

Estratto da

**WHICH ROAD TO LIBERALISATION?
A FIRST ASSESSMENT OF THE EUROMED ASSOCIATION
AGREEMENTS**

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7. Conclusions and the identification of key issues for analysis

7.1 Introduction

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7.2 Broad assessment of the EMP

The main aim of the EMAAs is to spur economic growth in the MPCs, serving both EU and MPC security interests. Whether the EMAAs will succeed seems highly questionable, for four reasons:

- 1) the poor growth record of the MPCs has largely domestic causes;
- 2) the liberalisation in the EMAAs has a very limited scope;
- 3) the hub-and-spoke structure of the Euro-Mediterranean RTA; and,
- 4) contradictory EU policies, especially in agriculture.

7.2.1 Poor growth record

Given current levels of unemployment and population growth, increasing economic growth is vital for the MPCs. Their track record is, however, not promising, with growth lagging compared with countries that have similar endowments. Lagging economic growth in the MPCs is to a large extent a home-grown problem and can be attributed to the interplay of three factors:

- *Biased sources of foreign exchange.* Oil exports and remittances are important sources of foreign exchange for a number of countries. This distorts the economy towards non-traded sectors of the economy, reducing investments in the traded sector (the 'Dutch Disease').
- *High protection levels.* MPCs are among the most protected economies in the world, sheltering domestic firms from international competition. Combined with the focus on those non-traded sectors that are induced by inflows of non-trade foreign exchange, this resulted in a production structure that is not internationally competitive.
- *Strong state intervention.* MPC governments play an active role through a dominant presence of state enterprises and an over-staffed public sector that employs a large part of the labour force.

In summary, MPC economies have a highly protected production structure that is not internationally competitive, high government expenditures (partly financed by tariff revenues), high population growth and extensive unemployment.

Liberalisation in the context of the EMAAs, (especially in the current limited form) only targets one of these causes – high protection rates. More fundamental changes will be needed to put economic growth in the MPCs back on track. The EMAAs may aid increased economic growth. To capture the potential gains, effective domestic policy changes are needed, as well as complementary measures in a multilateral trade-setting.

7.2.2 *Limited scope of liberalisation*

Despite the broad intentions voiced in the Barcelona Declaration, the trading component of EMAAs provides for a liberalisation of trade in manufactured products by the MPCs in exchange for financial support through the MEDA programme and the European Investment Bank. These funds are meant to cover part of the adjustment costs of the highly protected MPC economies (actual disbursement of the funds is limited to 25% of the commitments).

Agriculture plays an important role in most countries, in terms of contributing to GDP as well as a source of employment. A more outward orientation of the economies may contribute to an increase in economic growth, but will require major changes in government spending and in production structures. Adjustment costs are high and may exceed the benefits of liberalisation in the short term.

Paradoxically, the distinguishing feature of the EMAAs – which is their reciprocal nature – allows the EU to ask MPCs to open their (highly protected) manufacturing markets, while keeping the MPCs' agricultural and other 'sensitive' products out of its own market. In fact, for industrial products the EU market has already been largely open since the agreements of the 1970s, while agriculture and a few other labour intensive production sectors are treated as 'exceptions'.

The agreements do not include specific timetables for liberalising agriculture, investments or services. Liberalisation for these sectors is *de facto* out of reach in the near future. With respect to agriculture, the general consensus is that the EU is not granting any noteworthy new concessions. With respect to investments, most MPCs restrict foreign investments and seem reluctant to liberalise. As for services, the current political landscape in Europe does not seem to favour liberalisation, which may involve (temporary) migration.

In summary, the EMAAs are asymmetric owing to the postponement of negotiations on difficult issues such as agriculture, investment, and migration. Short-term effects on MPCs are limited and can even be negative, reducing the incentives for continuing liberalisation. Long-term gains could be significant if MPC economies are able to adjust to the increased competition.

7.2.3 *The hub-and-spoke structure of the Euro-Mediterranean RTA*

The EMAAs are bilateral agreements between the EU and individual MPCs, and do not include provisions for agreements among MPCs. In practice, the EMAAs result in a hub-and-spoke RTA mainly benefiting the EU, and are still far from achieving the deep integration envisioned in the Barcelona Declaration.

In order to create a Mediterranean free-trade area the MPCs will need to negotiate bilateral agreements among themselves. The Greater Arab Free Trade Area (GAFTA) seems a potential structure for arriving at such an expanded free-trade area. Among the Arab countries that signed GAFTA are seven MPCs: Algeria, Egypt, Jordan, Morocco, Lebanon, Syria and Tunisia. The Agadir agreement is another step towards regional integration.

Intra-regional trade levels are currently low in absolute terms. Whether they will increase if a Mediterranean free-trade area is established remains an open question. Econometric models based on gravity equations suggest that regional trade flows are at their ‘appropriate’ level. If a Mediterranean FTA balances the current strong orientation towards the EU, there may be scope for increased specialisation and trade.

