Barcelona Summit in 2005. As of the Euro-Mediterranean Trade Minister Conference in Lisbon in 2007, FTAs are always referred to as Deep and Comprehensive Free Trade Areas, and the Roadmap has been rerouted to the “Euro-Mediterranean Trade Roadmap beyond 2010,” officially adopted at the 8th Euro-Mediterranean Conference of Trade Ministers in December 2009.

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It remains to be seen to what degree partner countries are willing to accept full normative convergence with the EU if this is not accompanied by complete liberalization in all sectors (including the free circulation of people) and by EU instruments and policies (and budgetary resources) that also ensure real convergence, that is, convergence of income levels. The cost-benefit analysis of this process can give rise to strategies of partial convergence limited to specific sectors (cf. Jaidi and Martin 2010, p. 63-65) or even to move towards a model of economic nationalism, as seems to be the case with Algeria. In any case, it is clear that the Deep and Comprehensive Free Trade Areas in and of themselves will not act as an instrument of integration, but only of liberalization and at most, as a catalyst for certain reforms, and that to date, the Euro-Mediterranean FTAs have hardly affected the structure of trade preferences enjoyed by the MPCs for access to the EU Market, insofar as the liberalization of access for industrial products from MPCs to the European market already occurred in the late 1970s.

Free Trade Agreements: Network or Labyrinth?

The Roadmap discusses the need to complete the “network of (South-South) free trade agreements” among the countries in the region. The aims would



Source: WTO, notified regional trade agreements.

be to revive the Arab Maghreb Union project (Morocco, Algeria, Tunisia, Libya and Mauritania), make the Agadir Agreement (Morocco, Tunisia, Egypt and Jordan) effective, lend content to the Greater Arab Free Trade Area (GAFTA) and lend coherence to the multitude of bilateral FTAs between countries in the region (see Chart 4). Indeed, another FTA was also announced in June 2010 between Turkey, Syria, Lebanon and Jordan.

An analysis of the preferential trade agreements between countries in the region notified to the WTO (Chart 4) allows us to come to several conclusions:

- Turkey clearly emerges as a regional trade power. The network of trade agreements it has established with nearly all countries in the region (namely, Tunisia, Morocco, Egypt, Palestinian Authority, Syria and Israel) and its Customs Union with the EU, together with its free trade area with EFTA countries and its FTAs with Macedonia, Croatia, Bosnia-Herzegovina and Georgia, as well as its privileged location in the Caucasus and even Eastern Europe, are increasingly positioning it as a Euromed trade hub.
- Jordan and Morocco also have a dense network of trade agreements, as well as an FTA with the USA each (signed in 2001 and 2004, respectively), although they figure more as logistics and potentially industrial platforms for access to major neighbouring markets (the EU and the Gulf States, respectively) rather than as regional nodes.
- South-South Mediterranean trade shows certain symptoms of revitalization, although slow in pace and excluding the Maghreb. The difficulties recently created by the export to Egypt of Logan model automobiles manufactured in Morocco and the protectionist pressure received by the authorities of the former country reveal that, for the first time, South-South trade liberalization is creating market tensions, an unequivocal symptom that its effects are beginning to be felt. Even so, the Mediterranean Partner Countries continue to comprise the region in the world with the lowest levels of trade integration between its countries, with little more than 5.7% of their total trade, a figure that has not changed for some time now.
- The proliferation and, above all, the overlap of agreements cause confusion and hamper rather than facilitate trade, expanding the margin of arbitrariness in the application of trade rules. Trade between Morocco and Egypt, to use an extreme example, is simultaneously regulated by the GAFTA, Agadir Agreement, a bilateral FTA and the Pan-Euro-Mediterranean Protocol on Rules of Origin, as well as the norms of the World Trade Organization (WTO). In this regard, the situation has not improved significantly since 2005, and compatibility between the different agreements is still far from ensured (Martín 2004).

