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**PROCESSES OF REGIONAL INTEGRATION:
THE EURO-MEDITERRANEAN PARTNERSHIP
AND THE MAGHREB**

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Acronyms

AP	Action Plan
ASEAN	Association of the South East Asian Nations
CAP	Common Agricultural Policy
CEECs	Central and Eastern European Countries
CET	Common External Tariff
CFSP	Common Foreign and Security Policy
CSCE	Conference for Security and Cooperation in Europe
CSCM	Conference for Security and Cooperation in the Mediterranean
CSP	Country Strategy Paper
CU	Customs Union
CUFTA	Canada — US Free Trade Agreement
EC	European Community
EEC	European Economic Community
EFTA	European Free Trade Association
EIB	European Investment Bank
EMAA	Euro-Mediterranean Association Agreement
EMFTA	Euro-Mediterranean Free Trade Area
EMP	Euro-Mediterranean Partnership
EMPA	Euro-Mediterranean Parliamentary Assembly
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
ESS	European Security Strategy
EU	European Union
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
FDI	Foreign Direct Investments
FTA	Free Trade Area
GAFTA	Great Arab Free Trade Area
GCC	Cooperation Council for the Arab States of the Gulf
GMP	Global Mediterranean policy
IMF	International Monetary Fund
IPE	International Political Economy
IR	International Relations

ISI	Import-Substitution Industrialisation
LI	Liberal Intergovernmentalism
MENA	Middle East and North African Countries
MERCOSUR	Mercado Común do Sur
MFA	Multi-Fibre Agreement
MPCs	Mediterranean Partners Countries
MTN	Multilateral Trade Negotiations
NAFTA	North American Free Trade Area
NIP	National Indicative Programme
NMS	New Member States
NTBs	Non-Tariff Barriers
OSCE	Organization for Security and Cooperation in Europe
PECAs	Protocols to the Europe Agreements on Conformity Assessment and Acceptance of Industrial Products
PECS	Pan-European Cumulation System
PEMCS	Pan-Euro-Mediterranean Cumulation System
PTA	Preferential Trade Agreement
RIA	Regional Integration Agreement
RIP	Regional Indicative Programme
RMP	Renewed Mediterranean Policy
ROOs	Rules of Origins
RSP	Regional Strategy Paper
RTA	Regional Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SAP	Structural Adjustment Programme
SMEs	Small and Medium Enterprises
TFP	Total Factor Productivity
UFM	Union for the Mediterranean
US	United States
UTL	Unilateral Trade Liberalization
WB	World Bank
WTO	World Trade Organization

Introduction

Starting in the early 1990s, after the end of the Cold War, the world witnessed the development and the strengthening of important regional organizations and arrangements, among which: the completion of the European Union in 1992¹, the launch of the Common Market of the South (MERCOSUR²) in 1991, the establishment of the North American Free Trade Area (NAFTA) in 1994, and the resumption of important economic activities within the Association of the South East Asian Nations (ASEAN). This process involved the main economic areas of the world and many predicted the creation of ‘trade blocs’ ready to start new protectionist wars against each other³.

Since then many changes have occurred and the phenomenon of regional integration has strengthened. In the last two decades, the number of regional integration agreements (RIAs) has exponentially increased: as of December 2006, 367 RIAs have been notified, of which 214 are currently in force; furthermore, since the institution of the World Trade Organization (WTO) 20 regional integration agreements have been notified on average each year (Fiorentino et al., 2007). This phenomenon has been labelled as the *New Regionalism*, in opposition to the ‘old’ *Regionalism* of the 1950s and 1960s.

The recent upsurge in regional agreements has led to a renewed theoretical interest in *Regionalism* and regional integration processes.

As a matter of fact, today *Regionalism* is a relevant issue for many social sciences; in particular, in the field of International Economics and International Relations, several authors have developed studies and analyses to explain the rapid diffusion of regional agreements by focusing on their causes and their effects.

These analyses have added to the existing body of work on what may be considered the most successful case of regional integration, the European integration process.

Nevertheless, the study of this phenomenon is currently evolving in a ‘*chaotic*’ way: the analysis of *Regionalism* does not seem to follow a clear direction; there are several theoretical contributions

¹ The Treaty on European Union (TEU) was signed in Maastricht on 7 February 1992 and entered into force on 1 November 1993.

² MERCOSUR stands for ‘Mercado Común do Sur’

³ In this regard, by referring to this process, Gamble and Payne affirm “Many observers have seen this development as threatening, warning that the world may presently be in the process of becoming dangerously divided between three broad regions – Europe, the Americas and Asia-Pacific. They focus on the so-called ‘fortress’ dimension of the 1992 project in the European Union (EU), offer an alarmist reading of the defensive impulse supposedly lying behind the negotiation of the North American Free Trade Agreement (NAFTA) and do all they can to write up the salience of initiatives such as Asia-Pacific Economic Cooperation (APEC). These diverse initiatives are then quickly constructed into a ‘regional bloc scenario’ which is used to stoke fears of ‘trade wars’ between the blocs leading to ‘real wars’. All of this, it might be added, is usually accompanied by casual reference to the supposed lessons of 1930s and the inexorable descent into world war which followed the unfortunate regionalist tendencies of that decade.” (Gamble and Payne, p. 1)

which emphasise different elements and characteristics, and there is wide disagreement on the basic concepts, often leading to a plethora of terms and definitions.

The present research is an attempt to contribute to this analysis by better framing the current debate; it will present the main theoretical contributions on this topic and adopt a definition of Regional Integration Agreement inspired by Mattli (1999).

Today Regionalism is above all an economic phenomenon, since most regional integration agreements deal with the liberalisation of trade in the shape of free trade areas and customs unions. Nevertheless, although many of the most important recent regional integration agreements are based on strong economic integration, very often their purpose is also to meet geo-political and security reasons.

The present work will focus on this large group of regional agreements, which are characterised by a strong binomial relationship between economic integration and the achievement of geo-political and security goals. In doing so, the present research will exclude regional organizations and/or agreements in the field of security such as mutual-security organisations or military alliances (i.e. NATO, WEU) and preferential trade agreements motivated only by economic reasons, in which economic integration is an end in itself.

On the basis of these elements, the purpose of the research is to demonstrate that a multi-disciplinary approach drawing from both International Economics and International Relations is necessary for a deeper understanding of such agreements.

Traditionally, economists have focused on the welfare effects of regional integration agreements, while political scientists have focused their attention on the causes and dynamics of integration processes. Furthermore, different partners, or groups of partners, often participate in the same arrangement with different aims and motivations.

Thus a multi-disciplinary approach will make it possible to perform a comprehensive analysis of the same agreement and provide added value in verifying whether an integration process is currently taking place between two or more states.

In order to test this line of reasoning, the present research will analyse a recent regional agreement: the Euro-Mediterranean Partnership. The Euro-Mediterranean Partnership was established in 1995 when the Barcelona Declaration, the founding document, was signed by the members of the European Union and twelve Middle Eastern and North African countries.

The main aim of the Partnership is the creation of a regional Euro-Mediterranean Free Trade Area; at the same time the agreement also provides for the establishment of a broad cooperation framework in the political-security and socio-cultural fields.

On the basis of the theoretical contributions on Regionalism and RIAs, the research will have two main aims: the first one is to analyse whether the Partnership has effectively contributed to the establishment of an integration process in the Mediterranean Basin, both in the political and in the economic spheres; the second one is to analyse the same initiative according to International Relations and the International Economics theories.

Furthermore, due to the high number of partners, the Euro-Mediterranean Partnership is interesting because different motivations are associated with different partners.

The present work is structured as follows. The 1st Chapter will introduce the meaning of terms such as *Region*, *Regionalism*, *Regional Integration Agreement* and *Regional Trade Agreement*. Secondly, the chapter will provide an overview of the main theoretical contributions in the fields of International Economics, International Relations and International Political Economy. Although these disciplines are characterised by considerable differences, they seem to offer complementary approaches for the analysis of regional agreements. Economists have traditionally focused on the welfare effects of such agreements, beginning from the Vinerian classical dichotomy between trade-creation and trade-diversion effects to the more recent analysis on economies of scale and foreign direct investments in the context of new trade and new growth theories. Political scientists, vice-versa, have a consolidated tradition in the analysis of the causes and dynamics of international economic and political integration processes. Furthermore, in recent years there have been important contributions from International Political Economy (IPE).

The 2nd Chapter will introduce the Euro-Mediterranean Partnership (EMP). The EMP may be considered an important turning point in the relations between the countries of the northern and southern shores of the Mediterranean Basin: unlike previous European Union policies towards the Mediterranean area, the Partnership introduced the first elements related to cooperation in the political-security and socio-cultural spheres. Nevertheless the economic and financial section continues to play the central role; in particular the Euro-Mediterranean Free Trade Area continues to drive the initiative as a whole. The Chapter will analyze the main characteristics of the Partnership by taking into account the recent developments in Euro-Mediterranean relations.

Attempts to pursue regional integration within the political-security sphere of the Partnership failed just a few years after the launch of the initiative. For this reason, the 3rd Chapter will focus on the economic basket of the EMP. In order to proceed with a more detailed and in depth analysis, the research will restrict its focus on the evolution of economic relations between the European Union and the Maghreb countries, in particular Algeria, Morocco and Tunisia. These countries were chosen on the basis of their historically privileged economic relations with the EU. Furthermore, they have numerous shared characteristics, yet are different enough to make them particularly

suitable study subjects for a comprehensive analysis. After a brief overview of the economic-institutional evolution of these countries in the years of the Partnership, the evolution of Euro-Maghreb relations will be analysed in terms of trade and FDI. Finally, the chapter will deal with the limits of the Euro-Maghreb relations within the EMP framework.

The 4th Chapter aims to determine whether the Barcelona Process has contributed to establish a process of regional integration in the Mediterranean Basin according to the definition of Regional Integration Agreement introduced in the 1st Chapter; in other words, it asks whether authority over key areas of national policy is currently shifting towards the supra-national level among the Euro-Mediterranean partners. Additionally, the chapter seeks examine the characteristics of such a process of integration.

In the second part, the Chapter will consider the Euro-Mediterranean Partnership in light of the theoretical contributions introduced in Chapter 1. In doing so, the EMP will be analysed by taking into account both the economic and the political schools of thought, the underlying idea being that both the economic and the political contributions are complementary for a deeper understanding of the same phenomenon.

Chapter 1. The theoretical analysis of Regionalism

1.1 Region, Regionalism and Regional Integration Agreements

Since the early 1990s *Regionalism* has become (again) a relevant issue in the field of international studies in the context of both international economic studies and international relations disciplines⁴. In this regard Hettne (2005) argues: “(i)n the last decade regionalism, or what has become known as ‘new regionalism’, has become a prominent issue in a number of social science specialisations: European studies, comparative politics, international economics, international relations (IR) and international political economy (IPE).” (p. 543) Furthermore, he underlines that the approach of these different disciplines varies considerably by determining both an ontological problem, because there is not a general agreement on what *Regionalism* means and what it studies, and an epistemological one concerning with methodologies adopted for the study of this subject.

As a matter of fact, in the field of International Economics there is a wide consensus on what *Regionalism* means: the phenomenon of development of Preferential Trade Agreements (PTAs). According to Bhagwati (1993), *Regionalism* is to be intended broadly as preferential trade agreements among a subset of nations. Lawrence (1996) affirms that “(...) this term includes international economic arrangements among members who are drawn from disparate geographic locations. Indeed, geographic proximity is not necessarily the most important determinant participation in “regional” arrangements”. (p. 9) Likewise, official World Trade Organization (WTO) documents define a Regional Trade Agreement (RTAs) as “(...) a contractual arrangement between two or more customs territories under which they give each other preferential market access”⁵. Even in this case there is not any reference to the geographic proximity.

Similarly, many International Political Economy authors agree on this definition. In this regard Mansfield and Milner (1999) affirm, at the end of a section about these concepts, that “(s)ince much of the contemporary literature on regionalism focuses on PTAs we will emphasize them in the following analysis” (p. 592), so that – as they point out in a linked footnote – “(i)n what follows, we refer to regional arrangements and PTAs interchangeably, which is consistent with much of the existing literature on regionalism.” (p. 592, footnote 13). Accordingly, Gilpin (2003) identifies economic regionalism as the development of regional trade agreements (RTAs) (p. 351).

⁴ “Regionalism stands more and more in the centre of international economics and world politics” (Telò 2001, p. 5).

⁵ From WTO web-site www.wto.org

From these early contributions, it is possible to affirm that in the economic analysis preferential trade agreements and regional trade agreements are used interchangeably, and, besides, to assess the marginal role that geographic proximity plays for a considerable part of the analysis on economic *Regionalism*⁶.

In the field of International Relations (IR) the debate on the terms *Region* and *Regionalism* has had difficulties in reaching a shared position. As Hurrell (1995) underlines, many authors have tried to define the two terms, but often with poor results; as a matter of fact, although a big debate has developed on this topic in the last two decades, little consensus has been reached on their meanings.

For what concerns *Regions*, as Hettne (2005) points out, in IR they are usually intended as ‘subsystems of international systems’; in this regard – the author continues – the minimum definition of a world region is Joseph Nye’s one⁷: a limited number of states linked together by a geographical relationship and a degree of mutual interdependence (p. 544). Quoting Adler (1997), Fawcett (2004) argues that “(a)n other approach likens a region to a nation in the sense of an imagined community: states or people held together by common experience and identity, custom and practice” (p. 432)

After having underlined that regions have been defined in terms of social cohesiveness, political cohesiveness, economic cohesiveness, Hurrell (1995) concludes by saying that “(...) there are not natural regions remains, and definitions of ‘region’ and indicators of ‘regionness’ vary according to the particular problem or question under investigation. Moreover it is how political actors perceive and interpret the idea of a region and notions of ‘regionness’ that is critical: all regions are socially constructed and hence politically contested.” (pp. 38-39)

There is no agreement on the importance of geographic question for the definition of a region. On one side, Hurrell (1995) points out the importance of geographic limits in the definition of a region because “(...) although geographical proximity and contiguity in themselves tell us very little about either the definitions of regions or the dynamics of regionalism, they do helpfully distinguish from other forms of ‘less than global’ organization. Without some geographical limits the term ‘regionalism’ become diffuse and unmanageable.” (p. 38) On the other side, Fawcett (2004) supports a multipurpose definition of Region which may vary in size and composition by overcoming the geographic proximity question so that “(..) the Commonwealth states may form a Region, or the Islamic countries” (p. 432)

⁶ In this regard, the geographic question has characterised in particular the debate on the existence of ‘natural trading partners’, which has seen in opposition, on one side, authors as Summers (1991), Krugman (1993) and Lawrence (1996) and, on the other one, Bhagwati and Panagariya (1996) and Panagariya (1999), a debate on the positive role exercised by the geographic proximity on PTAs’ welfare effects.

⁷ This definition is taken from Nye Joseph (1968).

Similarly, in International Relations the debate on *Regionalism* has had numerous different contributions. According to Gamble and Payne (1996) *Regionalism* is “(...) a state-led or states-led project designed to organise a particular regional space along defined political and economic lines” (p. 2); similarly, for Gruegel and Hout (1999) this is “(...) a states-led project which has as its aim that of reorganising particular geo-economic spaces” (p. 10). Other authors define *Regionalism* as a more complex phenomenon which involves state and non-state actors and more complex dynamics at different levels: societal, cultural, political and economic ones.

For example, instead of a definition, Hurrell (1995) identifies a variety of phenomenon that *Regionalism* covers: a) ‘Regionalization’, meaning the development of societal interaction in the economic and/or in the social areas (a process not dependent on states’ initiatives); b) ‘Regional awareness and identity’, meaning the shared perception to belong to the same community; c) ‘Regional interstate co-operation’⁸: meaning “(...) the construction of region-wide interstate regimes in a variety of issue areas” (Hurrell 2001, p. 129); d) ‘State-promoted regional integration’, meaning the negotiation of regional economic arrangements, which represents, according the author’s opinion, a subcategory of the wider regional interstate co-operation; e) ‘Regional cohesion’, that occurs when the previous four elements combine, in this case the world attends the development of a region which “(...) plays a defining role in the relations between the states of that region and the rest of the world, and forms the organizing basis for policy within the region across a range of issues.” (Hurrell 2001, p. 130)

For Lawcett (2004) “(r)egionalism implies a policy whereby states and non-states actors cooperate and coordinate strategy within a given region. (...). The aim of regionalism is to pursue and promote common goals in one or more issue areas. (p. 433)

“Regionalism thus conceived – as policy and project – evidently can operate both above and below the level of the state; and sub- or supra-state regional activity can inform state-level activity and so on. Indeed a truly successful regionalist project today presupposes eventual linkages between state and non state actors: an interlocking network of regional governance structures, such as those already found in Europe, and to some extent in the Americas, as demonstrated in the NAFTA process.” (p. 433)

⁸ “A great deal of regionalist activity involves the negotiation and construction of interstate and intergovernmental agreements or regimes. Such cooperation can be formal and informal and high levels of institutionalization are no guarantee of either effectiveness or political importance.(...). It was this awareness that led those concerned with international cooperation to move away from the study of formal organizations and to focus instead on the broader concept of ‘regime’: ‘explicit or implicit principles, norms, rules and decision-making procedures around which actors’ expectations converge in a given area of international relations’. Regional cooperation may therefore entail the creation of formal institutions, but it can be often be based on a much looser structure involving patterns of regular meetings with some rules attached, together with mechanisms meetings and follow-up.” (Hurrell 1995, p. 42) These cooperative arrangements may be constituted for the most disparate purposes.

From these contributions, it is possible to affirm that *Regionalism* in international relations disciplines appears to be a more complex phenomenon, which includes all fields of potential cooperation, in particular economic cooperation and security (from military alliances to organization or fora for stability and dialogue at a regional level). In light of these considerations, as Hurrell (1995) argues, trade agreements represent only a subcategory of broader regional interstate co-operation. Furthermore, while in the economic context states remain the central players, at least as the signatories of trade agreements, in international political studies increasing attention is being paid to the role that non-state actors, such as trans-national corporations, NGOs, and civil society actors play in shaping this phenomenon; even if for most of the analysts states remain the main actors.

For the scope of the present research *Regionalism* will follow Gamble and Payne's (1996) definition, as a states-led process and/or project designed to organise a particular regional space along defined economic and political lines.

In particular, drawing inspiration from Mattli's (1999) studies on regional integration schemes, the present research will focus on the development of the Regional Integration Agreements (RIAs), intended as agreements by which two or more independent states decide voluntarily to link each other in the economic and political domains to the extent that authority over key areas of national policy is shifted towards the supranational level. (Mattli 1999, p. 1) The expression 'Regional Integration Agreement' will be preferred to 'Regional Trade Agreement', introduced above and widely used in the economic analysis of *Regionalism*; the former seems indeed to be broader and to better capture both the political and the economic dimensions of regional integration processes. Moreover, RTAs may be fully considered within the wider group of regional integration agreements: according to the previous definition, indeed, when two countries, through a free trade agreement or a customs union, decide to reduce mutually their tariff barriers and to not establish new ones, it is possible to affirm they are shifting "(...) their authority over key areas of national policy towards the supranational level" (Mattli, 1999, p.1). As a matter of fact, free trade areas (FTAs) and customs unions (CUs) are the early or first steps in a process of economic integration. Indeed several forms of economic integration exist, each with an increasing degree of integration (Balassa, 1961)⁹.

⁹ According to Balassa (1961), indeed, "Economic integration, (...), can take several forms that represent varying degrees of integration. These are free-trade area, a customs union, a common market, an economic union, and complete economic integration. In a free-trade area, tariffs (and quantitative restrictions) between the participating countries are abolished, but each country retains its own tariffs against nonmembers. Establishing a customs union involves, besides the suppression of discrimination in the field of commodity movements within the union, the equalization of tariffs in trade with nonmembers countries. A higher form of economic integration is attained in a common market, where not only trade restrictions but also restrictions on factor movements are abolished. An economic union, as distinct from a common market, combines the suppression of restrictions on commodity and factor movements with some degree of

After having analysed the main positions of the debate about the terms Region, Regionalism and Regional Integration Agreement, the next sections will introduce the main theoretical contributions of economic and political analysis in the study of *Regionalism*. As a matter of fact, economic studies have traditionally focused on the welfare effects of regional integration agreements, while political scientists have mainly focused on the causes and the dynamics of integration processes. For the reasons explained above, in the sections dealing with the economic analysis, the two expressions preferential trade agreements (PTAs) and regional integration agreements (RIAs) will be used interchangeably.

1.2 The economic analysis of Regionalism

The recent upsurge of preferential trade agreements and the New Regionalism

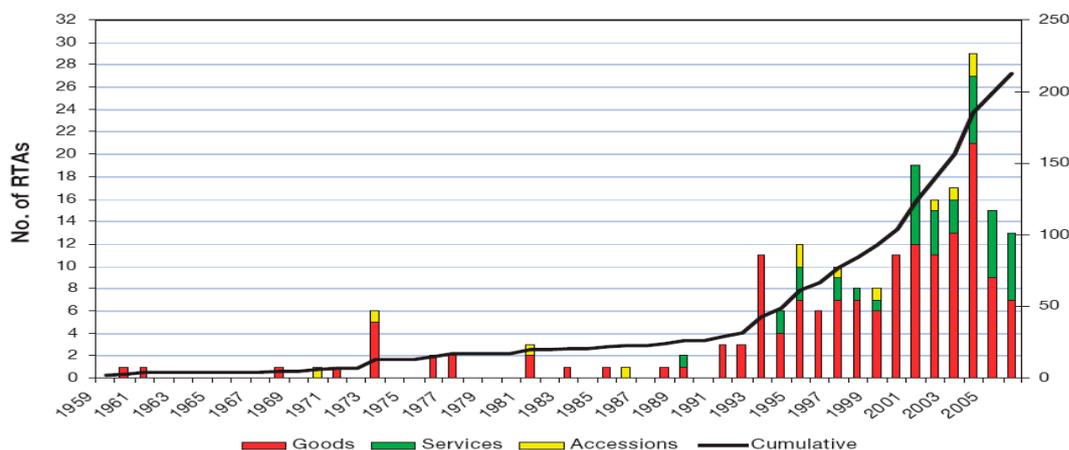
In the last two decades the number of preferential trade agreements has grown exponentially. This phenomenon began to develop at the threshold of the 1990s when two important events marked the opening of a new phase in the history of the world trade relations: on one side the completion of the European Single Market in 1992, a process started in 1986 with the adoption by the European Community (EC) of the Single European Act; on the other, the decision of the United States (US), until then the fiercest and most strenuous promoter of multilateralism, to embrace the regional option first with the ratification of the CUFTA (US-Canada FTA) and then with the signature of the NAFTA (North American Free Trade Area) in 1992¹⁰.

harmonization of national economic policies, in order to remove discrimination that was due to disparities in these policies. Finally, total economic integration presupposes the unification of monetary, fiscal, social, and countercyclical policies and requires the setting-up of a supra-national authority whose decisions are binding for the member states.” (p. 2) Moreover, Balassa describes the difference between economic cooperation and integration. “The difference is qualitative as well as quantitative. Whereas cooperation includes actions aimed at lessening discrimination, the process of economic integration comprises measures that entail the suppression of some forms of discrimination. For example, international agreements on trade policies belong to the area of international cooperation, while the removal of trade barriers is an act of economic integration.” (p. 2)

¹⁰ NAFTA was born with the admission of Mexico into the CUFTA and entered into force in 1994. According to Gilpin (2003), the European Community (EC) with the adoption of the 1986 Single European Act launched the second wave of regionalism. As consequence of this decision and facing with the EC weak approach during the Uruguay Round negotiations, US decided to put aside their opposition against RIAs and to accelerate the negotiations for the NAFTA. Single European Act and NAFTA convinced many countries to embrace the regional option during the 1990s. Similarly, Bhagwati (1993) affirms that ‘the main driving force’ for ‘new’ Regionalism is the ‘conversion’ of the US to adopt the regional option; yet, Bhagwati and Panagariya (1996) argue that the US commitment to regionalism started in 1982, when facing with the failure to establish a Multilateral Trade negotiations (MTN) in Geneva, Washington decided to proceed on two leg: multilateral talks on one side, bigger opening to regional trade agreements on the other side. To have a complete outlook of bilateral and regional US trade agreement <http://www.ustr.gov/>

From then the number of preferential trade agreements has sharply grown; nowadays, almost all the countries are involved in a RIA. The figure below, taken from Fiorentino et al. (2007) and based on WTO official database, shows this evolution, in particular the growth of the last two decades.

Fig. 1.1: RTAs notified to the GATT/WTO (1948-2006), currently in force, by year of entry into force



Source: Fiorentino et al. (2007)

According to Fiorentino et al. (2007), up to December 2006 367 RIAs have been notified, and 214 of them are currently in force. Among all the total RIAs into force, 158 cover trade in goods, 43 trade in services and 13 are accessions to existing RIAs, either in goods or in services.

While only 124 of the total number were notified during the GATT years, 243 have been notified after the institution of WTO in 1995 with an average of 20 agreements per annum¹¹. Further, 55 RIAs were notified just in 2006.

Following some remarks on GATT/WTO provisions concerning preferential trade agreements. With the Most Favoured Nation (MFN) clause, contained in Article I of the General Agreement on Tariffs and Trade (GATT), GATT/WTO member countries are forbidden to pursue discriminatory trade policies against one another, nevertheless preferential trade agreements have been accommodated through article XXIV. (Panagariya, 1999, p. 479) More in detail, article XXIV allows two types of PTAs: free trade agreements (FTAs) and customs unions (CUs). A free trade agreement deals with the liberalization of trade among its member countries, but leaves members in

¹¹ “Also significant, is the fact that of the GATT-notified RTAs only 36 remain in force today, reflecting in most cases the evolution over time of the agreements themselves, as they were superseded by new ones between the same signatories (most often going to deeper integration), or by their consolidation into wider groupings.” (Fiorentino et al. 2007, p. 4)

control of their external tariffs to third parties¹². A customs union, in addition to the liberalisation of trade, provides also for the establishment of a Common External Tariff (CET).

According to article XXIV, both FTAs and CUs are allowed only by respecting two main conditions: a) the elimination of duties and other restrictive regulations of commerce must concern ‘substantially all the trade’; b) members’ tariff protection on third parties must not increase on average after the establishment of the preferential trade agreement. Briefly, the underlying rationale was that, by forbidding selective liberalization and trade preferences, neither FTAs nor CUs would have damaged the free-market international order established under United States ‘pressure’ after the World War II¹³.

Finally, while article XXIV regulates trade in goods, article V regulates trade in services. The only exception is represented by the ‘partial scope agreements’. Under the legal coverage of GATT Enabling Clause¹⁴ these types of agreements allow members to liberalise their trade for a limited number of products; but it is important to underline that only developing countries are eligible for these agreements.

The welfare effects of regional integration agreements

The economic analysis of preferential trade agreements finds its origin in the 1950 Jacob Viner book on Customs Unions.

In spite of the then widely accepted opinion about the CUs’ positive effects¹⁵, Viner was the first author who underlined that a customs union may have both positive and negative consequences by introducing the dichotomy between ‘*trade creation*’ and ‘*trade diversion*’ effects.

Viner (1950) focused on the changes that a CU, through the removal of internal barriers and the institution of a common external tariff, may determine when it shifts member countries’ purchases of goods from lower to higher-cost supply sources or vice-versa.

