Euro-Mediterranean Dimension of the New European Policies

A Renewed Focus on Investment, Competitiveness and Jobs: A New Normal in Euro-Mediterranean Cooperation?

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In February 2021, the European Commission published its trade policy review (TPR) aimed at having an open, sustainable and assertive trade policy. This TPR identified six main areas that are indispensable to achieving the EU's objectives in the medium term, namely: reforming the WTO; supporting the green transition and promoting responsible and sustainable value chains; supporting the digital transition and trade in services; strengthening the EU's regulatory impact; strengthening the EU's partnerships with neighbouring enlargement countries and Africa; and strengthening the EU's focus on the implementation and enforcement of trade agreements and ensuring a level playing field. Ultimately, these objectives should improve the current scheme of the different association agreements (AAs) that have been signed since the 1990s. More particularly, they should: improve the EU's investment structure in partner countries; boost these countries' export competitiveness; and make trade more inclusive by creating more jobs.

These AAs were mainly focused on tariff removal, without really addressing non-tariff measures and the nexus between trade and industrial policies. This is why such agreements led broadly to a significant liberalization with a tangible deep integration between the two shores of the Mediterranean. Moreover, as argued by Aboushady et al. (2018), cooperation between the shores of the Mediterranean was more focused on stability, peace and security rather than improving the structure of exports and boosting industrial policies. This is why neither exports of these countries nor their foreign direct investment (FDI) structure have changed two decades after signing these AAs.

Against this background, the objective of this article is twofold. First, it provides an overview of the current AAs and their effect on trade and investment. Second, it analyses to what extent the new objectives can address the main drawbacks of the AAs. The remainder of the article is as follows: first, a brief overview of the main trade agreements on the South Shore of the Mediterranean is presented; the next section presents the main challenges facing these association agreements; and the last section concludes and provides some policy recommendations for moving forwards.

An Overview of Euro-Mediterranean Integration

In 1995, the Barcelona Process was launched with the aim of strengthening the political, economic and cultural relations between Europe and the southern Mediterranean countries. In this context, the EU signed several AAs with countries of the South Shore, as shown in Table 3. This article focuses chiefly on Algeria, Egypt, Israel, Jordan, Lebanon, Morocco and Tunisia, given that Palestine's AA is interim and Syria's never entered into force. As these AAs focused primarily on tariff liberalization, we first analyse the structure and recent evolution of merchandise trade. Furthermore, we examine bilateral trade in services and foreign direct investment between the two shores of the Mediterranean.

Table 4 presents the recent evolution of exports and imports between the EU27 and South-Med. Three aspects are worth mentioning. First, these countries are net importers from the EU27, which always have

TABLE 3	Association Agreements between the EU and the Southern Shore of the Mediterranean

Country	Status	Date signed	Entry into Force
Algeria	Signed	Apr. 2002	Sep. 2005
Egypt	Signed	Jun. 2001	Jun. 2004
Israel	Signed	Nov. 1995	Jun. 2000
Jordan	Signed	Nov. 1997	May 2002
Lebanon	Signed	Jun. 2002	Apr. 2006
Morocco	Signed	Feb. 1996	Mar. 2000
Palestine	Signed	Feb. 1997	Interim Agreement July 1997
Syria		Initiated (December 2008)	
Tunisia	Signed	Jul-95	Mar-98

Source: Author's own work, based on the European Commission dataset.

TABLE 4	Trade Overview of EU27 with South-Med (billion EUR)

