

The EU-Arab South and East Mediterranean Free Trade Area: Brief Overview and Perspectives

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The Free Trade Area (FTA) of the EU-Arab South and East Mediterranean Partners (ASEMPs) is Evolving in Variable Geometry

The developing Arab South and East Mediterranean Partners (ASEMPs)¹ –which are partners with the EU through the Euro-Mediterranean Partnership (EMP), also known as the Barcelona Process, and the European Neighbourhood Policy (ENP)–, are evolving in their relations with the EU in variable geometry. Hence, there is certain political, economic and social diversity among these countries, as well as differences in their progress insofar as free trade and reforms.

Differences among these countries can be noted in such aspects as whether they are members of the World Trade Organisation (WTO) or not, or whether they have concluded Association Agreements or undersigned Action Plans (see Table 13)

The four countries most advanced in the process of trade integration with the EU are Tunisia (FTA fully entered into effect in 2008), Morocco (FTA will fully enter into effect in 2010), Egypt and Jordan. Moreover, these countries have concluded a Free Trade Agreement amongst themselves (the Agadir Agreement), which entered into effect in March 2007. Only Tunisia and Morocco, however, can boast an ongoing Free Trade Agreement (FTA) with the EU of sufficient duration.

What Effects Is the FTA Expected to Have?

First of all, in the process of North-South ASEMP-EU integration, the southern partners expect three major effects.

Convergence Effect

A convergence effect is expected, in other words, a reduction of disparities with regard to GDP (PPP) per capita among the partners (upward trend) in the medium- and long-terms through a more sustained rhythm of growth in the South and a greater attraction of financial flows, above all foreign direct investment (FDI). This is the so-called announcement effect to the benefit of the less wealthy partners (the ASEMPs).

Incentivising Effect for Economic and Political-Institutional Reforms

In this regard, it must be kept in mind that, concerning the FTA and according to the Barcelona Declaration, the South and East Mediterranean Partners have committed to proceed to economic and institutional adjustments by undertaking fundamental structural reforms. By the same token, the ENP is intended to be a partnership for reform, with a system of incentives for economic, administrative and political reforms (benchmarking) and contractual neighbourhood relations that are more or less advanced according to the progress made in the reform process.

¹ Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, Syria, Tunisia, Palestinian Territories (when data available).

TABLE 13

Evolution and Trade Integration of the ASEMPs

	Membership in the WTO	Association Agreements (EMP)	Action Plans (ENP)
Algeria	In progress	June 2005	–
Egypt	x	Concluded in 2001 / Ratified in April 2003	2007
Jordan	x	2002	x
Lebanon	In progress	2002	2007
Libya	–	Negotiations undertaken	–
Morocco	x	1998	x
Syria	–	Concluded in 2002 / Has not yet entered into effect	
Palestinian Territories		x	x
Tunisia	x	1998 / Entered into effect in 1996	x

South-South Integration Effect

It must be kept in mind that both the EMP, via the Barcelona Declaration, and the ENP, through its Action Plans, insist on the goal of promoting and strengthening the process of South-South cooperation and integration (Maghreb, Agadir Group). For numerous analysts, South-South integration strongly conditions the benefits expected by the ASEMPs from the FTA with the EU.

The Effects of the FTA on the ASEMPs: A Brief Assessment

It is risky at the present state of progress (except in the case of Tunisia and, to a lesser extent, Morocco) to draw any conclusions, all the more so since there is always the problem of the 'imputation' of the developments registered to the single effect of Free Trade Agreements between the EU and the ASEMPs. The results should therefore be relativised.

Macroeconomic Effects on the ASEMPs

In terms of convergence, that is, reduction of the gap in GDP (PPP) per capita, few significant changes have been registered, except in the case of Tunisia (gap with the EU comparable to that of Romania). Indeed, if the EU monetary system is taken as a reference (base of 100), it turns out that the GDP (US\$ PPP) per capita between 1995 and 2005 went from nearly US\$ 20,000 (PPP) to approximately US\$ 25,000 (PPP) in the Euro zone. In the ASEMPs, the (simple) average went from US\$ 4,000 (PPP) to US\$ 4,800 (PPP) between 1995 and

2005, that is, 20% and 19.2% in proportion to the Monetary Union in 1995 and 2005. This would actually indicate an absence of convergence. Only Tunisia has experienced a certain degree of convergence, since the gap in terms of proportion went from 23% to nearly 30% from 1995 to 2005.

This relative weakness in attracting FDI (apart from in the energy sector) remains a serious handicap for accelerating growth and allowing convergence to begin

Regarding foreign direct investment (FDI): FDI flows entering the ASEMPs went from 1,365 billion US dollars in 1995 to 3,312 billion US dollars in 2006. The ASEMPs' share was, on average and in proportion to the incoming FDI, on a global level of between 0.76% and 0.98%. Though there is slight progress, it is well below the demographic potential of the ASEMPs. This relative weakness in attracting FDI (apart from in the energy sector) remains a serious handicap for accelerating growth and allowing convergence to begin.