After its establishment, a CU brings about positive effects when a member state starts to import it did not import previously, since domestic prices were lower than any other foreign prices plus duties; in this case, when there is a movement of the supply from higher-costs sources to lower-costs ones, the author talks of ‘*trade creation effects*’.

¹² FTAs require the definition of the Rules of Origin (ROOs) mainly to avoid the ‘*trade-deflection*’ effects. ROOs will be a subject of 3rd Chapter.

¹³ For an interesting analysis of GATT/WTO article 24 and its ambiguities, see Bhagwati (1993) and Bhagwati and Panagariya (1996).

¹⁴ Paragraph 2(c) of WTO Enabling Clause.

¹⁵ In those years, accordingly to the classical economic theories, it was widely accepted that every agreement which reduced tariffs barriers and thus market distortions would have had a positive effects on the global economy.

Vice-versa, when a member state begins to import from the other members commodities, previously imported from a cheaper non-CU source, the author speaks of '*trade-diversion effects*' since the supply is shifting from a lower-cost source to a higher-cost one.

In conclusion, in the eyes of a free-trade supporter, a CU moves in the right direction when trade-creation effects prevail over trade-diversion ones; but, as Viner himself argues, the biggest difficulty lays in determining a-priori if a CU will have positive or negative effects.

Actually, according to the classical international economic theory, a Customs Union represents a second best solution compared to the generalized multilateral liberalization of trade¹⁶. On one side, this contributes to reduce market distortions and to better allocate resources among its members; on the other side, by establishing a Common External Tariff (CET) and by maintaining other internal trade barriers, it helps to create and maintain other market distortions. As a result, a CU may be trade-creating in a number of sectors while being trade-diverting in other ones.

Furthermore, for a complete analysis of a PTA's welfare effects it is also necessary to take into account the tariff-revenue losses that an arrangement may determine and the fact that, as Viner underlines, although trade-diverting a CU may nonetheless have positive effects if its establishment implies an increased prosperity at world level. By considering all these aspects, the need for an empirical analysis to determine the trade creating or trade diverting nature of a PTA is evident.

The Vinerian theory of CU, supported and complemented by the important contributions of Meade (1955) and Lipsey (1957 and 1960) has been the main theoretical framework of economic *Regionalism* for almost 40 years, a period defined as the 'first' or the 'old' Regionalism.

This period saw the birth of what has represented until now the most ambitious and successful case of RIA: the European Community. In the same years, in the 1950s and 1960s, many developing countries in Africa and in Latin America, inspired by the successful European experience and by important theoretical essays, launched several regional integration agreements among them. All these attempts were unsuccessful.

First of all, they were characterized by a shallow integration approach in so far as they were mainly dealing with the reduction and/or the elimination of tariffs. Secondly, they were based on inward-looking policies. As a matter of fact, member countries aimed to take advantage of PTAs to launch processes of local industrialization by exploiting economies of scale and by enforcing their developmental import-substitution strategy from a country level to a regional level¹⁷. "The problem

¹⁶ "Under global free trade, countries would reallocate factors of production to achieve structures of trade, production, and employment of primary factors consistent with their comparative advantage, with welfare gains arising from increased efficiency. There is a large body of theoretical and empirical work in this tradition, working within what is commonly called Heckscher-Ohlin-Samuelson theoretic framework." (Burfisher et al. 2004, p. 5)

¹⁷ In this regard Lawrence (1996) argues "(t)he agreements among developing countries often failed miserably. This might have been expected given their motivation. They were an extension of domestic import substitution and planning

was that, rather than use trade liberalisation and hence prices to guide industry allocation, the developing countries attempting such unions sought to allocate industries by bureaucratic negotiations and to tie trade to such allocations, putting the cart before the horse and killing the forward motion.” (Bhagwati, 1993)

In some cases, PTAs led to important transfers of resources and capital from one partner to another by creating strong tensions and disputes, for example this was the case of the East African Common Market whose failure led to a war among its members. (World Bank, 2000)

The recent wave of preferential trade agreements, which has been defined as the ‘Second’ (Bhagwati, 1993) or the ‘New’ Regionalism, in opposition to a previous wave of regional integration agreements in the 1950s and 1960s, has caused a renewed interest in *Regionalism*. In particular, according to some authors, it is possible to identify specific differences between ‘old’ and ‘new’ regional integration agreements such:

i) The diffusion at global scale. Nowadays, almost all the countries participate in at least one preferential trade agreement. Furthermore, as a recent report of the World Trade Organization affirms, 43% of world trade is covered by preferential trade agreements.

ii) The outward-oriented approach. While many ‘old’ RIAs were based on an inward-looking approach in order to follow an import-substitution development strategy, new arrangements aim to increase trade and FDI through economic liberalization and the opening of markets.

iii) The ‘*Deep integration*’ features. Recent agreements do not concern only the removal of trade and no-trade barriers, but they regulate also other sectors typical of a deeper economic integration process, including investments, intellectual property rights, and the convergence of industrial standards and technical requirements, which are typical of a deeper economic integration process. Further, in the last years the number of PTAs dealing with the liberalization of trade in services has notably increased.

iv) Heterogeneous membership. Unlike ‘old’ Regionalism where agreements involved either successful North-North partnerships (i.e. European Community, EFTA) or failed South-South partnerships (i.e. African or Latin American attempts), since the early 1990s agreements have indeed involved both developed and developing countries (i.e. NAFTA, European Agreements,

policies to the regional level and were usually proposed to achieve scale economies for protectionist policies. The theory was that participating countries would become more specialized. In practice, however, given the general philosophy of trying to produce everything at home, members tended to give one other access to their markets only in those products they imported from the rest of the world. In other words, the region as a whole become more self sufficient by maximizing trade diversion. Not surprisingly such preferential trade agreements failed, especially when countries had similar pattern of specialization so that avoiding competition was almost impossible. However, even when there was scope for specialization, once the extra-regional trade was diverted, the benefits from the agreement were exhausted.” (p. 6)

Euro-Mediterranean Association Agreements); furthermore, in the last years there has been an important resurgence of South-South trade agreements (Fiorentino et al., 2007).

According to some authors (Lawrence 1996, Eicher 1998b, Burfisher et al. 2004), the emergence of new agreements with new features has made classical Vinerian theories unable or insufficient to explain the economic impact of those arrangements and need to be supplemented.

“There is a significant body of work using the methods of old trade theory to analyse impact of the new regionalism. The old paradigm is well developed, well understood, and comfortable, providing a body of conventional wisdom than facilitates analysis.

Much of this work, however, is unsatisfactory, focusing on a narrow range of forces at work and missing a lot of action arising from integration that goes well beyond commodity trade flows.

It is time to move beyond this work and incorporate elements of new trade theory in empirical and theoretical analysis of new RTAs.” (Burfisher *et al.* 2004, p.37)

Furthermore, “(...) the traditional Vinerian focus on trade creation and trade diversion in evaluating their effects often seems irrelevant, since the majority of these agreements involve instances where the bilateral trade at issue is small compared to the joint trade with other partners, and in many cases agreement partners are trade rivals in third markets.” (Whalley 2008, p. 518)

Imperfect competition and economies of scale

Among the ‘*allocation effects*’ of a preferential trade agreement, in addition to ‘trade volume’ effects, Baldwin and Venables (1995)¹⁸ also include the ‘pro-competitive’ ones: a regional agreement may enforce the possibility to reach economies of scale at firms’ level thanks to the reduction of production costs. At this regard a RIA will amplify those effects if compared to global integration. Similarly, De Melo et al. (1993) underlines that in case of perfect competition it is possible to reach economies of scale (external to firms, because if we assume economies of scale internal to firms we enter in the field of imperfect competition) either through a regional integration agreement or the unilateral trade liberalization (UTL). But in presence of economies of scale internal to firms¹⁹ and product differentiation, a FTA may assure gains bigger than unilateral trade liberalization.

¹⁸ In their essay Baldwin and Venables (1995) analyse the spectrum of the potential economic effects of regional economic integration arrangements. In particular by referring to the new growth theory, authors identify: a) ‘allocation effects’: classical trade volume dichotomy and pro-competitive effects; b) ‘accumulation effects’: medium-term *investment creation* and *investment diversion* effects; c) ‘location effect’ (long-term effects)

¹⁹ “Intuitively, if the minimum cost of production of a good along the long-run average cost curve is below the world price, both potential partners in the FTA should expand production until the marginal cost is less than or equal to the

“Assume that potential partners consume differentiated goods for which markets are monopolistically competitive and that consumers appreciate variety. Starting from an initial protected equilibrium, formation of a FTA can yield two additional types of gains not available in conventional models. First, after the FTA is formed, each partner will have tariff-free access to the varieties produced by the other. To the extent that consumers prefer more variety to less, welfare must rise. Second, as the market for each variety is likely to be larger in the post-FTA equilibrium, its scale of operation will expand. Given decreasing costs, this will yield further gains.” (De Melo et al. 1993, pp. 170-171)

To be sure, losses can derive from the distortions that a FTA may imply by protecting members against the varieties of the outside world, but according to the authors the gains seem to be predominant. Furthermore, these advantages are more probable in FTAs between rich countries with a high level of intra-industry trade; in fact product differentiation promotes economies of scale within such FTAs.

Foreign Direct Investments and the ‘Deep Integration’

“The potential for investment diversion and creation has played an important role in the public debate on RIAs, especially in North America and Europe. In Mexico, many hoped NAFTA would attract foreign investment to the country and indeed a surge in such investment did occur when NAFTA became a serious possibility (...)” (Baldwin and Venable 1995, p.1614)

The close relation between PTAs, on one side, and FDIs, on the other side, has grown in importance since the early 1990s. In those years, much of the debate on the establishment of NAFTA and the accession of Central East European Countries (CEECs) to the European Union was developing around the role that those agreements would have played in order to increase FDI flows in Mexico and CEECs, respectively.

The launch of or the accession to a PTA may contribute to attract more FDIs in two ways. Firstly, a preferential trade agreement may work as a ‘commitment’ or ‘locking-in’ mechanism; in fact, through a PTA a country can indeed decide to lock its internal process of economic reforms in an external binding arrangement. In doing so, political leaders aim to influence positively the perceptions and expectations of internal and foreign private investors (Fishlow and Haggard, 1992);

world price. They should then consume domestically as much as is demanded at the world price and export the residual. Goods for which minimum cost is above the world price should not be produced. Unilateral free trade will generally ensure this outcome.” (De Melo et al. 1993, p. 171). If a FTA is established to pursue import-competition strategy, than the will to reach economies of scale may enforce the import-competition strategy. Nowadays import competition strategy has lost influence after the failure of 1960s experience and the changed international economic environment.

in other words, they aim to reassure foreign investors about the effectiveness and the irreversibility of the undergoing process of reforms. In this regard, it is useful to underline that such a commitment mechanism will be strengthened if the PTA provides for a severe punishment mechanism in case one partner decides to terminate the agreement.

Secondly, as emphasised by several authors (Lawrence 1996, Ethier 1998b)²⁰, an important role is played by the ‘deep integration’ features which, as stated above, represent some of the main characteristics of recent agreements. Through a preferential trade agreement, member countries do not want only to promote trade by reducing tariffs barriers, but also to encourage FDI flows.

It is mainly for this reason that more recent agreements, beyond liberalization of trade, regulate also investments’ regimes, competition policies, intellectual property rights, technical standards and requirements. In addition, recent agreements increasingly also involve the liberalisation of trade in services. Services are in fact the sector which over the last years has attracted the biggest amount of FDIs. On this point Lawrence (1996) underlines that “(...) the development of regional production systems and the promotion of service investment require deeper forms of international integration, for example the elimination of differences in national production and product standards that make regionally integrated production costly. Investment also depends on credible and stable mechanisms and secure access to large foreign markets unhindered (...).” (p. 17)

For these authors (Lawrence 1996, Ethier 1998a and 1998b, Burfisher et al. 2004) ‘New’ Regionalism is a direct consequence of the increased multilateral liberalization at the global level. Since the GATT establishment eight rounds of negotiations have contributed to reach important results in lowering trade barriers. Nowadays, market economy and trade liberalisation are the main rules (are the main pillars) of an international economic environment very different compared to the 1950s and the 1960s. In this new context, the regional trade agreements represent for many developing or emerging countries the most feasible way to enter into the global market (for instance, Ethier refers to all the ex-communist countries).

“The initiatives involving developing countries are part of a strategy to liberalize and open their economies to implement export- and foreign-investment-led policies rather than to promote import substitution.” (Lawrence 1996, p. 6). Similarly, Ethier (1998b) stresses that new RTAs are often an

²⁰ According to Lawrence (1996), “(i)n many cases these emerging arrangements are also meant to achieve deeper integration of international competition and investment. Once tariffs are removed, complex problems remain because of differing regulatory policies among nations. Traditionally, such policies are determined and administered at the national level, according foreign goods and firms non-discriminatory national treatment – an approach I have called shallow integration. Increasingly, however, globalization is creating pressures to reconcile divergent national practices.” (p. 7)

instrument for developing countries to enter in the multilateral system and to attract more FDI considered as important vectors of development, employment and technological capital²¹.

New trade theory and the trade-productivity link

Another aspect taken into consideration in the analysis of RIAs' effects by Baldwin and Venables (1995) concerns the long-run growth effects deriving from the relation between trade and growth. In particular, the two authors point out the role that an RIA may play to promote technological spill-overs among its members both through an increased trade and policies aimed at favouring scientific cooperation (i.e. the activities of scientific and economic cooperation provided for by the Euro-Mediterranean Association Agreements). "This may change the international location of knowledge-producing activities and thus the growth rates and income levels." (p. 1616)

Also Burfisher et al. (2004) affirms that "(...) trade is assumed to have a role in stimulating productivity growth through channels that include technology differences among countries, knowledge spill-overs, the transmission of ideas, and market expansion that lead to increasing returns to scale and/or Smithian economies of "fine specialization" (as opposed to Ricardian differences in factor proportions)." (p. 30)

Although Computable General Equilibrium (CGE) models already include an operational link between trade and productivity, Burfisher et al. (2004) quotes several empirical studies which have found a positive relation between the increase in trade share and increase in Total Factor Productivity (TFP)²².

In the last years the theoretical debate on the welfare effects of economic *Regionalism* has moved from the 'classical' analysis on the welfare allocation effects to more recent contributions which take into account elements of the new trade and new growth theories such as imperfect competition, product differentiation and trade-productivity links. In particular, FDI has assumed a central role in the analysis of current PTAs.

21 According to Lawrence (1996) the increased attention toward FDI started from the mid-1980s, when many developing countries started a process of market opening and economy liberalisation (following the example of the NICs and under the promotion of int'l organizations). This policy implied an increasing attention towards foreign investors considered as "providers of capital, technology and operational skills." (p. 15) "The demand for foreign investment emanating from the developing countries has corresponded with an increased supply for multinational corporations. As international competition intensifies, small cost advantages may have large consequences. Particular national locations are not necessarily well suited for the complete manufacture of complex products. With improvements in communications and transportations, firms are able to produce products by sourcing from multiple locations." (pp. 15-16)

22 See Burfisher et al. (2004) for a more detailed presentation of those empirical studies pro and against the positive relations between trade and productivity. Further there is a reference to Rodrik et al. (2002) which sustains the importance of efficient institutions on trade rather than trade.

This has determined a division between the so-called free trade purists - the Bhagwati school - who strongly underline that the 'static' Vinerian effects are the "(...) principal, often only, component of regional arrangements with serious economic effects of which the static welfare effects is a key and best understood component" (Panagariya 1999, p. 482) and authors, such as Baldwin and Venables (1995), Lawrence (1996), Burfisher et al. (2004), who point out the existence of other effects deriving from the establishment of preferential trade arrangements such as FDI creation effects, economies of scale, increased productivity and technological spill-overs.

In these authors' opinion, the classical Vinerian approach appears inadequate and needs to be supplemented²³, even it is still difficult to measure those 'new' effects.

"Recognizing the deeper nature of these agreements provides important challenges for modelling their effects. Indeed these challenges have not been adequately met. For example, uncertainty about property rights and market access could have a powerful impact on resource allocation and investment, a regional agreement that guaranteed domestic firms better access to large neighbouring markets and foreign investors more secure control could boost investment and give rise to important dynamic gains. Indeed a key Mexican motive for NAFTA was to ensure that its economic reforms policies would be credible and permanent. But modelling such a process is not easy, and it is usually easier to estimate the impact of changes in tariffs and other prices than to gauge the effect of changes in rules" (Lawrence 1996, pp. 31-32)

The Domino Theory and the stagnating multilateral trade negotiations

In the last years several authors have emphasised the importance of the economic factors in order to explain the recent diffusion of RIAs.

One of the most famous attempts is represented by the 1993 Baldwin's 'Domino Theory' (1993)²⁴. The Domino Theory is closely linked with Grossman and Helpman's studies (1994, 1995), according to which national trade policies are endogenous since they are the result of the balance between the internal demand and supply of protection, in other words between pro-membership and anti-membership forces in case of the entry in a regional agreement.

23 "I argue that the new regionalism, by contrast, is largely motivated by a desire to facilitate entrance into a now much more developed multilateral trading system. The Vinerian perspective, though not irrelevant, should be secondary in theoretical models appropriate to an analysis of the new regionalism." (Ethier 1998b, p. 1150)

24 It is important to say that Baldwin develops its theory on the causes of Regionalism in order to contribute to the debate Regionalism vs. Multilateralism; as a matter of fact the Domino Theory confirms its theory that Regionalism will promote a global free trade order.

According to Baldwin (1997) the creation of a new regional initiative, or the deepening of an existing one, may cause important trade diversions and FDI diversion effects and, consequently, it can upset the existing balance in non-member countries: pro-membership forces will find important reasons to lobby to join the agreement, when possible, or to form a new one among the excluded nations²⁵.

According to Baldwin's theory there is always an event which causes the domino effects; for instance, this is what happened in the American continent where the launch of NAFTA provoked both the request of many Latin American countries to join the agreement, and, at the same time, the decision of Argentina, Brazil, Paraguay and Uruguay to constitute the MERCOSUR.

As seen above, several authors (Ethier 1998a and 1998b, Lawrence 1996) argue that the entry or the launch of a PTA represents for many developing countries an important step of a development strategy which aims to both promote trade and attract more FDI. Their contributions were influenced by the important events that were taking place in the mid-1990s, in particular the launch of NAFTA and the beginning of the enlargement process of EU to include the ex-communist Central and East European countries²⁶. These initiatives involved both developed and developing countries and showed the so-called 'deep integration' features by going beyond the simple removal of trade barriers. From this point of view, the authors' arguments are useful to grasp and to analyse important aspects of the then emerging New Regionalism, such as the role of FDI for developing countries and the importance of the deep integration features, but not enough to explain completely a phenomenon that today seems to be more complex and can not be interpreted just as a step in a development strategy to enter in the global market.

Recently, economists agree on identifying two main causes behind the recent upsurge of RIAs': the flexibility of preferential trade agreements and the sluggish WTO negotiations.

Already Krugman (1993) had underlined that one of the main causes of RIAs was that by involving a smaller number of participants, regional agreement negotiations were more profitable compared to multilateral tables and that it was more easy to customise agreements by going beyond trade liberalisation.

25 " (...) forming a Free Trade Area or deepening an existing one determine a trade and investment diversion effects. This diversion generates new political economy forces in non-participating countries. (...)The pressure increases with the size of the trade bloc, yet bloc size depends upon how many nations join. Clearly, then, a single incidence of regionalism may trigger several rounds of membership requests from nations that were previously happy as non-members. If the trade bloc is open to expansion, regionalism may spread like wildfire. If the enlargement 'burn-path' is barred, the new political economy flames may find vent in preferential arrangements among excluded nations. Notice that such regionalism could occur despite any progress being made in ongoing multilateral talks, unless these also promised to fully offset the discrimination" (Baldwin 1997, pp. 877-878)

26 This process finished in May 2004 when 10 countries joined the European Union.

Just in this vein Fiorentino et al. (2007) says on the prevalence of FTAs (92%) to CUs (1%) among the proposed RIAs²⁷. “The preference for FTA is a reflection of the defining characteristics of the current RTA race; the key attributes appears to be speed, flexibility and selectivity and the FTA is, in most cases, the configuration that best meets these needs.” (p. 6)²⁸ Furthermore, the duration of negotiations has decreased in recent years.

Along with PTAs giving their members the chance to customise agreements in accordance with their needs; Whalley (2008)²⁹ points out that the sluggish multilateral process, especially in regard with non-tariff topics, gives regional agreements bigger rooms of manoeuvre.

Like Whalley (2008) several scholars argue that the recent exponential growth of RIAs has been influenced by the stagnating multilateral negotiations, particularly the difficulties that WTO faces in regulating non-trade areas.

In light of the inability to regulate non-trade sectors at the WTO level, as the difficulty in concluding the Uruguay round and the stagnating negotiations in the current Doha Round show, RIAs represent the best alternative for countries to regulate non-trade sectors.

“In terms of the so-called WTO plus issue, almost all of these RTAs include references to competition, government procurement, intellectual property and investment provisions among others; however, the treatment of these trade policy issue varies from detailed provisions and commitments to frameworks providing for future negotiations” (Fiorentino et al. 2007, p. 13)

From this point of view Singapore’s recent preferential trade agreements are the clearest examples. Singapore, which is essentially a no-tariffs country, has indeed established in the last decades several regional integration agreements with both developed and developing or emerging countries. One of the lasts has been the free trade area with the Cooperation Council for the Arab States of the Gulf (GCC), a regional organization which includes six Gulf countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.

The agreement contains provisions for the liberalization of trade in goods and in services, but also for investments, rules of origin, customs procedures, government procurement, and standards and

²⁷ FTAs account for 84% of total PTAs in force, while CUs and partial scope agreements represent 8% respectively.

²⁸ Vice-versa Customs Unions are characterised by more strict technical requirements due to the coordination of commercial policies and this involves less flexibility. A launching of a CU goes beyond trade relations by involving political objectives such as “political integration, economic and monetary unions, supranational institutions” (p. 7)

²⁹ Actually, Whalley (2008) lists four reasons to explain Regionalism today: (1)PTAs give partner a bigger flexibility in customising the agreement according to their needs; (2) The linkage to the multilateral process, that is sluggish multilateral process (in particular with reference to no tariff problems) give regional agreements bigger rooms of manoeuvre;(3) The decision of the biggest economic players to choose the regional option (“Driven by their desire to be inside blocs, smaller countries then sought safe-haven agreements. RTAs became acceptable currency and as a platform for wider use their coverage grows.” (p. 530)); (4) RTAs represent an opportunity for negotiators to make carrier.

technical requirements. Actually, the agreement aims in particular to promote the utilization of Singapore's *halal standards*, and to regulate better investments and the right of establishment³⁰.

Theories of Political Economy

In recent years several political economy studies have analysed the role of domestic groups and societal pressures in shaping regional trade agreements.

Grossman and Helpman (1994, 1995)³¹ in particular have developed a model to explain how (and which) private interest groups are successful in influencing governments' trade policies. According to their analysis, in order to shape their trade policies decision makers take into consideration both the electorate's demands and the requests of private industrial interest groups as important political supporters³². "Politicians respond to the incentives they face, trading off the financial and other support that comes from heeding the interest groups' demands against the alienation of voters that may result from the implementation of socially costly policies." (Grossman and Helpman 1994, p. 833) Through their model authors reach the conclusion that a Free Trade Agreement is more likely when the arrangement reflects 'a relative balance in the potential trade between the countries' and when the agreement promotes an increased protection, that is when an agreement is substantially trade diverting. Moreover, in some cases, it is necessary to exclude some industrial sectors from the agreement's scope to make it more politically viable³³ (i.e. the European Union Common Agricultural Policy).

Milner (1997) underlines that export-oriented groups or firms with increasing return of scale usually prefer a preferential trade agreement.

Mansfield and Milner (1999)³⁴ concentrate their attention on the role of policy makers as those who take the final decisions. The two authors introduce different situations: in some cases, policy makers

³⁰ Source: www.gulfnews.com; <http://archive.gulfnews.com/business/Trade/10267579.html>

³¹ It is important to underline that how the same authors underline the model they develop is useful to develop trade policies in representative democracy.

³² "We have examined the conditions under which a free-trade agreement might emerge as an equilibrium outcome of a negotiation between politically minded governments. The governments, we imagine, respond to political pressures from industry special interests but also pay some heed to the plight of average voters." (Grossman and Helpman 1995, p. 687)

³³ "If some industries can be excluded from an FTA, the prospects for an agreement improve. Each government would wish to exclude those sectors whose inclusion would impose on it the greatest political costs. Political costs reflect either the fierce opposition of the import-competing interests or the harm that would be suffered by the average voter in the face of inefficient trade diversion. By excluding some sensitive sectors, a government may be able to diffuse the opposition to an FTA." (Grossman and Helpman, 1994, p. 687)

³⁴ "In the final analysis, the decision to enter a PTA is made by policymakers. Both their preferences and the nature of domestic institutions condition the influence of societal actors on trade policy as well as independently affecting whether states elect to embark on regional trade initiatives. Of course, policymakers and politically potent societal groups sometimes share an interest in forming a PTA." (Mansfield and Milner, 1999, p. 604)

may decide to promote a PTA to assure themselves the political support of powerful domestic interest groups; in other cases, decision makers may establish a regional agreement to launch a programme of reforms that was impossible to pursue unilaterally due to the strong opposition of influential domestic groups. In the last case the entry in a preferential trade agreement may then work as a ‘commitment’ or locking-in’ mechanism: facing the impossibility or the extreme difficulty to proceed unilaterally with a process of economic reforms, political leaders choose to bind the country to an RTA.

“For a state that is interested in making liberal economic reforms, the attractiveness of locking them in through an external mechanism, such as joining a PTA, is likely to grow if influential segments of society oppose reforms and if domestic institutions render policy makers especially susceptible to societal pressure” (Mansfield and Milner 1999, p. 605)

Two elements are important for the well functioning of such mechanism: (1) government must have the tools to overcome the opposition groups and to join the PTA; (2) the existence of a credible regional agreement’s ‘punishment mechanism’ in case members decide unilaterally to terminate the agreement.

As seen in the previous sections, the ‘commitment’ mechanism can work both on the internal side and on the foreign one. For example, Fishlow and Haggard (1992) argue that NAFTA was useful for President Solinas both for continuing on the way of the economic reforms launched by its predecessor, but also “to influence positively the perceptions and expectations of the private sectors, both domestic and foreign.” (p. 23)

1.3 The political analysis of Regionalism. The International Relations theories

As seen above, economists have mainly focused on the welfare effects of regional integration agreements and they have recently paid an increased attention to the reasons behind such agreements.

Political scientists have been dealing with political and economic integration for a long time³⁵ now, but the first theories of regional integration emerged only with the building up of the European Communities; since then the most influential schools of thought on regional integration have been: *Neofunctionalism*, *Liberal intergovernmentalism*, *Neorealism*, and *Neoliberalism* (Gilpin, 2003).

