Euro-Mediterranean Partnership
State of affairs and key policy and research issues

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This study draws on a body of existing literature to take stock of the Euro-Mediterranean Partnership (EMP), which focuses on establishing a Mediterranean Free Trade Area. Despite considerable scope for reducing barriers on Mediterranean trade, current agreements are limited to a quasi-unilateral reduction of trade barriers for manufactured products by the Mediterranean Partner Countries. Next to the limited scope of the current liberalisation achieved by the Euro-Mediterranean Partnership, structural features of the MPCs limit the impact of the trade liberalisation on their economic growth. To promote stability and economic growth at the Southern borders of the EU, coherence of EU trade and foreign policy is called for.

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Preface

Establishing a Mediterranean Free Trade Area through Association Agreements is a focal point of the Euro-Mediterranean relations. This study draws on existing literature to take stock of these Association Agreements, as well as identifying structural features of the Mediterranean economies hampering their growth. The study concludes by identifying policy and research issues in the light of the EU interests in stability and economic growth at its Southern border as part of a recently formulated common European security strategy.

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- Gerrit Meester (Chairman);
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- Henk Massink (International Affairs);
- Raymond Tans (International Affairs);
- Frits Vink (Agriculture);
- Herman van Wissen (Agricultural Counsel in Egypt);
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Summary

The September 11th attacks generated an increased interest in economic growth as a means of reducing the breeding ground for violent religious fundamentalism. In this spirit, the guidelines for a new common European security strategy call for a ring of stable countries around the EU. At the Southern border stability and economic growth are to be promoted through the Euro-Mediterranean Partnership (EMP). The EMP consists of two components: Association Agreements aimed at establishing a Mediterranean Free Trade area (FTA) and MEDA funds to support restructuring of MPC economies. Based on existing literature, this study takes stock of the progress made towards a Mediterranean FTA and it identifies structural features of Mediterranean Partner Countries (MPCs) hampering economic growth.

The main focus of the EMP, serving interests of both EU and MPCs, is to promote economic growth in the MPCs through a Mediterranean FTA. Whether this aim will be reached depends first of all on the amount of liberalisation achieved by the agreements. A second factor determining the effectiveness of the EMP is the importance of trade liberalisation, relative to other factors limiting economic growth in MPCs. If current levels of protection play only a minor role, little can be expected from the EMP in terms of promoting economic growth.

There seems ample scope for liberalisation of Mediterranean trade. Currently significant protection exists, across the board in the MPCs, while mainly in agriculture at the EU side. With this protection in place the EU is already a major destination for MPC exports and major origin for MPC imports. Reduction of trade barriers can thus be expected to have a significant impact on Mediterranean trade flows. The liberalisation achieved through the EMP is, however, limited. Some concessions are made, but the general consensus is that not much can be expected in terms of agricultural concessions from the EU. A new feature of the EMP is the reciprocal character of the preferences, requiring a reduction in the high current protection levels of the MPCs. Sizeable reductions in protection will require a major restructuring of their economies, and will not be easy to achieve. This concern is also reflected in the availability of EU funds to facilitate restructuring.

The still fast growing labour force in the MPCs necessitates an accelerating economic growth. The track record of the MPCs is not promising, growth rates have been lagging compared to other regions, due an inflow of foreign exchange from oil and remittances, high protection levels and high state interference. State intervention in the agricultural sector also has been high, through price interventions, quotas and tariffs.

Historically MPCs have had high levels of protection and diverted from the global trend towards more open policies. In addition to restrictive trade policies there is still a hefty government intervention in the MPC economies. It seems more feasible in the short run to reduce the indirect distortions of the economy than reducing trade barriers. Two major reasons for the reluctance to reduce trade barriers is the bloated public sector and the lack of international competitiveness of MPC producers. Liberalising trade would reduce government income and may wipe out a large part of the MPC production, both of which

may result in massive social unrest. Given past trends and the current economic context in the MPCs, the reciprocal trade liberalisation implied by establishing a FTA seems unlikely to materialise.

Based on the assessment of the EMP, three policy issues are identified:

- coordinate domestic and foreign policy interests of the EU;
- design (trade) policies to support structural changes in the MPCs;
- promote South-South integration among MPCs.

To support formulation of policies that account for the political and economic reality at both the EU and MPC side, the following research issues are identified:

- analyse the extent and impact of non-trade barriers on trade flows;
- analyse ways in which liberalisation of trade with EU can contribute to economic growth in the MPCs;
- analyse the regional distribution of costs and benefits between Northern and Southern EU member states and the opportunities offered by the recent eastward expansion of the EU;
- analyse the impact of trade liberalisation on migration flows.

1. Aim and scope

After the Barcelona meeting in 1995, the EU and its Mediterranean Partner Countries (MPCs) engaged into an ambitious venture of increased economic, political and social co-operation through Euro-Mediterranean Association Agreements and financial cooperation. Ambitions in terms of economic cooperation were especially high, aiming at a Free Trade Area (FTA) by 2010. This should create an area of shared prosperity, fostering peace and stability in this turbulent area.

The September 11th attacks generated an increased interest in promoting economic growth as a means of reducing the breeding ground for violent religious fundamentalism. In this spirit, the guidelines for a new common European security strategy calls for the promotion of a ring of well-governed countries around the EU, making explicit references to the Mediterranean countries (Solana, 2003:8):

> 'The European Union's interests require a continued engagement with Mediterranean partners, through more effective economic, security and cultural cooperation in the framework of the Barcelona process.'

Following September 11th, not only Europe has increased its attention for the Mediterranean countries. The United States also intensified its activities in the area, as part of a set of Presidential initiatives to promote security interests through development. Given the renewed interest in promoting development in the Mediterranean countries, it seems an appropriate time to take stock of the past achievements made by the Euro-Mediterranean Partnership (EMP).

The aim of this study is to provide a first assessment of the impact of the EMP. First the current state of the negotiations, and a short summary of the two components of EMP is provided. Based on this discussion three main factors are identified that affect the impact of the EMP on economic growth in the MPCs: amount of liberalisation achieved by the EMP, factors affecting economic growth in MPCs, and factors affecting trade liberalisation by the MPCs. Based on this discussion a first assessment of the EMP is made and key policy and research issues are identified.

2. Euro-Mediterranean Partnership (EMP)

At the Barcelona Conference in 1995 the EU revived its involvement in the Mediterranean area by launching the Euro-Mediterranean Partnership (EMP) with twelve Mediterranean Partner Countries (MPCs): Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestinian Territories, Syria, Tunisia and Turkey. Libya has recently been invited to join the Barcelona process. Cyprus, Malta and Turkey are on a path towards full-fledged membership of the EU, and current agreements with the EU move far beyond the agreements with the other MPCs. Since the Association Agreements with the other MPCs do not aim at EU membership, the EU-candidate countries are not included in this study.

The EMP is divided in two components: Association Agreements aimed at liberalisation and cooperation in different areas, and financial support provided through MEDA and the European Investment Bank.

2.1 Euro-Mediterranean Association Agreements

The first part of Table 2.1 summarises the current state of the Euro-Mediterranean Association agreements. With all countries association agreements have been signed, except for Syria with which negotiations are ongoing. Trade preferences that may be granted are bound by rules for WTO members, Table 2.1 therefore indicates WTO membership of the MPCs.