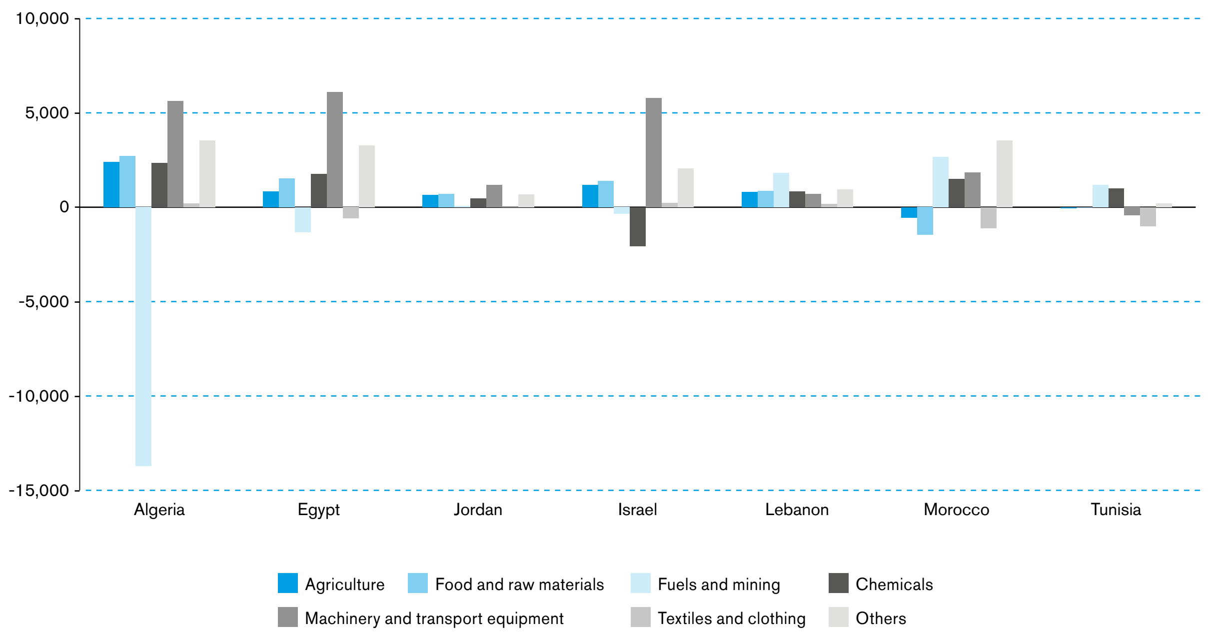
	Imports		Exports		Balance	
	2019	2020	2019	2020	2019	2020
Algeria	16.2	11.4	16.9	13.5	0.7	2.1
Egypt	8.3	6.4	19.0	18.1	10.7	11.8
Jordan	0.3	0.4	3.4	3.0	3.1	2.6
Israel	13.1	11.5	20.1	19.5	7.0	8.0
Lebanon	0.4	0.4	5.8	4.1	5.3	3.6
Morocco	16.3	15.1	23.3	20.1	7.0	4.9
Tunisia	10.0	8.6	10.9	8.8	0.9	0.1

Source: Author's own work, based on the European Commission dataset.

a positive trade balance with these countries. Second, both exports and imports of the EU27 to and from these countries have decreased with the pandemic, which affected demand in the countries of destination (lower incomes decreasing the demand for imports coming from the EU) and supply in countries of origin (social distancing measures reducing the supply of exports coming from the EU). Third, there is considerable heterogeneity across South-Med countries in terms of the value of exports and imports with Morocco, Israel, Egypt and Algeria being the most important destinations of EU products and smaller countries (Lebanon, Jordan and Tunisia) with lower values of trade flows.

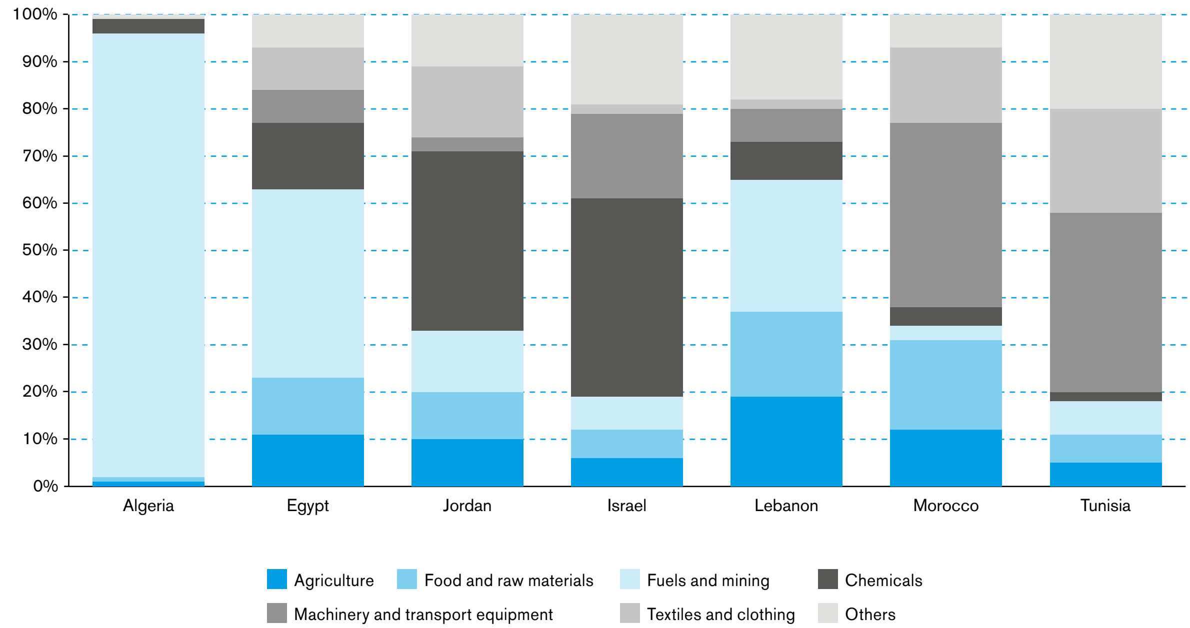
Yet, this aggregation hides a lot of heterogeneity at the sectoral level. Chart 2 shows the trade balance between the EU27 and South-Med countries for the main traded sectors. The positive trade balance of the EU holds for most of the products, with the exception of fuel and mining with Algeria, Egypt and, to a lesser extent, Israel, chemicals with Israel, and agriculture and food with both Morocco and Tunisia. Charts 3 and 4, however, show the share of these sectors for our countries of interest. EU imports from Algeria are chiefly dominated by oil (95% of Algeria's merchandise exports to the EU27). This