³⁵ Mansfield and Milner (1997) point out that many researches have been conducted on the political factors that shape regional arrangements already from the 1960s. “Much of the early work conducted by political scientists on regionalism focused on economic and political integration. (Among the most influential approaches to the study of integration were functionalism and neofunctionalism.)” (Mansfield and Milner 1997, pp. 5-6)

In point of fact, with the purpose to favour a peaceful management of international relations, before World War II some scholars already advanced potential solutions to promote political integration at the global level, including *Federalism* and *Functionalism*, which cannot be properly considered political theories. *Federalism* is a system of government in which political power is exercised both by the central federal state and by the member states, and public functions are shared among different levels – central and national - of government. In a federal system national states give part of their political autonomy or sovereignty to supra-national institutions. Federalist ideas played a important role especially during the first years of the European integration process, as a potential model for the starting European Communities. *Functionalism* (Mitrany, 1943) states the necessity to establish international institutions for the technical governance of specific sectors (i.e. telecommunications, postal services) in order to better manage an increasingly economically and technologically interdependent world. Thanks to their good functioning, international institutions would increase their legitimacy and power, so that national states would continue to entrust them with the management of crucial sectors until they would eventually recognize the necessity and the opportunity of a pacific international cooperation.

Neofunctionalism (Haas, 1958) can be considered the first structured theoretical attempt to explain economic and political integration processes, with a particular reference to the European experience. Like Functionalism, Neofunctionalism assumes that economic cooperation will conduct to political and social integration. *'Spill over'* is the key-concept. Once economic integration is be successfully working in a number of sectors, this will cause economic stakeholders to press for more economic integration in other sectors. Finally, increased economic integration will automatically lead to forms of political integration. Unlike Functionalism, which stresses the central role of political decision-makers for the creation of international institutions, Neofunctionalism identifies in the domestic interest-groups (such as export-oriented groups) and in the international public officials, which with the passing of time develops more attachment to international institutions rather than to their country of origin, the main forces pushing towards deeper economic integration.

In 1975 Neofunctionalism was renounced by the founder himself after France refused the entry of Great Britain into the European Community. This event showed the failure of the spill-over mechanism as central element of the integration process, and further emphasized the role of the political will of national states for the promotion of integration processes.

In opposition to Neofunctionalism, *Liberal Intergovernmentalism* (LI) (Moravcsik 1993, 1998) represents the other 'big' theory of the European integration

As for Neofunctionalism, Moravcsik stresses the role of economic interests in promoting regional integration and the role of international institutions in managing and facilitating such a process; but unlike Neofunctionalism, Liberal Intergovernmentalism emphasises the central role of the states and of the economic national interest-groups. Political leaders join a process of regional economic and political integration on the basis of their macroeconomic preferences and by taking into account the interests of their domestic interest-groups.

One of the major critics to LI has been that it does not take sufficiently into account geo-political reasons, so that it does not help to explain why only rarely does economic integration lead to political integration (i.e. EU vs. NAFTA) (Gilpin, 2003)

Besides this first group of theories, which have mainly dealt with the European integration process, there is another group of International Relations systemic theories³⁶, which are providing an important contribution towards analysing and explaining current regional integration processes, in particular *Neorealism* and *Neoliberalism*. Although there is no specific *Neorealist* theory on *Regionalism*, several studies have been conducted within this theoretic framework, and they have focused mainly on the links between economic relations and strategic and geopolitical objectives, between trade and power relations.

Within an anarchic international system the state, which is supposed to act as a unitary and rational actor, plays the central role. Its main scope is to safeguard own security and survival. In this context the processes of political and economic integration reflect the interests of states to guarantee their economic and military security, and preferential trade agreements become instruments to pursue strategic and geopolitical objectives.

Within the neorealist framework an important branch of research concerns the *Theory of the Hegemon*. According to some authors, the recent upsurge of regional integration agreements is the consequence of the decline of United States as hegemonic power in the international system. The “Hegemonic stability theory” finds its origin in the Kindleberger essay on the 1929 big world depression (1973)³⁷ and has been recently adopted and promoted by several neorealist scholars (Gilpin 1987, 2003; Grieco 1997) who underline the importance of a leader, able to promote international agreements and to overcome mutual distrusts, in order to guarantee a stable

³⁶ Systemic theories stress the role of the structure of the international system in influencing the behavior of the nation-states; hence, *Neorealism*, rather than *Realism*, emphasises the role of the international system structure in shaping the behaviour of nation-states (Baldwin D., 1993)

³⁷ According to Kindleberger the main cause of the 1929 world depression was the lack of leadership (it is interesting to note that Kindleberger in its essay talks of leadership and not of hegemony) since there was no power able to assure the stability of the international economic system through “(a) maintaining a relatively open market for distress goods; (b) providing counter-cyclical long term lending; and (c) discounting in crisis.” While Britain played such a role until the 1913, in 1929 London was not more able to play such a role and the United States which, according to the authors has the economic power to do it, decided to do not intervene in that direction by choosing the protectionist way with the adoption of the Smoot-Hawley Tariff Act in 1930.

international economic system. Today, not everyone agrees on the real decline of American hegemonic power. As Milner (1998) argues, even though in the 1960s and 1970s US hegemony suffered serious setbacks (i.e. the Vietnam War and the end of the Bretton Woods system among the main causes) while other countries were emerging, in the last two decades Washington seems to have recovered a predominant role³⁸.

Other authors have focused on the relations between trade and security, in particular between political-military alliances and trade flows (Gowa 1994, Gowa and Mansfield 1993 and 2004, Mansfield and Bronson 1997). These authors conclude that a positive relation exists between these elements meaning that trade flows are positively influenced by the existing of military alliances between such countries.

“Alliances are likely to influence trade flows because commerce generates efficiency gains that augment the potential political-military power of states. A state has incentives to limit trade with actual or potential adversaries, since increases in their power threaten to undermine its security. A state also has incentives to liberalize trade with allies, since the gains from trade bolsters the alliance’s power, thereby enhancing its security.” (Mansfield and Bronson, 1997, p .188)

Similarly, White (2005) argues that a preferential trade agreement may work as a tool to support or consolidate strategic-political alliances, for instance in the ‘war on terror’. White (2005) suggests that behind the Free Trade Agreement that United States signed with Morocco in 2004 there is an important security component, in other words US uses free trade agreements as an instrument to reward a country which has proven to be a close US ally in the region, especially in the ‘war on terror’ after the 9/11 attacks. In this regard the author underlines that the US-Morocco FTA was signed a month after the nomination of Morocco as non-NATO ally of the US in June 2004.

Other authors analyse *Regionalism* as a way, especially for big economic powers, to extend and consolidate political and economic power.

Several studies have been conducted on this point, in particular on the case of European Union. For instance, the European Union decision in the mid-1990s to integrate the Central East European Countries and to launch a Euro-Mediterranean Partnership with North African and Middle East (MENA) was interpreted by many scholars as an attempt to redefine own zones of influence after the end of the Cold War.

Aggarwal and Fogarty (2004) suggest that one explanation of European trade policies reflects “ (...) the EU motivation of promoting its collective political and economic influence and security

³⁸ “By the mid-1990s, the decline of U.S. hegemony no longer seemed so assured. Claims about the decrease in U.S. power appeared exaggerated given the demise of the Soviet Union, persistent recession in Japan, high unemployment and slow growth in Europe combined with the challenge of integrating Eastern Europe in to the European Union, and American industry’s return to competitiveness.” (Milner, 1998)

within the international system” (p.12)³⁹. According to their opinion, in an international system characterised by an increased international economic competition EU pursues its strategic and security interests also through its trade policies. Through its trade policies EU uses its economic strength to guarantee its economic security, by assuring economic resources and the accession for their production and for their enterprises to international markets, and to promote its influence as international actor, in particular to counter US hegemony⁴⁰. EU trade strategy could be seen “ (...) as classic balancing behaviour and a response to the American pursuit of a similar strategy, particularly through APEC and FTAA.” (p. 12) Similarly Zimmermann (2007) affirms that EU trade policies are often driven by geopolitical preferences. In particular Zimmermann talks of ‘positional competition’ as the main driving force of EU trade policy vis-à-vis US strategies⁴¹.

The main theoretical challenge to *Neorealism* is represented by the *Neoliberalism* (or *Neoliberal institutionalism* or *Neoinstitutionalism*)⁴². As Hurrell (1995) affirms Neoliberalism has not developed focusing on *Regionalism* but on international cooperation, nevertheless it represents “(...) an highly plausible and generalized theory to understand the resurgence of regionalism” (p. 61) Although in contrast between each other, Neoliberalism and Neorealism have many elements in common; actually, Neoliberalism starts from basic neorealist concepts such as the anarchic nature of the international system and the central role of the state, conceived as a rational actor whose actions are driven by its national interests (Hurrell 1995).

The two theories differ on the role and the function of international cooperation in the international arena. “Although both sides agree that international cooperation is possible, they differ as to the ease and likelihood of its occurrence. According to Grieco (...), neorealists view international cooperation as ‘harder to achieve, more difficult to maintain, and more dependent on state power’ than do neoliberals.” (Baldwin D. 1993, p. 5)

Not only do Neoliberals argue that the anarchic nature of the international system does not preclude states from cooperating, they also believe that increasing interdependence at the global level

³⁹ Since there is not a well functioning CSFP “the EU can best punch its weight in international politics by granting and/or restricting access to the large and rich European market” (Aggarwal and Fogarty 2004, p. 13). EU as a Civilian power.

⁴⁰ In the analysis of the EU relations with Gulf Cooperation Council (GCC) Antkiewicz Agata and Momani Bessma (2007) state that US are not the only competitor; China and India are also emerging international competitors.

⁴¹ Zimmermann (2007) affirms that the position that EU held during the negotiations of China and Russia entry in WTO were mainly driven by geopolitical preferences rather than internal factors such as domestic groups. EU behaviour “it is motivated by the goal to enhance the EU’s competitiveness vis-à-vis other great powers and to support overall EU external preferences. In this sense, the EU also pursues strategic goals other than commercial objectives in its trade talks and will, if necessary, subordinate the interest of societal groups for the sake of its overall strategy” (Zimmermann, 2007, p. 818)

⁴² Keohane (1984) may be considered the most renewed scholar of *Neoliberalism*. “The immediate precursors of liberal institutionalism are theories of international regimes” (Baldwin 1993, p. 4). Krasner (1983) developed the theory of international regimes, where regimes are “(...) sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors’ expectations converge in a given area of international relations.” (p. 2)

promotes cooperation among states. According to neoliberals “(...) increasing levels of interdependence generate increased ‘demand’ for international cooperation” (Hurrell 1995, p. 61)

In this regard, international institutions, or better yet international regimes⁴³, allow states to solve the dilemmas of coordination and cooperation they meet in the attempts to cooperate between each other⁴⁴. “International institutions create incentives for states to cooperate by reducing collective action problems; by lengthening the “shadow of the future”, thereby enhancing the prospects for states to engage in strategies of reciprocity; and by increasing the ability to link various issues, thereby increasing the costs for states of failing to comply with established rules and norms.” (Mansfield and Milner 1997, p. 6)

Institutions, in fact, matter through “(...) the provision of information, the promotion of transparency and monitoring, the reduction of transaction costs, the development of convergent expectations, and facilitating the productive use of issue-linkage strategies.” (Hurrell 1995, 67)

Finally, Hout (1999) argues “(n)eo-institutionalists do not accept the neo-realist claim that the existence of a hegemon is a necessary condition for the establishment of regimes. According to Keohane (1984: 78), the creation and maintenance of regimes depends, first and foremost, on the existence of shared interests.” Further, he adds “(t)he ‘density’ of ‘policy spaces’ is seen as an additional factor in explaining the decision to form international regimes. In a dense policy space, different issues will be closely linked, and decisions on one issue will have implications for other issues. In such a case, the creation of a regime can be seen as an efficient solution, for it will reduce the coordination costs involved in determining the effects of different agreements on one another.” (p. 17) Among neoliberals authors include those who support the idea that regional integration agreements by increasing economic interdependence (through trade and FDI) may have positive effect on cooperation at the political and security level.

“Theoretically, the composition / re-composition of a regional economic space is a structural element for the security, due to the cooperative mechanism it helps to activate and which has a direct, or more often, indirect effects on security’s processes.” (Troiani, 2000, p. 165)

Within this framework there are the authors who sustain that economic integration may work as a confidence-building measure to promote political cooperation and international stability. Economic institutions can in fact help to overcome mutual distrusts..

Two classical examples are the European Community, which was born to promote economic cooperation, particularly between two traditional rivals, France and Germany; similarly,

⁴³ Krasner (1983) developed the theory of international regimes, where regimes are “(...) sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors’ expectations converge in a given area of international relations.” (p. 2)

⁴⁴ “Neo-liberal institutionalist approaches to international relations place much more stress on cooperation among states than do neo-realist one.” (Hout, 1999, p. 16)

MERCOSUR was launched to strengthen relations between the two regional leaders Brazil and Argentina.

1.4 Conclusions

In the last decades the number of regional integration agreements has grown in an exponential way. Since 1995 20 new RIAs have been launched every year, a process which involves almost all the countries in the world.

Today *Regionalism* is mainly an economic phenomenon which takes the shape of free trade areas and customs unions

Nowadays, almost all countries participate in a regional integration agreement; and even the geographical areas that had long been excluded, such as the Asia-Pacific area, currently see a rapid spread of PTAs.

Along with the 'traditional' economic powers, such as the European Union and the United States, new emerging powers such as India and China have also assumed a leading role in creating new agreements (i.e. China-Pakistan FTA, The South Asian Association for Regional Cooperation - SAARC-).

Nevertheless, very often such agreements are motivated by important geo-political and security reasons, which may go from ensuring energetic security to safeguard regional stability.

For this reason this chapter has introduced both the economic and political analysis of regional integration agreements.

Next Chapter will deal with one recent agreement, the Euro-Mediterranean Partnership.

Chapter 2. The Euro-Mediterranean Partnership

2.1 The Euro-Mediterranean Partnership

The Euro-Mediterranean Partnership (EMP) was launched in 1995 during the Barcelona Conference of the Euro-Mediterranean Ministers of Foreign Affairs.

The main document, the *Barcelona Declaration*, was signed⁴⁵ by both the representatives of the then 15 member states of European Union (EU) (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, the United Kingdom, Sweden) and of 12 Mediterranean partner countries (MPCs) (Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, the Palestinian Authority, Syria, Tunisia, Turkey).

The launch of the EMP represented an important event within the complex relations among the countries around the Mediterranean Basin as to be considered a historical turning point: unlike previous agreements, mainly focused on commercial aspects, in fact the Partnership instituted a new framework of cooperation between EU and the Middle East and North African countries (MENA) by including not only economic aspects but also political-security and socio-cultural elements.

Since 1995 EMP membership has notably increased in particular after the two 2004 and 2007 EU enlargements when twelve new countries joined the European Union⁴⁶. Further, Albania and Mauritania acceded to the EMP in 2007 and Bosnia and Herzegovina, Croatia, Montenegro and Monaco entered the Partnership with the launch of the 'Barcelona Process: Union for the Mediterranean' in 2008.

The present research will consider these changes and, in particular, the recent Union for the Mediterranean; nevertheless, in order to answer the two main questions at the basis of this work, that is to analyse if the EMP is promoting a process of regional integration in the Mediterranean Basin and how this process might be collocated in the theoretic framework of Regionalism, the focus will be on what can be defined the original structure of the Partnership, by concentrating mainly on the relationship between EU, on one side, and MENA countries, on the other side, and in doing so by excluding from the scope of the research the 2007 and 2008 new EMP members, whose relations with EU are actually regulated within different institutional frameworks.

⁴⁵ The declaration was also signed by a representative of the Council of European Union and by one of the European Commission.

⁴⁶ With the two 2004 and 2007 EU enlargements twelve new countries joined the European Union (Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia). Finally Libya entered into the Barcelona Process in 1999 with the status of 'observer'.

2.2 The historical background

The attention of the European Economic Community (EEC) to the Mediterranean countries dates back to the first years of its institution and it was based mainly on pre-existing colonial links (Joffé, 1997). During the 1960s, the European Economic Community signed its first commercial and tariff agreements with many of these countries. The first accord was reached with Lebanon in May 1965⁴⁷; this was followed in 1969 by the ones with Morocco and Tunisia⁴⁸ and in 1972 it was the time for Egypt.

At the 1972 Paris Summit, the European Communities Heads of State and Government launched the Global Mediterranean Policy (GMP). The GMP met the need, often raised within the EEC, to put in place a more comprehensive and coherent Mediterranean policy; for this reason, its main aims were to harmonize previous commercial agreements and to enlarge their scope.

Within the GMP framework, in April 1976, new Cooperation Agreements were signed between the EEC, on one side, and Algeria, Morocco, Tunisia (the Maghreb countries), on the other side. A year after, in January, the EEC signed three other Cooperation Agreements with Egypt, Jordan and Syria (the Mashrek countries). Finally, in May 1977, a Cooperation Agreement was signed with Lebanon. All Cooperation Agreements entered into force at the end of 1978 and presented the same structure with a commercial section and a financial one: the former represented the central part of the treaty aiming at promoting the free circulation of industrial goods⁴⁹ through the reduction of tariffs and others trade barriers; the latter defined the European financial support for investments and development projects⁵⁰. Further, Cooperation Agreements provided for the establishment of an institutional framework which included a Cooperation Council and a Cooperation Committee where both representatives of the EEC and the MENA country took part in.

Cooperation Agreements were renewed for 2 times⁵¹ and each time was characterized by an increased financial support and by better preferential trade conditions. Nevertheless, GMP's outcomes continued to be not satisfying; in particular, trade was increasing just in one direction: in 1985 European market represented 60% of Maghreb countries exchanges, while Maghreb countries represented only 2% of European exchanges (Hen, 1997) by showing an asymmetry that has been

⁴⁷ The agreement with Lebanon entered into force in 1968.

⁴⁸ Even in this case the agreements dealt with commercial relations, but, unlike the one with Lebanon, they provided for reciprocal trade preferences. EEC conceded trade preferences such as tariff exemptions for industrial products and some reductions for agricultural products; in general, European concessions were bigger compared to the Tunisian and Moroccan ones (Rossolini, 1979).

⁴⁹ Unlike 1960s' agreements, only EEC gave preferential treatment to MENA products; Cooperation Agreements did not provide for any preferential treatment accorded by the MENA countries to Communitarian industrial products (Rossolini, 1979)

⁵⁰ These funds were tripartite: EEC aids, European Investment Bank (EIB) loans and EEC loans.

⁵¹ Last agreements expired in 1991.

characterizing Euro-Med trading relations until now. Moreover, in the agricultural sector exchanges achieved low performances due mainly to the European Common Agricultural Policy (CAP) that limited strongly the import of agricultural products in EEC countries

In order to overcome GMP limits, in December 1990 the European Council launched the Renewed Mediterranean Policy (RMP). Although in continuity with previous policies, the RMP introduced several new elements. In particular, beside an enhanced trade openness and an increased financial support, it started a new type of horizontal cooperation introducing the first elements of a European multilateral or regional approach in the area. The RMP allocated funds to promote initiatives of regional interest as the construction of regional infrastructures, the control of demographic trends, and the development of joint cultural activities. Further, new Cooperation Agreements provided for special funds to support the Structural Adjustment Programmes (SAP) which were undergoing in many of the Mediterranean partner countries.⁵²

Although these important changes, it can be affirmed that the Renewed Mediterranean Policy was born already 'old'; in those same years, in fact, a new important stage in the European integration process was taking shape: in 1992 the Treaty of Maastricht⁵³ ratified the born of the European Union. The European Union went beyond its 'original' economic dimension (i.e. the creation of a common market) by introducing a European Common Foreign and Security Policy (CFSP), and police and judicial cooperation in criminal matters (JHA). Without doubts those changes determined a shift from the 'traditional' EU economic approach to the Mediterranean area, focused mainly on market liberalisation and financial cooperation to a more complex geopolitical and security approach. With the new EU CFSP the Mediterranean area became an area of European 'common interests' on the basis of factors such as: the geographical proximity; the EU interest in the political and economic stability of the region; the existence in the Mediterranean area of threats to the security interests of the European Union. In particular, the stability of the area became a major concern for the EU (European Council, 1992) .

"The Southern and Eastern shores of the Mediterranean as well as the Middle East are geographical areas in relation to which the Union has strong interests both in terms of security and social stability. The Union has therefore an interest in establishing with the countries of the area a

⁵² Many MENA countries were following since 1970s a programme of Structural Adjustment with the 'supervision' of the International Monetary Fund and the World Bank. Morocco started a plan of Structural Adjustments in 1982 with the purpose of stabilize macroeconomic indicators and to proceed toward the liberalization of market.

⁵³ The Treaty on European Union was signed in Maastricht on 7 February 1992 and entered into force on 1 November 1993. The Treaty on European Union (TEU) represents a new stage in European integration since opens the way to political integration. It creates a European union consisting of three pillars: the European Communities, Common Foreign and Security Policy (CFSP), and police and cooperation in criminal matters (JHA). The Treaty introduces the concept of European citizenship, reinforces the powers of the European Parliament and launches economic and monetary union (EMU). Besides, the EEC becomes the European Community (EC). From: http://europa.eu/legislation_summaries/economic_and_monetary_affairs/institutional_and_economic_framework/treaties_maastricht_en.htm

relationship of good neighbourliness. The goal should be to avoid a deepening of the North-South gap in the region by favouring economic development and promoting full respect for human rights and fundamental freedoms and the development and consolidation of democracy and the rule of law.”⁵⁴ (European Council, 1992, pp. 20-21)

In this regard it was necessary to define an ‘approach favouring partnership’⁵⁵ aiming at: a constructive dialogue based on the respect of international law principles; cooperation in all economic fields; cooperation on foreign policy to combat against terrorism, drug traffic, and to arms control; the promotion of regional integration. (European Council, 1992)

The 1995 Barcelona Declaration will contain all these elements.

2.3 The Barcelona Declaration

The Barcelona Declaration, the document which founds the Euro-Mediterranean Partnership, is divided in three chapters: the Political and Security Chapter, the Economic and Financial Chapter and the Social, Cultural and Human Chapter.

The Political and Security Chapter emphasizes the role of political dialogue among partners in order to promote peace, stability and security in the Mediterranean region. Dialogue should be based on the respect of the international law principles and on the values of democracy and human rights. Main aims are: to guarantee a constant flows of information for a better knowledge among the parts; to promote cooperation in combating terrorism, crime and drug traffic and in respecting WMD non-proliferation agreements; to promote regional and sub regional cooperation.

The Economic and Financial Chapter promotes a stable socio-economic development in the Mediterranean countries and to promote their integration in the world economy in order to reach ‘*peace, stability and prosperity*’ in the region.

Within this chapter the most important initiative is the establishment of a Euro-Mediterranean Free Trade Area (EMFTA) in 2010 through a progressive and mutual tariffs dismantling. Besides, a process of economic modernization and institutional reforms is promoted to compete on the international markets. Further, the Economic and Financial Chapter defines a strengthened and

⁵⁴ It should be stressed that at the Lisbon Council the relations with Maghreb countries were more emphasized. In fact, for some authors this was the first phase of a Euro-Maghreb association. Only in a second moment this approach was enlarged to the Mashrek and Middle East Area. When talking of the Middle East the focus is on the necessity to work for the stability in the Region by the pursuing of the Peace Process.

⁵⁵The Annex IV of the Lisbon European Council Conclusions (“Declaration by the European Council on Relations between Europe and the Maghreb”) points out the necessity to develop an “approach favouring partnership” by including the political dialogue, the economic development of the Maghreb countries and the socio-cultural cooperation.

wider cooperation in many important sectors such as energy, infrastructures, telecommunications and information technologies, agriculture, scientific and technological fields; moreover, joint initiatives are strongly encouraged to improve the women's condition and the environment (i.e. water supply).

The Social, Cultural and Human Chapter is based on the assumption that reciprocal knowledge among civil societies, cultures and religions in the Mediterranean Basin is an essential condition to achieve a peaceful and stable cohabitation in the area; the respect of differences represents the main condition to avoid intolerance and racism and to promote an in-depth knowledge. Further, the Barcelona Declaration provides for an increased cooperation and a mutual engagement in developing modern Social and Health sectors and in a common management of migratory flows. In this regard, in 2005, during the 10th Anniversary Euro-Mediterranean Summit, a fourth Chapter of cooperation on 'Migration, Social Integration, Justice and Security' was introduced.

For what concerns the institutional structure, the Barcelona Declaration sets periodical meetings of the Euro-Mediterranean Ministers of Foreign Affairs in order to "(...) monitor the application of this Declaration and define actions enabling the objectives of the partnership to be achieved". (Barcelona Declaration 1995, p. 9) Moreover, at Senior Official level, a "EuroMediterranean Committee for the Barcelona Process" was established in charge to prepare Ministerial meetings; the EuroMed Committee (in abbreviation) was also responsible for taking stock of and evaluating the follow-up of the Barcelona process and for updating the work programme. Further, ad hoc thematic meetings of ministers, senior officials and experts were planned to follow-up to several activities approved within the Partnership, and also contacts between those active in civil societies.

2.4 Two dimensions of the Partnership: bilateral and regional

With the launch of the Euro-Mediterranean partnership the Cooperation Agreements were replaced by the new Euro-Mediterranean Association Agreements (EMAA).

By reflecting the structure of the Barcelona Declaration, all the EMAAs present a similar structure where the main sections⁵⁶ concern:

- Political dialogue
- Free movement of goods and the establishment of a free trade area
- Trade in services
- Payments, capital, competition and other economic provisions

⁵⁶ This part draws from Hoekman and Djankov (1996)

- Economic cooperation
- Social and cultural cooperation
- Financial cooperation
- Institutional arrangements

Similarly to EMP institutional structure, each agreement sets an Association Council (at Ministerial level) and an Association Committee (at Senior Official level), where the former is in charge of implementing the agreement and the latter arranges the ministerial meetings and deals with all technical aspects related to the agreement's implementation.

The set of Euro-Mediterranean Association Agreements represents the bilateral dimension of the Partnership⁵⁷.

Tab. 2.1: The Euro-Mediterranean Association Agreements

Act	Signature ⁵⁸	Entry into force	Title of the Agreement
LEBANON	17.06.2002	1.4.2006	Euro-Mediterranean Association Agreement
ALGERIA	22.04.2002	01.09.2005	Euro-Mediterranean Association Agreement
EGYPT	25.06.2001	01.06.2004	Euro-Mediterranean Association Agreement
JORDAN	24.11.1997	01.05.2002	Euro-Mediterranean Association Agreement
ISRAEL	20.11.1995	01.06.2000	Euro-Mediterranean Association Agreement
MOROCCO	26.02.1996	01.03.2000	Euro-Mediterranean Association Agreement
TUNISIA	17.07.1995	01.03.1998	Euro-Mediterranean Association Agreement
PALESTINIAN AUTHORITY	24.02.1997	01.07.1997	Interim Association Agreement, awaiting a Euro-Mediterranean association agreement
SYRIA	19.10.2004	In process of ratification	Euro-Mediterranean Association Agreement

⁵⁷ Within the Euro-Mediterranean Partnership bilateral relations between EU and 2007 and 2008 new partners are regulated through other instruments. EU relations with Mauritania are regulated within the African Caribbean and Pacific framework. Croatia is a candidate country for EU membership, whilst Albania, Bosnia and Herzegovina, and Montenegro are potential candidate countries for EU membership. Relations between EU and Western Balkans countries are regulated within the Stabilisation and Association Process framework, whilst EU financial assistance to those countries occurs under the instrument for pre-accession assistance (IPA). Finally since special relations with France, Monaco participates directly in several Community policies; through France, Monaco is also integrated into the Schengen area

⁵⁸ Data of signature taken from Council decisions: 2006/356/EC; 2005/690/EC; 2004/635/EC; 2002/357/EC; 2000/384/EC; 2000/204/EC; 98/238/EC

Act	Signature ⁵⁸	Entry into force	Title of the Agreement
TURKEY	06.03.1995	31.12.1995	Agreement establishing the definite phase of the customs union

Source: http://ec.europa.eu/external_relations/euromed/index_en.htm; Council decisions⁵⁹ 2006/356/EC, 2005/690/EC, 2004/635/EC, 2002/357/EC, 2000/384/EC, 2000/204/EC, 98/238/EC; European Commission (2004).