Table 2.1 EMAAs, WTO, GAFTA and Agadir membership of MPCs

	EMAA		*WTO*	*GAFTA*	*Agadir*
	Signed	*Effective*	*Member*		
Tunisia	1995	1998	1995	1998	2003
Israel	1995	2000	1995	-	
Morocco	1996	2000	1995	1998	2003
Palestinian Territories	1997	1997 a)	-	-	
Jordan	1997	2002	2000	1998	2003
Egypt	2001	2004	1995	1998	2003
Algeria	2002	- b)	observer	1998	
Lebanon	2002	- c)	observer	1998	
Syria	-	- d)	-	1998	

a) Agreements with the Palestinian Territories are an interim agreement; b) Ratification of agreement with Algeria is pending; c) With Lebanon an Interim agreement is in force since March 2003; d) Negotiations with Syria are ongoing since 1997.
Note: Libya is an observer until UN sanctions are lifted.
Source: EU Commission (europa.eu.int/comm/external_relations/euromed/index.htm), European Commission (European Commission, 2003), WTO (www.wto.org).

Establishment of a FTA implies South-South integration as well. The EMAAs, however, are bilateral agreements between MPCs and the EU, and thus do not cover South-South liberalisation. Two possible avenues to such liberalisation are the (revived) GAFTA, and the recently negotiated Agadir agreement. Membership of these agreements is indicated in the last two columns of Table 2.1.

Although details of agreements differ across MPCs, the EMAAs share a number of common themes:

- political dialogue;
- respect for human rights and democracy;
- establishment of WTO-compatible free trade over a transitional period of up to 12 years;
- provisions relating to intellectual property, services, public procurement, competition rules, state aids and monopolies ('deep integration');
- economic cooperation in a wide range of sectors;
- cooperation relating to social affairs and migration (including re-admission of illegal immigrants);
- cultural cooperation.

Given this wide coverage, full implementation of the agreements would have a considerable impact on the (economic) relations between the EU and MPCs.

With the ambitious goal of creating a Mediterranean FTA by 2010[1], concessions on manufacturing goods provide for a well-defined, progressive tariff dismantling over a time span of twelve to sixteen years. Agricultural trade is to be gradually liberalised, on the basis of traditional trade flows, through periodical revisions of agricultural protocols. The process must be consistent with national agricultural policies and results of WTO negotiations. For services, the commitment is to abide by the results of multilateral negotiation (GATS).

A major difference with agreements from the 1970s is the reciprocity of the EMAAs. Earlier agreements, apart from the case of Israel, provided for unilateral concessions by the EU. As a result a good share of MPC manufacturing exports already have unrestricted access to EU markets through previous co-operation agreements. The industrial trade preferences of the EMAAs are thus in practice quasi-unilateral favouring the EU. Reciprocity is not restricted to manufacturing, but also applies to agricultural products, entailing a new commitment by MPC to introduce preferential measures favouring EU exporters.

Establishing a FTA would grant European exporters preferential access to MPC markets, giving them an edge over other competitors. In practice this advantage seems unlikely to materialise. The US is the main competitor of the EU in the Mediterranean region. The US has already free trade arrangements with Israel (since 1985), Jordan (since 2000) and recently signed one with Morocco. Furthermore, in line with security policies after September 11th, the US has launched a Middle East Trade Initiative in May 2003. This initiative mirrors the EMP, aiming at establishment of bilateral trade arrangements and

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[1] The reference to the deadline of 2010 might be better understood as an expression of political wills that should provide a common discipline to the contracting parties. As a matter of fact, trade protocols attached to EMAAs provide schedules for tariff cuts that are not consistent with such a time target. Due to the usually very long process of negotiation and ratification of the agreements, only the EMAA with Tunisia shows a calendar of liberalisation fully compatible with the 2010 deadline.

general support for more outward oriented policies in the Middle East and North Africa. The overall aim is to establish a US - Middle East Free Trade Area within a decade, i.e. before 2013. Given the pace at which the US is moving, establishment of a European FTA with the MPCs would not give European producers an edge, but would only keep them at par with their US competitors.

2.2 Financial support through MEDA and the European Investment Bank

The second cornerstone of the EMP is a new modality of managing financial co-operation, based on an autonomous financial regime with a single budget for the whole Mediterranean area (MEDA).[1] MEDA I replaced previous five-year bilateral protocols, entailed a three-times increase in the financial support provided by the EU (4.6 billion euro from in 1995-99), and a notable enlargement of issues to be tackled. MEDA I has been succeeded by MEDA II, making available 5.35 billion euro over the period 2000-2006, while the program is incorporated in a larger process of restructuring EU cooperation towards development (European Commission, 2001).

MEDA is closely linked to the aim of creating a Mediterranean FTA. Funds are disbursed to improve economic and social policy making, as well as for direct budgetary support to facilitate structural adjustment programs (European Commission, 2003). A limited amount of the MEDA interventions are meant to support rural development (technical assistance, training, product diversification, environmental and social protection measures).

During the time span covered by MEDA I (1995-99) about 86% of the funds have been committed to bilateral co-operation regarding structural adjustment (15%), economic transition support (30%), socio-economic balance support (29%), environment (7%), a rural development (5%). Actual MEDA payments, however, have been much lower than commitments (only 26%), due both to the length of the implementation period for some projects, and due to negotiating controversies as well as cumbersome procedures for project approval and management.

In addition to the MEDA funds the European Investment bank (EIB) has launched a Euro-Mediterranean Investment Facility in October 2002, encompassing all EIB lending to the Mediterranean. The fund disbursed by the EIB aim at promoting private sector development. The lending portfolio of 9 billion euro has been supplemented by an additional 8 to 10 billion (up to 2006) when the Facility was launched.

To place the financial contributions of the EU in the MPCs into perspective, Table 2.2 summarises the grants provided by the US during the period of MEDA I. The USAID grants are only part of the financial support by the US to MPCs. In addition, to these grants there are general loans and specific programs, like food for peace programs or military assistance.

[1] Reg. (EC) n. 1488/96 and Reg. (EC) n. 2698/2000 (MEDA II).

Table 2.2 MEDA I funds and USAID grants in the period 1995-1999

MEDA I		4.6 a)
USAID grants		11.1 b)
USAID by country (%)	Algeria	0
	Egypt	39
	Israel	53
	Jordan	4
	Lebanon	0
	Morocco	1
	Syria	0
	Tunisia	0
	West Bank and Gaza	3

a) Euro billion.
b) USD billion.
Source: USAID Green Book (2003), qesdb.cdie.org/gbk/index.html.

The first thing to note is that in terms of general grants the US spends already more than twice as much in the region as the EU. The second observation from Table 2.2 is that the majority of the money (92 percent) flows to just two countries, Israel and Egypt. This distribution reflects the political interests of the US in the region. In this context is also worth mentioning that following September 11th the US has closely linked its development assistance to security concerns. For the period 2004-2009 the strategic plan for the US Agency for international development is a combined document with the US Department of State.

2.3 Summarising the Euro-Mediterranean Partnership

Despite the wide scope of EMAAs, the centre of gravity of the EMP is the establishment of a Mediterranean FTA. The implicit assumption seems that increased trade fosters growth of the MPC economies. The aims of the EU seem to be both broad and long term (promoting political stability at its Southern border through increased welfare) as well as more narrow and short term (unrestricted access for EU manufacturing exports to MPC markets). The absence of well-defined schedules for abolishing protection on agricultural trade also reflects narrow short-term interests of the EU.

Short-term interests of the MPCs are first of all the additional funds provided through MEDA and the EIB. Full implementation of the agreements implies a major, possibly socially disruptive, restructuring of their economies. This feature of the EMAAs is clearly acknowledged by the specific allocation of MEDA funds to facilitate the transition. Since the MPCs already have unrestricted access for their manufacturing exports to the EU, their short and long term interests seems liberalisation of access to EU markets for their agricultural exports.

