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## **Mediterranean Association Agreements and European Security\***

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Following the attacks in Madrid in March 2004, Gijs de Vries has been appointed as Europe's anti-terrorism coordinator to foster information exchange among European security services. Gearing up security services is part of the EU security strategy put forward by EU High Representative for Common Foreign and Security Policy Javier Solana (2003), in which he also argues for a coherent EU foreign policy to create a ring of stable countries around the borders of the EU.

Along the southern boundary of the EU this objective should be achieved through the Barcelona process, mainly consisting of bilateral trade agreements between the EU and countries at the southern periphery of the Mediterranean. In this policy brief we highlight the background of these agreements and we argue that they do not contribute to stability in this turbulent region.

Implementing the current trade agreements between the EU and the Mediterranean countries will lead to increased unemployment and structural government deficits. With the current trade agreements the economic interests of agricultural producers in the southern EU member states prevail.

An alternative strategy to liberalisation, which accounts for the economic development opportunities in the Mediterranean countries, offers better prospects for attaining stability at the southern borders of the EU. Such an alternative liberalisation scenario requires a balancing of regional economic interests with the long-term interests of the EU as a whole.

### **Renewed Mediterranean relations**

The Barcelona process encompasses economic, political and social cooperation between the EU and countries south of the Mediterranean through Association Agreements. Despite a broad range of objectives, establishment of a Mediterranean free trade area by 2010 forms the focal point of the Association Agreements. An important feature of these trade agreements is the notion of reciprocity. This concept contrasts with earlier agreements from the 1970s, consisting of unilateral elimination of European barriers to Mediterranean industrial goods.

Until now Association Agreements have been concluded with Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian Authority and Tunisia. Negotiations with Syria are still ongoing. Together these countries will be referred to as the MED-9 in this policy brief. It should also be noted that in March 2004 Libya was invited by the European Commission to actively participate in the Barcelona process.

### **Political versus economic interests**

The MED-9 countries are of little economic interest to the EU. Imports from the MED-9 account for only 2% of EU imports, while exports to the MED-9 account for only 3% of total EU exports. Oil makes up the majority of EU imports from the MED-9, followed at a distance by agricultural products. Given the limited size of the agrarian trade flows, the European Commission does not consider the MED-9 a threat to EU farmers (Garcia-Alvarez-Coque, 2002).

The Association Agreements do serve a clear economic interest for the MED-9: 50% of their imports and exports are with the EU, which is their largest trade partner. The MED-9 countries have a comparative advantage in typical Mediterranean products such as fresh fruit, vegetables and olive oil. Improved access to European agricultural markets could provide a positive stimulus to their economies.

Such a positive stimulus is badly needed. Economic growth in the MED-9 is lagging behind the growth rates in the rest of the world, while the MED-9 countries combine a young population with unemployment rates between 15 and 30%.

### Regional versus common interest

The current trade agreements conflict with the interest of the EU in attaining stability at its southern borders, by having detailed schemes for abolishing protection on manufactured goods, but not so for agricultural products. From the perspective of stability at the southern periphery, and given the comparative advantages of the MED-9 in (labour-intensive) agriculture, the trade agreements should aim at relaxing the complex EU trade barriers for Mediterranean food products.

Current EU concessions in this area are marginal, since MED-9 producers compete directly with producers from southern EU member states. Although concessions would have a marginal impact on the EU as a whole, relaxing restrictions on Mediterranean agricultural products would be noticeable in southern EU member states. The Association Agreements reflect these regional interests.

The EU unilaterally removed its protection on manufactured goods in the 1970s. The Association Agreements are thus a *de facto* opening of the MED-9 countries for industrial imports from the EU. Since the MED-9 industrial producers are not internationally competitive, implementation of the trade agreements will decimate industry in the MED-9. The resulting reduction in already limited employment will not contribute to stability in the MED-9. Hence Tunisia, leading the region in terms of economic reforms, has postponed its reduction of industrial protection despite implementing far-reaching reforms in other parts of its economy.