In addition, by continuing on the way paved by the Renewed Mediterranean Policy, the EMP consolidates the regional dimension of the EU Mediterranean policies. Regional initiatives aim mainly to:

- a) reinforce the effects of the bilateral cooperation (i.e. the socio-economic development of the entire region);
- b) promote regional and sub regional cooperation;
- c) face problems at a transnational level, such as the development of regional infrastructure network and the harmonization of legal and regulatory systems.

2.5 The Euro-Mediterranean Partnership financial cooperation

In order to implement the actions and to reach the objectives stated in the Barcelona Declaration, when the EMP was launched, it could account on two main operational and assistance instruments: the MEDA programme⁶⁰ and the European Investment Bank (EIB) loans.

Through MEDA programmes EU provided Communitarian assistance to south Mediterranean countries by financing both bilateral and multilateral initiatives. Between 1995 and 2006 the EU supported two MEDA programming periods: MEDA I (1995-2000) and MEDA II (2000-2006) with an overall budget of € 3.057 million and € 4.647 million respectively.

With MEDA assistance EU intervened mainly in two directions: on one side, to promote economic and institutional reforms, to consolidate macro-economic indicators and to develop the private sector in order to face an increasing international competition; on the other side, to guarantee the development of the weakest social and cultural sectors and to protect the more exposed groups against the counter-effects of market liberalization process.

⁵⁹ These Council Decisions are available on http://europa.eu/legislation_summaries/external_relations/relations_with_third_countries/mediterranean_partner_countries/r14104_en.htm

⁶⁰ MEDA programme substituted all the financial protocols included in the GMP Cooperation Agreements.

From January 2007, MEDA programme has been substituted by a new EU assistance instrument: the European Neighbourhood and Partnership Instrument (ENPI)⁶¹. In 2007 under the ENPI the Commission made 1.3 billion available to ten partner countries.

Tab. 2.2: EU financial support to Barcelona Process - Commitments⁶² (€ million)

	1995-2000 under MEDA I	2000-2006 under MEDA II	2007 under ENPI
Bilateral Cooperation			
Algeria	164	339	57
West Bank and Gaza	111	5222	453
Egypt	686	593	137
Jordan	254	331	62
Lebanon	182	133	50
Morocco	660	980	190
Syria	101	180	20
Tunisia	428	518	103
Israel	0	0	2
Libya	0	0	2
Total Bilateral	2586	3595	1076
Regional Cooperation	471	1052	178
TOTAL	3057	4647	1254

Source: Paris Joint Declaration (2008), p. 12; and European Commission (2005a), pp. 42-43.

The European Commission⁶³, in collaboration with the Mediterranean partner countries, defines the priorities for each country in the Country Strategy Papers (CSP) and in the National Indicative Programmes (NIP). The Country Strategy Paper, a six years document, consists in a general analysis of the political, economic and social conditions of the Mediterranean country and identifies the sectors where it is necessary to intervene. The National Indicative Programme, a three years document, contains a more in-depth analysis and indicates the projects and the programmes to be financed. Similarly, at regional level, EU assistance is planned on the basis of a Regional Strategy Paper (RSP) and a Regional Indicative Programme (RIP).

Further, Country Strategy Papers and National Indicative Programmes take into account the European Neighbourhood Policy Action Plans that EU has signed with Egypt, Israel, Jordan, Lebanon, Morocco, Tunisia, West Bank and Gaza. Those documents, in fact, includes a mutually agreed list of reforms' objectives in the political, economic, trade and socio-cultural spheres.

⁶¹ ENPI was introduced in the framework of the European Neighbourhood Policy in order to replace all existing programmes and to ensure coherence and simplification in their management. For this reason, ENPI replaces both the MEDA programme, the EU assistance programme for Southern Neighbours, and the TACIS programme, the programme to Eastern Neighbours and Russia

⁶² The payments/commitments ratio presented a big concern for South Mediterranean Countries during the MEDAI programming period; in this regard MEDA II has represented an important improvement in terms of payments/commitments results: from 29% for MEDA I (1995-1999) to 77% of MEDA II (2000-2005). Source: European Commission (2005a).

⁶³ Europe Aid Co-operation Office, within the European Commission, manages technically the MEDA programmes.

In 2002, during the Barcelona European Council, the European Investment Bank (EIB) launched the FEMIP⁶⁴ (Facility for Euro-Mediterranean Investment and Partnership). FEMIP's aim is to promote the process of reform and modernization of the economic and social sectors in MPCs. FEMIP loans are mainly addressed to: 1) private sector; 2) environment; 3) transport and telecommunications ; 4) energy; 5) education and health. The launch of FEMIP represented an improvement in EIB involvement for several reasons: an in-depth participation in the area through the establishment of Ministerial Committee meetings and the opening of regional offices⁶⁵; a stronger engagement for the development of the private sector and for the improvement of business environment; a greater technical assistance for a better application of the financial instruments; an increasing amount of invested resources and the deployment of innovative financial products and risk capital. It should be noted that unlike ENPI, FEMIP includes loans and risk capital resources.

Tab. 2.3: FEMIP – Breakdown by sector and country (€ million)

	<i>Energy</i>	<i>Environment</i>	<i>Credit lines</i>	<i>Human capital</i>	<i>Industry</i>	<i>Transport</i>	<i>Risk capital</i>	<i>Total</i>
Algeria	-	-	-	-	75	230	13	318
Egypt	1647	-	100	-	200	290	51	2288
Gaza/West bank	45	-	-	-	-	-	10	55
Israel	-	320	75	-	33	-	-	428
Jordan	100	-	50	40	-	63	-	253
Lebanon	-	105	457	-	-	60	5	627
Morocco	690	170	30	100	-	605	70	1665
Regional projects	-	-	-	-	-	-	94	94
Syria	675	45	120	-	-	150	2	992
Tunisia	500	74	555	110	170	400	5	1814
Total	3657	714	1387	250	478	1798	250	8533

Source: EIB (2009)

Finally, FEMIP settles the creation of two special funds: a) the technical assistance FEMIP Support Fund which aims to guarantee technical assistance during all different phases of an EIB investment (i.e. project identification, preparation and realization); b) the FEMIP Trust Fund which aims to provide technical assistance to projects that are not financed by FEMIP.

⁶⁴ Between 1974 and 2001 the European Investment Bank lent in the Med countries an amount of € 12,6 billions. All information on FEMIP are taken by the EIB website <http://www.eib.org>

⁶⁵ Rabat, Tunis, Cairo are the three cities where FEMIP offices are located

2.6 The European Neighbourhood Policy

Since 2004 Euro-Mediterranean relations have been the object of two other important Community policies: the 2004 European Neighbourhood Policy (ENP) and the 2008 Union for the Mediterranean (UFM). In both of the cases the underlying rationale was to strengthen relations between the EU and the Mediterranean countries even if the two initiatives seem to be essentially different: on one side, the ENP is characterised by a marked bilateral approach and it is inserted within the Euro-Mediterranean Partnership institutional framework; on the other side, the more recent Union for the Mediterranean seems to be an ambitious attempt to develop, above all in terms of institutionalisation, Euro-Med relations and to make them more visible and concrete. Besides, the UFM strengthens the regional dimension of the EMP.

In 2004 the European Commission launched the European Neighbourhood Policy (ENP)⁶⁶. After the enlargement of 2004, May the 1st, European Union had in fact acquired new neighbouring countries at its eastern and southern borders; the main purpose of the ENP was to strengthen relationship with those countries and to create on EU borders '*an area of prosperity, security and stability*'. Further, with the ENP EU wanted to avoid "(...) the sense of exclusion which might otherwise arisen from enlargement and provide an opportunity to share in its benefits." (European Commission 2003, p. 8)

ENP involved several already Euro-Mediterranean Partnership members, such as Algeria, Tunisia, Morocco, Jordan, Occupied Palestinian Territory, Egypt, Libya, Lebanon and Israel, but also new east neighbouring countries such as Armenia, Azerbaijan, Belarus, Georgia, Moldavia and Ukraine⁶⁷.

From an institutional point of view, ENP did not introduce any new structures in the Euro-Mediterranean relations since it was inserted within the EMP institutional framework.. Nevertheless, the European Neighbourhood Policy aimed to promote several changes and '*improvements*' compared to the Barcelona Process, in particular: an increased co-ownership of the process, a differentiated approach and the principle of positive conditionality.

In order to increase the sense of co-ownership between EU and neighbouring partners, ENP set bilateral Action Plans, which, agreed jointly by EU and each neighbours, identifies a list of reforms' objectives in the political and economic sectors; reforms based on values such as

⁶⁶ Main documents on the European Neighbourhood Policy are: European Commission (2003), Communication from the Commission to the Council and the European Parliament, *Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours*, 11/03/2003, Com(2003) 104 final; European Commission (2004), Communication from the Commission to the Council and the European Parliament, *European Neighbourhood Policy – Strategy Paper*, 12/05/2004, COM (2004) 373 final

⁶⁷ Although originally invited, Russia refused to be included in the ENP; EU-Russia relations are regulated in the framework of a 'Strategic Partnership' which covers four common spaces of cooperation.

democracy and human rights, rule of law, good governance, market economy principle and sustainable development.

As counterpart, EU proposed a closer political relation and a deeper economic integration until to offer a stake in its Internal Market “(...) based on legislative and regulatory approximation, the participation in a number of EU programmes and improved interconnections and physically links with the EU.” (European Commission 2004, p. 8)

Through the ENP European Union abandoned the EMP regionalist approach to adopt a strict bilateral approach. There is not a general scheme to follow in defining priorities and actions as it was for the Euro-Mediterranean Association Agreements, but on the basis of common values and shared interests each neighbours fixes together with the EU which political and economic reforms to carry on and their level of implementation. In change EU will offer closer political relations and deeper economic integration.

Finally, besides the principle of negative conditionality, already introduced by the EMAAs and which allowed EU to suspend agreement and consequently assistance in case of violation of human rights, the ENP introduced the principle of positive conditionality⁶⁸. In the ENP in fact the degree of economic integration, offered by the EU to its neighbours, and consequently the amount of EU assistance, will depend on the realization of agreed political, economic and institutional reforms as set by ENP Action Plans⁶⁹ meaning the concrete implementation of jointly agreed reforms’ objectives.

With the launch of ENP, EU introduced a new assistance instrument, the European Neighbourhood and Partnership Instrument with a budget of approximately € 12 bn for programming period 2007-2013⁷⁰.

⁶⁸ “In the framework of the Barcelona Process, Euro-Mediterranean Association agreements contained the clause that the agreements may be suspended if the respective partner state violated the respect for human rights. However, the EU never made any use of this principle in practice, (...). In general the EU’s lack of will and/or capability to effectively follow up on human rights issues has been widely criticized. At the same time, the progress of some Mediterranean partner states in the stipulated reform process did not translate into any additional funding” (Del Sarto and Shumacher 2005, p. 22)

⁶⁹ “The ENP goes beyond existing relationship to offer a deeper political relationship and economic integration. The level of ambition of relationship will depend on the extent to which these values are shared.” Source: http://ec.europa.eu/world/enp/policy_en.htm.

⁷⁰ Source: http://ec.europa.eu/world/enp/funding_en.htm

2.7 The Union for the Mediterranean⁷¹

At the Paris Summit for the Mediterranean, in July 2008, 43 Heads of State and Government launched officially the ‘*Barcelona Process: Union for the Mediterranean*’, an initiative which “(...) building on the Barcelona Declaration and its objectives of achieving peace, stability and security, as well as the acquis of the Barcelona Process, is a multilateral partnership with a view to increase the potential for regional integration and cohesion.” (Paris Joint Declaration, 2008)

The aim of this proposal, that has been better defined in its institutional characteristics by the Final Statement of the Euro-Mediterranean Ministerial Conference held in Marseille in November 2008, is to re-launch and to give new impetus to the Euro-Mediterranean relations, and “(...) to reassert the central importance of the Mediterranean on the political agenda of all Countries. (Paris Joint Declaration, 2008, p. 8)

Without doubts, the Union for the Mediterranean represents a step forward in the Euro-Med relations. As a matter of fact, in order to reach its ambitious objectives, the UFM introduces important changes in the institutionalisation of these relations.

Through this new institutional structure, the Union for the Mediterranean wants to correct a number of EMP lacks⁷², in particular to guarantee an effective co-ownership of the initiative and to make results more visible and tangible.

To increase the co-ownership and to upgrade the political level of EU-Mediterranean relations, within the UFM framework the main decisional body is the Biennial Summit of Heads of State and Government. “The summits should result in a political declaration and a short list of concrete regional projects to be set in motion. The conclusions should endorse a broad two-years work programme for the Barcelona Process: Union for the Mediterranean”. (Paris Joint Declaration, 2008, p. 13) Further, at the Summit two Co-presidents, from EU and from Mediterranean Countries respectively, are elected. They will be in office for two years.

The ‘co-presidency’ system will apply to all meetings, at ministerial and senior official levels, and to the Joint Permanent Committee.

⁷¹ Main documents on the Union for the Mediterranean are in chronological order: European Council (2008), *European Council in Brussels (13-14 March 2008) : Conclusions of the Presidency*; European Commission 2008, Communication from the Commission to the European Parliament and the Council, *Barcelona Process: Union for the Mediterranean*, 20/05/2008, COM (2008) 319 (Final); Joint Declaration of the Paris Summit for the Mediterranean, Paris, 13/07/2008, available on http://ec.europa.eu/external_relations/euromed/index_en.htm; “Barcelona Process: Union for the Mediterranean” Ministerial Meetings, Final Statement, Marseille, 3-4/11/2008, available at http://ec.europa.eu/external_relations/euromed/index_en.htm

⁷² In order to reach UFM’s objectives official documents identify three main ways: “By upgrading the political level of the EU’s relationship with its Mediterranean Partners; by providing for further co-ownership to our multilateral relations; and by making these relations more concrete and visible through additional regional and subregional projects relevant for the citizens of the Region” (Paris Joint Declaration, 2008, p. 13)

Euro-Mediterranean Foreign Affairs Minister will continue to meet every year; ministerial meetings will be in charge to review progress in the implementation of Biennial Summit's work programmes and to prepare next meetings.

Although the UFM dissolves the EuroMed Committee, the Euro-Med Senior Officials will continue to meet regularly to arrange ministerial meetings and to submit Foreign Ministers new projects for the approval. Senior Officials Meetings will be prepared by a new body, the Joint Permanent Committee in Brussels.

An other important institutional novelty is the Secretariat, a technical body in charge to examine project initiatives, to follow up their implementation and to search for Partners and funding. Secretariat will deal also with preparatory documents for official meetings. In order to pursue an increased co-ownership and a more balanced participation of Mediterranean countries, the General Secretary will be chosen among Mediterranean countries by consensus. Besides, five Deputy Secretaries General will complete the Secretariat.

From this brief description of UFM institutional structures, it is clear that UFM represents an important step forward in the EU-Mediterranean relations. According to Aliboni and Ammor (2009) the March 13 2008 Brussels European Council⁷³ marked an important evolution in the EU relations towards the Mediterranean region since it, firstly, determines a shift to the UFM framework as the central new policy of the EU towards the Mediterranean and, secondly, it accommodates the old EMP within the UFM framework. (p. 4) Further, while the EMP is substantially an EU initiative, the Union for the Mediterranean is "(...) an international, intergovernmental organization including on the one hand, a group of states that are only linked by weak institutional ties, if any (composed of the non-EU states) and, on the other, a group of states brought together by strong semi-supranational institutional ties (the EU states)." (p.8)

Nevertheless, a dualism between EMP and UFM frameworks still continues to exist and the most difficult task will be to amalgamate these initiatives.

Firstly, UFM deals exclusively with the regional and sub-regional dimension of the Partnership (the Biennial Summit of Heads of State and Government decides a set of concrete regional projects to be implemented⁷⁴), while the EU bilateral assistance will continue to be based on existing instruments.

"The Barcelona Process: Union for the Mediterranean will be complementary to EU bilateral

⁷³ The March 13 2008 Brussels European Council is the first official document that introduces the idea of the Union for the Mediterranean. See European Council (2008)

⁷⁴ In order to increase cooperation in sensitive sectors (i.e. the Barcelona Declaration 'acquis') and to translate EMP goals into more concrete initiatives Paris Summit of Heads of State and Government identified six key priority projects to be developed within UFM framework: (a) De-pollution of the Mediterranean; (b) Maritime and Land Highways; (c) Civil Protection; (d) Alternative Energies: Mediterranean Solar Plan; (e) Higher Education and Research, Euro-Mediterranean University; (f) The Mediterranean Business Development Initiative.

relations with these countries which will continue under existing policy frameworks, such as the Association Agreements, the European Neighbourhood Policy action plans and, in the case of Mauritania, the African Caribbean Pacific Framework. It will also be coherent and complementary with the Joint Africa-EU strategy.” (Paris Joint Declaration, p. 13)

In addition there is an evident risk of overlapping between EMP and UFM:, as a matter of fact it is not clear how UFM regional projects will be amalgamated with the EMP regional initiatives, even because the Paris Joint Declaration states that EMP Regional Indicative Programme’s priorities will continue to apply in developing UFM key-projects.

Finally, UFM regional projects will be financed by ‘traditional’ EMP funding meaning ENPI Euro-Med envelope and FEMIP. As a matter of fact, UFM aims to attract additional financial resources through private sector participation and from international financial institutions and regional entities; but modalities and results has to be still verified.

2.8 What are the reasons behind the Euro-Mediterranean Partnership

To fully understand the Euro-Mediterranean Partnership and the reasons behind this initiative, it is important to analyse the context in which the Partnership has developed. As seen before, the EMP represents an important episode in the long and complex relations between the northern and the southern shores of the Mediterranean Basin; relations started already before the European integration process, if previous colonial links are considered. But, unlike in the 1960s and 1970s when Euro-Mediterranean relations were mainly involving trade and financial questions, the *Barcelona Process* introduces a EU more comprehensive approach toward the Mediterranean countries by including political, economic and socio-cultural aspects.

From the European point of view this evolution may be explained by three main reasons.

a) The increasing worries about the destabilization of Mediterranean area.

Actually, from the early 1990s South European countries began to pay more attention to the stability of the Mediterranean area; in particular, North African countries were perceived as a source of insecurity and threaten. There was the awareness that the economic and social underdevelopment of these countries could have represented an element of instability for all the area. Strong population growth, recurrent social crises, insufficient economic growth and the inability of authoritarian regime to manage those phenomena turned in direct threats for European shores: raising criminality, terrorism and drug traffic, the rise of authoritarian regimes, threats to the energetic supplying, religious integralism, and in particular large-scale migration phenomenon.

In this context, some South European countries launched the first initiatives to face those challenges. In 1990, by considering the then Renewed Mediterranean Policy inadequate (Gillespie, 1997), an Italian-Spanish initiative called for a ‘Conference on Security and Co-operation in the Mediterranean’ (CSCM) to bring stability and development in the region. The initiative, which reflected the Helsinki 1975 ‘Conference on Security and Co-operation in Europe’ (CSCE), was structured on three levels: political-security, economic-financial and socio-cultural⁷⁵.

After the CSCM’s failure, Spain and France pushed for the launch of the ‘5 + 5 initiative’⁷⁶, which provided for the establishment of an institutionalised cooperation framework among five European countries (France, Italy, Malta, Portugal and Spain) and the five Maghreb countries (Algeria, Libya, Mauritania, Morocco and Tunisia). The initiative was aimed at developing cooperation activities in the political and security sectors and was mainly focused on the Europe-Maghreb relations⁷⁷.

All these elements are recalled in the 1992 Lisbon European Council, in particular in the Annex 4 “Declaration by the European Council on relations between Europe and the Maghreb” where, on the basis of growing concerns about the stability of the area, European Members agree to re-enforce relationship with Maghreb countries both in the political and economic terms. In order to reach these aims, they agree on the necessity to define an ‘approach favouring partnership’ based on: a constructive dialogue based on the respect of international law principles; cooperation in all economic fields; cooperation on foreign policy to combat against terrorism, drug traffic, and to arms control; the promotion of regional integration. (European Council, 1992)⁷⁸

Only after the Lisbon Council⁷⁹ the European attention moved from a Euro-Maghreb initiative to a wider Euro-Mediterranean initiative. This was possible because, on one side, South European states

⁷⁵ By emphasizing the similarities between the Euro-Med Partnership and the CSCM, Joffé (1997) affirms CSCM was based on a wide concept of security which included also economic, social and cultural matters, but because its ambitious aims it failed.

⁷⁶ On this regard, Gillespie (1997) underlines the role played by France and overall Spain in the pursuing the attention forward the Mediterranean countries justified both by the concerns over the growing instability in the area and by the will to react “(...) against the Community’s new German led preoccupation with central-eastern Europe” (p.35)

⁷⁷ The 5 + 5 Group issued two documents: ‘The declaration of the Nine States on Dialogue and Co-operation in the Western Mediterranean’ in 1990 (Declaration of Nine States 1992) and the Algerian Ministerial Declaration in 1991 (‘Algeria’s Ministerial Declaration’ 1992). In particular the first document referred to a Euro-Maghreb Western Med cooperation in the political and security fields; Tunisia and Morocco were the countries more interested in such cooperation. (El-Sayed Selim, 1997)

⁷⁸ “The Maghreb is the Union’s southern frontier. Its stability is of important common interest to the Union. Population growth, recurrent social crises, large-scale migration, and the growth of religious fundamentalism and integralism are problems which threaten that stability.” (European Council, 1992, p. 22) “The Southern and Eastern shores of the Mediterranean as well as the Middle East are geographical areas in relation to which the Union has strong interests both in terms of security and social stability. The Union has therefore an interest in establishing with the countries of the area a relationship of good neighbourliness. The goal should be to avoid a deepening of the North-South gap in the region by favouring economic development and promoting full respect for human rights and fundamental freedoms and the development and consolidation of democracy and the rule of law.”⁷⁸ (European Council, 1992; pp. 20 - 21)

⁷⁹ The 1994 Corfu European Council expressed “(...) the wish of the European Union to develop existing cooperation relations with the Mashreq countries, taking into account the specific situation of each country.” (European Council, 1994a) In the end, the 1994 Essen European Council “(...) reiterates the European Union’s willingness to support the

Dutch ones succeeded in overcoming North European states' objections, in particular the Germany, UK and the ones⁸⁰; on the other side, Mashrek countries, led by Egypt, started to show a growing interest to this initiative.

b) The Re-definition of EU area of influence. The Barcelona process was undoubtedly favoured by the changed international scenario; as a matter of fact the end of the Cold War and the retreat of USSR determined a reduced attention on the Mediterranean Basin as one of the main battlegrounds. EU had then an increased room for manoeuvre in the area. Under this point of view, the Euro-Mediterranean partnership represented an EU attempt to re-define its zone of influence⁸¹. To do so Brussels used the traditional means of its foreign policy: the economic power and the political dialogue⁸².

c) Economic reasons. As a matter of fact, the EMP meant for the European Union the acquisition of a bigger market and new investment opportunities through the establishment of a regional Euro-Mediterranean Free Trade Area.

On the MPCs' side, the economic considerations played the most important role for the adhesion to the Barcelona Process. According to Radwan and Reiffers (2005) in the mid-1990s the economic situation of South Mediterranean countries was characterized by:

- a macroeconomic convergence, due mainly to the processes of structural adjustment started in the area since the early 1980s;
- a situation of high vulnerability to external shocks;
- the presence of economic systems heavily centralized and substantially closed to the world economy;
- a growth rates' average under 3%;
- modest economic relations with Europe despite an updated Mediterranean policy;
- a reduced absolute poverty rate, but still very high unemployment levels.

Mediterranean countries in their efforts progressively to transform their region into a zone of peace, stability, prosperity and cooperation, and to this end its willingness to establish a Euro-Mediterranean partnership, develop appropriate agreements, progressively strengthen trade relations between the parties on the basis, inter alia, of the results of the Uruguay Round, and in the light of the Community's changing priorities maintain an appropriate balance in the geographical allocation of Community expenditure and commitments." (European Council, 1994b)

⁸⁰ For a detailed explanation see Gillespie (1997).

⁸¹ "Dans sa dimension stratégique, ce partenariat renforcé s'inscrit dans le cadre de la délimitation des zones d'influence de l'Union européenne visant un recentrage de celle-ci sur sa périphérie immédiate." Source: Report du Ministère de Finances et de la Privatisation du Maroc, Direction des études et des Prévisions Financières, *Partenariat euroméditerranéen : dix ans après la Déclaration de Barcelone, juin 2005*

⁸² According to many authors EU is an example of a 'civilian power' (Duchêne 1973, Maull 1990). For Maull (1990) three are the main characteristics of a civilian power: 'a) the acceptance of the necessity of cooperation with others in the pursuit of international objectives; b) the concentration on non-military, primarily economic, means to secure national goals, with military power left as a residual instrument serving essentially to safeguard other means of international interaction; and c) a willingness to develop supranational structures to address critical issues of international management.' (pp. 92-93)

In this context, the Euro-Mediterranean Partnership represented an important instrument to promote a socio-economic transition from the status of developing countries to the one of emerging countries (Radwan and Reiffers 2005). By recognising the economic hegemonic role of the EU, which was the main trading partner, MPCs succeeded in anchoring their economies to the EU, to start a process of economic reforms and to benefit from European assistance. Moreover, thanks to the strong engagement of the Barcelona Declaration to the social and human issues, the Partnership seemed to guarantee an important instrument for the management of social issues that represent very sensitive problems in the area and causes of tension and social instability. The EMP was seen as an useful instrument to consolidate economic links with European Union and to continue on the way of a market driven economic transition. Finally, for some countries the opportunity to develop preferential relations with Europe was seen as a mean to increase their political influence in the Mediterranean region.

In general, the political dialogue played a marginal role. Referring to the case of EU-Egypt negotiations within the EMP framework, El-Sayed Selim (1997) underlines Cairo was looking mainly at the economic issues, while the political and security issues were included but in vague terms. Through the Partnership Egypt aimed to keep EU interested in Egypt's economic problems and to strengthen its economic links with Europe.

According to El-Sayed Selim (1997), in enjoying the Partnership Cairo was particularly worried that EU attention would have focused progressively, on one side, on Central and Eastern European Countries and, on the other side, on Maghreb countries⁸³; such a process would have meant for Egypt relevant negative consequences in terms of funding and trade. Moreover, the changed international situation, with the positive results of 1990 Madrid Conference on Palestinian-Israeli peace process, made then "(...) possible to talk about Mediterranean co-operation to safeguard Egypt's economic interests without facing embarrassment as a result of Israel's participation." (p. 70)

The Euro-Mediterranean Partnership represents an ambitious attempt to develop the relations between the two shores of the Mediterranean Basin.

Unlike the previous European 'Global' and 'Renewed' Mediterranean policies, the Barcelona Process goes indeed beyond trade and financial issues to include the political-security and socio-cultural dimensions. In this way, the Euro-Med Partnership intends to create an institutional

⁸³ "However, Egypt was aware of the danger of the EC focusing its attention on the economic plight of eastern European countries, thereby neglecting, or at least downgrading, its economic links with Egypt. (...). The Mediterranean policy seemed to be a mechanism through which Egypt would be able to keep the EC interested in Egypt's economic problems and maintain its economic transactions with Europe." (El-Sayed Selim, 1997, p. 70)

framework for a broader regional cooperation. Nevertheless, the Economic and Financial Chapter continues to represent the engine of Partnership.