The main aim of the EMP, serving the interests of both EU and MPCs, is to promote economic growth. The main instrument for achieving this is to establish a Mediterranean FTA. Whether this aim will be reached depends first of all on the amount of liberalisation achieved by the agreements. A second factor determining the effectiveness of the EMP is the importance of trade liberalisation, relative to other factors limiting economic growth in MPCs. If current levels of protection play only a minor role, little can be expected from the EMP in terms of promoting economic growth.

The remainder of this study looks at the three factors affecting the impact of the EMP on economic growth in MPCs: amount of liberalisation in the EMP, main factors affecting economic growth in MPCs, and the factors affecting liberalisation by the MPCs.

3. Liberalisation in the EMP

Three elements play a role when assessing the achievements of the EMP in liberalising trade: current patterns in protection, the current trade flows in the Mediterranean, and the amount of liberalisation achieved by the EMP.

3.1 A first look at current protection patterns

In order to establish the need and scope for liberalisation, an idea of the current protection levels affecting Mediterranean trade is needed. Figure 3.1 summarises the trade restrictiveness of MPCs and the EU.

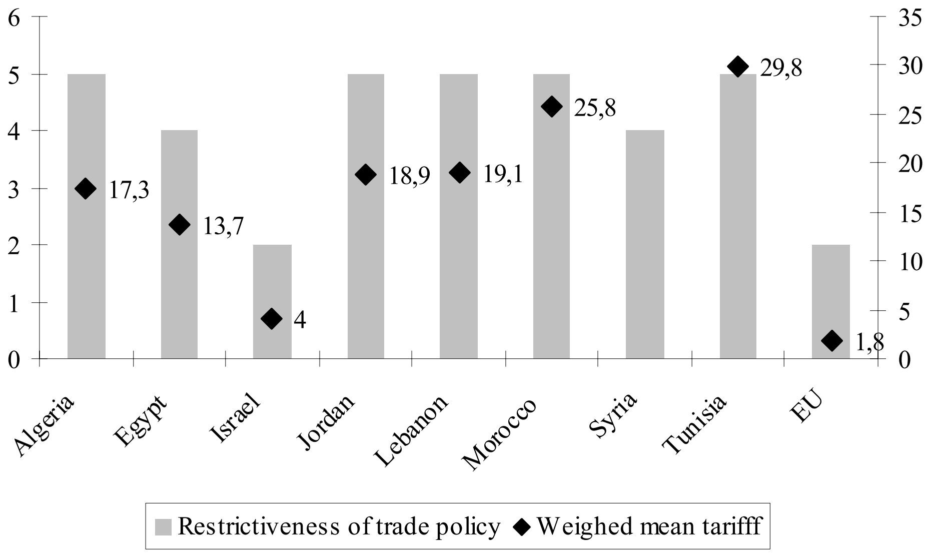

Figure 3.1 Trade restrictiveness and mean tariffs
Note: Restrictiveness index: less than 2 = free trade policy, between 4 and 5 is repressed trade policy.
Source: Heritage Foundation (Gwartney et al., 2003) World Bank Development Indicators (2002).

With the exception of Israel, all MPCs implement repressing trade policies, which is also reflected in high mean tariffs. The MPCs do not seem to follow the global trend of reducing trade protection, making it one of the most protective areas in the world (European Commission, 2003).

The numbers in Figure 3.1 refer to trade policies in general, obscuring the considerable protection of the EU on agricultural products. Agricultural trade policies towards MPCs are governed through a complex system of seasonal preferences for 'sensitive products'[1], restoring higher tariffs and entry prices for the majority of fresh fruit and vegetables in EU harvesting periods. The MPCs mirror this by protecting 'strategic products'.[2]

In summary, there is ample scope for liberalisation though the EMP. MPCs could strive for an across the board trade liberalisation, since their protection levels are well beyond global averages. For the EU, there is ample scope for simplifying and reducing protection on specific Mediterranean agricultural products.

3.2 Current trade flows

The impact of trade liberalisation in the Mediterranean region depends on the levels of trade. The EU is much larger than the MPCs combined, both in terms of population and sise of the economy. The MPCs are only a minor trading partner for the EU, while the EU is a major trading partner for the MPCs (about 50 percent of MPC trade is with the EU). The discussion of trade patterns is therefore from the perspective of the MPCs. Since the aim of the EMP is to intensify trade relations in the Mediterranean region, the trade data are broken down by region.

Table 3.1 Export from MPCs (totals and shares by destination)

	2000-201	Shares (%)				1995	Shares (%)			
	(USD 10^6)	EU	MPC	US	ROW	(USD 10^6)	EU	MPC	US	ROW
MPC	77754	48	2	21	29	44116	48	3	18	31
Algeria	22031	63	1	16	20	9357	65	2	17	16
Egypt	4165	31	9	8	52	3444	46	11	15	28
Israel	31407	27	0	37	36	19047	32	0	30	38
Jordan	1433	4	15	10	71	1432	6	8	1	85
Lebanon	802	20	12	7	61	642 a)	23	13	6	58
Morocco	7432	75	1	3	21	4719	62	3	3	32
Syria	4634	66	6	1	27	n.a.	n.a.an.	n.a.	n.a.	n.a.
Tunisia	5850	80	2	1	17	5475	79	5	1	15

a) For Lebanon data from 1997 were used.
Source: ITC/WTO data.

The dominant position of exports to the EU is immediately obvious, taking a constant share of 48 percent of exports both in 2000/2001 and in 1995. The (anticipation) of the EMP thus does not seem to have led to an increasing share of exports to the EU. Interestingly enough, the constant share of the EU is due to high export levels from Morocco, Syria and Tunisia. The relative share of the EU in the exports of the other countries has been declining. Trade among MPCs also seems not affected by the EMP, showing a decrease from 1995 to 2000/2001 for all countries, except Jordan. Exports to the US, on the

[1] According to the Commission, 'sensitive' Mediterranean products are: tomatoes, olive oil, almonds, oranges, mandarins, lemons, grapes, melons, strawberries, flowers, potatoes, rice and wine (European Commission, 1997).
[2] The definition of 'strategic' products varies among MPCs, but the bulk of these product is made of staple food (cereals, meat and dairy products).

other hand, are stable or increasing for most MPCs. The aggregate data in Table 3.1 show that overall exports from the MPCs have increased, while relative shares of trade with the EU and among MCPs declined. Part of this is due to an increasing share of trade with the US, but most of it is with the rest of the world.

Table 3.2 Import from MPCs (totals and shares by destination)

	2000-201	Shares (%)				1995	Shares (%)			
	(USD 10^6)	EU	MPC	US	ROW	(USD 10^6)	EU	MPC	US	ROW
MPC	92765	46	2	13	39	78443	51	2	18	29
Algeria	9152	57	1	11	31	10782	59	3	17	21
Egypt	12756	30	1	14	55	11739	39	1	15	45
Israel	35742	43	0	19	38	28344	52	0	30	18
Jordan	4442	31	5	10	54	3696	33	5	1	61
Lebanon	6759	43	7	7	43	7438 a)	37	6	6	51
Morocco	11533	58	2	6	34	8540	56	3	3	38
Syria	3815	31	4	7	58	n.a.	n.a.	n.a.	n.a.	n.a.
Tunisia	8566	70	2	5	23	7903	71	4	1	24

a) For Lebanon data from 1997 were used.
Source: ITC/WTO data.

Exports only present one side of the trade story, Table 3.2 therefore looks at the pattern in imports. Comparing total imports to total exports reveals a continuing, albeit decreasing, trade deficit for all MPCs, except Syria. Comparing shares in imports between 200/2001 and 1995 shows that imports from all regions have decreased, indicating a diversification in the import pattern of the MPCs to the rest of the world.