Incentivising Effect for Economic and Political-Institutional Reforms

- Trade liberalisation: The European Commission² (EC) indicates progress for the majority of ASEMPs insofar as trade liberalisation (lowering of tariffs, implementation of FTAs with the

² "European Neighbourhood Policy: Economic Review of EU Neighbour Countries." *European Economy Occasional Papers* No. 40. August 2008.

EU), which translates into a rise in the volume of goods traded between the ASEMPs and the EU. In this regard, the EC points out the reforms undertaken here and there, in Egypt in particular and Tunisia to a certain degree, to facilitate external trade. In any case, tariff barriers generally remain elevated (Syria, Egypt, Morocco).

The Index of Economic Freedom has 10 component factors including Trade Freedom. The Trade Freedom Index takes into account the average weighted tariff and non-tariff barriers (NTB), and ranges from 0 to 100. The higher the score, the greater the trade freedom. In comparison to Romania and Slovenia, and with the exception of Lebanon, the average index for the ASEMPs is weak (50.6% on average, as compared to 74.9% in Romania and 64.5% in Slovenia). In any case, there has been greater relative liberalisation in Tunisia and to a lesser extent, Egypt and Jordan. It is undeniable that the relatively weak trade liberalisation, and therefore the persistence of strong tariff and non-tariff barriers constitute obstacles to an intensification of South-South trade in particular.

- The business climate: Globally and by comparison, the rhythm of reforms tending to improve the business climate remains weak as yet. This could explain the poor performance insofar as attracting FDI, competitiveness and productivity (except in Tunisia, relatively speaking).

Negative factors often cited by businesspeople:

- The persistent rigidity of labour markets (employment and dismissal conditions, etc.);
- The rather insufficient quality of educational systems;
- Problems relating to the conclusion and effective implementation of contracts (time, procedures and the like).
- Public institutions and systems of governance:
 - With regard to the efficiency of public administration, the regional average is below the world average (according to the World Bank's governance indicators);
 - Insofar as the struggle against corruption: Algeria, Egypt, Jordan, Libya and Morocco have recently ratified the United Nations Convention against Corruption (UNCAC). This is not yet the case with Syria and Tunisia. With the exception of Morocco and Jordan's relatively good score, the control of corrup-

tion in the other countries has deteriorated (Lebanon, Egypt, Syria and Libya).

South-South Integration: The Agadir Agreement Is Promising

One factor to keep in mind is that trade among the Agadir group of countries (Egypt, Jordan, Morocco and Tunisia) has been marginal to date. In any case, the weak concentration of exports is a sign of diversification of export products and this should foster intra-Agadir trade.

Moreover, in terms of degree of synergy, it is, for instance, greater than that of the Andean Community (CAN), which would indicate that the weakness of intra-Agadir trade cannot be attributed to this factor. A finer analysis for each pair of partner countries in the Agadir group in the 12 possible partner-partner configurations reveals rather high Egypt-Morocco, Jordan-Egypt, Tunisia-Egypt and Tunisia-Jordan synergies. Everything would seem to indicate that the potential synergy of the group is relatively significant.

In addition, the Pan-Euromed cumulation of rules of origin is promising. Indeed, the Pan-Euro-Mediterranean Region of cumulation of origin consists of 25 EU countries, the European Free Trade Association (EFTA) countries (Iceland, Liechtenstein, Norway and Switzerland), plus Romania, Bulgaria, the Faeroe Islands, Turkey and the ASEMPs (Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Palestinian Territories and Tunisia) and Israel. The Pan-Euromed cumulation is applied hereafter to trade among the four partners of the Agadir Agreement, as well as among the four partners and the EU-25.

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four countries and to varying degrees, the institutional framework is yet too fragile and incomplete for establishing open market economies (competition laws, efficiency and transparency of the administrations, the competence and independence of judges, and so forth). These internal institutional weaknesses adversely effect the management of trade relations, as well as inter-state relations in general. The absence of strong institutions constitutes a sizable obstacle. Indeed, more or less vague, imprecise rules and regulations offer wide margins for arbitrariness and discrimination by an often bureaucratic and inefficient customs administration. Finally, the multiplicity of integration agree-

ments is a real puzzle, with problems of coherence, compatibility and opposition, resulting in a complexity of management that handicaps the process of integration.

Overview of the Perspectives

Towards Greater Integration

With the exception of Tunisia and Morocco, the majority of other partners are to be given from four to nine years more for concluding an FTA with the EU. Moreover, the EC emphasises little progress in the sphere of services and FDI. In fact, a new trend began to emerge in October 2007 towards Deep Free Trade Agreements (DFTA), which include all goods and services.

A working group was constituted in 2008 to this effect, with the goal of drawing up a road map with the new stages for 2010 and thereafter, integrating issues relative to agriculture and fishing, non-tariff barriers, services, letters of establishment, compliance agreements, convergence of regulations and the like.

Bilateral negotiations are underway with Tunisia, Morocco and Egypt (and soon Israel). Jordan already concluded an agreement of this type in 2006. In any case, the EC reports that there has been no progress with Syria, Lebanon or the Palestinian Authority.