As a matter of fact, few years after the launch of the EMP, a regional integration process within the political and security chapter came to a standstill, in particular after the failure of ‘The Euro-Mediterranean Charter’ project.

In 1996 EMP partners launched the negotiation for the approval of a Euro-Mediterranean Charter of Peace and Stability. The Charter represented an ambitious project since it aimed to be the basis of a cooperative security system in the Mediterranean Basin. In point of fact it was conceived as an instrument to promote an enhanced political dialogue and to provide for the development of partnership-building measures, regional cooperation and preventive diplomacy. Further, the Charter was supposed to be endowed with a collective decision-making mechanism based on the consensus rule⁸⁴.

Yet, since 2000 negotiations on the Charter started to stagnate until the abandon of the project. Several reasons have been identified behind this failure, in particular the outbreak of the *Second Intifada* in 2000 with the renewed tensions between Israeli and Palestinian entities and the consequent refusal of the other Arab MPCs to proceed with any negotiations with Israel. Besides, some scholars underline also the existence of important differences between the European and Arab security cultures.

Currently, regional cooperation in the political and security fields concerns mainly with the so-called partnership-building measures which include the organization of seminars and exchange programmes, a training programme for diplomats, the establishment of a network of Euro-Mediterranean Foreign Policy Institutes network (EuroMeSCo). Finally, in the last years an Euro-Mediterranean Parliamentary Assembly has been launched.

The Cultural, Social and Human Chapter has never played a central role within the Partnership. Main activities deal with the promotion of inter-cultural and inter-religious cooperation. The 9/11 events determined a renewed interest on these subjects and one of main consequences was the creation of the Anna Lindh Foundation for the Dialogue between Cultures.

Vice-versa, the Economic and Financial Chapter of the Barcelona Declaration has assumed since the beginning the central role in the EMP framework⁸⁵, in particular since the special interest of Mediterranean countries towards economic reforms and Communitarian assistance .

⁸⁴ “The primary function of enhanced political dialogue will be to prevent tensions and crises and to maintain peace and stability by means of cooperative security.” Source: Third EuroMed Foreign Ministers Conference, Conclusions, Stuttgart, 15-16 April 1999; document available on the web-site http://ec.europa.eu/external_relations/euromed/conf/index_en.htm

⁸⁵ In addition it is sufficient to have a look at the Euro-Mediterranean Association Agreements, the agreements which regulate the bilateral dimension of the partnership to note the primary role of the economic elements. For instance, in

The creation of a wider Euro-Mediterranean Free Trade Area represents currently the engine of the whole initiative. The EMFTA is based on the mutual and progressive elimination of all kind of tariffs, quotas, export subsidies in trade of manufactured goods.

In point of fact it is possible to affirm that the economic and financial field is the only one where the Barcelona Declaration is concretely promoting a process of integration at regional level.

For this reason next chapter will deal with the economic relations between European Union, on one side, and Mediterranean partner countries, on the other side. It will analyse how these relations have evolved since the establishment of the Euro-Mediterranean Partnership and the main reforms these countries have adopted for promoting the economic integration with the EU, in particular, and the world economy, more in general.

In doing so, in order to proceed with a more detailed and in-depth analysis, the research will focus on a restricted number of MPCs, that's the Maghreb countries.

Before focusing on the economic evolution of Maghreb countries in the EMP, next section will provide a general overview of MPCs' main macro-economic indicators.

2.9 The economic evolution of Mediterranean partner countries since the mid 1990s

Given the high heterogeneity among MPCs it is difficult to provide a general and comprehensive overview of their economic performances, nonetheless it is possible to observe certain common trends occurred in last years.

It is widely recognised that Med countries has succeeded in stabilising their main macroeconomic indicators thanks mainly to the *Structural Adjustment Programmes* (SAP) launched between 1970s and 1980s.

A positive growth rate has been achieved in the last years with an average of 4,2% of GDP per annum for the period 1994-2005. In particular Algeria, Jordan, Morocco, Tunisia and Turkey reached growth rates around or bigger than 5% in the 2001-2005 period (WDI 2008).

the case of Euro-Maghreb Association Agreements four articles address political provisions, while 50 articles for economic issues.

Tab. 2.4: Mediterranean partner countries GDP growth, annual percentage

Country	1980	1990	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Algeria	0,8	0,8	-0,9	3,8	4,1	1,1	5,1	3,2	2,2	2,6	4,7	6,9	5,2	5,1
Egypt, Arab Rep,	10	5,7	4,1	4,6	5	5,5	4	6,1	5,4	3,5	3,2	3,2	4,1	4,4
Israel	6,9	6,8	6,9	6,7	5,6	2,8	4,2	2,9	8,7	-0,6	-0,9	1,5	4,8	6,5
Jordan	19	1	5	6,2	2,1	3,3	3	3,4	4,2	5,3	5,8	4,2	8,6	7,1
Lebanon	„	26,5	8	6,5	5,1	4,5	2,9	-1,1	1,5	4,7	3,1	4,1	7,4	1,1
Morocco	3,6	4	10,4	-6,6	12,2	-2,2	7,7	0,5	1,8	7,6	3,3	6,1	5,2	2,4
Syrian Arab Republic	12	7,6	7,7	5,8	4,4	1,8	6,3	-3,6	2,7	5,2	4	1,6	5,8	4,5
Tunisia	7,4	7,9	3,2	2,4	7,1	5,4	4,8	6,1	4,7	4,9	1,7	5,6	6	4
Turkey	-2,4	9,3	-4,7	7,9	7,4	7,6	2,3	-3,4	6,8	-5,7	6,2	5,3	9,4	8,4
MPs average	7,2	7,7	4,4	4,1	5,9	3,3	4,5	1,6	4,2	3,1	3,5	4,3	6,3	4,8

Source: WB World Development Indicators online database 2008; author's elaboration

Since 1999 almost all MPCs have been able to keep the inflation rate average around 3% by improving notably previous performances characterised often by double-digits records. Tunisia, Jordan and Morocco have been the most virtuous; on the opposite side, Turkey has recorded the worst results.

Tab. 2.5: Mediterranean partner countries inflation, average consumer prices (Index, 2000=100)

Country	1980	1990	1994	1995	1999	2000	2001	2002	2003	2004	2005
Algeria	9,7	9,3	29,0	29,8	2,6	0,3	4,2	1,4	2,6	3,6	1,6
Egypt	20,5	21,2	9,0	9,4	3,7	2,8	2,4	2,4	3,2	8,1	8,8
Israel	131,0	17,2	12,3	10,0	5,2	1,1	1,1	5,7	0,7	-0,4	1,3
Jordan	10,9	16,2	3,5	2,4	0,6	0,7	1,8	1,8	1,6	3,4	3,5
Lebanon	23,9	68,9	8,2	10,3	0,2	-0,4	-0,4	1,8	1,3	1,7	-0,7
Morocco	9,4	6,0	5,1	6,1	0,7	1,9	0,6	2,8	1,2	1,5	1,0
Syrian Arab Republic	19,3	11,1	15,3	7,7	-3,7	-3,9	3,4	-0,5	5,8	4,4	7,2
Tunisia	10,0	6,5	5,4	6,0	2,7	2,3	2,0	2,7	2,7	3,6	2,0
Turkey	110,6	57,3	104,3	89,6	64,9	55,0	54,2	45,1	25,3	8,6	8,2

Source: International Monetary Fund, World Economic Outlook Database, 2008

With regard to the external account, Morocco, Algeria and Syria have maintained positive current accounts due mainly to important revenues from tourism and privatisation, to the massive remittances from emigrants and, in the case of Algeria, the increased revenues from oil market. For other countries situation has worsened, above all for Lebanon.

Nevertheless, after ten years from the launch of the Euro-Mediterranean partnership still many factors hamper MPCs economic development.

In 2005 the average of MPCs' gross national income per capita, calculated in PPP, was slightly above the average of middle income countries and, as ten years before, it represented only 1/5 compared to the one of high revenue countries. By excluding Israel, whose GNI per capita stays at the same level of more developed countries, Tunisia, Turkey and Lebanon recorded the best results by improving notably their positions (WDI 2008).

Tab. 2.6: Mediterranean partner countries GNI per capita, PPP (current international \$)

Country	1980	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Algeria	2960	4350	4360	4530	4630	4870	5000	5130	5420	5640	6060	6440	6820
Egypt, Arab Rep.	1100	2340	2900	3060	3230	3360	3550	3740	3890	4020	4120	4320	4560
Israel	6850	12440	15270	16260	16530	16960	17150	18890	19140	18960	19360	20620	22610
Jordan	1930	2280	2780	2800	2890	2960	3040	3270	3460	3600	3760	4140	4480
Lebanon	..	4620	6750	6980	7230	7340	7300	7530	7790	7870	8220	8940	9480
Morocco	1100	1920	2070	2340	2290	2480	2500	2560	2780	2900	3110	3340	3520
Syrian Arab Republic	1670	2070	3120	3180	3060	3270	3100	3150	3340	3420	3470	3710	3880
Tunisia	1670	2810	3440	3680	3910	4120	4380	4600	4900	5010	5390	5810	6080
Turkey	2110	5970	7330	7490	8270	8130	7700	8600	7980	8060	8170	9550	10250
MP average	2424	4311	5336	5591	5782	5943	5969	6386	6522	6609	6851	7430	7964
MP average (w/out Israel)	1812	3470	4233	4411	4636	4751	4781	5061	5174	5300	5547	6077	6456
High income	9433	17933	21732	22692	23768	24577	25594	27163	28062	28821	29688	31331	32697
Middle income	1275	2321	2737	2887	3048	3090	3199	3431	3611	3795	4068	4465	4876

Source: WB WDI online database 2008; author's elaboration

In addition, regional unemployment levels remain very high: 9% in Israel, 14,2% and 15,3% in Tunisia and Algeria respectively.

As a matter of fact, although population growth rate has been progressively decreasing, from 2,5% to 1,5% in the period 1990-2004, at the same time active population has continued to grow with an average rate of 3,4% per annum (WDI 2006). This represents a strong pressure for these still fragile developing economies.

Tab. 2.7: Mediterranean partner countries total unemployment

Country	1999	2000	2001	2002	2003	2004	2005
Algeria	n.a	n.a	27.3	25.9	23.7	17.7	15.3
Egypt	8.1	9.0	9.2	10.2	11.0	10.3	11.2
Israel	8.9	8.8	9.4	10.3	10.7	10.4	9.0
Jordan	n.a						
Lebanon	n.a						
Morocco (rural areas)	22.0	21.5	19.5	18.3	19.3	n.a	n.a
Morocco	13.9	13.6	12.5	11.6	11.9	10.8	11.0
Syrian Arab Republic	n.a	n.a	8.0	8.3	7.6	n.a	n.a
Tunisia	16.0	15.7	15.1	15.3	14.5	14.2	14.2
Turkey	7.7	6.5	8.4	10.3	10.5	10.3	10.3

Source: ILO Laborsta Internet 2008

Chapter 3. The Maghreb countries in the Euro-Mediterranean Partnership

3.1 Introduction

In Arabic, the term *Maghreb*⁸⁶ means the *West* and is used by Arabic people to indicate the northern part of Africa west of Egypt. It is generally used in opposition to the term *Mashreq (or Mashrek)*, which vice-versa indicates the *East*, the area of the Near and Middle East. The term Maghreb may be used either with a wider meaning or a narrower one: the former, which is the more common, indicates three countries: Morocco, Tunisia and Algeria; the latter also includes Libya and Mauritania (the so-called ‘Great Maghreb’). For the scope of this research Maghreb will be intended according to the narrower meaning; this is mainly for two reasons: first, because only Algeria, Tunisia and Morocco are actively involved in the Euro-Mediterranean Partnership⁸⁷ since the beginning; second, because of the lack of available data for the other two countries.

This section will often use the expression *Euro-Maghreb Association Agreements*; this expression does not refer to a particular kind of Euro-Mediterranean Association Agreement, but, more simply, it will be used to indicate the set of three Euro-Mediterranean Association Agreements between EU, on one side, and each of the Maghreb countries, on the other.

Once meaning of the term Maghreb is defined, this section will explain why the present research will focus on this particular area. This decision has been motivated mainly by two reasons: (a) the existence of traditionally strong relations between EU and Maghreb countries, and (b) the presence of considerable commonalities among Algeria, Morocco and Tunisia in the political and socio-economic spheres.

Maghreb countries are linked with the European Union by strong political and economic relations based mainly on colonial links. All three countries passed under France’s control since the collapse of the Ottoman Empire. Morocco and Tunisia were French Protectorates until November and March 1956, respectively. Algeria was a French colony until 1962 (White, 2007)

Nowadays, the EU is the main Maghreb trading partner and the largest investor in the region. In addition, Maghreb countries have historically demonstrated a willingness to implement an integration process with the European Community. Maghreb countries were the first to sign a Cooperation Agreement with the starting European Economic Communities in the early 1960s, and Tunisia and Morocco were the first countries to sign an Euro-Mediterranean Association Agreement

⁸⁶ The definition of Maghreb is taken from Treccani Encyclopaedia on line, available on www.treccani.it

⁸⁷ Mauritania entered EMP only in 2007.

with the EU, respectively in 1995 and 1996. Algeria signed its Association Agreement only in 2000. The existence of a privileged Euro-Maghreb relationship is confirmed also by the fact that at the beginning, the Euro-Mediterranean partnership was conceived as a Euro-Maghreb partnership as stated in the previous chapter.

Further, Maghreb countries present many commonalities in the political, economic and socio-cultural fields; actually, it is not a coincidence that historically there has been a well-established movement for the political integration of the area.

In particular in the economic field, all Maghreb countries have pursued in the last couple of decades a similar economic strategy of development based on: the consolidation of macroeconomic indicators, an increasing openness towards international trade, the implementation of policies to improve the business environment and to attract foreign private capital, the modernization of the private sector. Morocco and Tunisia started their programmes of reforms at the beginning of 1980s, while Algeria's development policies were violently interrupted by the bloody civil conflicts that hurt the country in 1992. For this reason, today Algiers is late compared with its closest neighbours even if in the recent years the country has been trying to make up for lost time, especially through a massive plan of public investments, made possible in part by the fact that, unlike Morocco and Tunisia, Algeria has at its disposal huge hydrocarbon reserves.

This Chapter is organised in four main sections. First section will introduce the Maghreb countries. Each country will be presented from an economic-institutional point of view; this section will describe the economic context and will present the reforms pursued by each countries within the process of modernization and integration into the world economy. Second section will analyse how Maghreb countries have evolved in terms of trade structure and FDI. This section will focus in particular on the economic relations between Algeria, Morocco and Tunisia, on one side, and the European Union on the other. Ultimately, although the relationship remains a privileged one, the results achieved so far have not been satisfactory. This is particularly evident by taking as a counterpart the more profitable relations between EU and the Central and Eastern European Countries (CEECs). Starting from these unsatisfactory economic results, third section will try to indentify the limits within the current Association Agreements between the EU and the Maghreb and the possible solutions for strengthening economic relations. Finally, last section will deal with the big question of Maghreb intra-regional integration. This part will describe the state of art of the South-South regional integration process, in particular it will focus on the recent approval of the Agadir Agreement and on the Pan-Euro-Mediterranean Cumulation System (PEMCS).

3.2 The economic evolution of Maghreb countries

In the last three decades Algeria, Morocco and Tunisia have been engaged in a process of economic modernization and integration into the world economy.

As a matter of fact, in the case of Morocco and Tunisia this process started at the beginning of the 1980s with the launch of the International Monetary Fund (IMF) and World Bank (WB) Structural Adjustment Programmes (SAP)⁸⁸, by marking the passage from an import-substitution industrialization- (ISI) based development strategy, which was followed during the 1960s and the 1970s, to an export-led and market-driven economic growth. (White, 2007)

This process was consolidated during the 1990s when both countries became members of the World Trade Organization (WTO) and signed an Association Agreement with European Union in the framework of the Barcelona Process. Due to its internal problems Algeria joined this process later. This section will deal with the main economic results achieved by the Maghreb countries in the last two decades, particularly with regards to the main reforms they have implemented.

Tunisia

Macroeconomic indicators

Tunisia has achieved good economic results since the mid-1980s, when the country started a Programme of Structural Adjustment aiming to stabilize its macro-economic indicators. GDP grew by an average of 3,9% per year in 1985-1995 and by 4,9% in the following ten years, with a peak in 2004 (6,0%)⁸⁹.

Actually, two important crises affected the country's economy during the last decade. The first occurred in 2002 due to an unfavourable external environment, in particular the EU's slow growth and the prolonged repercussions of the events of 9/11. In addition, in the same year, a terrorist

⁸⁸ Many MENA countries launched between 1970s and 1980s the so-called Structural Adjustment Programmes (SAP). These programmes, coordinated by the International Monetary Fund (IMF) and the World Bank (WB) aimed to the stabilization of the macro-economic indicators and the liberalisation of the economy.

⁸⁹ World Bank - TN (2006), Tunisia at a Glance-8/13/06, downloaded at http://devdata.worldbank.org/AAG/tun_aag.pdf

attack⁹⁰ struck the country causing negative effects on tourism and transports. The second shock was mainly determined by the expiration of the WTO Multi Fibre Agreement (MFA)⁹¹ in 2005.

Thanks to sound economic management, Tunisia has been able to absorb these economic shocks. GDP continued to grow by 4,2% in 2005 as well, and the growth rate is projected to be 5,7% for the years 2007-09⁹².

Efforts to reduce public expenses allowed the budget deficit to stay under 3,0% of GDP in 2004, but public finances continue to be under pressure mainly due to the government policy of subsidizing and controlling many products' prices, especially petroleum products (Radwan and Reiffers, 2006). Due to a structural current account deficit and the persistent primary budget deficit, public debt⁹³ grew from 60% in the 90s to 62,3% in 2003 and 66,5% in 2004 with a gradual but worrying trend⁹⁴. Inflationary pressures are under control⁹⁵.

The economic growth has led to an improvement in social conditions as well. Since 2000 GDP per capita has risen by 31,2% to a level of 7,880 dollars in 2006 (value in PPP)⁹⁶; the poverty rate⁹⁷ halved from 6,2% in 1995 to just 3,8% in 2005⁹⁸.

But the unemployment rate remains high, about 14 per cent, "(...) reflecting demographic pressures, the decrease in the employment intensity of growth, and increased competition" (Femise, 2006, p. 149). As matter of fact, in the last years population growth has been kept at the steady level of around 1% per annum thanks to an able management of births, but the labour force is still growing faster: 2,9% for the period 1999-2006⁹⁹.

Thanks to these good economic performances, Tunisia has been able to do better compared to several South Mediterranean countries and to reach the living standards of certain lower income OECD countries, such as Turkey, Poland and Mexico. Nevertheless, this has not been enough to achieve the per capita income level of several CEECs as Czech Republic and Hungary¹⁰⁰.

⁹⁰ In Djerba

⁹¹ Under the Multi-Fibre Agreement (MFA) a large portion of textiles and clothing exports from developing countries to the industrial countries was subject to quotas under a special regime outside normal GATT rules. For more information http://www.wto.org/english/tratop_e/texti_e/textintro_e.htm. In the same year petroleum prices started to increase.

⁹² WB – TN (2006)

⁹³ Total debt/GDP

⁹⁴ WB – TN (2006)

⁹⁵ "Inflation rate settled at 3.6% in 2004. It has been estimated at 2.1% in 2005 and is forecast to be 2.8% in 2006 and 2008. This small rise in inflation could be the result of an increase in the prices of industrial goods and changes in the real dinar exchange rate" (AfBD/OECD, 2007, p.498)

⁹⁶ Radwan and Reiffers (2006); p. 149

⁹⁷ Poverty rate stands for the percentage of population below national poverty line

⁹⁸ Source: Institut National de la Statistique – Tunisie; www.ins.nat.tn/indexfr.php

⁹⁹ WB – TN (2006)

¹⁰⁰ Radwan and Reiffers (2006); p. 149

Structure of the economy

Unlike many North African countries (i.e. Morocco), the Tunisian economy depends only marginally on the agricultural sector, which accounts for 12,6 per cent of GDP. Industry and services sector account respectively for 28,2% and 59,2% of GDP¹⁰¹. All the three economic sectors showed steady growth in 1995-2005: 3,8 , 4,3 and 5,4 per cent, respectively; but, in absolute terms, the service sector grew faster, while the agriculture decreased slightly.

In 2005, the expiration of the WTO Multi Fibre Agreement was expected to produce strong negative effects on the Tunisian economy. In particular the manufacturing sector, 18.1% of GDP, was heavily exposed since the textile industry in 2005 represented half of total industrial value added (and also export receipts) and it could count on 2,000 companies and 250,000 jobs¹⁰². Nevertheless, the sector suffered less than what was foreseen. The manufacturing sector decreased only slightly, and GDP by 4,2 per cent in 2005.

As mentioned above, this was possible thanks to the country's sound macro-economic management, but at the same time, this was the result of a series of initiatives that Tunisia took over the last few years to promote the modernization and diversification of industrial production and to improve the business and investment climate.

Economic reforms

In the mid-1990s Tunis signed two important international agreements which paved the way for a full integration into the world economy: the accession to the WTO in 1994 and the Association Agreement with the EU¹⁰³ in 1995.

One of the main consequences was to expose the national productive sector to strong international competition. On one side the entrance in the WTO implied a process of tariff reductions according to the rule of the Most Favoured Nation (MFN); on the other side, the Euro-Med Association Agreement provided for the establishment of a Free Trade Area (FTA) with the European Union by implying the progressive dismantling of custom duties on manufactured products. To face these challenges the Tunisian government launched a series of initiative aiming to modernize and develop

¹⁰¹ Data referring to the 2005; source: WB – TN (2006)

¹⁰² AfBD/OECD (2007); p. 495

¹⁰³ The Euro-Med Association Agreement between EU and Tunisia was signed in 1995, and it entered into force one year after.

the entire economic sector. These included a large group of economic measures and incentives to promote investments.

This policy's cornerstone was undoubtedly the Code of Investments¹⁰⁴, introduced in 1994 and coupled a year after with the establishment of a Foreign Investment Promotion Agency.

On one side the Code collected and simplified previous national laws and regulations¹⁰⁵; on the other side, it introduced new favourable conditions to promote national and foreign private investments. Incentives for investments were divided in two types: a) common incentives, referring to the whole productive sector; b) specific incentives, focusing on regional development and the export sector. (See Box 4.1)

It is interesting to note that this legislation promotes in particular off-shore enterprises¹⁰⁶ which enjoy special incentives and advantages such as tax exemption on exports-derived profits for the first ten years or duty free profits for capital goods; furthermore, in case of fully-exporting companies foreign participation is allowed without any previous authorisation and foreign citizens can hold up to 100% of project capital.¹⁰⁷ In this way, Tunisian investment policies have favoured the development of an important export-oriented sector which remains strongly advantaged compared to the local one. In addition, the Code simplifies procedures to start a business activity both in terms of procedures and in terms of authorizations required, even if some restrictions still remain for several sectors. "For on-shore firms outside the tourism sector, government authorization is required where foreign capital share exceeds 49 percent. Investment in manufacturing industries, agriculture, agribusiness, public works, and certain services requires only a simple declaration of intent to invest. Other sectors require a series of government authorizations. Investment in certain state monopoly activities (electricity, gas, water, postal services, retail distribution) can only be made following the establishment of a concession agreement. There are also certain restrictions on trade activities. With few exceptions, domestic trading can only be carried out by a company established under Tunisian law with majority capital ownership and management held by Tunisians." (World Bank 2006, pp. 45-46)

¹⁰⁴ The Investment Code covers all the economic sectors but mining, energy, internal trade and financial sector, which are regulated by other specific laws.

¹⁰⁵ One of main aim is to simplify procedures: for some sectors a simple declaration is needed to start activities; in other cases it is necessary a previous governmental authorization.

¹⁰⁶ "Offshore" enterprises refer to firms that produce solely for exportations; "Onshore" enterprises are those that produce for the local market. "Offshore" enterprises are fully-exporting companies.

¹⁰⁷ Other sectors not included in the list of total exporter firms are linked to the governmental authorisation in case foreign participation represents more than 50% of the society capital. In case of fully-exporting companies, production must be for the most part addressed for the export and only a very limited quantity can be distributed into the Country

Box 3.1. Incentives for investment introduced by the Tunisian Code of Investment in 1994

Common incentives

- Tax relief on reinvested profits and income up to 35% of the income or profits subject to tax
- Customs duties exemption for capital goods that have no locally made counterparts
- VAT limited on capital goods imports (1999 Finance Act provisions)
- Possibility to choose the reducing balance method of depreciation for production material and equipment which useful life exceeds 7 years

Specific incentives

Advantages to fully-exporting companies

- Full tax exemption on exports-derived profits for the first 10 years
- Full exemption on reinvested profits and income
- Duty free profits for capital goods including merchandise transport vehicles, raw materials, semi-finished products and services needed by the business
- Possibility of selling on the local market: 30% of production for industrial goods, along with payment of applicable duty and levies; and 30% of production for agricultural products

Regional Development

The investment incentives code provides benefits for investments in zones being encouraged in the context of regional development.

- Full tax exemption on exports-derived profits for the first 10 years
- Full exemption on reinvested profits and income
- Possibility that the State takes part to infrastructure expenses

Data taken from official website www.investintunisia.com/ita/poleA/pole03.html

In the same years the Tunisian government launched a programme of privatization of public economic assets; as matter of fact in 2005 “(...) about 160 public enterprises had been fully or partially privatized or been shut down and their assets sold off” (UNCTAD – TN, 2006)

But, compared to Morocco, in Tunisia the process of liberalization and privatization has not been as easy. The state maintained strict control over the service sector, especially transport, telecommunication and financial sectors and, only recently, has Tunisia opened its services sector to foreign participation. “In Tunisia, bids have been recently invited for a 35 percent stake in the capital of the Société Nationale de Distribution de Pétrole, Tunisia’s sixth-biggest company by turnover. In 2005, Tunisie Telecom put up for sale 35 percent of its capital, and a Spanish-Moroccan consortium acquired a 33.5 percent stake in the Banque du Sud” (World Bank, 2006, p. 46) This situation has led to few investments in the service sector.

Finally, it is important to point out that the country is in full compliance with international law on intellectual property rights: Tunisia has in fact signed the most important international agreements on the protection of patents and licenses.

Among the Tunisian measures for the modernization of the economic sector ‘*Le programme de mise à niveau*’ is one of the most important. The programme (1996-2004) covered in particular four

fields: (1) the modernization of public administration in order to improve the investment and business climate by providing more transparent and efficient services; (2) the modernization of the bank sector in order to make credit market more accessible to productive sectors (market actors); (3) the consolidation of macroeconomic indicators and, especially, the rationalization of public finances; (4) the modernization of the education and vocational training sectors in order to make them more efficient and better-linked with production.

Within this general framework, specific measures were taken for the development of industrial enterprises, measures aiming in particular at promoting private investments and improving competitiveness and productivity. Firms in fact could access public financial subsidies for furthering two types of investments: immaterial investments and equipment investments.

The former included

- technical assistance on production procedures (i.e. audit, planning);
- technological support (i.e. the acquisition of patents and licences);
- support for business plan, partners' researches and market analysis;
- vocational training for human resources.