Based on these aggregated data we can conclude that (anticipation of) the EMP has not led to an increased trade flow on in the Mediterranean. Instead, shares of the EU in imports and exports are declining, as is the amount of trade among MPCs. The relative share of exports to the US do show an increase. Despite the downward trend, the share of EU in imports and exports remains around 50 percent. This implies that liberalisation of trade with the EU could have a considerable impact on MPC economies.

The data above do not disaggregate trade in agricultural products. This being the area were liberalisation by the EU can be expected to have most impact, Table 3.3 and 3.4 present disaggregated agricultural trade data for the MPCs as a whole. Fruit and vegetables are the main agricultural export commodity from the MPCs (22 percent of total agricultural exports), of which 50 percent is destined for the EU. This is also the group of commodities for which EU protection is strongest. Cereals are the main agricultural import commodity (31 percent of agricultural imports), of which 28 percent is originating in the EU. The US are a larger supplier of cereals, accounting for 38 percent of imports.

Across all agricultural commodities, both imported and exported, the EU takes the largest share. Liberalisation of agricultural trade in both directions thus potentially has a large impact on the trade flows in the Mediterranean. Given the trade patterns in Table 3.3 and Table 3.4 liberalisation of agricultural trade of MPCs with the US would have a strong impact on the trade in cereals. How this affects the relative position of the EU depends on the amount of liberalisation achieved by the EMP.

3.3 Liberalisation achieved through the EMP

As far as establishing a FTA is concerned the absence of a defined perspective of liberalisation of agriculture must be stressed (EU, 1995, emphasis added):

> 'taking as a starting point traditional trade flows, and as far as the various agricultural policies allow and with due respect to the results achieved within the GATT negotiations, trade in agricultural products will be progressively liberalised through reciprocal preferential access among the parties.'

A rather sceptical interpretation of the Barcelona Declaration is that there will be no liberalisation of agriculture, apart from commitments made within the GATT negotiations that cannot be withheld from most MPCs by the MFN principle. This interpretation seems to fit observed behaviour: there have been no significant new concessions of the EU for agricultural products in the EMAAs, nor are these expected to come about in the near future (Garcia-Alvarez-Coque, 2002:402).

For the MPCs a preferential treatment of imports from the EU is a brand new feature. Compared to EU concessions, MPC preferences are even more limited, both in terms of share of preferential over total trade flows and in terms of tariff reductions. Products concerned are largely staple foodstuff or 'continental' products.

Table 3.3 Value and destination of agricultural exports by MPCs (2000)

	Export composition		Destination (% by category)			
	(USD 10^6)	%	EU	MPC	US	Rest of world
Agricultural products	7872		37	2	16	45
Vegetables and fruit	1758	22	50	4	5	41
Cereals, cereal preprtns.	1337	17	8	0	60	32
Fish, crustaceans, mollusc	1199	15	63	2	2	33
Cork and wood	481	6	49	0	1	50
Fixed veg. fats and oils	404	5	48	1	8	44
Crude animal, veg.materl.	401	5	66	3	10	21
Animal feed stuff	389	5	10	5	38	47
Tobacco, tobacco manufact	299	4	18	2	6	75
Live animals	286	4	3	0	0	96
Misc.edible products etc	240	3	37	2	5	56
Coffee, tea, cocoa, spices	228	3	12	6	8	75
Meat, meat preparations	212	3	19	0	16	65
Dairy products,bird eggs	196	2	33	1	2	65
Oil seed, oleaginus fruit	170	2	15	1	31	53
Sugar, sugr.preptns, honey	167	2	29	2	2	67
Beverages	63	1	48	1	7	43
Animal, veg.fats, oils, nes	26	0	9	9	5	77
Hides, skins, furskins, raw	14	0	58	7	0	36
Animal oils and fats	3	0	16	0	11	73

Note: for Egypt data from 2001 were used.
Source: ITC/WTO data.

Table 3.4 Value and origin of agricultural import by MPCs (2000)

	Export composition		Origin (% by category)			
	(USD 10^6)	%	EU	MPC	US	Rest of world
Agricultural products	14084		34	2	20	44
Cereals, cereal preprtns.	4363	31	28	0	38	33
Cork and wood	1147	8	48	0	2	49
Vegetables and fruit	1061	8	28	12	10	50
Dairy products, bird eggs	931	7	66	1	3	31
Animal feed stuff	858	6	18	3	33	46
Sugar, sugr.preptns, honey	827	6	59	1	1	40
Coffee, tea, cocoa, spices	737	5	15	2	2	81
Fixed veg. fats and oils	714	5	27	5	8	60
Tobacco, tobacco manufact	649	5	16	1	40	43
Misc.edible products etc	518	4	61	7	19	12
Oil seed, oleaginus fruit	497	4	17	0	37	45
Meat, meat preparations	472	3	15	0	7	78
Live animals	431	3	40	0	1	59
Fish, crustaceans, mollusc	387	3	30	7	6	57
Crude animal,veg.materl.	189	1	56	4	13	26
Animal, veg.fats, oils,nes	122	1	45	2	12	41
Beverages	95	1	78	1	5	16
Animal oils and fats	77	1	4	0	8	88
Hides, skins, furskins, raw	10	0	25	5	17	53

Note: for Egypt data from 2001 were used.
Source: ITC/WTO data.

In contrast to agricultural products, for manufacturing products time-frames for phasing out of protection are part of the EMAAs. Whether these will be followed remains an open question, most MPCs are not yet required to cut back protection. Tunisia is ahead of the other MPCs in reforming its economy, and was the first MPC to sign an EMAA. Tunisia has implemented a range of major reforms, except for abolishing trade barriers. If the liberalisation of manufactured goods was implemented overnight, one-third of the industrial firms would be go bankrupt. An adjustment program therefore has been implemented to prepare firms for the increased competition. The success of this program is limited and there is an increasing pressure on the government to pushback the deadline of 2008 for full liberalisation (Riess et al., 2001).

3.4 Summarising the liberalisation achieved by the EMP

Summarising, there seems to be ample scope for liberalisation to impact Mediterranean trade flows. Currently significant protection exists, across the board in the MPCs, while mainly in agriculture at the EU side. With this protection in place the EU is already a major destination for MPC exports and major origin for MPC imports. Reduction of trade barriers can thus be expected to have a significant impact on the trade flows. The liberalisation achieved through the EMP is, however, limited. Some concessions are made, but the general consensus is that not much can be expected in terms of agricultural concessions from the EU.

A new feature of the EMP is the reciprocal character of the preferences, requiring a reduction in the high current protection levels of the MPCs. Sizeable reductions in protection will require a major restructuring of their economies, and will not be easy to achieve as the example of Tunisia illustrates. This concern is also reflected in the availability of MEDA funds to facilitate restructuring.

Before turning in more detail to the patterns of protection at the MPC side, we first take a closer look at the structural features of the MPC economies. These features affect the impact of trade liberalisation on economic growth and the scope for liberalisation at the MPC side.

4. Mediterranean Partner Country (MPC) economies

The MPCs economies cover a broad spectrum. Where Israel has relatively high per-capita income levels, comparable to EU incomes, the other MPCs included in this study are in found in the middle to low-income bracket. Correspondingly, varied models of economic development are found: from countries increasingly participating in the world economic system, to countries with marked protectionist tendencies. Despite the diversity it is still possible to identify certain common elements across the MPCs, especially the ones that can be classified as developing countries (DCs): high population growth, lagging economic growth, importance of agriculture, and high protection levels.

This section discusses the structure of MPC economies in order to assess the extent to which liberalisation through the EMP may contribute to economic growth. The first section discusses key economic characteristics and their development over time. Section 2 analyses the multiple causes dragging economic growth in MPCs, assessing to what extent the EMP may contribute to economic growth. Section 3 takes a closer look at structure of MPC agriculture and agricultural policies pursued by MPCs.

