

# The Free Trade Area as an Engine of Mediterranean Integration: The Case of the Agadir Countries' Association Agreements with the European Union

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In 1995, the Barcelona Process set 2010 as the date by which all free trade area (FTA) agreements between the European Union (EU) and Southern Mediterranean countries (SMCs) were to be concluded, thereby creating what was then anticipated to be the world's largest FTA. Yet 2010 is already here, and the majority of these FTA agreements have not been fully implemented. In general, full implementation of an Association Agreement takes twelve years from its entry into force. Thus far, the following Association Agreements between the EU and SMCs have come into force: Tunisia (1998), Israel (2000), Morocco (2000), Jordan (2002), Egypt (2004), Algeria (2005) and Lebanon (2006), as well as an interim agreement with the Palestinian Authority (1997). Negotiations with Syria were completed in 2004, but the agreement has not yet been officially concluded or put into force. This short essay addresses the questions of what the different Association Agreements between the EU and SMCs have done for the SMCs and whether these agreements have acted as an engine for Mediterranean integration. The essay provides a general framework for tracing developments and shows that the 2010 deadline has lost its significance due to both several changes in EU trade policy towards the SMCs and significant changes observed in SMC trade policy in general. This notwithstanding, the essay argues that such changes in SMC trade policy, largely inspired by the Association Agreements, have established the momentum for further integration of the SMCs in the world economy, even though this might come at the expense of integration between the EU and SMCs in relative terms. The essay em-

phasises that the EU-SMC Association Agreements have had many unforeseen effects and underlines a number of issues that can help the Association Agreements better serve SMCs' developmental interests. The essay focuses on the Agadir group of countries and relies on anecdotal evidence.

## Historical Evolution

The EU's interest in the SMCs dates back to the 1960s. Its contractual relations with SMCs began in 1961 and 1963 with the signing of the Athens and Ankara Accords, which mainly addressed the formation of customs unions (CUs) with Greece and Turkey respectively. The European Community (EC) continued to sign CU, FTA and preferential trade agreements with other SMCs until 1975. However, EU trade policy towards the Mediterranean remained uncoordinated and the content of these agreements was not harmonised. Since 1975, the EC has tried to harmonise its heterogeneous agreements with SMCs by adopting a global policy towards them. This included the accession to the EC of three southern European countries, namely, Greece (in 1981) and Spain and Portugal (in 1986). In 1973, an FTA agreement was signed with Turkey, and another was signed with Israel in 1975. A set of cooperation agreements was signed in 1976 with Maghreb countries, including Morocco, Tunisia, and Algeria, followed by another set, in 1977, with Mashreq countries, including Egypt, Jordan, Syria and Lebanon. The latter set of cooperation agreements shared certain common features: they were of unlimited duration and they offered trade concessions for exports from the aforementioned Maghreb and Mashreq countries to the EC market, including duty-free access for most industrial products and preferences for agricultural ones. Reciprocal treatment of EC exports to SMCs

was not required. Moreover, the EC agreed to provide financial assistance to SMCs through Financial Protocols, which accompanied the cooperation agreements. Additional protocols to mitigate the negative effects of the accession of Spain and Portugal on SMC agricultural exports were signed bilaterally with each country.

The EC-SMC cooperation agreements often reflected historical ties, such as those between France and Morocco or Algeria, or a desire to lock SMCs into the EC's sphere of influence, while at the same time managing trade with them and controlling the heavy flow of immigration into the EC. The agreements also helped to diffuse criticism over market access, especially for the agricultural imports on which EC concessions were made. However, the agreements remained heterogeneous and did not fulfil their main objectives; they fell short of controlling illegal migration, did not help to improve SMCs' economic performance and did not cause the anticipated growth in SMC exports to the EC. Aid provided under the financial protocols remained ineffective and failed to respond to the challenges (European Commission, 1995). Moreover, pressure from certain EU countries to increase the aid allocated to Central and Eastern European countries led to counter-pressure from Spain, Italy and France to increase the aid allocated to SMCs. This resulted in the adoption by the EU in the 1990s of a new policy, the "New Mediterranean Policy," as part of the effort to broaden EU trade integration policy in general. The adoption of the New Mediterranean Policy heralded an era in which aid was stepped up, a new aid programme was launched (MEDA) and concessions for SMCs' agricultural exports increased. Following the Barcelona Euro-Mediterranean Conference (27 and 28 November 1995), the EU decided to enter into a new type of relationship with SMCs, to which end it signed Association Agreements with all 12 of them. The four Agadir SMCs of concern here (namely, Egypt, Morocco, Tunisia and Jordan) have all signed such Association Agreements. The two main features of these agreements were the inclusion of new aspects (political, social, security, human and cultural) in the sections on trade and finance and the replacement of the one-way concessional agreements used in the past with reciprocal trade relations.