CHART 2 Trade Balance of EU27 with South-Med – 2019 – by Sector (million EUR)



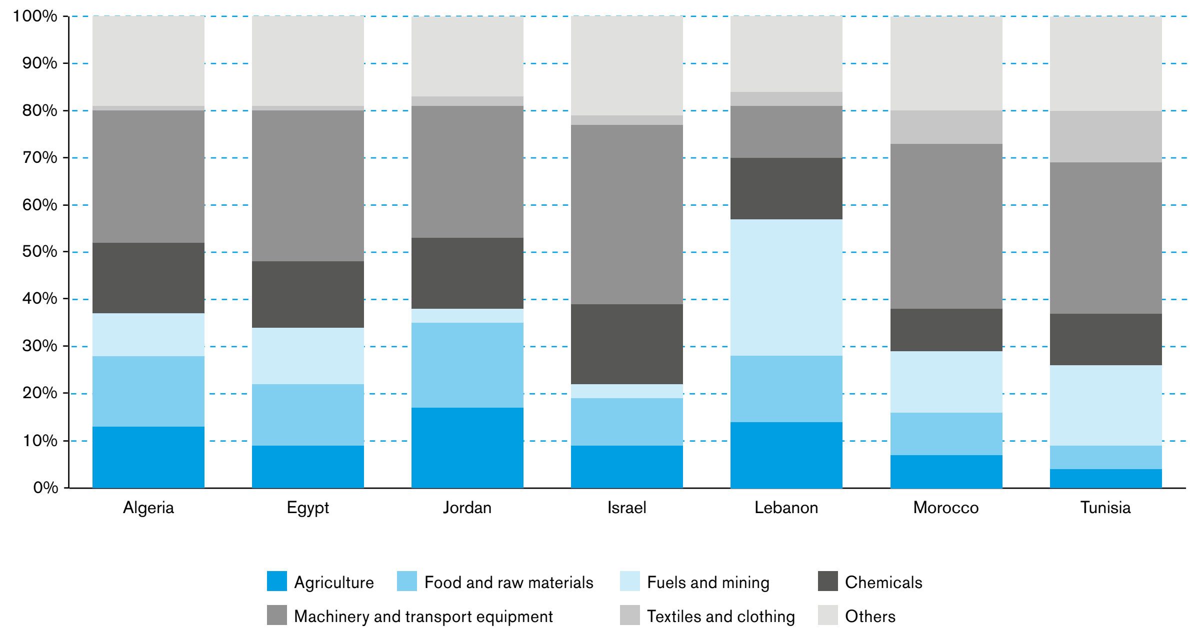
Source: Author's own work, based on the European Commission dataset.

CHART 3 **Imports of EU27 from South-Med – 2019 – by Sector (%)**



Source: Author's own work, based on the European Commission dataset.

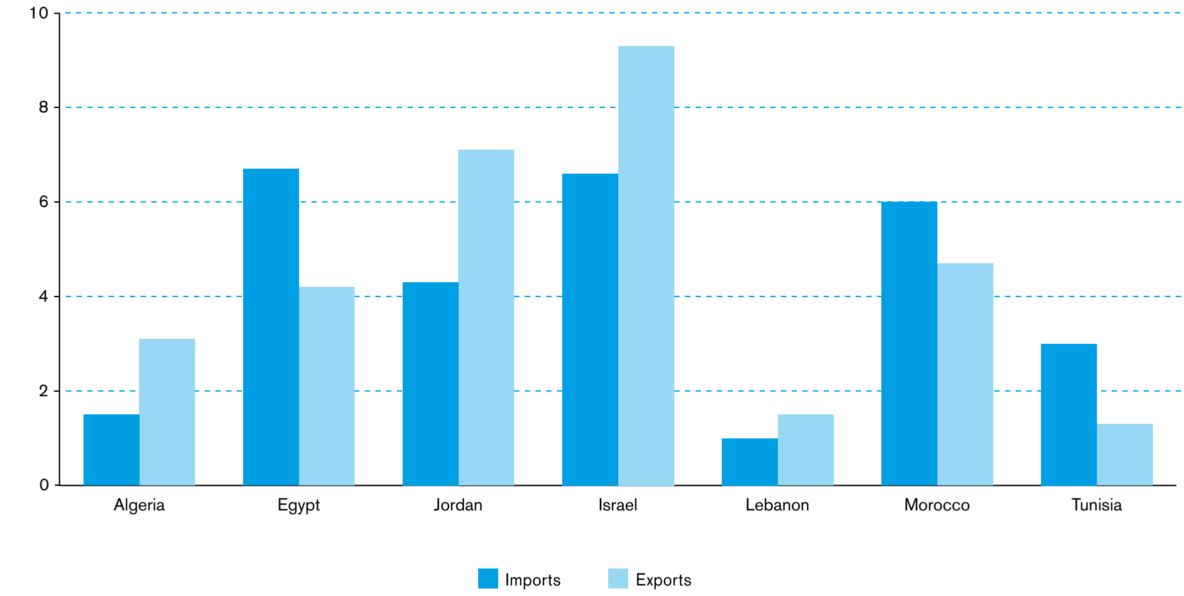
CHART 4 **Exports of EU27 to South-Med – 2019 – by Sector (%)**