4.1 Key economic characteristics

Table 4.1 presents key economic indicators of MPCs. The MPCs are small economies compared to the EU. The total GDP of all MPCs together is about the GDP of Spain and about 15 percent lower than the total GDP of EU accession countries (European Commission, 2003). In general the MPC economies can be characterised by high levels of debt, relatively high population growth and high inflation rates.

High population growth requires high economic growth to maintain employment. Lack of employment has repercussions for social stability and the scope for structural changes in the economy. Table 4.2 presents demographic characteristics of the MPCs. Comparing the population growth over the period 1990-1999 from Table 4.2 to the annual population growth in 2000 from Table 4.1 suggests that the population is growth is slowing down in most countries. Due to past growth levels, the growth of the labour force is still high in most MPCs, while unemployment levels are already high (about one-third of the labour force in Algeria and Jordan).

From these aggregate data emerges a picture of economies that have not been able to grow fast enough to absorb a fast growing labour force. At the same time most countries face serious debt problems, reducing the room for economic restructuring. The positive exception in economic terms is Israel, faring much better than the surrounding countries. The next section takes a closer look at the reasons for the lagging economic growth in the majority of MPCs.

Table 4.1 Economic indicators of Mediterranean Partner Countries (2000)

	GDP level (USD Billion)	GDP growth 1990-2000 (%)	GDP /capita (USD 1000)	Debt (% of exports)	Popula-tion growth (%)	Annual inflation 1990-99 (%)
Algeria	48.8	-2.4	1.6	112	1.5	19.0
Egypt	78.4	6.2	1.2	107	1.9	9.1
Israel	106.4	7.3	17.1	n.a.	2.1	10.6
Jordan	7.9	7.0	1.6	130	3.1	3.2
Lebanon	12.5	16.0	2.9	n.a.	1.3	24.0
Morocco	39.3	4.3	1.4	124	1.6	3.2
Syria	13.6	1.0	0.8	290	2.5	8.7
Tunisia	23.6	6.7	2.5	112	1.1	4.7
Palestinian Territories	4.1	n.a.	1.4	n.a.	4.3	n.a.

Source: World Development Indicators (World Bank, 2002).

Table 4.2 Demographic characteristics of MPCs (1999)

	Population			Labor force		Urban population	Unemployment b)
	Total	Growth a)	Density	Total	Growth a)		
	(mln)	(%)	(pop/km^2)	(mln)	(%)	(%)	(%)
Algeria	30.5	2.2	12	10.6	4.0	59.6	26.4
Egypt	62.4	1.9	58	26.0	2.9	45.0	11.3
Israel	6.1	3.0	269	2.7	4.1	91.1	7.7
Jordan	4.7	4.4	47	1.5	5.2	73.6	30.0
Lebanon	4.3	1.8	391	1.1	3.1	89.3	
Morocco	28.2	1.8	59	11.5	2.7	55.3	17.8
Syria	15.7	2.8	77	5.1	4.0	54.0	
Tunisia	9.5	1.6	58	3.8	2.8	64.8	16.0
Palestinian Territories	2.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

a) Annual growth 1990-1999; b) average percentage labour force (1994-1997).
Source: World Bank and FAO data.

4.2 Causes of lagging economic growth

A combination of relatively high population growth and extensive unemployment make economic growth a prime issue for MPCs. However, the actual track record of the MPCs is rather disappointing, lagging behind the growth rates obtained by comparable countries in other parts of the world. Figure 4.1 sketches different, interconnected causes of the lagging economic growth in the MPCs, generalising over the different countries. Three main forces dragging economic growth are depicted in the first row of text blocks: non-trade income, high protection and extensive state interference in the economy.

A first factor dragging economic growth is the presence of non-trade income. Oil exports and remittances are important sources of foreign exchange for a number of countries. Such an inflow of foreign exchange distorts the economy ('Dutch Disease') by boosting domestic demand. The resulting appreciation of the exchange rate promotes investments in non-traded sectors of the economy, while reducing investments in the traded sector. Such a distorting role of oil-income is relevant in Egypt, Algeria and Syria (Riess et al., 2001), while the ratio of remittances to value of exports approaches one in Egypt and Jordan, underscoring the role of (temporary) migration in MPC economies (Nassar and Ghoneim, 2002).

A second factor dragging economic growth is high protection due to an inward-looking development strategy. The high protection shelters domestic firms from international competition. This reduces incentives for efficiency improvements an investments in innovations. Combined with the focus on non-traded sectors induced by inflows of non-trade foreign exchange, this resulted in a production structure that is not internationally competitive.

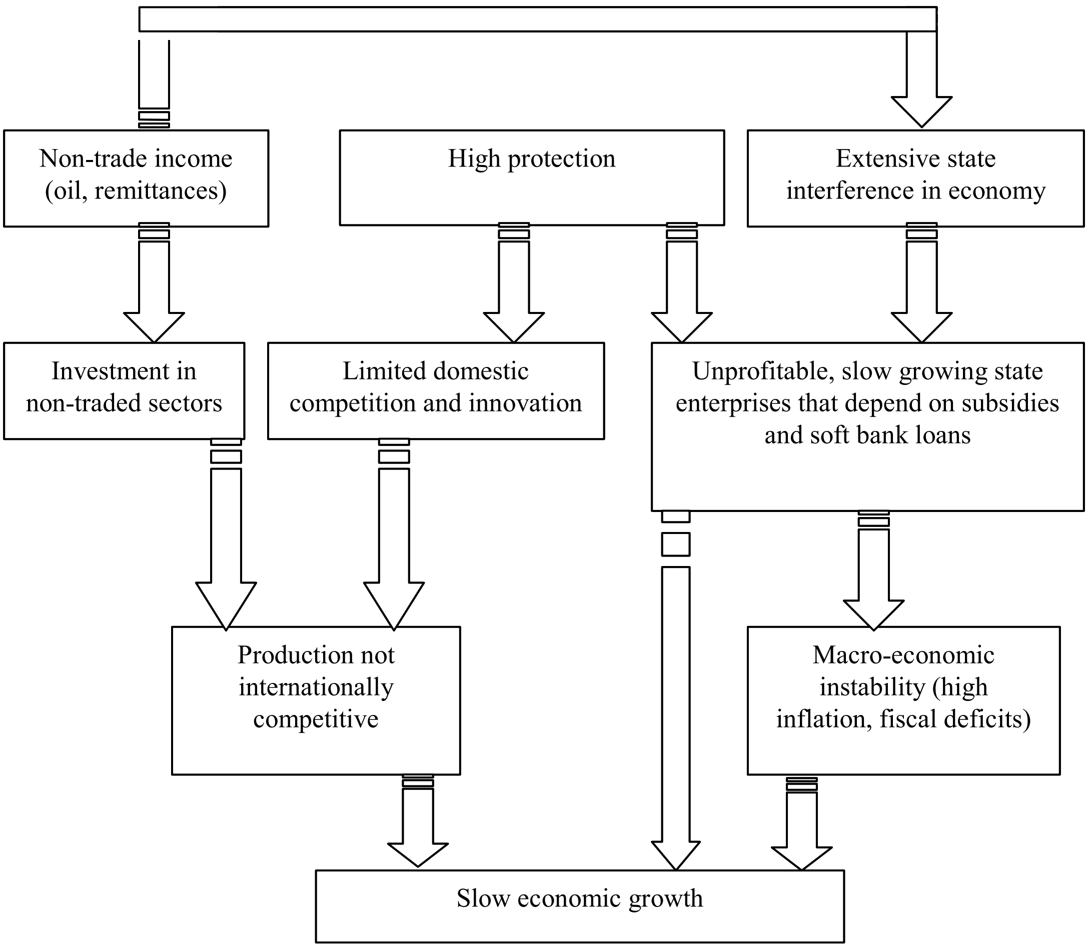

Figure 4.1 Outline of causes of slow economic growth in MPCs

A third factor dragging economic growth is the extended influence of the state on the economy. This government influence takes the shape of an over-staffed public sector and a dominant presence of state enterprises. The bloated character of public sector employment is apparent from the fact that its share in (non-military) employment is twice the global average, accounting for close to one-fifth of employment in MPCs. At the production side the state also plays a significant role, for example accounting for 30 percent of GDP in Egypt and Tunisia, and close to 60 percent in Algeria. Public investments were close to 40 percent of total investment, which is double the middle-income country average. Booming oil revenues in the 1970s and 1980s provided a further stimulus to increasing public sector expenditures in oil exporting countries (Bulmer, 2000; Riess et al., 2001).