The latter included:

- new industrial equipment;
- laboratory and I&T equipment.

In case of approved projects, the programme provided for a premium of around 10-20% for equipment investments and of around 70% for immaterial investments.

'Le programme de mise à niveau' obtained a wide consensus. From 1996 to May 2004, the year of its expiration, 2,950 firms - accounting for more than half of industrial enterprises with more than ten workers and 25% of total enterprises – applied for co-financing. On the whole, 1787 dossiers – about 60% of the applicants - were approved, for a total investment of 2,764 mil DT (around 1,950 mil euro). Textile and agri-food enterprises accounted for 50% of approved dossiers, followed by mechanical and electrical firms. There was a clear preference for productive investments, with 87% of the total amount set aside for equipment investments, 12% for immaterial investments (mainly in the fields of technical assistance, human resources management, market analysis), finally 1% for diagnostics. Even in this case textile and food-agricultural firms got most of the investments. In 2004 *'Le programme de mise à niveau'* was replaced by the Programme of Industrial Modernization. This programme, co-financed by the EU with € 50 ml, provides mainly for technical assistance for innovation, credit access and technological development.

Bougault and Filipiak (2005) underline the initiative's innovative approach. According to these authors, the programme has indeed been useful by helping enterprises both to modernise their

production's tools and shape a competitive approach to the global market. In particular, by asking, as a condition to obtain funds, for a series of detailed documents including a complete project and business plans and a detailed audit, societies were encouraged to adopt modern instruments, approaches and methods necessary to compete on international markets¹⁰⁸. In addition, thanks to this approach the risk of diffusing and generalizing investments without investigating on the real capability to carry out the planned activities was limited¹⁰⁹.

Conclusion and perspectives

In the last years Tunisia has proceeded successfully with the consolidation of its macro-economic indicators by reaching good levels of growth; it has adopted a series of measures to promote its business and investment climate and to strengthen its integration into the world economy by signing important international agreements. Nevertheless there are still several challenges to face on the way of a full development. Later on, I will indicate some of the major problems that the country must deal with.

a) Unemployment. In spite of the government's attempts in the field of job policies, unemployment has remained high recent years: a little above 14%¹¹⁰. The most important problem is the insufficient employment of the economic growth and this phenomenon refers especially to highly educated people who have more difficulties to find a job. (Femise, 2006)

The main reasons include: (i) an increased labour productivity; (ii) the scarce contribution of SMEs toward increasing employment due to the traditional attention to low value-added manufacturing sectors and the policies to increase capitalistic activities; (iii) "A gap between acquired knowledge and what is currently valued and exploited in the labour market." (Femise, 2006) In this regard, the promotion of services and ITC sectors should give a positive contribution to employment.

b) Low private investments. As analysed in previous sections, even if government has introduced several measures to promote investments, foreign and national private investment rate is around 14%¹¹¹. In particular, the reasons are: (i) a weak economic governance, above all regarding the predictability and transparency of the regulatory framework and limited market contestability; (ii) government interference in the economic sphere, for example by means of limited transparency

¹⁰⁸ To do it they could turn to national or international consulting societies.

¹⁰⁹ World Bank criticised this aspect by affirming that in this way premiums were granted only to already competitive firms

¹¹⁰ Source: Institut National de la Statistique, Tunisie (www.ins.nat.tn/indexfr.php)

¹¹¹ World Bank – TN (2004), p. 7

regarding the procedures to grant authorizations and concessions; (iii) difficult access to credit for firms. It would be necessary to enforce the banking system by reducing the large amount of non-performing loans and increasing transparency. (World Bank – TN, 2004)

c) The development of a “Knowledge society”. Tunisia is one of the countries in the Med area that has invested the most in the education sector, around 5% of GDP and 21% of total budget, and obtained good results in terms of number of schools, scholars and teachers¹¹². Nevertheless, more efforts are needed for the development of a knowledge society such as: more investments on human capital; an educational system better-addressed to the requests of the job market; more incentives on research and on the networks between R&D centres and enterprises. Even in this case the liberalization of private investments in ITC and transport fields could have a positive effect.

Morocco

Macroeconomic indicators

In the last years Rabat has proceeded successfully in its effort to consolidate macroeconomic indicators¹¹³, but the economic system is still conditioned by important structural weakness such as the dependency on climatic factors, the important budget and trade deficits.

In the period 1995-2005 Moroccan GDP grew with an annual average of about 3,5% by recording swinging performances¹¹⁴. As matter of fact, the growth was strongly conditioned by climatic factors, in particular by the several droughts occurred. The agricultural sector in Morocco accounts for around 16% of GDP and employees 44% of active population (2004 data), for this reason in 2005 insufficient rainfalls, and consequently scarce crops, determined a growth rate of 2,4%¹¹⁵.

¹¹² These information have been taken from the Tunisian Ministry of Education and Training (<http://www.edunet.tn/indexan.html>). In the same years the number of University students increased notably by around 20% from 2002 to 2006 as well as the number of graduates by around 35%. In the health sector during the same period there was a reduction of funds passing from 2,0 to 1,7% of GDP (...and from 8,1 to 7,1% of the whole public budget). Nevertheless, the number of hospital services and the number of doctors increased by reflecting a more efficient use of public resources. Within the Arab socio-cultural context, Tunisia is also at the forefront in the field of women conditions. The 1956 Code du Statut Personnel¹¹² introduced a substantial equality of rights between the two sexes in many fields of public and private life by affecting deeply on the classic Muslim social law. In contrast in the field of freedom of expression and association much has still to be done, as reported by many international organizations (i.e. (the Amnesty International Report 2007 ‘The State of The World’s Human Rights’) and by the several European Parliament resolutions.

¹¹³ “Au cours de la dernière décennie, le Maroc a consolidé sa stabilité des prix, renforcé sa position extérieure et initié un ambitieux programme de réformes structurelles.” (World Bank – MA, 2005b, p. 2)

¹¹⁴ World Bank World Development Indicators (WB WDI) online database

¹¹⁵ World Bank World Development Indicators (WB WDI) online database. In the same year WTO Multi Fibre Agreement ended.

Good results have been obtained also in the reduction of inflation rate which reached an annual average of 2% in the decade 1995-2005¹¹⁶ from the double-digit data of previous decades.

Public debt was reduced from 76% of GDP in 2000 to 67 % in 2004. The consistent amount of emigrants' remittances (8,2 % of GDP), the increasing income from tourism (7,1 % of GDP) and the FDI deriving from the privatisation programmes have increased bank liquidity and international reserves; in this regard, Morocco passed from covering 4,6 months of import in 2000 to 10 months in 2004¹¹⁷.

Worrying performances have occurred in regard to the budget deficit which accounted for 3,9% of GDP in the period 2002-2005 (annual average)¹¹⁸. Such a deficit was due mainly to the huge investments Rabat has made to increase public wages and to strengthen security measures after 2003 terroristic attack in Casablanca. Further, in the same period government saved two public banks from bankruptcy.

Finally, despite the improvements achieved during the 1990s, Moroccan economic system is still characterised by worrying external unbalances; country trade balance deficit has indeed grown in the last years until to reach the peak of 13% in 2004¹¹⁹. Such a deficit, which is not new in the economic history of Morocco, is mainly caused by the reduced competitiveness of Rabat export and by an increasing import. Although recent FTAs with US (2004) and with Turkey (2006) are expected to influence positively the export, currently the current account balance equilibrium is safeguarded by emigrants' remittances and tourism revenues.

Structure of the economy

As already mentioned, the agricultural sector plays an important role in the Moroccan economy. In 2004 it employed around 44% of active population and accounted for 16,7% of GDP; nonetheless, the weight of this sector has diminished with respect to the decade 1980-1990 when it made up 22,6% of GDP¹²⁰.

Although the end of the WTO Multi Fibre Agreement was expected to affect negatively the industrial sector, in 2005 the sector grew two points more than 2004 by accounting for 29% of

¹¹⁶ International Monetary Fund World Economic Outlook (IMF WEO) database

¹¹⁷ World Bank - MA (2005a)

¹¹⁸ World Bank World Development Indicators (WB WDI) online database

¹¹⁹ AfBD/OECD – MA (2006)

¹²⁰ World Bank - MA (2005a). A further reduction was recorded in 2005 due to a reduction of values and volumes in almost all the crops.

GDP¹²¹. The negative effects of the MFA expiration were reduced also by the announcement of big companies to start massive investment programmes for the next years, about \$300 ml that should generate 2.500 new jobs. In addition, government and textile industry signed up in October 2005 a 'Textile and Clothing Emergency Plan' containing measures to restructure and modernise the sector¹²².

Services sector accounted for 57,6% of GDP in 2005 by showing a constant trend of growth (in 1995 it made up 50,9%). Tourism, communication and transport sectors achieved the best results.

Economic reforms

As well as Tunisia, since early 1980s Morocco has launched a series of important initiatives in order to promote the opening up of its markets; in particular, the country started a programme of Structural Adjustments in 1983, in 1994 it entered the WTO and in 1996 the Euro-Mediterranean Partnership. Finally, a US-Morocco FTA was signed in 2004. Contemporaneously the country has launched a set of reforms and policies in order to support such initiatives by promoting private investments, in particular foreign direct investments, by improving the business climate, and by modernising the productive sector.

In 1995 a new Investment Charter¹²³ was approved. Replacing previous codes the Investment Charter introduced several new elements:

- a considerable simplification of procedures¹²⁴;
- the principle of no discrimination between national and foreign investors;
- the introduction of fiscal incentives and special measures (i.e. the exemption of custom duties).

Further, a widespread institutional structure has been developed in the territory in order to support private investors. The Regional Centres for Investment and the National Association for SMEs (ANPME - Agence nationale pour la promotion de la PME) are the main bodies of this structure .

Like Tunisia, Morocco started in 1997 a '*Programme de mise à niveau*' to promote and support the modernization of the local productive sector. Bougault and Filipiak (2005) have conducted an interesting study on '*Les Programme de mise à niveau*' both in Morocco and Tunisia. Authors underline that the two programmes present important differences by reflecting different approaches: in Tunisia, government played an important role by intervening directly into the generation and the

¹²¹ World Bank World Development Indicators (WB WDI) online database

¹²² AfDB/OECD-MA (2006)

¹²³ The Investment Charter entered into force in 1996

¹²⁴ "Resident or non-resident foreign nationals are entitled to invest freely in Morocco. No investment operation require any prior authorization" (World Bank 2006, p. 45)

development of the programme; vice-versa, Moroccan government intervention was restricted to correct market imperfections and weakness, in particular with regard to SMEs' difficulty to access to credit in the financial market. Unlike the Tunisian programme, the Moroccan one did not develop specific measures but rather collected several programmes already existing, and in most of the cases financed by EU assistance (i.e. the Euro Maroc Enterprise programme - EME).

In point of fact, the first phase of '*Le Programme de mise à niveau*' (1997-2002) in Morocco did not achieve satisfactory results, especially if compared to the same initiative in Tunisia. Apart from the heavy delays in the programme starting, only 300 enterprises participated into the programme. In particular, many enterprises met several difficulties (i.e. complicated administrative procedures) to access to EME funds and to other foreign credit lines.

In 2002 the programme was re-launched with a renewed institutional and financial structure; in fact, a new specific fund (FOMAN, a € 40 ml co-financed by EU and Moroccan government) and an Agency for the promotion of SMEs were created aiming at providing financial and technical assistance to enterprises (i.e. preparation of business plan, consultancy in the fields of management, marketing, audit).

Finally, among Maghreb countries Morocco has proceeded more deeply with the privatization of public assets; this process has involved important sectors such as telecommunications, agribusiness, cement, steel and tourism. "In Morocco, the privatization process was initiated in 2003. It led to the liberalization of key sectors of the economy, including telecommunications, agribusiness, cement, steel and tourism. In 2005, 70 entities out of 114 initially listed for sale have been privatized, including 44 companies and 26 hotels. The sale of *Maroc Telecom* and *Régie des Tabacs* in 2000 and 2003 were by far the largest privatization operations realized in Morocco. The most recent privatization operation took place in 2005, with the sale of four state sugar companies to the Moroccan holding, ONA (70)" (World Bank, 2006, p. 46)

The process of privatization has made Morocco one of the main destinations of foreign direct investments in the region. Due to the privatisation of Maroc Telecom in 2000 and of the Régie des Tabacs in 2003, in the same years FDI accounted for 7% and 25 % of GDP.¹²⁵

Conclusion and perspectives

Although Morocco has succeeded in last years in consolidating its macro-economic indicators, the country is still characterised by a worrying social situation: in 2005 19% of the population was

¹²⁵ Radwan and Reiffers (2005), p. 49

under the poverty line, while the average illiteracy rate accounted for 48%¹²⁶. In particular, within the country there is strong difference between urban and rural areas' living conditions.

Even if in the last years the unemployment rate has officially decreased, from 13,6% in 2000 to 11%¹²⁷ in 2005, the urban rate of unemployment remains much higher (19,4% in 2003¹²⁸) and according to OECD it accounts for 15,4% among 15-34 years old peoples and 25,6% among young graduates¹²⁹. For these reasons, government has reformed in 2003 the sector by introducing a New Labor Code aiming at enforcing employment rights and bringing national legislation closer to European standards¹³⁰.

Since its nomination occurred in 1999, current King Mohamed VI has addressed many efforts to improve the social situation of the country, in particular several reforms have been approved in the fields of rural development, education and women's condition (i.e. the 2002 Family Code).

Moreover, ambitious programmes have been launched to bring electricity and potable water to rural areas. In order to improve health services, in 2005 a Mandatory Health Insurance was launched with the aim to cover about 7,8 million of people. Yet, results in the health sector are still insufficient¹³¹.

In conclusion, this condition may influence negatively the development of the country for several reasons:

- 1) If a big part of society lives in condition of weakness and vulnerability, this may imply social tensions and instability.
- 2) Such a situation requires, to be improved, a consistent financial effort by the State. For a country with an already high budget deficit this may burden heavily the economic condition.
- 3) The process of trade opening and the launch of a free market economy can determine heavy counter effects on the weakest social groups. For this reason, Morocco is required to make big efforts to guarantee a socio-economic balance in the country.

Algeria

¹²⁶ World Bank-MA (2006). In addition, “(...) environ un quart de la population est considéré ‘économiquement vulnérable’. Cette population vit au seuil de la pauvreté ou à moins de 50 au dessous de ce seuil.” (World Bank –MA, 2005b)

¹²⁷ Source: ILO Laborsta available online on <http://laborsta.ilo.org/>

¹²⁸ Source: ILO Laborsta available online on <http://laborsta.ilo.org/>; last available data refers to 2003

¹²⁹ AfBD/OECD – MA (2006)

¹³⁰ “These reforms improved regulatory transparency by introducing some flexibility in hiring. At the same time, the new Labor Code has more than doubled already expensive firing costs” (World Bank 2006, p. 44). Similarly, both Tunisia and Algeria have introduced recently more flexibility in hiring, firing and contract terms (especially in Algeria)

¹³¹ According to OECD, the budget allocated to the health sector is insufficient face to population needs. In 2005 there was 1 doctor for 1845 Moroccan citizens, and the country had 126 public hospitals and 2484 basic healthcare institutions. (AfBD/OECD – MA, 2006)

Macroeconomic indicators

As seen in the previous sections, since the early 1980s Morocco and Tunisia have followed a similar process of economic liberalisation and integration into the world economy.

Algeria has joined this process later. In fact, after a decade of strong economic turbulences, started with the fall of oil prices in the mid-1980s and erupted in 1992 when a bloody civil conflict struck down the country¹³², in 1994 Algiers launched a program of economic stabilisation with the support of the International Monetary Fund (IMF). The programme succeeded in the stabilisation of the economy which recovered a modest growth, but no significant results were achieved in the fields of economic development and market opening. At the beginning of 2000s the country was characterised by a highly protected economy based on a strict price control and on protectionist measures. In addition, the economy was still essentially dependent on its main resource, that's hydrocarbons, while the manufacturing sector was quite irrelevant (Auty, 2003). Unlike Rabat and Tunis, Algiers has in fact at its disposal massive oil and gas reserves: the country is the sixth producer of natural gas with 88 785 Mm³ (3% of total world production), and it is the fourth exporter with 64 363 Mm³.¹³³

As well as for many net-producer countries, hydrocarbons represent for Algeria, on one side, an important source of income, but, on the other side, an element of structural weakness: country's economy is in fact completely dependent on these resources and, consequently, very vulnerable to hydrocarbon prices' volatility on international markets. According to World Bank indeed "(t)he hydrocarbon sector accounts for about 30% of Algeria's GDP, more than 95 percent of export earnings, and 75% percent of fiscal revenues, but *directly* contributes only 3% of job creation" (WB – DZ , 2003, p. ii)

On the basis of a regained social stability, and in order to face both external challenges (increasing international competition, changing international environment, volatility of oil prices) and internal ones (growing population, high unemployment, social tensions), in the last years Algeria has accelerated its reform programme to reduce the gap with the other Maghreb countries. In particular, oil revenues have been increasingly used to support the process of modernization and development of the country.

¹³² In 1992 FIS, the Islamic Salvation Movement, won political elections. By claiming an irregular vote, the Army intervened. This determined a bloody civil conflicts between, on one side, the Army, and, on the other side, the Islamist extremist movements, the Salafist Group for Preaching and Combat (GSPC) and the Armed Islamic Group (GIA). At the end of the war, the official victims were 150.000.

¹³³ IEA (2007), Key Statistics 2007, downloadable at http://www.iea.org/textbase/nppdf/free/2007/key_stats_2007.pdf

Furthermore, last-years increasing oil prices¹³⁴ have allowed Algeria to achieve very good economic performances by reaching a sufficient macroeconomic stability. GDP increased continuously¹³⁵ from the 2003 record data, 6,8% of GDP, to 5,2% in 2004 and 5,3% in 2005, even if it is expected to fall under 5%. Due to this important liquidity inflow, Algeria has rebuilt its official reserves to the equivalent of about two years of imports and has registered an important budget surplus by keeping inflation under control. The inflationary trend recorded in 2004 (3,6%) has been reabsorbed, in 2005 inflation was 1,6%.¹³⁶ In order to control the monetary policy and the inflationary trends, government expenditures have been planned on a fixed barrel reference price of \$19, the surplus is addressed to a Revenue Regulation Fund used to pay off the public debt. Further, through different monetary instruments, the Bank of Algeria has succeeded in stabilizing monetary situation. (AfBD/OECD, 2007)

Structure of the economy

The dependence of Algerian economy on its hydrocarbon reserves is showed also by the fact that within the industrial sector, which accounted for 56.6 % of GDP in 2004 and 62.3% in 2005, the manufacturing sector represented only a marginal part: respectively 6.5 % and 5.3%¹³⁷.

Algeria is the Maghreb country where the agriculture sector has the smallest impact on the GDP: 8,3% of GDP in 2005¹³⁸. In addition, as in all the region, the sector is strongly dependent on climate conditions¹³⁹.

The contribution of services sector to GDP has declined sharply in the last years, from 33,6 % in 2004 to 29,4% in 2005¹⁴⁰. Today, the sector employs more than 53% of total employed population; transport, communication, trade and distribution activities represent almost 85% of sector activities¹⁴¹.

¹³⁴ Data taken from IEA, Oil market Report 2008 (synthesis), downloadable at www.oilmarketreport.com

¹³⁵ World Bank - DZ (2006), Algeria at a Glance - 8/12/06, downloadable at http://devdata.worldbank.org/AAG/dza_aag.pdf

¹³⁶ International Monetary Fund World Economic Outlook (IMF WEO) database; available at www.imf.org/external/pubs/ft/weo/2008/01/weodata/index.aspx

¹³⁷ WB-DZ (2006). Manufacturing sector has decreased its importance as percentage of GDP in the last years, from 6,5% in 2004 to 5,3% in 2005, but it has maintained the same rate of growth as sector (3%). This is well explicated by the increasing weight of oil and gas sector.

¹³⁸ WB-DZ (2006)

¹³⁹ In 2003, thanks to exceptional rainfall the sector reached the 10,2 % of GDP when an average annual growth of 17,0%. 2004 and 2005 have been marked by decreased performances, respectively 9,8% and 9,3% of GDP (WB – DZ, 2006). To support agricultural sector Algerian government has launched a National Plan for Agricultural Development (PNDA).

¹⁴⁰ WB – DZ (2006); Nevertheless sector has continued to grow: 6,7% in 2004 and 8,6% in 2005

¹⁴¹ AfBD/OECD (2007)

Unlike Tunisia and Morocco where tourism account for 9-10% of GDP, in Algeria this sector plays a very marginal role. In the last years there have been the first signs of recovery, but the terrorist attacks, that have hurt recently the country, do not contribute to encourage tourism flows. According to OECD Report 2007, it has been calculated that 10.000 tourists would generate foreign currency revenue of \$ 200 million, the equivalent of 25 per cent of exports of goods excluding oil and gas¹⁴².

Economic reforms

Over last years Algerian government has started an ambitious program of reforms; efforts and funding have been addressed in particular towards the development and the modernization of basic infrastructures. In 2005 government launched a four-year Complementary Plan for Growth Support (PCSC); this plan, whose purpose is to continue the work done within the 2001-2004 Economic Recovery Program (PSRE) , has a budget of \$ 55 billion, plus \$ 14 billions for the development of the High Plains and South Regions¹⁴³; through large-scale public projects, its main scope is to foster investments in the following sectors: road construction; building; exploitation of gas reserves; electricity; water; telecommunication. “This foresees capital equipment expenditure amounting to 4 202.75 billion dinars over the period 2005-09. Almost 45 per cent of the total budget will be allocated to expenditure on socio-educational infrastructure (housing, education, health and regional development); 40.5 per cent will go towards basic infrastructure (transport, public works, water) and almost 8 per cent will provide support for agriculture.”¹⁴⁴

In order to promote national and foreign private investments, in 2001 a new Investment Code¹⁴⁵ was introduced. On one hand, the Code simplifies, the investment legislation by unifying all pre-existing regulations and laws¹⁴⁶; on the other hand, it introduces a series of tools and incentives to promote investments such as the *Agence de Promotion, de Soutien et de Suivi des Investissements* (Agency for investments’ promotion and support) which “(...) functions as a one-stop shop for all

¹⁴² AfBD/OECD (2007)

¹⁴³ AfBD/OECD (2007)

¹⁴⁴ AfBD/OECD (2007)

¹⁴⁵ The code was issued with the “Ordonnance n° 01-03” in August 2001 and completed by the “Ordonnance 06-08” of July 2006.

¹⁴⁶ The first investment code was published in 1993; it provided for freedom of investing and equal and non-discriminatory treatment for all the investors; in this framework all types of investments were permitted: joint ventures, direct investments and portfolio investment without discrimination against foreign investments.

foreign companies investing in the country, provides support and assistance to foreign investors and determines which incentives foreign investors should receive.”¹⁴⁷

By affirming the principle of non-discrimination between national and foreign investors, the Code eliminates restrictions on foreign ownership of capital and guarantees investors the right to repatriate profits; in addition, it provides for improving the legal security and a clear dispute settlement. Further, the Code establishes exemptions from customs duties for imported goods and equipments associated directly with the investments and it regulates exemptions from taxes (see Box 4.2).

Since early 2000s government has started an ambitious program of privatization. According to World Bank (2006) “(i)n Algeria, delays in privatization compromised the restructuring of public economic enterprises (PEE) and the reorganization of the financial sector. From 2003 to 2005, 270 public enterprises were privatized, with 102 of these privatizations taking place in 2005 alone.” (p. 46). Main sectors involved have been telecommunication, water and energy. (UNCTAD–DZ, 2006) Nevertheless, FDI in the country are still disappointing; although FDI flows have recently increased, the country still remains behind Morocco and Tunisia.

FDI are mainly directed to hydrocarbon sector. In this regard, the approval in 2005 of the new Hydrocarbon Law represented an important initiative for the development of the sector since it aimed to reduce the monopolistic role of the state and to promote the foreign participation by improving a more competitive and transparent market. Nevertheless a year after, Algerian government decided to restore some previous restrictions by imposing for instance an increased share of Sonatrach, the public oil and gas society, in all the operations of exploration and production conducted by foreign companies.

Finally, by following the example of the Tunisian and Moroccan ‘*Programmes de mise a niveau*’, Algeria created in 2000 a “(f)und for the Promotion of Industrial Competitiveness (*Fonds de Promotion de la Compétitivité Industrielle*) with an allocation of 5,651 billion Algerian Dinars (AD) (about \$70 million) for the period 2001-04. As of October 2004 out of the 293 enterprises which had applied for support from this funding institution only 191 firms were judged eligible (www.mir-algeria.org/miseaniveau/dispojuri.htm). At this pace it is obvious that Algeria is still trailing behind when compared, for instance, to Tunisia (\$2 billion allocated for the upgrading of 2,007 companies)” (Aghrout 2007, p.102)

¹⁴⁷ UNCTAD – DZ (2006). With the “Ordonnance 06-08” of July 2006 “(t)hree levels of competencies are defined about investment: the strategic level represented by the National Council Investment (CNI - Conseil Nationale pour l’Investissement) which is in charge to decide about the strategic relevance of the investment; the political level embodied in the Ministry for Industry and Investment Promotion (MIPI) which is responsible to lead the national investment policy and to care for its implementation; finally the execution level represented by two agencies the National Association for Investment Development (ANPI) and the National Agency for the Intermediation and Property Regulation (ANIREF).” Source: Algerian Industry and Promotion Minister, see www.mipi.dz

Box 3.2. Incentives for investment introduced by the 2001 new Investment Code

More specifically the main benefits accorded to the investments are organised on the basis of three major schemes:

Benefits granted for the general scheme

Project setup phase:

- VAT (TVA) exemption on non-excluded goods and services,
- Exemption of customs duties on non-excluded imported equipment,
- Exemption of the transfer duty on real estate acquisitions

Execution phase:

- 3-year exemption from the Tax on Company Profit (TCP) (TAP)
- 3-year exemption from the Professional Activity Tax (PAT) (TAP).

Benefits granted for the scheme for areas to be developed

Project setup phase:

- VAT (TVA) exemption on non-excluded goods and services,
- Exemption of customs rights on imported equipment,
- Exemption of the transfer duty on real estate acquisitions,
- Registration right at a reduced rate (0/00) for constituent acts and capital increases,
- The possibility for total or partial assumption by the State of expenses related to the infrastructural work necessary to carry out the investment.

Execution phase:

- Ten-year exemption from the Tax on Company Profit (TCP)(IBS)
- Ten-year exemption from the Professional Activity Tax (PAT)(TF)
- Ten-year exemption from the Land Tax (LT)(TF)
- Possibility of granting other benefits (deficits report and redemption periods).

Benefits granted for the agreement scheme

The investments arising from this scheme may enjoy all or part of the following benefits:

Project setup phase (for a maximum of five years):

- Exemption from duties, taxes, levies and other fiscal deductions on all imported goods and services or those purchased locally,
- Exemption from the transfer duty on real estate acquisitions and legal advertising,
- Exemption from registration duties, (LT)(TF).
- Exemption from the Land Tax (LT)(TF)

Execution phase (for a maximum of ten years):

- Exemption from the Tax on Company Profit (TCP),
- Exemption from the Professional Activity Tax (PAT) can grant other additional benefits or facilities to Apart from these benefits, the CNI investments made within sectors posing a particular interest for the national economy.

Data taken from the official website: www.mipi.dz

Conclusions and perspectives

Despite the important attempts State has made for the development and the diversification of country's economy, these decisions have not been followed by adequate institutional reforms, especially in the justice and financial sectors¹⁴⁸.