Source: Author's own work, based on the European Commission dataset.

holds also for Egypt, since 41% of its exports to the EU are concentrated in fuel and mining, followed by chemicals and food. Jordan and Israel export mainly chemicals to the EU (39% and 42% of their merchandise exports to the EU). Finally, Morocco and Tunisia are rather different since the EU27 import machinery and equipment from both countries (39% and 38%), followed by food from Morocco (19%) and textiles and ready-made garments from Tunisia (22%).

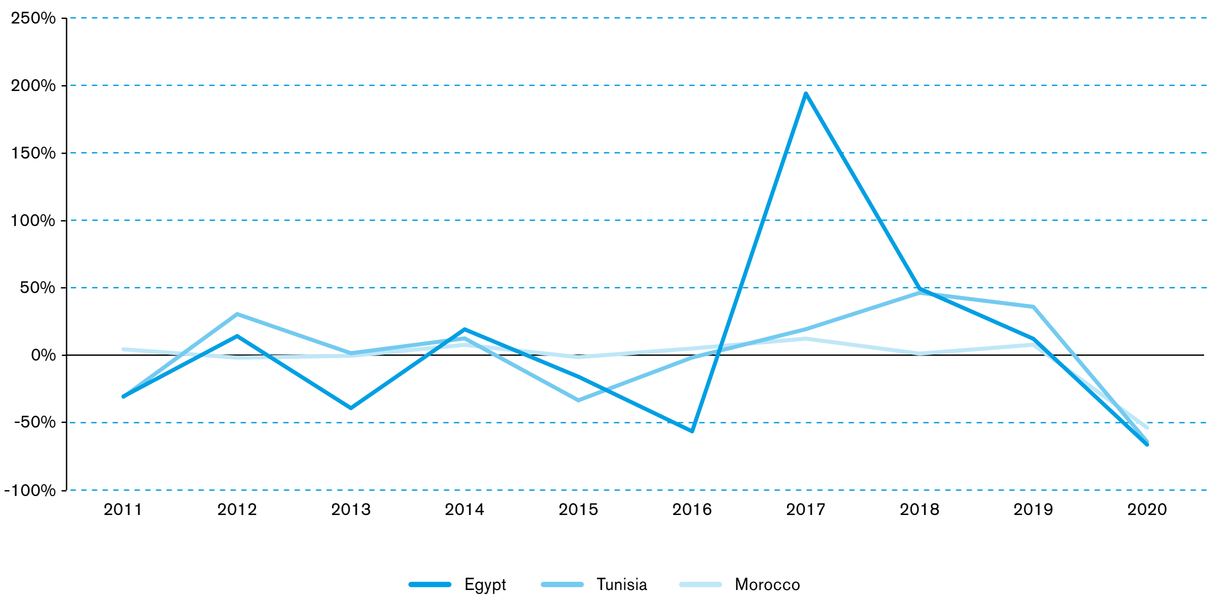
CHART 5 **Exports and Imports of Services of EU27 to and from South-Med – (2019 – billion EUR)**



Source: Author's own work, based on the European Commission dataset.

Yet, Chart 4 shows that exports of the EU to these countries are mainly machinery and transport equipment (on average 30% of total exports to these countries), followed by chemicals, and food and raw materials. Obviously, this shows to what extent, with the exception of Tunisia and Morocco, most of the South-Med exports to the EU are somewhat concentrated in traditional sectors, confirming the fact that these AAs did not help South-Med countries upgrade their exports of more complex products.

CHART 6 **Evolution of Tourism Receipts (%) 2011-2020**



Source: Data compiled from each country's Central Bank website.

While, at the goods level, the EU27 have a positive trade balance with South-Med, for services, the picture is slightly different. Indeed, the EU has a negative trade balance with Egypt, Morocco and Tunisia in services and a positive one with Algeria, Jordan, Israel and Lebanon. Egypt, Morocco and Tunisia primarily export tourism and telecommunication services to the EU. However, it is important to note that, while these services are labour-intensive, they are very sensitive to external shocks, especially tourism, which was negatively affected by the pandemic in these countries (see Chart 6).