In general, quantitative assessments have shown that the Association Agreements' impact on the SMCs in terms of welfare gains was quite modest (see, for example, Brown et al., 1997, and Konan and Maskus, 1997). The reason for these expected meagre ben-

efits was mainly the free access that SMCs already enjoyed for most of their industrial exports to the EU. Moreover, the shallow nature of the Association Agreements entailed few gains in terms of enhancing market access for SMCs to the EU. Most studies that have assessed the agreements have reached a similar conclusion, namely, that additional depth in the form of the elimination of non-tariff barriers, the harmonisation of customs rules, the liberalisation of services, further liberalisation of agriculture and the reduction of associated transaction costs would increase the expected welfare effects of such agreements.

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However, despite the modest effects of the Barcelona EU-SMC Association Agreements, this essay argues that they have also had many unforeseen effects, as will be seen below, which have helped to enhance integration in the Mediterranean, but which are difficult for academic research to tackle due to their intangible nature and the difficulty of quantifying them.

The series of Association Agreements signed in Barcelona was followed by two EU initiatives: the European Neighbourhood Policy (ENP), with its associated action plans, and the Union for the Mediterranean (UfM). The ENP, which was announced in 2003, was viewed by some experts as a new way to revive the shallow EU-SMC Association Agreements by providing them with a device for expediting deep integration (Hoekman, 2005). The UfM, which was launched in 2008, had no significant intention of affecting trade prospects, but rather was intended as a means of enhancing relations between the EU and SMCs by creating a new institutional framework that ensured joint ownership of the project by both shores of the Mediterranean and a new method of regional

cooperation involving private-sector and international donor funds. So far, both initiatives, the ENP and the UfM, have fallen short in their ability to energise EU-SMC trade relations. The ENP tools for deepening trade relations remain weak and lack the necessary mechanisms for enhancing the aspects related to depth, whereas the UfM has not tackled trade issues in any specific way.

### **The Unforeseen Effects of the EU-SMC Association Agreements**

The share of SMC exports to the EU might not have increased when measured as a percentage of their total exports. However, in light of the diversification of SMCs' export destinations, and in light of the emergence of new trading partners such as China and the strengthening of trade relations with major trading powers such as the United States (USA) through the signing of new FTA agreements, simply having reserved the relative market share for SMC exports in the EU can be considered a success for the Barcelona Process.

Indeed, with the gradual erosion of tariffs in the EU resulting from its engagement in several regional schemes to liberalise trade with non-SMCs, the Association Agreements between the EU and SMCs may have helped SMCs maintain their market share in the EU. Without these agreements, SMCs would probably have lost market share in the EU.

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The EU-SMC Association Agreements have also helped SMCs to better integrate in the world economy. Since concluding their Association Agreements with the EU, Morocco, Jordan and Egypt have signed a large number of regional trade agreements (RTAs) with a wide array of countries, including the USA (Jordan and Morocco), Singapore (Jordan), Canada

(Jordan), Sub-Saharan African countries within the Common Market for East and South Africa (COMESA) (Egypt), the European Free Trade Area (EFTA) (Jordan and Egypt) and Turkey (Egypt and Jordan). Such a proliferation of FTAs certainly has its pros and cons for SMC economies, but it has also had a distinctly positive impact in terms of helping them to better integrate into the world economy, which reinforces their integration both among themselves and with the EU.

The EU-SMC Association Agreements have directly and indirectly helped SMCs to integrate among themselves. Directly, the Agadir Agreement signed by Egypt, Jordan, Morocco and Tunisia is a by-product of the stated Barcelona Process objective of enhancing South-South integration. However, the trade prospects among the Agadir countries remain modest due to the conventional reasons of similar export and production structures, trade flows that are heavily oriented towards the EU and the US and a prevalence of non-tariff barriers. Nevertheless, the FTA with the EU has established the framework for institutionalised liberalisation among the Agadir countries, and elements of deeper integration could be included at a later stage. (In December 2008, the Agadir country Ministers of Trade announced that they had signed a number of mutual recognition agreements to enhance trade among their countries.) In this regard, it is worth noting that the record-keeping system for trade flows among Agadir countries does not make it possible to determine the impact of the Agadir Agreement itself, as the Agadir countries' trade statistics do not differentiate between trade flows under the Agadir FTA agreement and those under other schemes, such as the Greater Arab Free Trade Area (GAFTA). Indirectly, the EU-SMC Association Agreements have helped to establish a model to be followed with regard to different institutional aspects. For example, after more than 10 years of disagreement over detailed rules of origin, GAFTA members finally adopted a set of detailed rules of origin in 2008 affecting about 60% of trade flows. These rules of origin largely resemble those adopted between the EU and SMCs in the context of the pan-European rules of origin system. This in itself is an unforeseen by-product of the EU-SMC Association Agreements, in which institutions (the rules of origin system) adopted by the EU with SMCs have helped a set of SMCs to better integrate among themselves. In other words, Arab countries have been harmonising indirectly and integrating deeply through harmonisation and approxima-

tion to EU rules and standards. This should have a positive spillover effect on intra Arab trade, which has suffered from the proliferation of non-tariff barriers and the lack of clarity regarding many aspects relating to borders (which are part of deep integration). The aforementioned effects are certainly influenced by the EU-SMC Association Agreements; however, current research methodologies are unable to capture them fully.