High protection and extensive government involvement in the economy has led to unprofitable state enterprises that are maintained with subsidies and soft loans. This poses a high pressure on state budgets, causing severe macro economic instability. This macro-economic instability makes reforms about as necessary as difficult. Tariff revenues compose an important part of the government budgets. Countries with high import ratios from the EU will be faced with significant losses in income if they grant the EU preferential access to their markets, necessitating a restructuring of their economy.

4.3 Structure of agriculture and MPC agricultural policies

Although agriculture is an important sector across the board, its role in the overall economy differs by MPC (see Table 4.3). The classification of most MPCs as developing country is reflected for most countries by the high share of the labour force employed in agriculture (between 12 and 36 percent of the total labour force). In high income countries this proportion is less than 10%, as reflected by the low percentage for Israel.

Table 4.3 Contribution of agriculture to GDP and employment in MPCs

	Composition GDP (%)			Agricultural labour force (% total labour force)	
	Agriculture	Industry	Services	1990	1999
Algeria	9	60	31	26	24
Egypt	17	34	49	40	33
Israel	3	30	67	4	3
Jordan	3	25	73	15	12
Lebanon	12	22	66	7	4
Morocco	14	32	54	45	36
Syria	24	30	46	32	28
Tunisia	12	29	59	29	25
Palestinian Territories	8	27	66	n.a.	n.a.

Source: World Development Indicators (World Bank, 2002) and FAOSTAT. GDP data are for 2000. Exception is GDP by sector for Israel (2001 estimates from CIA world factbook (CIA, 2002)).

In terms of GDP, agriculture is a major sector, again mostly for developing MPCs, contributing as much as 24% to GDP in Syria. Jordan seems to have a more particular economic structure, although agriculture contributes significantly to employment (supplying

12 percent of employment), its contribution in terms of share of GDP is limited to 3 percent.

Production composition varies considerably from country to country, but is centres around cereals and fruit and vegetables, followed by other staple foodstuff, or typically Mediterranean products (meat, milk, potatoes, sugar, pulses, nuts, olives and olive oil). The importance of agricultural raw materials, such as tobacco, cotton and sugar beet is more limited. Egypt is a main producer, especially for staple foodstuff; though other countries - the Maghreb[1], Israel and Syria - are often important players for particular markets.

Besides the fundamental climatic and geographic features of the Mediterranean area, the composition of production is affected by long-term trends in world prices and the relatively lower level of protection of some target markets for Mediterranean products (fruit and vegetables, olive oil). Products not strictly Mediterranean (cereals, meat and milk) maintain an important role in the agricultural system, by providing subsistence to peasant farmers and in some cases, because of policy support and trade protection aimed at reducing dependence on imported food (INEA, 2002; DeRosa, 1997).

The main issues in MPC agriculture can be summarised under three headings: polarised production structure, production limitations, and food security. There is a marked and growing polarisation between large-scale capitalist companies farming, and small family holdings. Institutional factors, insufficient public intervention in the reform of land ownership and, for some MPCs, strong government support for agricultural exports have accentuated this dualism. Large firms complain above all about the lack of adequate services, while small farmers find it difficult to make a living from traditional farming practices. This is due to natural and technical restraints, obstacles to mechanisation and other structural limitations, but also to price dynamics and conditions of marketing channels (INEA, 2002).

Environmental, climatic and technological limitations impose restrictions on the expansion of arable land, and create problems for the sustainability of traditional agricultural methods and ecosystems. The lack of fertile land and water is an evident limitation to agricultural development, while the goal of increasing yields creates further problems, due to chemical inputs already being used on a massive scale. Desertification, soil erosion and infertility are serious problems brought about by overgrazing, intensive crop rotation and the abandonment of traditional agricultural practices. Inefficient and insufficient consideration of soil characteristics are often a feature of the management of water resources and can lead to the soil becoming too saline or alkaline, as happens in Syria and Egypt, or to soil erosion, widely spread in Turkey, Syria, Lebanon and the Maghreb (Makhlouf et al. 1998; Lacirignola-Hamdy, 1995).

Orientations and tools of agricultural policy differ from country to country[2]. In the case of Israel, agricultural policy has been influenced since its foundation by the need to combine agricultural development with national security and self-sufficiency in food production, given its hostile geopolitical environment. As regards the other MPCs, agricultural policy decisions have been mainly oriented towards dealing with structural problems and related issues. In this context, the major priorities of agricultural policy are to improve the performance of the sector and the level of food security. Minor objectives - but by no

[1] Morocco, Algeria, Tunisia.
[2] Remainder of this section is based on INEA (2002).

means negligible - relate to improving linkages between vertical stages of agro-food systems (competitiveness, marketing, etc.), as well as environmental protection, food quality and food safety.

Measures of producer support and market regulation evolve slowly within the context defined by adjustment programs, WTO commitments, and preferential deals with the EU. All imply, for Mediterranean DCs, a fundamental change in price policies, with the aim of restoring the market mechanism and improving its operation. Liberalisation and structural adjustment have important implications for agriculture. Agricultural policy reform aims to open domestic markets, reducing protection differentials among agriculture and other sectors, but also to reduce government support for production prices (and/or reducing consumer subsidies), and reducing input subsidies.

Some countries have made considerable strides in this direction. Egypt above all, as well as the Maghreb countries, have modified their policies considerably in order to reduce protection in the industrial sector and re-launch agriculture by improving market efficiency. The most important measures are the following:

- reform at the level of infrastructure, especially all for the collection and transfer of water resources, in particular in the Maghreb;
- promotion of privatisation, private investment and a more dynamic land market (the Maghreb, Egypt and Jordan), though within strict budget limitations of stabilisation and adjustment programs;
- significant interventions in agricultural development services and marketing co-ordination (the Maghreb).

The effects of the reforms vary depending on the starting point of the country concerned and the level of social consensus, but the overall picture is still characterised by hefty government regulations of agricultural markets, through intervention on prices (consumer and producer subsidies), quantities (quotas) and tariffs. In fact, the reform process has been rather selective: government support and trade protection are still considered indispensable for certain products, while forms of policy intervention, aimed either at controlling food prices or extracting surplus from the agricultural sector, are still in place. Moreover, there are still cases where agriculture suffers from overvaluation of real exchange rates and trade protection in the manufacturing sector.

4.4 EMAAs and migration

Since remittances are an important feature of MPCs, one can wonder about the impact of the EMAAs on migration from MPCs to the EU. This question is largely absent from existing studies of the EMAAs, although reducing the flow of migrants from countries like Morocco is an important policy issue for the EU. The EMAAs could reduce migration if they would stimulate intensive-intensive production in the MPCs, thus increasing wages and reducing the incentives for migration. This is a standard argument, assuming that trade and migration are substitutes.