Finally, at the FDI level, the EU is a net investor in these countries, except Lebanon and Israel. It is important to note also that most of this FDI is concentrated either in services or in the oil sector with a negligible share in the manufacturing sector. This structure has three main implications. First, given that oil is capital intensive, it does not generate jobs. Second, since this sector is rather extractive, it does not lead to technology transfer or to the improvement of manufactured products. Third, since this sector relies on oil extraction (which has a low value added), there is no room for developing a value chain, especially with small and medium enterprises (Zaki, 2021). Moreover, and as mentioned previously, while the service sector is labour-intensive, it remains relatively protected and regulated in these countries, as confirmed by Chart 8, which shows that MENA countries in general have a higher service trade restrictiveness index compared to other emerging regions.

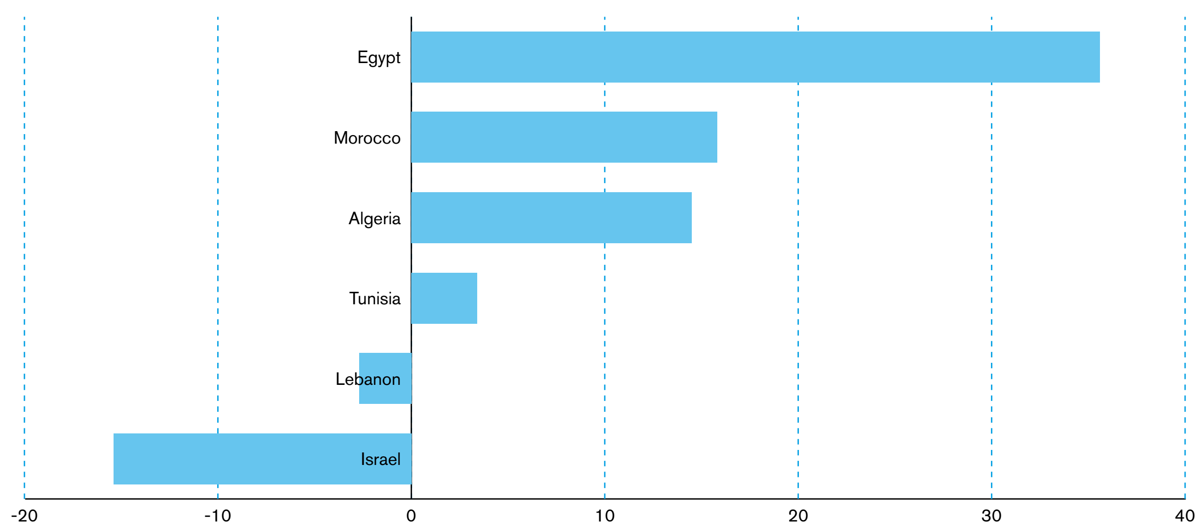
In a nutshell, the EU's AAs with South-Med countries did not succeed in helping the latter upgrade their exports, which remained relatively concentrated in traditional sectors. This trend has been exacerbated by the FDI structure, which was focused largely on oil and services, with a negligible share in the manufacturing sector. Thus, the next section analyzes the main factors holding back integration.

What Is at Stake?

Costly Non-Tariff Measures

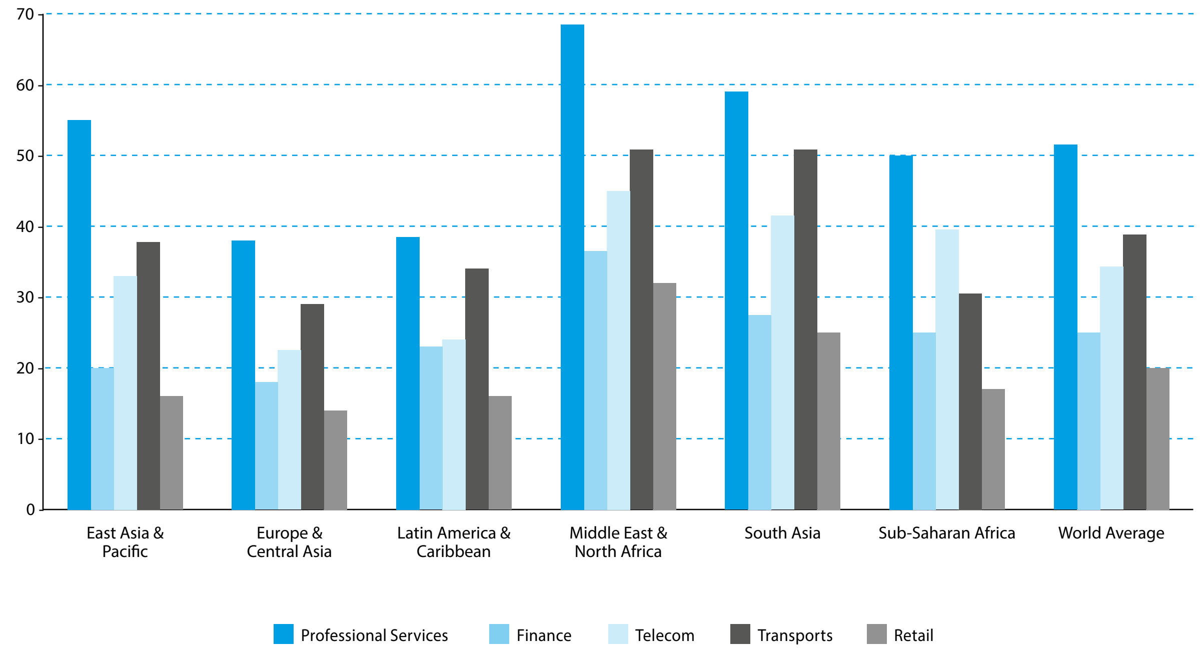
As previously mentioned, the AAs focused primarily on tariff liberalization, while neither non-tariff measures nor standards related to services were taken into consideration. This is why one of the factors that affects exports originating from South-Med countries is the protectionist effect of non-tariff measures. Chart 9 compares three indices across the main players on a global level, namely, China, the EU and the US, for the most important non-tariff measures, which are sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT). SPS refers to biosecurity measures that are applied to pro-