### The Way Forward

Evaluating the role played by the EU-SMC Association Agreements in enhancing integration in the Mediterranean is a daunting task. It includes several factors that can hardly be captured by any single methodology, as well as multiple indirect effects that cannot be easily addressed. However, there is room for improvement. The best thing for SMCs with regard to their trade relations with the EU is a consistent, incremental and realistic approach, in order to avoid backlashes and negative social and political disturbances. Moreover, flexibility is needed to identify the phases involved in reaching an agreement, define certain sensitive issues, etc.

The EU is not yet clear on how to continue deepening its integration with SMCs. Recent research (Ghoneim et al., 2007) suggests that depth should not be the objective, but rather a means. In this regard, how deep to go differs, ranging from extremely deep, if the objective is to enhance market access for SMC exports to the EU, to milder versions (e.g. a higher degree of cooperation, but not full harmonisation), if the aim is to improve the domestic business environment. In fact, evidence shows that deepening integration has helped to enhance market access for SMC exports to the EU and that, although costs are higher, the payoff of such depth is fruitful (Mandour, 2006). In this regard, the EU needs to redefine deep integration, taking into consideration the objectives behind it and the developmental gap between the EU and SMCs. One mistake to be avoided is that of comparing SMCs with each other when it comes to deep integration issues, as such issues vary from country to country and, thus, using any one country as a yardstick for another is completely irrelevant. Hence, for example, arguing that Morocco or Jordan has agreed on a certain definition of human rights or democracy does not give the EU leverage over Egypt to push it to agree to the same definition. This simply

recalls an old problem that once existed for France and Germany when it came to deep integration, namely, the friction regarding the percentage of alcohol allowed in beer. The problem persisted until the Single Market Act came into force and solved it via mutual recognition. If we agree that there is room for disagreement on the percentage of alcohol in beer, shouldn't we agree to allow more leeway for more serious matters, such as political and social priorities? (State aid is a particularly salient case in this regard.) The institutional differences between the Barcelona Process and the ENP are rather minor and in fact the Association Agreements have more legitimacy than the ENP, and certainly more than the UfM. However, one key difference is that the Barcelona Process focuses on EU policy towards SMCs, whereas the ENP and UfM have adopted more diverse approaches. EU Trade Policy towards SMCs needs to be restructured, and the individual priorities of the EU's regional partners must be placed at the core of any new policy it adopts. The main problem with the EU is that its revisions of its initiatives towards SMCs have always been benchmarked to the EU's own priorities, and SMCs' individual and regional priorities have never been allowed to play a clear role in its decision-taking. This is not to say that the EU should neglect its own priorities, but rather that more emphasis should be placed on those of its regional partners from these partners' point of view.

### The Association Agreements between the EU and SMCs should be thought of in a broader context and should not be confined to the traditional analysis based on market access and trade creation versus trade diversion

The liberalisation of agriculture and services should be accelerated to serve SMCs' developmental objectives. The recent announcement, in 2008, of full liberalisation of agriculture between the EU and Egypt was certainly a step in the right direction and one that is likely to have a positive impact on trade relations, as well as positive spillover effects for development. The liberalisation of services should be designed in a way that likewise has a positive

developmental impact. Mode 4 liberalisation is crucial in this regard. Speeding up these two key elements (agriculture and services) would enrich the integration process between the two shores of the Mediterranean and would have a significant impact on development in the South.

While the ENP might, at the outset, have seemed like the perfect vehicle for flexible deep integration, reality and practice have shown that this is not the case. On the contrary, on several practical matters, the implemented policy has proven to be quite poor in terms of yielding the benefits of flexible deep integration. The ENP's design in the form of action plans that are far from concrete, do not reflect SMC priorities, have lax time tables and lack performance assessment methods foretold the mechanism's failure even before it was implemented. In contrast, the Association Agreements with SMCs, despite never having been fully implemented, were not given a full chance to be examined before being written off as having only modest effects. This is not to say that the Association Agreements were a success or a failure, but rather that it is extremely difficult to determine their real effect.

In conclusion, the Association Agreements between the EU and SMCs should be thought of in a broader context and should not be confined to the traditional analysis based on market access and trade creation versus trade diversion. Though important, such traditional effects do not reflect the institutional and dynamic effects of the Barcelona Process, which has had several other effects that have yet to be pinned down by academic analysis. Finally, the EU should focus on how to improve progress on SMCs' developmental goals, using trade as a tool and deepening its trade relations with SMCs only when needed. Adding new layers of institutional structures, such as the ENP and UfM, is unlikely to have a significant positive impact on the functioning of the Barcelona Process. What is needed instead are targeted market-access goals and development objectives that can still be

achieved by enacting policies and mechanisms within the context of the Barcelona Process.

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