Although the legal system was reformed in 2001, it still suffers from "(...) procedural inadequacies, from a shortage of qualified magistrates in the field of commercial law and from a lack of capacity

¹⁴⁸ AfBD/OECD (2007)

in administrative and technical evaluation as well as in implementing the decisions of justice.”¹⁴⁹
And this determines a diffused feel of no-confidence in the society and in the economic sector.

For what concerns the financial field¹⁵⁰, Algerian bank system is characterised by the quasi-monopolistic presence of the State which possesses 95% of total banking assets in the market. Among the top ten banks the first seven are state-owned. (World Bank, 2006)¹⁵¹

Main problems refer to the difficulties to obtain credit and the weak role of the banks as intermediate actors in the financial markets. In Algeria the domestic credit to private sector is very low meaning 11 per cent of GDP, compared to 59,4% and 65 % in Morocco and Tunisia, respectively. Moreover, 50% of total loans are not-performing loans, while 23% in Tunisia and 18,1% in Morocco¹⁵². Bank system is characterized by no risky aptitude and high transaction costs; only in 2006 the dematerialisation of operations in the financial market has been realised.

These inefficiencies have contributed to the development of a diffused high informal economy, which account for 35% of GDP.

In this regard, the undergoing privatization process of the Algeria Popular Credit Bank, the Algeria National Bank and the Local Development Bank is expected to help the sector developing. Besides, two public credit guarantee funds¹⁵³ have been recently created to support SMEs accession to financial market, even if until now results have been poor.

In part as a consequence of these institutional weakness, the level of private investments in the country remains low. As Femise Report (2006) underlines the projects for the development of the private sector ‘are slow in bearing fruit’. State remains the main investor¹⁵⁴, as the PCSC program reveals; but this seems to be not sufficient in particular since the strong dependence of the country on the hydrocarbons’ resources which makes Algeria dangerously dependent on oil and gas price volatility. It is necessary to proceed on the way of economic diversification..

¹⁴⁹ AfBD/OECD (2007)

¹⁵⁰ Algerian system suffers of strong inefficiencies: in particular the inefficient role of the banks as financing intermediary actors (Radwan and Reiffers, 2006)

¹⁵¹ Unlike Algeria, during last years in Tunisia the role of state-owned banks has diminished. Today, “(t)he structure of the Tunisian banking system, after the two recent privatizations, remains one third under state control, one-third under control by foreign banks, and one third by private nationals.” (World Bank, 2006, p. 58) In addition , since 2001, there have been introduced several regulations to strengthen bank supervision and transparency and to improve operating standards. Similarly, in the last years Morocco has reformed the sector by introducing new management and control procedures. Still Moroccan financial system remains more state-controlled compared to the Tunisian one. There are five banks state controlled, in which the state has a large ownership and, beside state-owned banks, there banks majority-owned by local shareholders and by foreigner actors, there are three banks controlled by French groups. The recent privatization of 20% of the largest bank “Group de Banques Populaires” has been interpreted as a sign of increasing opening of the sector.

¹⁵² World Bank (2006), p. 54. To calculate ‘the ratio of non-performing loans on the total lending to the economy’ is a measure to the quality of banking services

¹⁵³ Credit Guarantee Fund (FGAR) and Investment Credits Guarantee Fund (CGCI)

¹⁵⁴ Budget expenditure increased by almost 5% in 2005 (AfBD/OECD, 2007)

Finally, in the last years the security situation in the country has improved. The approval of the “Charter for Peace and Reconciliation”¹⁵⁵ has represented in fact an important step forward in the process of social reconciliation after the Civil War years, as well as a necessary pre-condition to build up an ambitious socio-economic development plan. Nevertheless, the Algerian socio-economic situation is still characterised by important structural weakness¹⁵⁶ among which the high unemployment. Unemployment fell down from 30% in 1999 to 15 % in 2005 and it is expected to fell down under 10% in 2009. Nevertheless, 15 % is an high rate and more important this rate doubles between youth population.¹⁵⁷In this regard, public infrastructure projects are expected to reduce unemployment rate (Aghrout, 2007)

3.3 Economic relations between European Union and Maghreb countries: trade and FDI

Trade liberalisation and degree of openness in Maghreb countries

Since mid-1990s Algeria and Tunisia have reduced their customs tariff (simple average) of about 6 points until 18,1% and 22,4%¹⁵⁸ respectively (2003 data). Despite an important cut of around 37 point, Morocco is the country with the highest tariffs in the area: 27,3% in 2003¹⁵⁹. In general Maghreb tariff protection (simple average) remains higher if compared to the one of other emerging economic regions, such as Latin America (9,5%), Asia (10,8%), European Union new member states (NMS) (5,2%)¹⁶⁰, and the same Mediterranean region (17%).

Despite the high tariff protection, Bouzergan (2007) points out that in 2004 Mediterranean partner countries (MPCs) reached on average the same degree of openness of China and European

¹⁵⁵ On September 29, 2006, with a large majority (97% of positive votes between the 80% of eligible voters) the “Charter for Peace and Reconciliation” was approved. It aimed at ending a civil war that has hurt the country since 1992, by offering a full amnesty to both Islamic militant and military officers and soldiers who committed sins and cruelties. The Charter, which was strongly promoted by current President Abdelaziz Bouteflika, has been strongly criticised by many Human Rights associations.

¹⁵⁶ “Continuing on the steady trend of the late 90s, the security situation has considerably improved, enticing the return of the population to previously dangerous rural areas and encouraging business, including foreign, to invest throughout the country. But persisting problems such as high unemployment, recurrent water shortages in many cities and a severe housing crisis, could, if not addressed rapidly, still be significant factors of social discontent. The demands of the population remain high in terms not only of economic growth and employment, but also of improvement of basic services, equity and better governance.” (WB – DZ, 2005, p. 2)

¹⁵⁷ Radwan and Reiffers (2006)

¹⁵⁸ Data for 2003

¹⁵⁹ Radwan and Reiffers (2005), tab. 5c by quoting data UNCTAD, TRAINS. Tunisian tariff protection’s simple average moved from 28,44% in 1995 to 22,44% in 2003, whilst the maximum duty average remained at 43%; Algerian simple average passed from the 23,92% in 1995 to 18,08% in 2003, while in the same years the maximum average halved to just 30%; finally, Morocco reduced its simple average to just 27,3% in 2003, while the maximum duty average moved from 143% (1993) to 50% in 2003.

¹⁶⁰ Radwan and Reiffers (2005), tab. 5c

Union¹⁶¹. In particular Tunisia (46,4%) and Morocco (36,2%) were over the average, while Algeria (32,9%) stood just a little below.

Tab. 3.1: Degree of openness, as percentage of GDP, in the Mediterranean Partner Countries

	2000	2004
TOTAL MPCs	31,5	35,6
Algeria	32,1	32,9
Egypt	19,6	28,8
Israel	42,5	46,7
Jordan	55,2	63,6
Lebanon	25,4	32,3
Morocco	34,5	36,2
Palestinian Authority	37,6	39,1
Syria	32,7	33,1
Tunisia	46,0	46,4
Turkey	27,8	31,8
EU25 (including intra-EU trade)	36,0	35,3
EU25 (excluding intra-EU trade)	12,9	12,0
USA	13,1	12,7

Source: Bourzergan A. (2007); Degree of openness = (imports + exports)/ (2xGDP)

In this regard, Radwan and Reiffers (2005) affirm that “(...) the real openness has been stronger than the efforts in trade liberalisation” and this is “is partly linked to the tariff evolution previously indicated and has translated into an increased role of international trade in the economic life of MP.” (p. 29) Furthermore, an other possible explanation lies in the fact that, as next sections will show, Maghreb main trading partner is the European Union which has already been guarantying a duty-free access to North-African industrial products since the 1970s Cooperation Agreements. Nevertheless, the high tariff protection continues to represent an important obstacle to international trade as it can determine negative trade diversion effects and poor MPCs intra-regional trade.

Trade composition in Maghreb countries

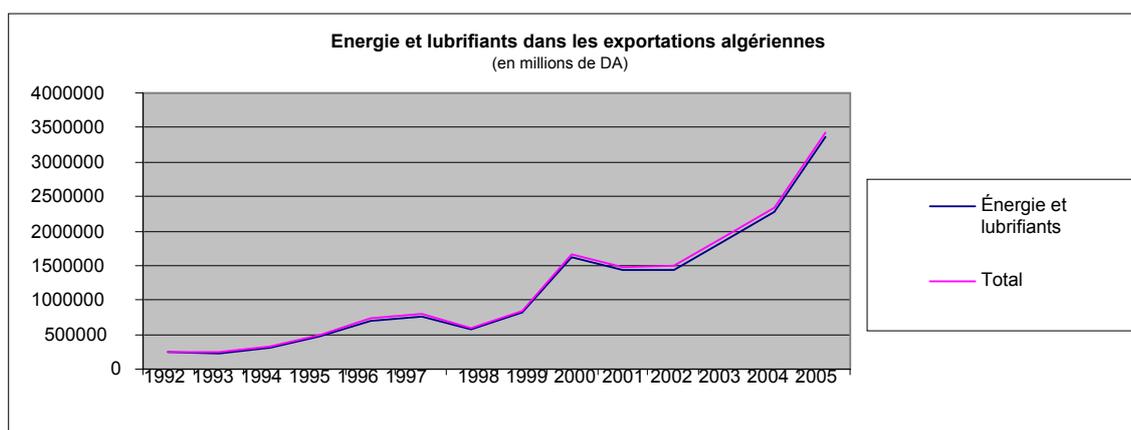
With regard to the composition of trade important differences exist between Algeria, on one side, and Morocco and Tunisia, on the other side: while the former has remained essentially dependent on its hydrocarbon production, Rabat and Tunis have notably diversified their production in the last two decades.

¹⁶¹ MPCs’ economies showed on average a degree of openness of 35,6% in 2004 (31,5% in 2000) at the same level of China, 35% in 2004, and European Union with 35,3% in the same year. (Bourzergan, 2007)

Algeria

As showed by Figure 4.1, hydrocarbons account for more than 97% of Algerian total exports. Moreover, around 50% of remaining export is constituted of oil and gas products¹⁶².

Figure 3.1: Energy and lubricants in the Algerian export



Source: data from Ministère du Commerce Algérienne (www.mincommerce.gov.dz); author's elaboration

For this reason the country has notably benefited from last-years increasing oil prices: this has allowed the country to successfully improve its external position and, in general, its macroeconomic environment. Nevertheless, as observed in the previous sections, the marginal production of manufactured goods and the complete dependence on hydrocarbons are structural weaknesses which Algiers needs to cope with.

Due to increasing hydrocarbons' revenues, also import has grown rapidly in the last years (according to Bank of Algeria, in 2006 capital goods represented the 40% while the food accounted for around 18%)¹⁶³, and current account balance rose from 13.1% of GDP in 2004 to 18.4% in 2005¹⁶⁴ when Algeria had a trade surplus of about € 10,32 millions.

Morocco

¹⁶² AfBD/OECD (2007)

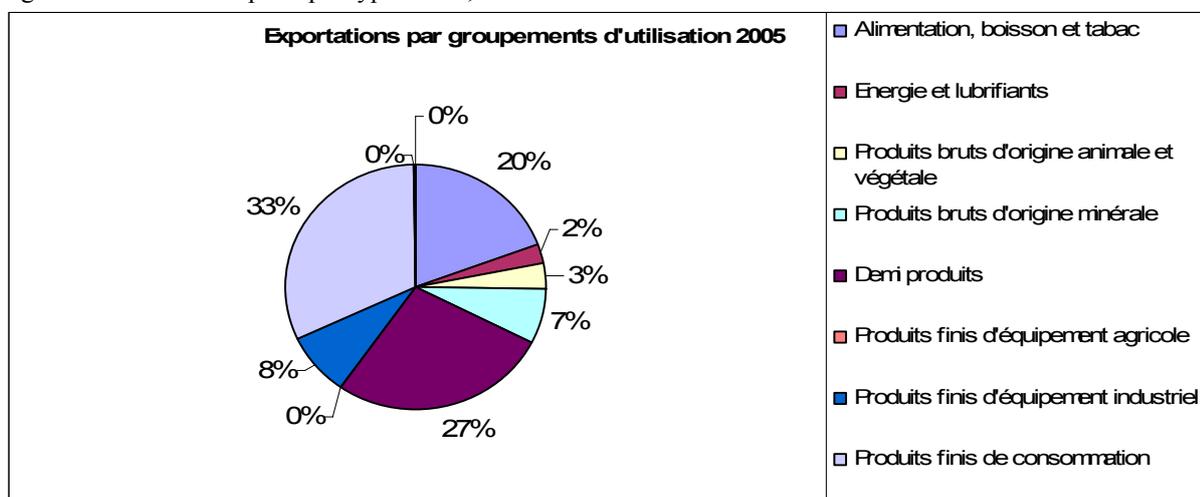
¹⁶³ Source: www.bank-of-algeria.dz

¹⁶⁴ WB – DZ (2006)

By analysing the 1995-2005 Morocco's export evolution¹⁶⁵, it is possible to note an important reduction of food items and, to a small extent, of mineral derivatives, while there was a relevant increase in consumption products and industrial equipments.

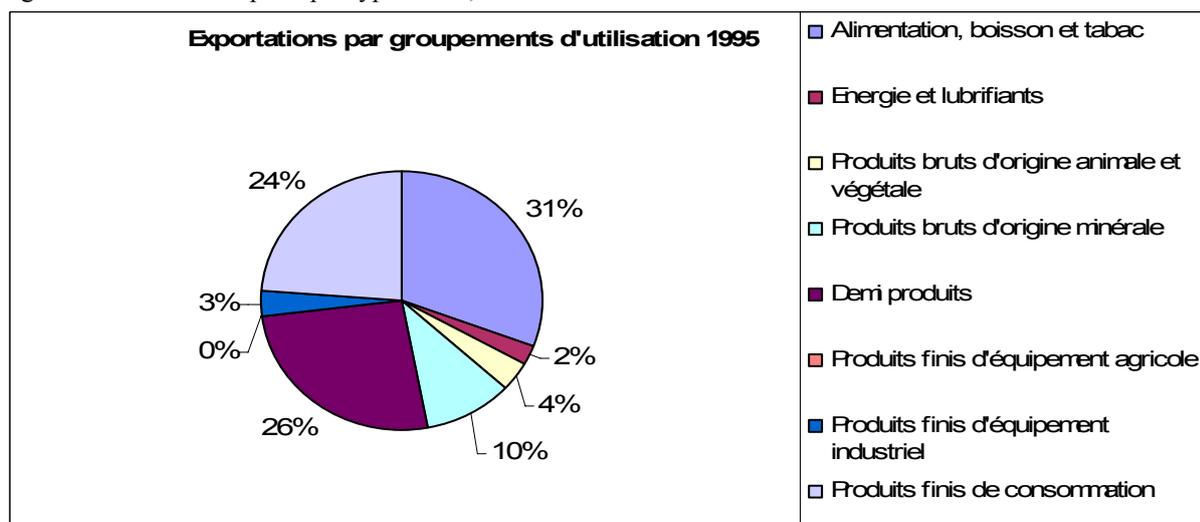
Actually, by confirming the important role played by the textile industry in the Moroccan economy, export of clothing increased twofold passing from 9% of 1995 total export to 18% in 2005. Moreover, in the same years the export of electric and electronic materials boosted, passing from 2% to 14%, by showing an undergoing process of industrial diversification. Figures 3.2a and 3.2b show these trends; in particular the evolution of two groups of products 'Produit finis d'équipement industriel' and 'Produit finis de consommation' confirm these data.

Fig. 3.2a: Moroccan exports per type of use, 2005



Source: data from Office des Changes du Royaume du Maroc (www.oc.gov.ma); author's elaboration

Fig. 3.2b: Moroccan exports per type of use, 1995



Source: data from Office des Changes du Royaume du Maroc (www.oc.gov.ma); author's elaboration

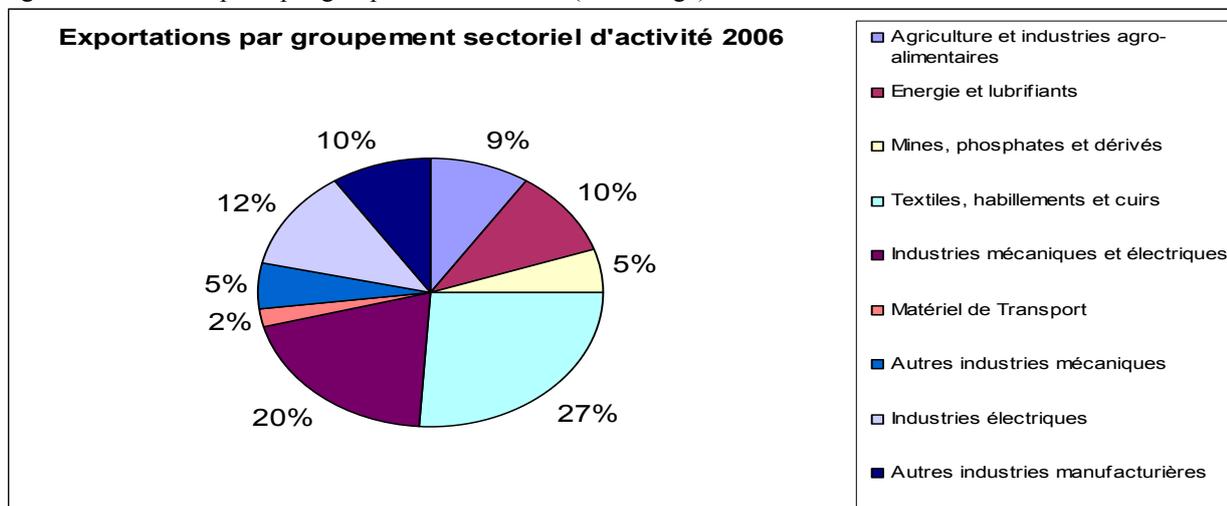
¹⁶⁵ Data on Moroccan import and export composition are taken from Office des Changes du Royaume du Maroc (www.oc.gov.ma).

On the side of import, in the same period ‘consumption goods’ doubled, passing from 11% to 20%, while the import of capital goods remained stable, around 20%; furthermore, there was a relevant reduction in the import of food items which passed from 16% to 8%.

Tunisia

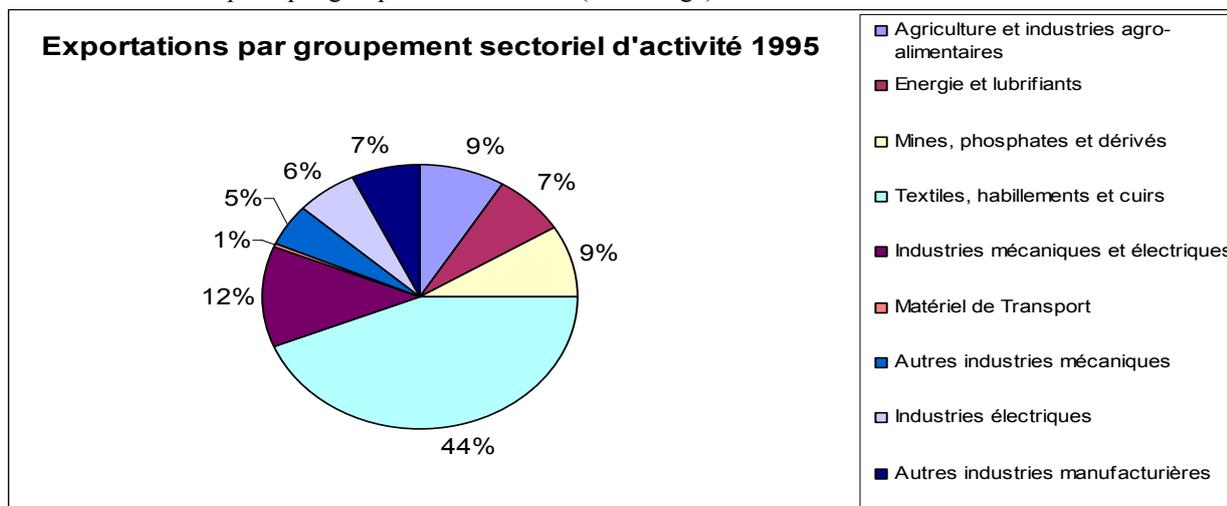
According to Radwan and Reiffers (2006), the economic development of Tunisia, the transformation from an agricultural country to a country based on developed industrial and services sectors, is due especially to “(...) the liberalization of the economy, which is the strongest in the region after Lebanon (...) and is equal to Israel.” (p. 152)¹⁶⁶

Fig. 3.3a Tunisia: exports per groups of sectors 2006 (Percentage)



Source : data from Institut National de la Statistique (www.ins.nat.tn); author's elaboration

Tab. 3.3b Tunisia: exports per groups of sectors 2006 (Percentage)



Source: data from Institut National de la Statistique (www.ins.nat.tn); author's elaboration

¹⁶⁶ Radwan and Reiffers (2006) underline also that trade deficit was reduced from -8,6 % of GDP in 2004 to -7,3 % in 2005 due to an increase in the export.

As showed by fig. 3.3a and fig. 3.3b, textile sector diminished its relative weight passing from 44% of total export in 1995 to 27% in 2006¹⁶⁷. Vice-versa, electric and mechanical sectors achieved an important growth moving from 12% to 20%. Moreover, by considering also the categories ‘Autres industries mécaniques’, ‘Industries électriques’ and ‘Autres Industries manufacturières’, the whole group grew from 30% to 47% in the same period.

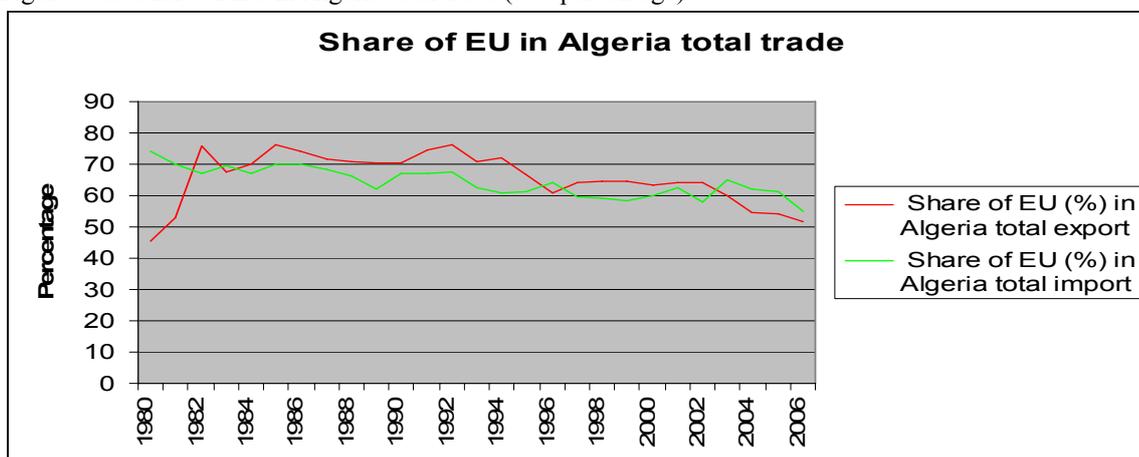
Data on production confirm export performances: in the same years electric, electronic and mechanical sectors boosted their production, while textile sector grew much more slightly.

Finally, the governmental depreciation policy of the Dinar has represented an important instrument to sustain export by making products more competitive¹⁶⁸ on international markets. Thanks to this economic policy, mainly based on export and diversification, the country has been able to absorb the shock deriving from the expiration of the MFA agreement.

Trade relations between European Union and Maghreb countries

EU is the main trading partner of Maghreb countries both in terms of import and export (figure 3.4a, 3.4b, 3.4c); especially Tunisia and Morocco have a strong relationship since 62% and 74% of their export was addressed in 2006 to EU, respectively¹⁶⁹. Data show that trade relations between the two sides are characterised by strong asymmetric positions in trade relations in favour of EU .

Figure 3.4a: Share of EU in Algeria total trade (as a percentage)



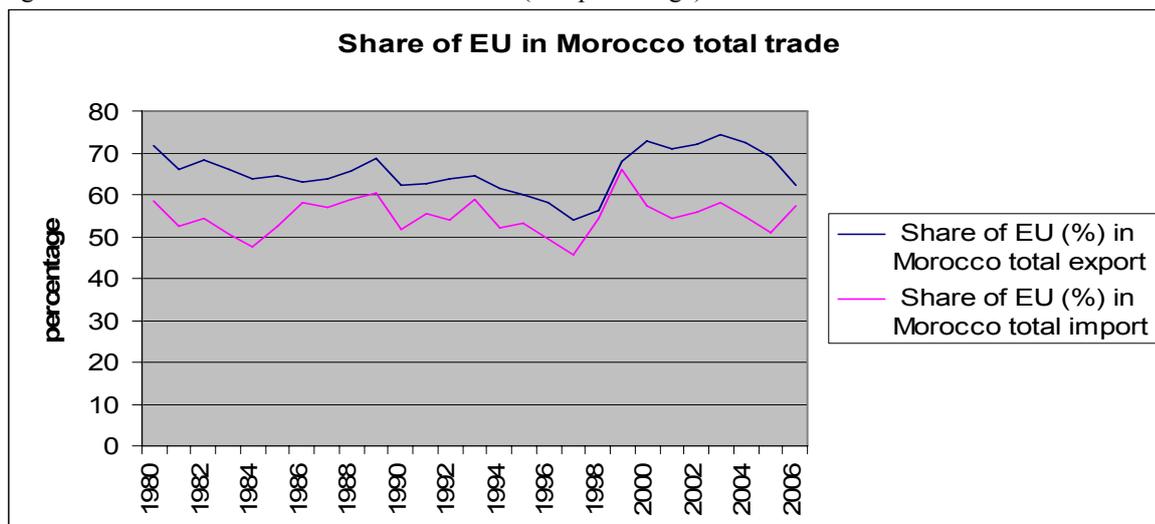
Source: data from UNCTAD Handbook of Statistics Online; author's elaboration

¹⁶⁷ Within textile sector confection activities counts for the main part, that's around 60%.