CHART 7 **Net Stock of FDI of EU27 in South-Med – 2019 – billion EUR**



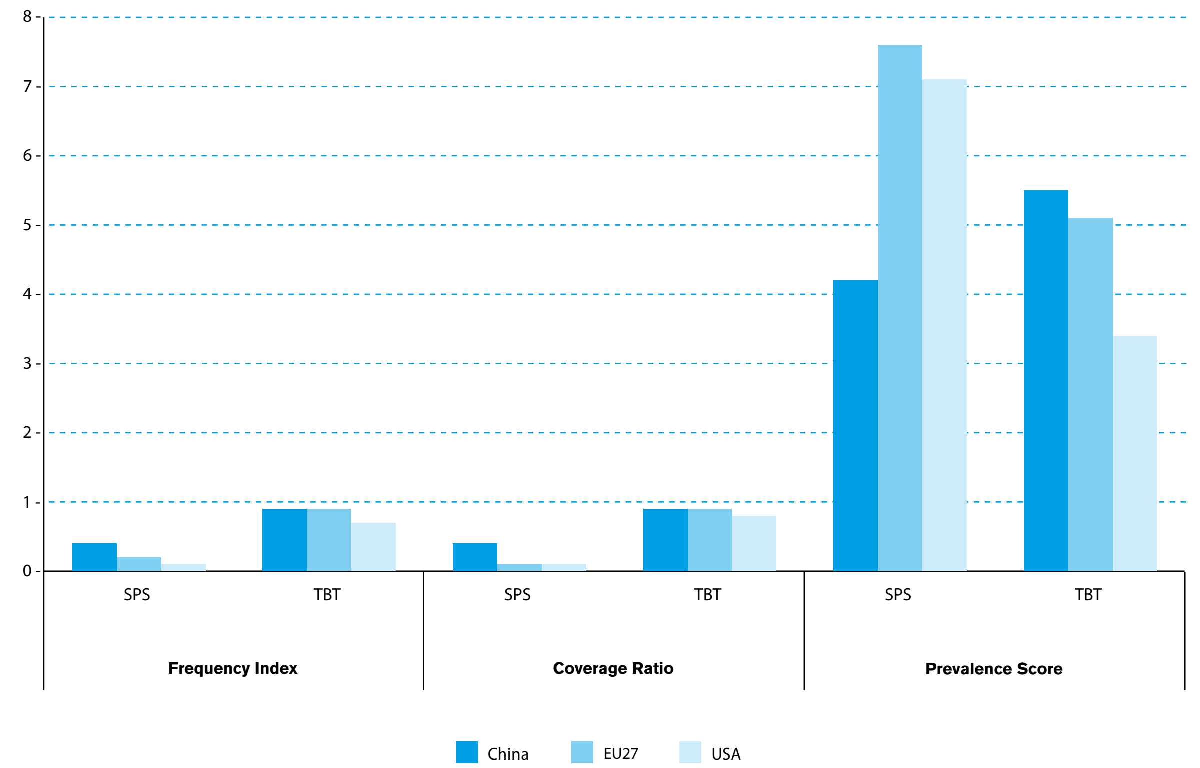
Source: Author's own work, based on the European Commission dataset.

