# The Labyrinth of Subregional Integration in the South Mediterranean

**Iván Martín**
Universidad Carlos III
de Madrid

The year 2003 ended with yet another failure of the attempts to revitalise the Arab Maghreb Union (AMU) between Morocco, Algeria and Tunisia (and Libya and Mauritania), with the suspension *sine die* of the summit of the Chiefs of State of the five member countries, which was to be held in Algiers on 23rd December 2003, thus wiping out four years of intensive diplomatic efforts. Since its creation in 1989, the AMU has never truly got off the ground, and has not even been able to overcome the closure of the borders between Algeria and Morocco since the summer of 1994. If figures can say more than a thousand words, 63 % of the Maghreb countries' trade exchanges are with the European Union, 19 % are with the United States and Canada, and less than 2 % with each other (trade exchanges between the twelve EU partner countries in the South and East Mediterranean barely exceed 4.5 % of their total imports and exports).

This paralysing of Maghreb integration is becoming a major Gordian knot for the economy dynamics of the Maghreb, and the solution of one of its main strategic quandaries in the medium term, namely, its insertion in the world economic system. As single entities, the individual national markets are too small to attract productive investment by targeting their domestic markets, and their lack of competitiveness makes it very difficult for them to become export platforms. However, the influx of large volumes of foreign investment is a vital link for the feasibility of the internal and external liberalisation and modernisation process in which these countries are immersed.[1]

Even Morocco, which until now has monolithically made any progress in this area conditional on the formal recognition of its sovereignty over West Sahara, seems to be starting to question the cost of this attitude. In a report issued by its Finance Ministry in July 2003,[2] the benefits that could be obtained from removing barriers to economic exchanges within the Maghreb were estimated at 4.6 billion dollars a year (3 billion in increased foreign investment and 1.6 billion in increased regional trade flows), that is, the equivalent of 4.4 % of the joint GDP of Morocco, Algeria and Tunisia. The report stated that «the cost of the non-Maghreb could end up being unsustainable for the region's economies». Although the study suffers from a few shortcomings in its handling of the figures,[3] it does identify as a major issue the costs of the lack of Maghrebian integration in terms of lost foreign investment, limitations of trade exchanges and lower figures in job creation, in addition to the increased bargaining power these three countries would have if they acted in collaboration at the international forums and toward their main trading partners, instead of negotiating separately, and to the potential for softening the foreseeable negative consequences that the expansion of the European Union towards the east will have for these countries.

### Waiting for Agadir?

In the midst of this rather depressing picture, the good news on the subregional integration front has been the Agadir Agreement, signed in Agadir on 8th May 2001 between Morocco, Tunisia, Egypt and Jordan, in order to move the calendar forward for trade liberalisation between them and to create a free trade area (FTA) for all their products, without exception, by the start of 2006. In January 2003, the four countries concluded negotiations on the Agreement's final text (except for certain technical appendices and the final tariff dismantling schedule). This text was to be approved by the countries' legislative bodies during the year and come into force in 2004. However, apart from its declarative value –the European Union has been quick to offer its support – so far nobody has

[1] On this subject, see I. MARTÍN (2001): «La inversión extranjera directa en los países del Magreb en el marco de la Asociación Euromediterránea: ¿el eslabón perdido?», in *REM. Revista de Economía Mundial* no. 4, pp. 175-206, University of Huelva (draft English version, «The Euro-Mediterranean Partnership and Inward FDI in Maghreb Countries», in http://econwpa.wustl.edu:80/eps/it/papers/0307/0307006.pdf).

[2] Direction de la Politique Économique Générale, *Les enjeux de l'integration maghrébine*, working document no. 90, Rabat. (http://www.finances.gov.ma/dpeg/publications/en_catalogue/doctravail/doc_texte_integral/dt91.pdf.)

[3] See I. MARTÍN: «¿De verdad la UMA vale $ 4.600 millones al año?», *Magreb Negocios* confidential bulletin, October 2003.