Preliminary analyses of the impact of NAFTA on migration flows between Mexico and the US, however, suggests that establishment of a FTA can increase migration flows. Different theoretical explanations can be provided for such an outcome. One is a rise in wages following the FTA, allowing low-skilled labourers to accumulate the cash needed for migration. In this line of thought trade and migration are complements, not substitutes. New trade theory, allowing for a concentration of economic activity, provides an alternative explanation. Reducing trade barriers allows industries to become more concentrated. Given the hub-and-spoke structure of the EMAAs this concentration is likely to occur in the EU, suggesting an increase in migration as well.

4.5 Summarising the main features of MPC economies

The still fast growing intensive force in the MPCs necessitates accelerating economic growth. The track record of the MPCs is not promising, growth rates have been lagging compared to other regions, due an inflow of foreign exchange from oil and remittances, high protection levels and high state interference. State intervention in the agricultural sector also has been high, through price interventions, quotas and tariffs. The next section takes a closer look at the different forms of protection in the MPCs.

5. Scope for liberalisation by the MPCs

A key element of the EMP is the reciprocal nature of the trade liberalisation, contrasting with asymmetric liberalisation by the EU of earlier agreements. The scope for liberalisation by the MPCs depends on the current level of protection and political possibilities for liberalisation.

Most studies of the EMP focus on the (lack of) liberalisation at the EU side. In terms of the impact on the MPCs, lagging liberalisation of agricultural trade by the EU is most important since barriers to manufactured exports to the EU have been lifted in the 1970s. The position of the EU with respect to the liberalisation of agricultural trade is well documented and there are no reasons to expect major changes in this position. Protection by the EU will thus not be further discussed here.

This section takes a closer look at trade barriers erected by the MPCs. Although protection is only one out of multiple causes dragging economic growth in the MPCs, it is the aspect most easily influenced through the EMP. Furthermore, an essential feature of the trade liberalisation in the context of the EMP is the reciprocal nature, requiring the MPCs to remove their trade barriers as well. This feature of the EMP also warrants a closer look at the protection in the MPCs.

First, trade protection by MPCs is compared to other regions and its development over time is assessed. Second, non-trade polices affecting production and trade patterns are discussed. The third part addresses some to of the reasons for the high trade protection and other interventions in the MPCs.

5.1 Comparing trade protection in the MPCs to other regions in the world

Detailed studies of protection at the MPC side are few and far between. Srinivasan (2002) provides a rare summary of different studies, of which the main points are summarised here. Table 5.1 reproduces protection indicators for a selected number of MPCs for which data are available in the TRAINS database. Table 5.2 reproduces the scores of the MPCs on three aggregated protection measures.

All indicators confirm the earlier made observation of high protection rates in MPCs. The weighted average tariff rate provides an illustration of the protection rates. Egypt has the lowest score of the MPCs with a weighted tariff of 13.7 percent. This is still high than the highest score by income group (12.6 percent for low income countries). This result reflects the lack of trade liberalisation while the rest of the world has been reducing trade barriers. The MPCs started from historically high protection rates and have not been reducing (and sometimes even increasing) these rates.

Of the MPCs, Egypt, Morocco and Tunisia have gone furthest in reforming their economies. This reform, however, has not extended to trade protection. This is illustrated by the weighed tariff of Tunisia being more than double the tariff of the low-income countries.

In terms of aggregate protection measures the MPCs score even worse. The aggregate measures build on the simple average tariff rate and the standard deviation, both of which are exceptionally high in the MPCs. In terms of the Andrew and Neary measure of trade protection only South Asia comes near the protection levels in the MPCs. Within the group of MPCs included in Table 5.1 and 5.2 Jordan has the lowest level of protection, due to extensive reforms in the 1990s.

The EMP could be expected to lead towards a more open orientation of the MPC economies. Table 5.3 shows the development over time of the trade retrictiveness indicator. In 2003 all MPCs, except Israel, can be classified as having a restrictive trade policy. More interesting is the development over time. One could have expected a more outward looking trade policy developing over time. According to Table 5.3 only Egypt and Syria seem to fit this pattern, moving to a more open trade policy in 2003. The patterns of the other countries, however suggest that this may only be a temporary change. Jordan, for example, increased its protection in 2003. Morocco and especially Lebanon alternate between open and restrictive trade policies. Overall, there is no indication that the MPCs are following the global trend towards more open policies.

Table 5.1 Trade protection indicators for selected MENA countries

	Simple average (%)	Weighted average (%)	Standard deviation (%)	NTB coverage (%)	Escalation index Ratio
Selected MPCs					
Algeria	24.2	17.3	16.7	15.8	1.6
Egypt	28.1	13.7	130.6	28.8	2.1
Jordan	21.6	18.9	15.8	0.0	1.1
Morocco	35.7	25.8	31.2	5.5	1.1
Tunisia	29.9	28.8	12.8	32.8	1.1
Comparators by income group					
Low income countries	15.5	12.6	10.9	5.5	1.5
Lower middle income countries	15.3	12.5	15.0	13.4	1.7
Upper middle income countries	13.8	11.6	12.3	14.7	1.6
High income countries	4.3	3.4	7.0	15.6	1.7
Comparators by region					
Europe and Central Asia	9.8	6.7	11.0	10.9	2.0
East Asia	13.1	8.7	16.8	9.9	1.8
Latin America	13.1	11.9	8.5	17.1	1.6
Sub-Sharan Africa	17.7	14.2	13.3	4.5	1.5
South Asia	19.7	18.8	11.7	8.2	1.2

Note: MFN tariff rates are used; NTB coverage refers to the percentage of tariff lines having at least one NTB; the escalation index is the ratio of the simple average tariff on final goods to the tariff on intermediate goods.
Source: Table 1 in Srinivasan (2002:9) based on TRAINS database.

Table 5.2 *Aggregated trade protection indicators for selected MENA countries*

	Sharer	Oliva	Anderson & Neary
Selected MPCs			
Algeria	7.0	20.0	25.0
Egypt	8.0	55.8	23.5
Jordan	4.0	14.4	n.a.
Morocco	7.0	26.6	35.0
Tunisia	8.0	26.1	23.8
Comparators by income group			
Low income countries	3.5	11.7	21.2
Lower middle income countries	4.1	14.7	15.1
Upper middle income countries	4.1	13.6	11.8
High income countries	3.1	8.0	10.9
Comparators by region			
Europe and Central Asia	3.5	10.4	11.6
East Asia	3.9	13.2	11.3
Latin America	3.6	12.9	14.7
Sub-Saharan Africa	3.8	13.1	18.9
South Asia	4.2	14.6	27.7

Note: The Sharer index is an arbitrary scoring system combining MFN tariff rates and standard deviations; the Oliva index combines tariff rates, standard deviations and NTB coverage; the Anderson and Neary index is the uniform tariff rate applied to a free trade regime to return welfare to the most recent year of observation.

Source: Table 1 in Srinivasan (2002:9) based on TRAINS database.

Table 5.3 *Trade restrictiveness over time by country*

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Algeria	5	5	5	5	5	5	4	4	5
Egypt	5	5	5	5	5	5	5	5	4
Israel	2	2	2	2	2	2	2	2	2
Jordan	4	4	4	4	4	4	4	4	5
Lebanon	n.a.	2	2	5	2	5	3	4	5
Morocco	5	4	4	5	4	4	4	5	5
Syria	n.a.	5	5	5	5	5	5	5	4
Tunisia	5	5	5	5	5	5	5	5	5

Note: Restrictiveness index: less than 2 = free trade policy, between 4 and 5 is repressed trade policy.

Source: Heritage Foundation (Gwartney et al., 2003).