CHART 8 **Service Trade Restrictiveness Index – 2014**



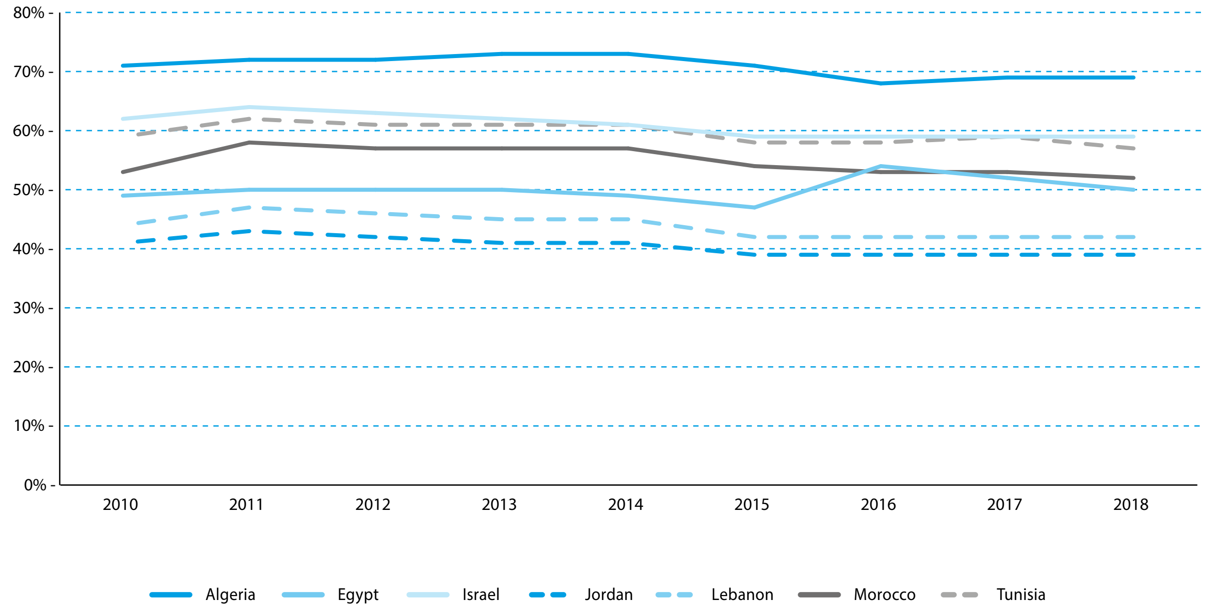
Source: Author's own work, based on data of Jafari et Tarr (2014).
Note: The STRI index ranges from 0 to 100, 100 being completely closed to foreign competition.

CHART 9 **Non-tariff Measures Indices – 2017**



Source: Author's own work, based on the UNCTAD dataset (2017).
Note: The frequency index (Fi) captures the share of products of country i covered by NTMs. (ii) Coverage ratio is the share of trade subject to NTMs for country i (or for a region), or a group of products. (iii) Prevalence counts how many measures apply to a given product. (iv). Coverage ratios and frequency indexes range between 0 and 1. The higher the index, the higher the incidence of non-tariff measures.

CHART 10 **Evolution of Trade-related Global Value Chains**



Source: Author's own work, based on the UNCTAD (2018) dataset.

tect human, animal or plant life or health from risks arising from pests, diseases, additives, toxins and contaminants in imported products. TBT are measures adopted by governments establishing product requirements, such as human health and safety, environmental protection, consumer information or quality. Chart 9 shows that the EU has the highest SPS prevalence score, which counts how many measures apply to a given product, compared to China and the USA. For TBT, this index is high but slightly lower than that of China. Moreover, 90% of EU trade is subject to TBT measures. Obviously, with complex and costly NTMs, exports from South-Med are not likely to comply with EU standards. This is why helping these countries comply with such measures is crucial to helping them upgrade and increase their exports (Augier and Gasiorek, 2013).

Low Level of GVCs

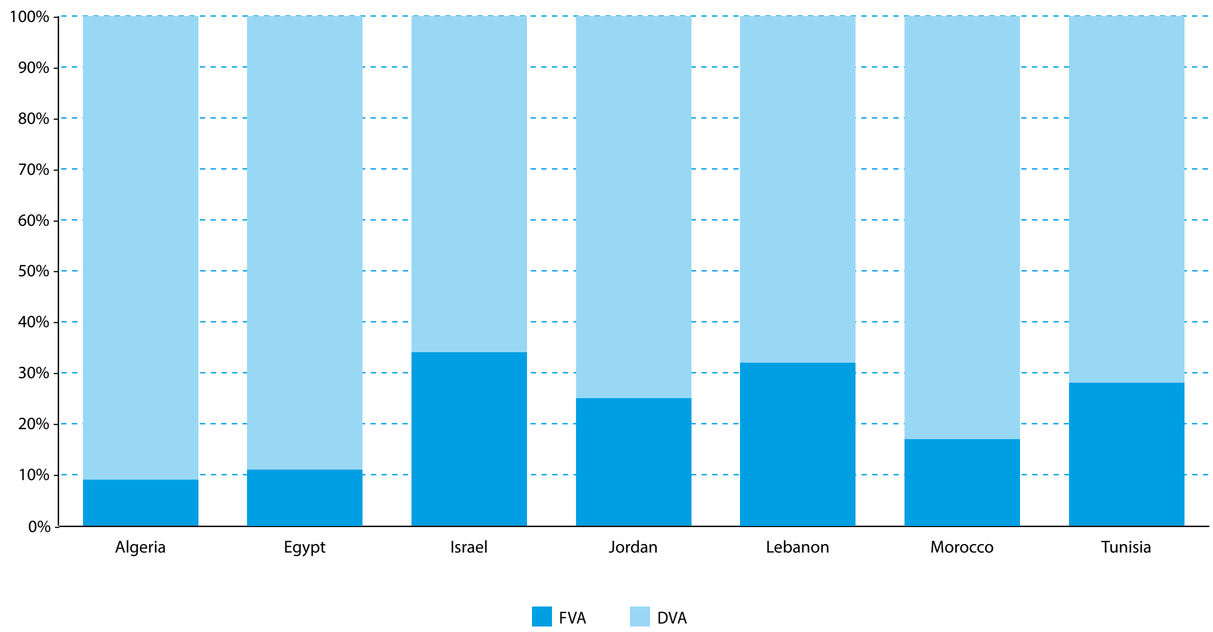
Because of the concentration of FDI in oil and primary sectors, EU investments did not help South-Med countries integrate into global and regional value chains (Aboushady and Zaki, 2021). Indeed, Chart 10 shows that the trade-related global value chains did not significantly change between 2010 and 2018 for all countries, while, in theory, South-Med should have experienced an increase in such trade given their integration with the EU. Chart 11, which compares the share of foreign and domestic value added, confirms this finding since the foreign component in the total value added is rather low in most of the countries, except Israel.