**THE ASSOCIATION OF MEDITERRANEAN CHAMBERS OF COMMERCE AND INDUSTRY (ASCAME)**

The Association of Mediterranean Chambers of Commerce and Industry (ASCAME) was created on 1st October 1982 by a constituent assembly in Barcelona, on an initiative of the Chamber of Commerce, Industry and Navigation of Barcelona. The General Secretariat of ASCAME has been based in Barcelona since the end of 2001.

ASCAME is an organisation with a potential of five hundred Chambers of Commerce and other associated institutions from twenty-two countries in the Mediterranean region. ASCAME's high and still-growing number of these member organisations, which correspond to virtually all the Mediterranean countries, makes the Association the institution with the greatest geographical scope among all the organisations (of any kind - political, economic, scientific and cultural) in the Mediterranean community.

The Association is extremely important in the field of international cooperation between the various Mediterranean Chambers of Commerce, and its role has been acknowledged by the most prominent European and international institutions. Some of the notable activities among those undertaken over the course of 2003 are the following:

**1. Projects/ programmes involving international organisations:**

- African Development Bank (ADB): preparation of a joint seminar aimed at African Chambers of Commerce (Maghreb and Sub-Saharan Africa).
- The United Nations: ASCAME has worked alongside several commissions of the United Nations (such as ECE/ ECA/ ESCWA as part of the project «Capacity building in trade facilitation and electronic business in the Mediterranean», E-Med Business); with specialised organisations of the United Nations (such as UNIDO); and in the United Nations' Environmental Programme (including participation in the Mediterranean Commission for Sustainable Development, in the capacity of a representative of the private sector).
- The European Union: participation in several European projects (such as the E-Chamber project; The European Extended Enterprise for Innovation; as well as the creation of a consortium and participation in the call for the supply of services for the project «Promotion of international arbitration and other alternative techniques for resolving commercial disputes»; and the DAMS. Archive project).

**2. Business cooperation activities organised by ASCAME:**

- First Mediterranean Tourism Forum (MEDITOUR), between 8th and 10th May 2003 in Tangier (Morocco): activity organised by ASCAME, involving over nine hundred registered participants from around twenty countries and more than 150 business rendezvous.

**3. Business cooperation activities in conjunction with other institutions:**

- Barcelona Business and Franchise Exhibition (BNF) and the First Mediterranean Franchise Forum (BNF), between 22nd and 24th February 2003 in Barcelona.
- AMI Forum, from 11th to 14th March 2003 in Marseilles.
- ECOMED-POLLUTEC Exhibition and the First Mediterranean Sustainable Development Forum, on 11th March 2003 in Barcelona.
- MEDIBIT Tourism Exhibition, between 21st and 23rd March 2003 in Palermo.
- International Logistics Exhibition (SIL) and the First Mediterranean Logistics and Transport Forum, from 17th to 18th June 2003 in Barcelona
- Second North African Business and Development Forum (NABDF), between 19th and 30th September 2003 at the Llotja de Mar premises in Barcelona.
- Eleventh International Construction, Construction Material, Technology and Building Restoration Exhibition (BAUCON YEPEX), held on 16th and 17th October 2003 in Antalya, Turkey.

More information: www.ascame.com

been able to explain exactly what added value this initiative offers on top of the multiple regional economic integration projects that are being implemented in the region, particularly when we consider the lack of territorial continuity between the signatory countries, which do not share any direct land border.

In any case, the Agadir Agreement does not break much new ground. Indeed, on 1st January 1998, a project to create a greater Arab free trade area (GAFTA) came into force between eighteen Arab countries (again, Algeria is not one of them). Its goal is to phase out, over a ten-year period, the reciprocal tariffs on all products (with a linear 10 % reduction each year until 2008), although this excludes services and investments. Although the GAFTA was originally to also include the dismantling of non-tariff barriers, the negotiations on this have been postponed and the approved liberalisation programme contains many exceptions.