5.2 Government interventions in agriculture

Apart from a restrictive trade policies consisting of tariffs, licensing, import bans, state trade monopolies, multiple exchange rates and restrictive foreign exchange allocation, other MPC policies may affect domestic production and the scope for foreign competitors (ERF, 2002).

Agriculture is important for MPCs, in terms of employment, contribution to GDP and income distribution effects (poverty tends to be concentrated in the rural regions). Historically the MPC governments intervened in the agricultural sector through purchases of commodities (cereals, vegetable oil, sugar), output support for both farmers and agro-food processors, subsidising inputs (water, fertilizers, seed, machinery), and consumer subsidies. The amount of intervention varied with the commodities, from direct control of prices and markets for strategic commodities (like wheat and sugarbeet), to competitive markets for fruits and vegetables. The policy interventions require huge outlays of public finds and were hard to maintain when economic circumstances took a change for the worse. Some countries reformed their agricultural interventions in the course of implementing structural adjustment programs (Algeria, Jordan, Morocco and Tunisia), others (notably Syria) maintained the prime role of the state (Chaherli, 2002).

Despite reforms distorting policies remain. At the production side these mainly affect 'strategic products': wheat in most MPCs, milk and olive oil in Tunisia; cotton, sugar beet and tobacco in Syria; sugar beet and tobacco in Lebanon (Chaherli, 2002). At the input side a wide array of subsidies is used to stimulate cereal and livestock production. Subsidies of feed area a common feature, representing the most important (and constant) item of the agricultural budget in MPCs. Analyses of the competitiveness of MPC production indicate that in the absence of government interventions in output and input prices, MPC producers could not compete with foreign imports.

High tariffs to ward off cereal imports and to promote domestic production leads to high domestic prices. Most MPC governments subsidised consumer prices to reduce the burden for consumers. Intervening at both sides of the market poses a heavy burden on government budgets. Most countries have therefore reduced food subsidies, generally in a gradual fashion to avoid political instability.

Apart from tariffs and quotas there seem to be other restrictions to trade since quota fill rates are (well) below 100 percent. It seems likely that the administration of the quotas is hampering foreign imports. In the case of Egypt, for example, product standards are applied to imports do not apply not domestic, like requiring imported beef to have less than 7 percent fat content while no restrictions apply to domestic beef (USTR, 2003).

5.3 Factors affecting the slow pace of reform in MPCs

The comparison with protection in other regions begs the question why the MPCs are not following the global trend towards freeing trade. The implication of diverging from the global pattern is that the MPCs will be loosing in terms of international competitiveness relative to other regions in the world. There thus seems to be a clear case for at least keeping protection levels in line with the rest of the world.

Analysis of the relative strength of import substitution industries and export-oriented industries for Morocco and Egypt, suggests a strong lobby for maintaining protection rates (Srinivasan, 2002). This leaves the question why there is such a strong import substitution industry. Trade policies unfavourable to export and generally unsupportive domestic policies seem to play a role in the development of import substitution industries requiring continuous protection.

Policies oriented towards import substitution were made possible by the inflow of foreign exchange (from natural resources and remittances) and by preferential agreements the MPCs engaged in. Income from fuel and remittances allowed the financing of an expansive public sector and of the interventions at the producer and consumer sides. At the same time a number of MPCs enjoyed preferential access to EU markets for textiles and clothing. Resulting investments in this sector may have been at the expense of investments in medium technology industries (like industrial chemicals, standardised machinery, simple electrical and electronic products). Latin American countries (with similar endowments) did make these investments, gaining market share. Given the learning-by-doing which plays an important role in manufacturing, the inward looking strategy of the MPCs could prove to be costly in the future.

5.4 Summarising the scope for liberalisation by MPCs

Historically MPCs have had high levels of protection and diverted from the global trend towards more open policies. In addition to restrictive trade policies there is still a hefty government intervention in the MPC economies. Taking Tunisia as representative for the MPCs, it seems more feasible in the short run to reduce the indirect distortions of the economy than reducing trade barriers; Tunisia made major strides towards economic reform, except for liberalising trade. Two major reasons for the reluctance to reduce trade barriers is the bloated public sector and the lack of international competitiveness of MPC producers. Liberalising trade would reduce government income and may wipe out a large part of the MPC production, both of which may result in massive social unrest. Given past trends and the current economic context in the MPCs, the reciprocal trade liberalisation implied by establishing a FTA seems hard to achieve.

The impact of preferential access for textile and clothing on industrial developments raises a question on the impact of preferential access granted by the EU for specific agricultural products granted. Similar to the distortion in manufacturing, these preferences may have distorted the agricultural production structure of the MPCs.

6. Key policy and research issues

In summary the current implementation of the EMP can be summarised as a mainly trade-focussed agreement in which no significant results are obtained in reduction agricultural trade protection, neither at the EU nor at the MPC side. Although reducing protection on manufacturing by the MPCs is specified by time schedules, past trends give no reason to expect theses schedules to be met. The increasing trade with the US suggests that their trade agreements and financial support are more effective than the European initiative.

In the light of the discussion of the EMP the following policy issues can be identified:

- Coordinate domestic and foreign policy interests. Foreign and domestic EU policies towards the MPC are currently non-coherent. Explicitly considering conflicting objectives would foster the consistency of EU policies, and would support development of alternative policies more in line with the multiple objectives of the EU.
- Design policies to support structural changes in the MPCs. Liberalising trade reduces high protection levels in the MPCs, but also has strong implications for government tariff revenues and social stability. Explicitly accounting for the structural features of the MPC economies could facilitate the design of agreements such that they promote growth and support a gradual move towards more open economies, while acknowledging the constraints faced by the MPC governments.
- Promote south-south integration. To achieve the aim of a prosperous and secure Mediterranean region South-South integration should become an integral part of the EMP.

To support formulation of policies that account for the political and economic reality at both the EU and MPC side, the following research issues can be identified:

- The extent and impact of non-trade barriers. The increasing importance of NTBs for trade in food (like vertical integration of production, grade and quality standards) implies on the one hand that the impact of agricultural trade liberalisation could be limited. On the other hand, they provide an opportunity for designing policies that promote integration of MPC agriculture in European chains, possibly promoting agricultural growth within the limits of the current protection structure.
- Contribution of liberalisation with EU to economic growth in the MPCs. Taking promotion of economic growth in the MPCs as the aim of the EMP, limited insight is currently available on how the EMP interacts with MPC policies and structural features of MPC economies. Most existing studies focus on the (lack of) liberalisation the EU side, while limited insight is available on the structure of protection at the MPC side, their trade agreements with third parties (notably the US), and the impact of their policies on economic growth and poverty reduction. Furthermore, the different pace at agreements concluded with the MPCs may affect the distribution of costs and benefits when establishing a Mediterranean FTA.

- Regional impact of liberalisation in the EU and possible links with eastward expansion. Liberalisation of trade with the MPCs will have a negligible impact the EU has a whole. The main opposition against the liberalisation stems from Southern EU producers who will face increased competition. At the moment there is no insight in which regions will be negatively affected by a liberalisation of agricultural trade with MPCs. Furthermore, the eastward expansion of the EU possibly offers new markets for the Southern EU producers, which could offset the negative impact liberalisation with the MPCs. Such a linking of South and Eastward expansion could make establishment of a Mediterranean free trade more feasible politically.
- Impact of EMAA on migration. The EMAAs could reduce migration by narrowing the gap between wages in the EU and MPCs. Preliminary analyses of the NAFTA, however, suggest that an increase in migration is more likely. A FTA can increase migration by increasing the opportunities for accumulating the capital needed for migration, or by promoting the concentration of activities in the EU. Existing studies do not address the impact on migration, leaving the impact of the EMAAs on migration an open question.

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