At the social level, these different developments led to mostly capital intensive, jobless exports. Moreover, female employment is also a serious component of socio-economic development, and was little addressed by the EU-Middle East Partnership (Aboushady and Zaki, 2021).

The Way Forward

In order to address these different drawbacks, the new strategy proposed by the EU Commission presents a new opportunity for the two shores of the Mediterranean to deepen their integration. More specifically, the aforementioned six objectives should: improve the investment structure of the EU in partner countries; boost their export competitiveness; and make trade more inclusive by creating more jobs. Table 5 summarizes how each measure proposed in the TPR can help to achieve such objectives.

CHART 11 **Share of Domestic (DVA) vs. Foreign (FVA) Value Added (%)**



Source: Author's own work, based on the UNCTAD (2018) dataset.
Note: Figures are averages over the period 2010-2018.

TABLE 5 **Towards a Renewed Integration**

	Investment	Competitiveness	Jobs
Reforming the WTO	Making the agreement on Trade-Related Investment Measures (TRIMS) more effective. Indeed, Shah (2017) shows that TRIMs have a significant positive effect on inward investment.	Restoring a fully-functioning WTO dispute settlement that will help South-Med have a credible stance for disputes that might erode their competitiveness because of unfair practices.	Mainstreaming development and social issues in trade policy through the multilateral system, given that, until now, the WTO has mainly dealt with trade policies and trade flows without considering the social implications of trade policy.
Supporting the green transition and promoting responsible and sustainable value chains	More investments in the manufacturing sector than in primary or oil sectors.	Therefore, more GVCs or regional value chains will be created increasing the competitiveness of exports coming from South-Med countries.	The manufacturing sector is largely more labour intensive which will lead to greater job creation.
Supporting the digital transition and trade in services	More EU-funded investment to improve the digital infrastructure of South-Med countries.	With the reliance of the manufacturing sector on services, such investments will improve the competitiveness of the manufacturing sector (Karam and Zaki, 2020).	However, in order to boost jobs, it is crucial to invest in the skills of workers of South-Med countries to help them cope with the digitalization currently taking place.
Strengthening the EU's regulatory impact	Helping countries reform their institutions, address non-tariff measures, and reduce the institutional gap between EU and South Med countries	Institutions are key to upgrade exports. Karam and Zaki (2019) show that high value added manufacturing products appear to be more sensitive to the institutional gap than low value added products.	Better institutions should help countries specialize in high value added manufacturing products, leading to greater job creation.
Strengthening the EU's partnerships with neighbouring enlargement countries and Africa	-	Working on more harmonization and collaboration between AAs and other free trade areas, especially the African Continental Free Trade Agreement (AfCFTA) to avoid any trade diversion because of different standards.	Therefore, with more harmonization, exports should be boosted leading to greater job creation.
Strengthening the EU's focus on implementation and enforcement of trade agreements and ensuring a level playing field	Deepening the agreement by addressing NTMs and developing regional value chains with South-Med countries will boost investment in these countries.	Given that NTMs are the most important impediment to exports of South-Med countries, if they are addressed, the competitiveness of these countries will increase.	Increasing competitiveness will increase exports and, therefore, jobs.

To conclude, while the EU's AAs helped countries to trade in goods, several reforms are needed from the EU's perspective to improve investment, competitiveness and job creation. Yet, from the South-Med side, improving the investment climate is a must in order to encourage more FDI in the manufacturing sector in general, and in high added value sectors in particular. Second, more focus on SMEs is needed in order to generate more jobs. Finally, having a clear industrial strategy linked to trade policy is vital to increase the positive effect of trade policy.

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