At the same time, the European Union has signed partnership agreements with most of the countries in the region that provide for the creation of Euromediterranean Free Trade Areas, with reciprocal phasing out of all tariffs on industrial products over a twelve-year period (the first area, with Tunisia, will be completed in 2010, with Morocco in 2012, with Jordan in 2014, and with Lebanon in 2015; the agreement is currently in the process of ratification with Algeria, although it should come into force in 2004 and be fully operational in 2016; with regard to Syria, negotiations are still underway).

In addition, there are also the free trade areas recently promoted in the region by the United States: the FTA with Jordan has been in force since 1st January 2002, with a ten-year transitional period. The preliminary results are apparently spectacular, with a 78 % increase in its exports to the North American markets, particularly of textiles, during the first year (although in 2001, before the agreement was implemented, these exports had already increased three-fold). Completion of bilateral negotiations for the creation of another FTA with Morocco have been announced by the end of 2003.

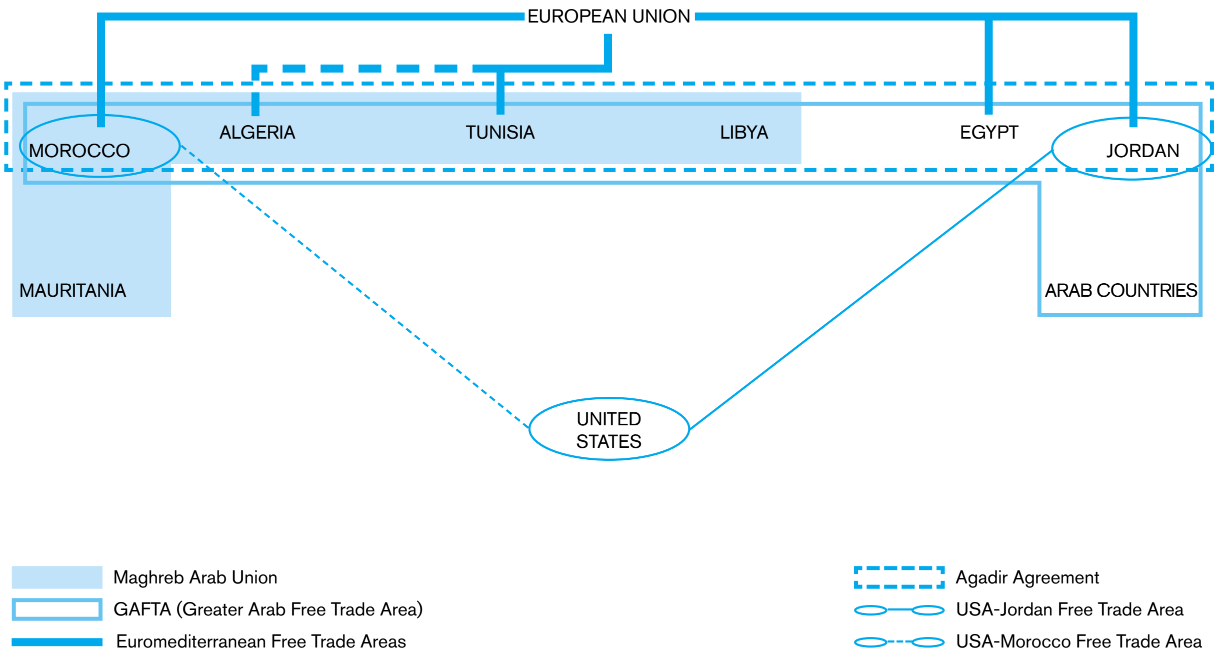
In June 2003, the Bush Administration launched the Middle East Trade Initiative, with the declared goal of creating a FTA with thirteen countries in the region, provided that their governments show «commitment to openness and economic reform», over a ten-year period. The first step in the process should be the negotiation of bilateral FTAs with the United States, something that so far has only began in practice in the case of Bahrain. There are also bilateral free trade agreements between certain countries in the region, such as Morocco, on one hand, and Tunisia, Egypt y Jordan, respectively, on the other, and between Egypt and Jordan.[4]