European Periphery or Global Subregion

The global economic crisis has taken longer to affect Mediterranean Partner Countries than other emerg-

ing countries. However, as its effects begin to be felt, awareness is spreading as well on its consequences:

- The economic model prevailing since the 1980s, based on limiting the role of the State, economic liberalization, the opening up of trade and macroeconomic orthodoxy, seems to be showing its limits, leading some countries to consider alternatives in economic policy.
- The economic dependence of many of the partner countries in the region with respect to the EU negatively affects their perspectives for growth or recovery. At the same time, there is a growing presence of economic actors from outside of the region, such as the United States, but above all Persian Gulf countries and to a lesser degree, China, India and Brazil. In this respect, the differences between Mediterranean subregions are large: in contrast to the average export figure for the MPCs to the EU of 47% in 2007, Morocco and Tunisia's exports to the EU amounted to over 70%, whereas other countries such as Algeria and Syria register between 40 and 50%. For Israel, the EU accounted for 29% of its exports (as opposed to 37% to North America); for Lebanon, exports to the EU amounted to 17% (compared with 20% to the Gulf Cooperation Council – CCG – countries); and for Jordan, only 3.15% (as compared to 28% to North America and 17% to the CCG).
- The greater integration of the Mediterranean Region into the global economy leads one to question the issue of the added value, and even the very existence of the Mediterranean as a differentiated economic area in the globalization process. In other words, the old dilemma between regionalism and globalization crops up again, in this case with regard to the Mediterranean Region. At the same time, the matter emerges of the viability of FTAs with countries in the region such as Lebanon, Syria or Algeria, which are not even members of the WTO yet.
- And lastly, together with the latter two issues, there is also the issue of the added value of the regional approach in the Mediterranean, as opposed to purely bilateral dynamics between the EU and each partner country such as the ones that the ENP seems to foster. For the time being and in the trade sphere, this added value seems quite limited.

In this context, the Mediterranean is increasingly becoming one of the battlefields between different models of global economic integration, and therefore between the world economic powers, that is, between the American economic regulation model and the European one. In view of the data and the trade dynamics in the region, the EU does not necessarily look to be winning the game.

From Integration Models to Development Models?

This competition between different models of integration and regulation, together with the economic crisis, is in turn reflected in the definition of MPC development models. Indeed, the hypertrophy of FTAs as practically the core element of the development model characterising certain countries until 2008 (Morocco is the best example of this) has given way to a greater role being given to “voluntarist” public policies, with a greater although more selective role played by the State, renewed prominence of industrial promotion policies and active policies, as for instance, in the sphere of employment. Insofar as integration into the global market is increasingly taken for granted, the MPCs are demanding differential preferences to integrate into a Euro-Mediterranean Economic Area that would be in line with, for instance, the vision of the European Neighbourhood Policy.

With regard to Maghreb countries, they do not have any alternatives to deepening economic relations with the EU

In any case, at least with regard to Maghreb countries, it is clear for the time being that they do not have any alternatives to deepening economic relations with the EU. The Euro-Mediterranean trade agreements continue to represent a controlled first step towards their integration in the global economy. However, estimates of potential trade flows (based on gravity econometric models) indicate that, at the current level of trade preferences on European markets, the MPCs' volume of exports to the EU has already practically reached its potential (and that the greatest potential for growth is in

Mashreq countries such as Egypt or Jordan). Only in a scenario in which levels of Euro-Mediterranean integration reached the levels and instruments of the EU itself could one expect significant growth in such exports (which could then increase three or fourfold – cf. De Wulf and Maliszewska 2009). However, these integration instruments cannot be limited to normative convergence, which to date is the only differential “offer” being made by the EU to these countries, even in the framework of an explicitly preferential scheme as is the case with UE-Morocco Advanced Status. Indeed, it is becoming increasingly evident that the MPCs cannot and do not wish to limit themselves to assimilating the EU’s regulatory framework, but also aspire to gain access to the levers of real convergence within the Single Market: regional and cohesion policy, for instance, as a complement to mere trade liberalization or regulatory convergence.

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