A Mediterranean FTA is also necessary to compete with other FTAs (especially MERCOSUR) in attracting FDI. FDI flows to the MPCs are low and decreasing. In the absence of a Mediterranean FTA, the EMAAs may actually further decrease FDI. With the EMAAs in place, but lacking regional integration, companies can relocate to the EU and serve all of the MPCs from there. The economies of scale, coupled with the small size of the individual MPC economies, reinforce such a reduction of FDI in favour of investments in the EU.

7.2.4 Contradictory EU policies, especially in agriculture

As a whole, the treatment of agricultural trade appears to fall short of the liberalising project of the EMP and there are some contradictions between the objectives and policy instruments that the negotiating parties have agreed upon.

The MPCs are going to face problems with the prospect of opening up their economies, such as a fall in tariff revenues, international competition, sector adjustments and asymmetry in the pace of trading reform between agricultural sectors, as well as between the agricultural sectors as a whole when compared with other sectors.

On EU side, the *de facto* approach is in contrast with the set-up of an EMP technical and financial cooperation aimed at re-launching MPC agriculture. While MPCs are helped to rebuild their agricultural policies and improve their trade performance, EU agricultural markets remain substantially locked in the traditional protectionist framework. In addition, such an approach of protecting agriculture is in contrast with the prevailing EU member policies on immigration, since containing MPC agricultural growth compromises job creation in MPC agriculture and encourages migration.

In summary, despite an understanding of the links between trade liberalisation and other policies aimed at developing and integrating in the Mediterranean basin, actual trading preferences are not consistent with (and often conflict with) a number of other policy dimensions relevant to the EMP objectives.

Besides these policy contradictions within the EMP, the EU’s treatment of trade in the agricultural chapter of the current Mediterranean agreements shows two main shortfalls:

- the difficulty of pushing through sufficient trade concessions to effectively support the strengthening of the EU’s role in the Mediterranean;
- the weakness of the current protectionist framework for the purpose of supporting Mediterranean EU producers. While on EU fresh product markets (i.e. fruit and vegetables) non-price factors are becoming increasingly important for successful marketing, inward-looking trade policies keep dealing mainly with the cost and price factors of competitive advantage. In the long run, the lack of suitable structural policies – which deal with marketing systems, quality, and technologies for product management and delivery – may eventually displace many EU producers from the leading trade companies and operators (usually European as well), no matter the level of border protection.

7.3 Key issues for future analysis

As has been mentioned in section 6, there is a significant amount of research on the impact of the EMAAs on the MPCs and on the EU and its member countries. Based on the literature used for this study, a number of issues can be identified that seem relevant but are not covered by existing studies.

Non-tariff barriers

Liberalising trade may not be sufficient to offer MPCs access to European markets. Especially in horticultural markets a limited number of retailers pose demands (on grades, packaging, environmental conditions, certification and so on) that may not be met by MPC producers. Despite a comparative advantage in terms of labour costs and climate, some countries may not be able to gain access to EU markets, even if they become liberalised. Additional research on the structure of the EU market and the extent to which MPCs can meet its requirements could help in making the EMAAs more effective.

Trade barriers at the MPC side

The current study, as most studies on the EMP, is biased towards the (agricultural) trade barriers of the EU. The trade barriers erected by the MPCs have not been discussed in detail, mainly since limited information is available. In order to understand the scope for liberalisation, as well as its impact, a more detailed understanding of the protection on the MPC side (tariffs, non-tariff barriers and subsidies) would be useful. Apart from analysing specific trade barriers such as tariffs and quotas in more detail, the impact of lengthy and uncertain custom procedures seems to strongly affect trade in the region. This affects both EU exporters and those MPC producers willing to export.

Distribution of benefits among MPCs

Differences in the pace of signing and implementing the EMAAs and in the institutional and structural features of MPCs will result in an uneven distribution of the benefits and costs of the liberalisations. This effect will be stronger if a Mediterranean FTA is negotiated. The agglomeration of activities in a few countries may actually increase tensions in the region. Existing studies focus on a single country or assume that the agreements are implemented simultaneously in all countries.

Linking the eastward and southward expansion of the EU

The interests of producers in southern EU states play an important role in the virtual absence of agricultural concessions in the EMAAs. The eastward expansion of the EU may offer a window of opportunity for opening EU agricultural markets. The expansion of the markets will reduce the negative impact of the liberalisation (dividing additional income is easier than redistributing current income) and make it more palatable to southern EU producers.

Local effects on EU countries

Most studies indicate a limited aggregate impact of the EMAAs on the EU, even with full liberalisation. Local effects on specific regions, especially in the southern EU states can be significant. Estimates of these local effects seem to be missing in existing studies.

Cross-border initiatives

The establishment of 'growth triangles' that combine the different factor endowments of neighbouring countries may be an interesting option, from an economic as well as a political point of view. The large differences in the resource endowments between Israel and its Arab neighbours seem promising for increasing the stability in the region. Research into the possibility and feasibility of such triangles could offer an alternative option for achieving (partly) the aims of the Barcelona Process.

Finally, it is notable that the direction of future research within ENARPRI seems to be the (non-exclusive) choice between studying marginal changes in agriculture (which could still have large local effects in particular regions in the EU and the MPCs) and broadening the scope to more general trade and development issues (such as the direct and indirect effects of opening the manufacturing markets in MPCs).