This plethora of preferential trade agreements has led to the creation of a complex maze (see Figure 1), whose individual parts comprise the main vectors for putting together a potential Mediterranean economic space. However, it also raises a few consistency problems in addition to creating doubts as to their compatibility with the agreements signed within the framework of the World Trade Organization (Lebanon, Syria, Libya and Algeria are the countries in the region that do not yet belong to the WTO Or, to put it another way, it raises the issue of the optimal mix of regional trade agreements for these countries.[5]

These problems can be summarised as follows:

- The tangle of partnership treaties and trade agreements reduces the transparency of the rules of the game for the economy agents. This has particularly negative consequences for small and medium-sized enterprises, which have insufficient resources to obtain the legal advice and expertise that this plethora of regulations requires; in other words, it works against the vast majority of the firms in the region.
- The degree of synergy between the different integration processes is very limited. Indeed, in some aspects they may even be conflictive, as is the case particularly with the issue of the rules of origin, which each trade agreement defines following a different method. The technical complexity in the handling of the rules of origin propitiates arbitrary actions by the authorities and lack of transparency.
- As can be surmised from a mere glance at Graphic 11, the network of regional integration agreements runs the risk of strengthening a radial (hub and spokes) patter of economic relations, characterised by a high and ever-growing agglomeration of economic activity on the axis or hub, with which numerous satellite or peripheral markets are linked, with little integration between them. In the case of the Middle East and North African countries, this is clearly the pattern of trade relations with the EU that the Euromediterranean Partnership favours. Additionally in the last two years, the growing activism of US trade diplomacy in the region runs the risk of creating a second gravitational hub for the Mediterranean Arab economies, which could give rise to a «rugby ball» model of relations with the two major economic poles of

GRAPHIC 11 **Regional integration processes in the Middle East and North Africa (*)**




(*) The solid lines show the preferential trade agreements that are already in force. The dotted lines show the initiatives that are still in the project stage or under negotiation. To avoid making the diagram more complicated, other Middle East countries whose trade liberalisation processes are less advanced, such as Lebanon and Syria, have not been shown. Also, the diagram does not include Turkey due to its special status as a candidate for EU membership, and Israel, because it is a developed country subject to very different dynamics.

4 See the world map of regional integration agreements drawn up by the WTO in 2000 (http://www.wto.org/english/tratop_e/region_e/wtregw41_e.doc).

5 Recent studies on this complex issue have been published in the books Dessus, S., Devlin, J. and Safadi, R. (eds.) (2001): *Towards Arab and Euro-Med Regional Integration*, OECD, Paris (downloadable at http://www1.oecd.org/publications/e-book/4101091E.PDF), and A. Galal & B. Hoekman (eds.) (2003): *Arab Economic Integration. Between Hope and Reality*, Egyptian Center for Economic Studies, Cairo, and Brookings Institution Press, Washington D.C.

the world. The difficulties raised by the so-called accumulation of rules of origin as a consequence of its myriad definitions only serve to exacerbate this problem.

- The degree of credibility of trade agreements as legally binding instruments for regulating economic relations between the region's countries is very low. This is mainly because they are rarely accompanied by firm political commitments – nor the social consensus required for this – and a lack of institutionalisation, and because, in most cases, they are little more than negative or shallow integration processes that confine themselves to the removal of barriers, without creating any genuine economic community between them. In this respect, we should not lose sight of the importance and variability of the non-tariff barriers, which often render ineffective any apparent lowering of trade barriers through tariff dismantling. In addition, for a market economy and trade relations to operate effectively, there must be a real rule of law that guarantees the individual rights of people and companies as well as the enforcement of the rules in equal conditions for all economic agents.

To conclude, although the vogue of regionalism, as a concurrent phenomenon to globalisation and as a prolongation of geopolitical strategies by other means, has also reached the Mediterranean region, the proliferation of regional integration initiatives does not seem to be contributing to a reappraisal of the classic pattern of North-South economic relations (or, in historic terms, between metropolis and colonies) nor of the patterns of structural trade, financial and technological dependence that are their hallmark. In other words, this proliferation does not promote a catch-up or convergence in the levels of development. On the contrary, it is contributing to consolidate or even to widen the economic gap which over the last five hundred years has divided the Mediterranean region.