Next to a loss of employment in the industrial sector, implementation of the trade agreements will result in a decrease in tariff revenues. Government expenditures in the MED-9 are high owing to a bloated public sector: the share of non-military public employment in total employment is twice the world average (Bulmer, 2000). In addition, producers of grain, meat and milk are subsidised to reduce dependence on imports, while the impact on consumers is limited through subsidies on staple foods. Reducing government revenues through trade liberalisation would thus have a direct impact on employment and consumer prices, with all its consequences in terms of social unrest.

### Domestic factors hampering growth

European trade barriers are only one of the factors limiting economic growth in the MED-9. Next to a bloated public sector and market interventions, governments also play a direct role in MED-9 economies through inefficient state enterprises, for example accounting for 30% of GDP in Egypt and Tunisia. Further, the MED-9 belongs to the most-protected trade region in the world, which limits the competitiveness of the private sector. There is also an inflow of foreign exchange in the MED-9 through oil revenues and remittances. This inflow of foreign exchange stimulates domestic demand for services and causes an appreciation of the exchange rate by increasing demand for imports, thus hampering exports. As a result, MED-9 economies are oriented towards non-trade sectors.

Trade protection distorts the structure of the economy and fosters an interest in maintaining such protection, which in turn hampers reform. An example is the industrial sector in the MED-9. Access to European markets has not led to a competitive sector, because continuing MED-9 trade barriers have not provided an incentive to restructure industries. A comparable scenario would be possible with unconditional and unilateral reduction of European trade barriers for agricultural products. The complexity of the current protection implies that producers have invested in information and contacts to be able to export to the EU, and thus have an interest in maintaining the current protection structure. If the MED-9 countries retain their barriers to imports from the EU, there are no incentives for a restructuring of agricultural production.

## Timely liberalisation

Given the limited economic interest of the MED-9 for the EU as a whole, there is room to support necessary reforms in the MED-9 through the careful sequencing of liberalisation. The timing of the liberalisation should aim at minimising social unrest, if only for the security interests of the EU.

In general there are three factors to consider in determining the timing of liberalisation: employment, government budget and competitiveness. Because of the urgent need to increase employment it seems logical to start liberalising sectors that are labour-intensive and in which the MED-9 countries have a comparative advantage, i.e. agricultural products. Given the need to restructure MED-9 economies, this could be accompanied by a reduction in MED-9 barriers for internationally competitive industrial sectors that preferably use a lot of labour.

The abolition of subsidies on atypical Mediterranean products such as grains, meat and milk would reduce government expenditures. This move would be necessary to deal with the reduced tariff revenues. Effects on consumers could be limited (and possibly positive) through cheaper imports from the EU. If employment can be maintained and possibly expanded, there would also be room to downsize the civil service.

The timing of liberalisation can further play a role in limiting the damage to southern EU member states. With the eastward expansion of the EU, the market for (Mediterranean) agricultural products is expanding as well, limiting the impact of an increase in MED-9 competition on EU producers.

## Coherence is no guarantee

Trade liberalisation stimulates economic growth and can be a powerful tool to increase prosperity and stability along the EU's southern border. This first requires a coherent pursuit of long-term EU security interests instead of the short-term economic interests of southern EU member states. Second, liberalisation should be sequenced such that a reduction in trade protection is accompanied by the creation of new opportunities for sectors in which the MED-9 have a comparative advantage and that absorb a lot of labour.

Such a coherent partnership between the EU and the MED-9 provides no guarantee that attacks

such as those in Madrid will not occur again. Minimising the social impact of the urgently needed reforms in the MED-9 would, however, be a positive response to the recent attacks and provide the population in this turbulent region a chance of increased prosperity and stability in the long term.

## References

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\* This policy brief is a translation of "Mediterrane Associatieverdragen en Europese Veiligheid" in *Economisch Statistische Berichten*, Vol. 89, No. 443, pp. 182-83, published on 16 April.

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