¹⁶⁸ “The depreciation policy of the dinar, intended to compensate for the developments in the euro-dollar exchange rate, (the euro will account for 2/3 of the basket of currencies and the dinar will be pegged to the euro in real terms), will cushion the shock caused by the end of the MFA. In 2003 and 2004 the authorities authorised a slight depreciation of euro-dinar parity, which has preserved the external competitiveness of the economy. In 2005 there was a consequent depreciation of the dinar against the dollar and an appreciation against the euro. This has the advantage of reducing the bill of imported non-petroleum products, which had grown in volume as a result of the industrial modernisation program and the drop in tariffs on EU manufactured goods (75% of imports came from the EU)”. (Radwan and Reiffers, 2006 ; pp. 152-153)

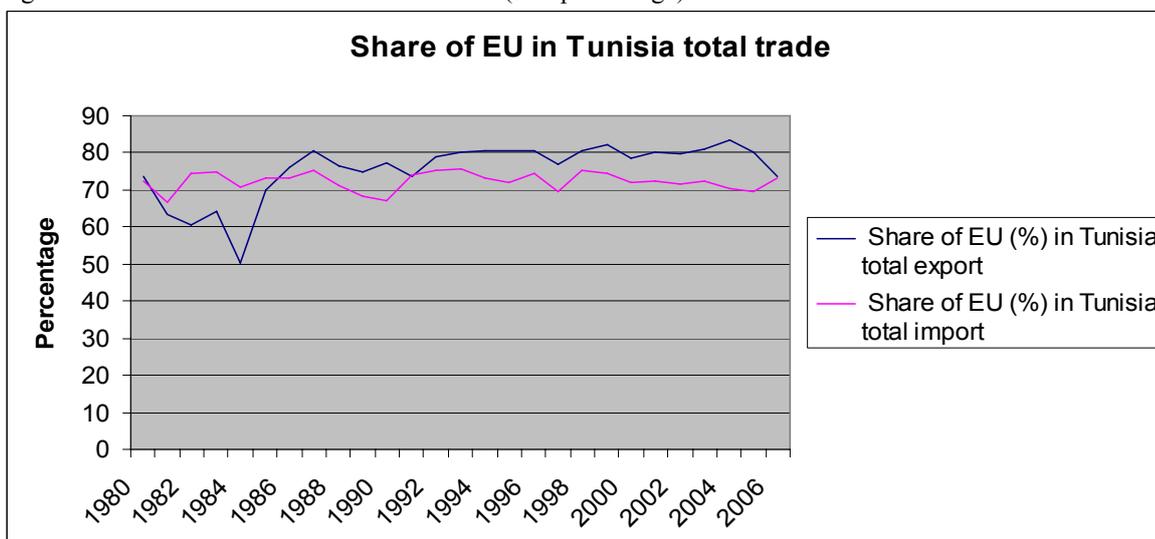
¹⁶⁹ Source: UNCTAD Handbook of Statistics Online

Figure 3.4b: Share of EU in Morocco total trade (as a percentage)



Source: UNCTAD Handbook of Statistics Online; author's elaboration

Figure 3.4c: Share of EU in Tunisia total trade (as a percentage)



Source: UNCTAD Handbook of Statistics Online; author's elaboration

While between 60% and 70% of Maghreb export is addressed to EU, only 2,4% of extra-EU export was directed to Maghreb countries in 2006¹⁷⁰ (exactly 0,7% to Tunisia, 0,9% to Morocco and 0,8% to Algeria – tab. 3.2). Similarly, a marked asymmetry characterises EU-Maghreb trade relations on the side of import.

¹⁷⁰ In 2005 together the MPCs accounted for 9,5% of EU's external exports (same value in 2000) and 7,5% of EU's external imports (6,5% in 2000). MPCs share in the world trade is quite small: in 2005 MPCs accounted for 2,6% of world exports of goods (2,1 % in 1999) and 3,2% of world imports (3,0% in 1999). In the same period, China doubled its share both in terms of export, growing from 4,8% to 9,9%, and import, from 3,8% to 8,2%; vice-versa, the US lost 3 points on import and 5 points on export. (Bouzergan, 2007)

Tab. 3.2: Maghreb share in Total Extra-EU exchanges

Share in Total Extra-EU exports	1980	1990	2000	2001	2002	2003	2004	2005	2006
Algeria	2,4	1,3	0,6	0,7	0,9	0,9	1	1	0,8
Morocco	0,8	1	0,8	0,7	0,9	0,9	0,9	1,1	0,9
Tunisia	0,8	0,8	0,7	0,8	0,8	0,8	0,8	0,7	0,7
Maghreb	4	3,1	2,1	2,2	2,6	2,6	2,7	2,8	2,4
Share in Total Extra-EU imports	1980	1990	2000	2001	2002	2003	2004	2005	2006
Algeria	1,6	1,7	1,5	1,5	1,5	1,6	1,5	1,8	1,8
Morocco	0,4	0,7	0,5	0,6	0,7	0,7	0,6	0,8	0,5
Tunisia	0,4	0,5	0,5	0,6	0,7	0,7	0,7	0,6	0,6
Maghreb	2,4	2,9	2,5	2,7	2,9	3	2,8	3,2	2,9

Source: Eurostat (2004) and Eurostat (2008a); Author's elaboration

In addition, trade structure data confirms the asymmetry in favour of European Union. EU has indeed a trade surplus with both Tunisia and Morocco, while it has a trade deficit with Algeria (of about € 10,32 ml in 2005) due essentially to last years increasing oil and gas prices¹⁷¹.

In particular, Morocco trade deficit has strongly increased by quadrupling from 1995 to the 2005, from € 0,67 ml to € 2,72 ml. Tunisian trade deficit has raised more slightly.

Foreign Direct Investments. EU is the main investor in Maghreb countries

As previously seen, all Maghreb countries introduced between 1990s and 2000s new codes and regulations in order to promote private investments and, in particular, foreign direct investments.

In general, by affirming the principle of no discrimination between national and foreign investors, these laws aimed to introduce incentives and facilitations for investments (for instance, tariff reduction for the import of capital goods) and to improve the business environment through the simplification and clarification of procedures and bureaucracy.

In absolute terms, MPCs, excluding Israel, received in 1994-2004 period the same amount of external private capital as Poland¹⁷² and 3 or 4 times less compared to other emerging countries with the same macroeconomic values¹⁷³.

The situation is different by taking into consideration the amount of FDI flows as a percentage of GDP; in this case differences are reduced: in the period 1995-2005 FDI accounted for 3,4% of GDP (annual average) in Poland, around 2,7% in Tunisia and Morocco and around 1% in Algeria.

¹⁷¹ The EU has a trade surplus with all the MPCs but Algeria and Syria which can count upon important energy exports. (Bouzerger, 2007).

¹⁷² Source: Unctad Foreign Direct Investment database online, at <http://stats.unctad.org/FDI/>

¹⁷³ Radwan and Reiffers (2005), p. 49

Tab. 3.3: FDI inward flow in Maghreb countries

FDI inward flows in US \$ at current prices									
	1980	1990	1995	2000	2001	2002	2003	2004	2005
Algeria	349	0	0	438	1196	1065	634	882	1081
Morocco	89	165	332	422	2808	481	2314	895	1653
Tunisia	246	89	378	779	486	821	584	639	782
Turkey	18	684	885	982	3352	1133	1751	2785	10031
MPs average (w/out Israel)	159	223	292	738	1262	715	1140	1305	2999
MPs total (w/out Israel)	1272	1788	2338	5905	10093	5720	9121	10442	23989
Hungary	1	554	5103	2764	3936	2994	2137	4506	7709
Poland	10	88	3659	9343	5714	4131	4589	13091	10363

FDI inward flows as percentage of GDP									
	1980	1990	1995	2000	2001	2002	2003	2004	2005
Algeria	0,8	0	0	0,8	2,2	1,9	0,9	1	1,1
Morocco	0,4	0,6	0,9	1,1	7,4	1,2	4,6	1,6	2,8
Tunisia	2,8	0,7	2,1	4	2,4	3,9	2,3	2,3	2,7
Turkey	0	0,5	0,5	0,5	2,3	0,6	0,7	0,9	2,8
MPs average (w/out Israel)	0,9	0,7	0,7	3,1	3,2	2,2	3,7	3,3	5,4
Hungary	0	1,5	11,1	5,8	7,4	4,5	2,5	4,4	7
Poland	0	0,1	2,6	5,5	3	2,1	2,1	5,2	3,4

FDI inward flows as a percentage of gross fixed capital formation									
	1980	1990	1995	2000	2001	2002	2003	2004	2005
Algeria	2,4	0	0	3,9	9,6	7,6	3,9	4,3	4,7
Morocco	1,8	2,2	4	4,4	30	4,7	18,4	5,9	9,8
Tunisia	10	3	8,7	15,4	9,3	15,3	10	10	12,1
Turkey	0,2	2	2,2	2,2	12,7	3,7	4,7	5,2	14,1
MPs average (w/out Israel)	2,8	3	3,1	14,3	14,9	10,2	17,5	15,1	25,2
Hungary	0	7,4	57	25,2	32,2	19,6	11,5	19,7	30,8
Poland	0,1	0,7	14,8	23	14,5	11,1	11,6	28,8	18,9

FDI inward flows as percentage of total world									
	1980	1990	1995	2000	2001	2002	2003	2004	2005
Algeria	0,6	0	0	0	0,1	0,2	0,1	0,1	0,1
Morocco	0,2	0,1	0,1	0	0,3	0,1	0,4	0,1	0,2
Tunisia	0,5	0	0,1	0,1	0,1	0,1	0,1	0,1	0,1
Turkey	0	0,3	0,3	0,1	0,4	0,2	0,3	0,4	1
MPs average (w/out Israel)	0,3	0,1	0,1	0,1	0,2	0,1	0,2	0,2	0,3
MPs total (w/out Israel)	2,4	0,9	0,7	0,4	1,2	0,9	1,6	1,5	2,5
Hungary	0	0,3	1,5	0,2	0,5	0,5	0,4	0,6	0,8
Poland	0	0	1,1	0,7	0,7	0,7	0,8	1,8	1,1

Source: Unctad Foreign Direct Investment database, online at <http://stats.unctad.org/FDI>; author's elaboration

In the Maghreb area Morocco has achieved the best results in terms of FDI especially in 1997, 1999, 2001 and 2003 and this due to important operations such as the privatization of two big public companies: Maroc Telecom and the Régie des Tabacs¹⁷⁴. In general, FDI in Morocco are linked with privatization and tourism.

In terms of FDI flows, in the Maghreb area Tunisia is the second country after Morocco. However these results are not sufficient if compared to many emerging Asian and Central and Eastern European countries (CEECs); in point of fact, in the period 2002-2005 FDI as percentage of gross fixed capital formation made up 11,8%¹⁷⁵ in Tunisia (5,1% and 9,7% in Algeria and Morocco, respectively), while in many CEECs they accounted for about 20%. (Raiffeisen Research, 2008)

Although Tunisia is not a big producer of gas and oil in the region, in the first half of 1990s FDI were directed especially to the hydrocarbon sector¹⁷⁶. In last years the manufacturing sector has strengthened its position so that currently each sector attracts around 40% of the whole FDI amount in the country. Few investments are addressed to the services sector because transport, telecommunication and financial areas remain in fact under a strict public control. The liberalisation of a GSM licence and the privatisation of the 'Union Internationale de Banque' should represent a few steps ahead. In terms of FDI flow Algeria remains under the average of the Maghreb area.

European Union is the main investor in the Maghreb area: EU FDI account for around 65% in Tunisia, 88% in Morocco and 46%¹⁷⁷ in Algeria.

In this regard, it is interesting to note that, among MPCs, most part of EU investment flows are addressed to Turkey where EU FDI grew from € 1,1 bn in 2004 to € 3,3 bn in 2005 (59% of the whole amount, that was of € 5,6 bn in 2005¹⁷⁸). Moreover, in terms of FDI stock, during the period 2001-2005, Turkey was able to attract an amount of € 16,6 bn. Vice-versa, FDI flows to Maghreb countries decreased from € 1,7bn in 2004 to € 0,8 bn in 2005. Actually Maghreb countries play a marginal role in the area¹⁷⁹.

¹⁷⁴ Radwan and Reiffers (2005), p. 49

¹⁷⁵ Source: World Investment Report 2006, UNCTAD, www.unctad.org/wir or www.unctad.org/fdistatistics. in the same period FDI/GDP was around 2,4%

¹⁷⁶ The British Gas investment is still the biggest foreign investment in the Country.

¹⁷⁷ Data on EU FDI towards Maghreb countries are calculated for Tunisia by considering the average of the period 2003-06 and are taken from the official website for the promotion of investment in Tunisia 'www.investintunisia.tn'; data for Morocco are calculated on the average for the period 2001-06 and are taken from the Office Nationale de Changes available at www.oc.gov.ma; data for Algeria are taken from UNCTAD - DZ (2006), UNCTAD WID Algeria.

¹⁷⁸ In 2006 EU FDI have almost doubled compared to 2005 especially due to increasing investments in Turkey due to important projects in the sectors of telecommunication, banking and hydrocarbons and in Egypt in the banking and insurance sector. Maghreb has maintained same level of 2005. Eurostat (2008b)

¹⁷⁹ "Direct investors from the EU held € 39 bn worth of FDI outward stocks in MPCs, equal to 1.9% of extra-EU stocks at end-2004. France, the United Kingdom and Germany were the main suppliers of FDI to MPCs, accounting for EUR 17 bn cumulatively or about 45 % of total EU outward stocks in that region. Around half of all their respective

Tab. 3.4: EU FDI outflows to Mediterranean partner countries, 2001– 2005, in million EUR

	2001	2002	2003	2004	2005
Extra-EU	306140	133897	135711	136388	171757
MPCs¹⁸⁰	4585	3840	4244	4185	5550
Turkey	2940	802	1163	1131	3252
Israel	309	204	131	180	702
Maghreb countries	781	833	1731	1713	775
<i>of which:</i>					
Morocco	209	227	1707	167	690
Mashrek countries	555	2001	1219	1161	821
<i>of which:</i>					
Egypt	523	1306	995	1131	787

Source: Eurostat (2008b)

Discussion and comparison with Central and Eastern European countries

Given the limited amount of data and their unambiguous meaning it seems not necessary to adopt sophisticated statistical techniques to characterise the major trends in EU-Maghreb trade and FDI relations.

Furthermore, if we take into consideration, on one side, data on EU-CEECs trade and FDI relations and, on the other side, the EU and the World shares in terms of FDI to Maghreb countries, this allows us to reach a sufficient comparison.

For what concerns EU-Maghreb trade relations, in the last two decades trends have been essentially stable (see figures 3.4a, 3.4b, 3.4c and tab. 3.3) and characterised by a historically strong asymmetry in favour of the EU.

The share of Maghreb countries in EU total trade has not varied meaning that until now the process of economic integration within the Euro-Mediterranean Partnership has not determined particular effects. Similarly, EU has maintained almost a stable share in Maghreb countries being their main global trading partner.

As a matter of fact, small variations have occurred in EU trade relations with Algeria and Morocco. In the first case, over last years EU share in Algeria total trade has slightly decreased, a decrease which appears linked to international hydrocarbon markets' trends and with the diversification of Algerian trade. In the second case, trade exchanges have showed a high instability with many ups and downs; in particular, the formers seem to coincide with important FDI operations in the

investments in MPCs were localised in just one country or zone: the Maghreb countries for France (68 %), and Turkey for Germany (73 %) and the United Kingdom (45 %). 51 % of EU FDI flows in MPCs came from France and Belgium in 2005" (Eurostat, 2008b, p. 79)

¹⁸⁰ The MPCs comprise Israel, Turkey, the Maghreb (Algeria, Morocco and Tunisia) and Mashrek (Egypt, Jordan, Lebanon, Palestinian Territory, Syrian Arab Republic).

country. Vice-versa, tab. 3.5 shows that the share of the European new member states (NMS) and of Turkey in EU total trade has notably increased already after that those countries started the pre-accession phase in EU.

Tab. 3.5: trends in EU trade by partner countries

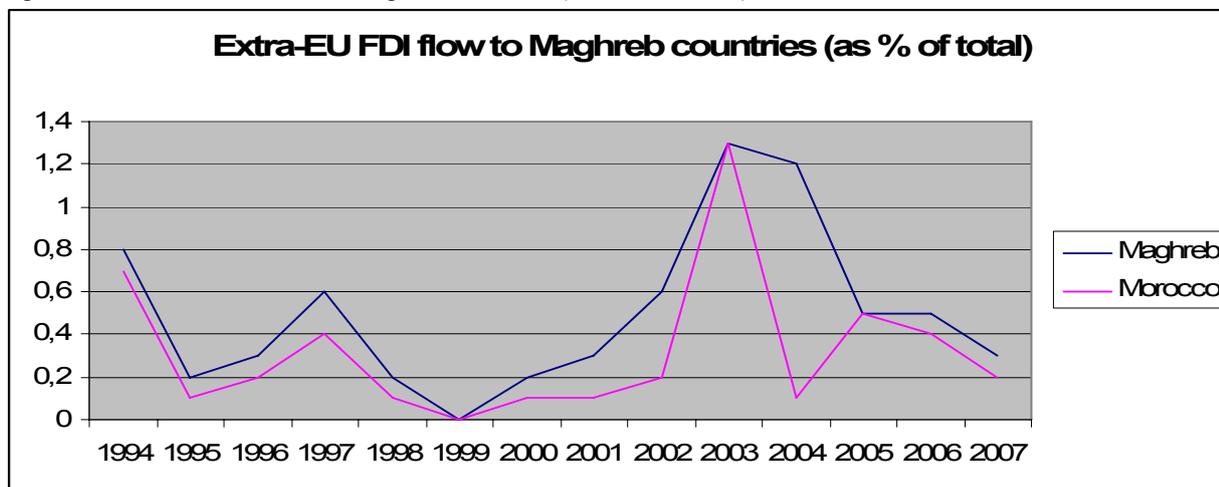
EXPORTS - Share (%)	1980	1990	2000	2001	2002	2003	2004	2005	2006
Algeria	2,4	1,3	0,6	0,7	0,9	0,9	1	1	0,8
Morocco	0,8	1	0,8	0,7	0,9	0,9	0,9	1,1	0,9
Tunisia	0,8	0,8	0,7	0,8	0,8	0,8	0,8	0,7	0,7
Maghreb	4	3,1	2,1	2,2	2,6	2,6	2,7	2,8	2,4
Turkey	0,9	2,1	3,1	2	2,8	3,3	3,9	3,9	3,9
Israel	0,8	1,4	1,6	1,4	1,5	1,3	1,3	1,3	1,2
Poland	1,6	1,2	3,5	3,6	3,7	3,9	n.a	n.a	n.a
Hungary	0,9	0,8	2,4	2,4	2,5	2,6	n.a	n.a	n.a
Czech Republic	0,7	0,7	2,5	2,8	2,9	3,1	n.a	n.a	n.a

IMPORTS - Share (%)	1980	1990	2000	2001	2002	2003	2004	2005	2006
Algeria	1,6	1,7	1,5	1,5	1,5	1,6	1,5	1,8	1,8
Morocco	0,4	0,7	0,5	0,6	0,7	0,7	0,6	0,8	0,5
Tunisia	0,4	0,5	0,5	0,6	0,7	0,7	0,7	0,6	0,6
Maghreb	2,4	2,9	2,5	2,7	2,9	3	2,8	3,2	2,9
Turkey	0,4	1,4	1,6	1,9	2,5	2,7	3	2,8	2,8
Israel	0,6	0,8	0,9	0,9	1	0,9	0,9	0,8	0,7
Poland	1,1	1,2	2,2	2,5	2,8	3,1	n.a	n.a	n.a
Hungary	0,6	0,7	2,1	2,4	2,5	2,6	n.a	n.a	n.a
Czech Republic	0,7	0,6	2	2,4	2,7	3	n.a	n.a	n.a

Source: Eurostat (2004) and Eurostat (2008a); Author's elaboration

For what concerns EU FDI, as already said, Maghreb countries play a marginal role in the Mediterranean region by attracting, in 2007, around 0,3% of total Extra –EU FDI flow (see fig. 3.5).

Fig. 3.5: Extra –EU FDI flow to Maghreb countries (as % of the total)



Source: Eurostat: ec.europa.eu/eurostat; aauthor's elaboration

Furthermore, fig. 3.5 shows that EU FDI in the Maghreb coincide mainly with the ones in Morocco. Even in this case there is a big difference between Maghreb countries' performances and the EU new member states' performances. "The EU-15 FDI outflows directed to the new Member States grew more rapidly than the total extra-EU-15 outflows, increasing by 256% and 77% in 2004 and 2005 respectively, while the growth rates of total EU FDI flows abroad for the same years were 9% and 30%." (Foltete and Kärkkäinen, 2007, p.1)¹⁸¹

The share of NMS in extra-EU-FDI grew from 4% in 2003 to 12% (2004) to 17% in 2005.

In any case it interesting to note how the level of investments in the MPCs has been growing slightly in the last years while much more faster is the growth of EU investments in the New Member States as showed by table 3.6. In 2005 Hungary received an amount of EU FDI for two times the whole amount addressed to all MPCs.

Tab. 3.6: EU FDI outflows to Mediterranean partner countries, 2001-2005, in million of €

	2001	2002	2003	2004	2005
Extra-EU MPCs¹⁸²	306140	133897	135711	136388	171757
Turkey	2940	802	1163	1131	3252
Israel	309	204	131	180	702
Maghreb countries	781	833	1731	1713	775
<i>of which:</i>					
Morocco	209	227	1707	167	690
Mashrek countries	555	2001	1219	1161	821
<i>of which:</i>					
Egypt	523	1306	995	1131	787
NMS¹⁸³			5147	18324	32426
Hungary			4212	7568	11025
Poland			1663	6081	2639
Romania			815	2968	3877

Source: MPCs data are taken from Eurostat (2008b); NMS data are taken from Foltete and Kärkkäinen (2007)

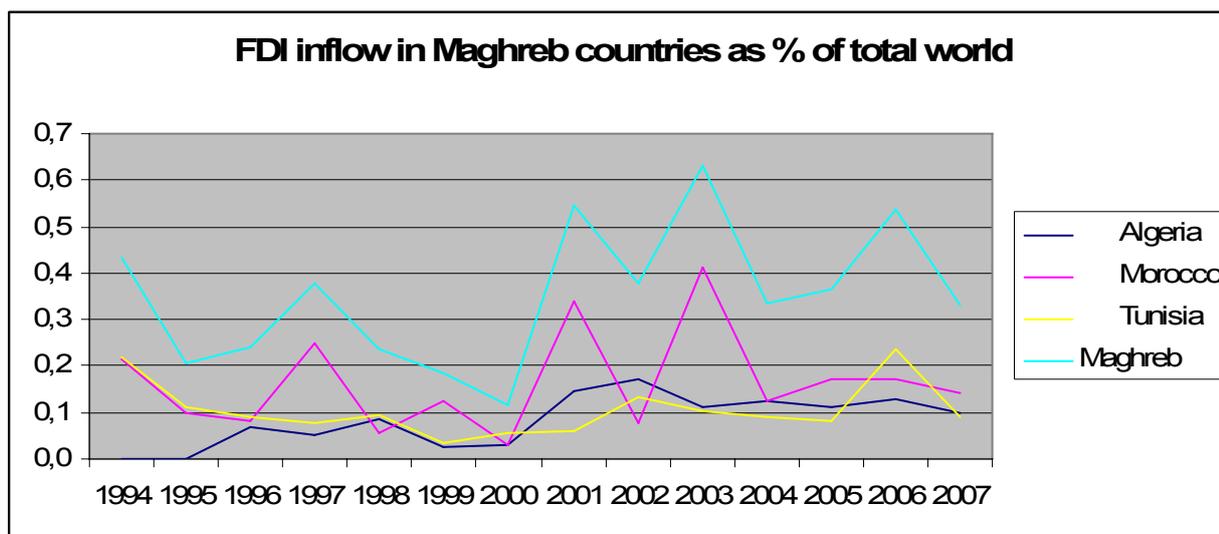
Finally, figure 3.6 shows that, by considering FDI flow in Maghreb countries as a percentage of world total flow, even if with swinging performances it is possible to see a slight upward trend.

¹⁸¹ In point of fact, after a drop in 2003 at € 5,1 bn EU FDI flows toward the new Member States reached in 2004 € 18,3 bn and € 32,4 bn in 2005.

¹⁸² The MPCs comprise Israel, Turkey, the Maghreb (Algeria, Morocco and Tunisia) and Mashrek countries (Egypt, Jordan, Lebanon, Palestinian Territory, Syrian Arab Republic).

¹⁸³ The NMS comprise Bulgaria, Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Romania, Slovenia, Slovakia. Total NMS FDI out flow amount is calculated both investments and disinvestments

Fig. 3.6: FDI inflow in Maghreb countries as % of total world



Source: Unctad Foreign Direct Investment database, online at <http://stats.unctad.org/FDI/> ; author's elaboration

According to Brenton et al. (2006) Maghreb countries have been unable to integrate into the global chains of production, even for this reason they have been unable to increase their export and to fully realize "(...) the growth potential associated with their locational advantages of close proximity to the EU." (p. 3) Maghreb exports still depend on low value-added products (i.e. textile) subjected to an increasing international competition. For this reason it is necessary to promote the diversification of the production.

Further, authors stress the marginal share of high value-added and technological products in the Maghreb exports; although Morocco and Tunisia have improved their position, this category of products continues to represent less than 20% of their total manufactured exports by placing Maghreb countries 'considerably' behind CEECs and Turkey.

Several studies on the intra-industry trade (ITT)¹⁸⁴ confirm the smaller integration of Maghreb countries into the global chains of production. Trigo (2002)¹⁸⁵ uses intra-industry trade data to "(...) evaluate the industrial specialisation of MPC and their capacity to compete with CCEC in a more open trade setting" (pp. 2-3) and to verify if South Mediterranean countries are positively reacting to an increasing international competition.

According to the author, both MPCs and CEECs have recorded an evolution from an inter-industry trade (export of labour intensive products and import of capital intensive products) to a more intra-

¹⁸⁴ Intra-industry trade defines simultaneous exports and imports within the same industry. Intra-industry trade typically occur among rich countries with similar levels of development and geographic proximity and is thus often regarded as a corollary of smooth economic integration (Trigo 2002, p. 61)

¹⁸⁵ Author affirms that "(i)n the trade literature, the amount of ITT, or two way trade within the same industry, is often taken as a measure of degree of specialization or technical sophistication of the industrial base. Moreover, ITT can be used to infer the country's ability to compete in a changing environment." (Trigo 2002, p. 2)

industry trade. With regard to the level of intra-industry trade, in the Mediterranean region Tunisia and Morocco have achieved the best results, around 42% and 30% respectively, just behind Turkey (ab. 48%) and Israel (ab. 66%), but much behind the intra-industry trade index average of CEECs (54%), among which Czech Republic, Hungary and Slovenia have had the best performances. Further, “(o)ver the past decade (...) the more developed of the CEEC have markedly changed their specialisation relative to the EU. The CEEC have increased the rates of R&D and skill intensive and capital-intensive areas have grown significantly, while those in labour-intensive branches have been substantially reduced.” (Trigo 2002, p. 11) The IIT index indicates the presence of European firm delocalising in search of better economic conditions.

In their study on IIT Chevallier and Freundeberg (2001) underline that Mediterranean countries export is essentially concentrated in few industries by showing a higher rate of concentration than the CEECs’ one. “The combined weight of exports in the top five industries total exports is close to or above 70 per cent for Mediterranean countries whereas it is under 50% for the Central European countries.” (p. 59) In Tunisia the combined weight of exports in the top five industries is 76,9% (i.e. wearing around 50%, petroleum and gas 8%; electrical around 7%, chemical around 7%); in Morocco it is of 72,9% (i.e. wearing 36%, food and beverage / agriculture 22%, chemical 8%). Similarly, according to Brenton et al. (2006), the high rate of concentration of export in few industries/sectors confirms the inability of Maghreb countries to integrate themselves into the global chains¹⁸⁶.

In conclusion, it is possible to affirm that in last years Morocco and Tunisia have reached a high level of intra-industry trade in the Mediterranean region, nevertheless they remain much behind CEECs and Turkey. In this regard it is necessary for Maghreb countries to continue on the way of the diversification of manufacturing production; as a matter of fact, it is interesting to note that Tunisia and Morocco have reached the highest level of IIT not only in their ‘traditional’ textile and clothing sectors, but also in the electric and electronic fields where, as previously seen, in last years Maghreb countries have achieved considerable progresses¹⁸⁷.

¹⁸⁶ “However, Maghreb countries have been less effective than other countries in integrating into global production chains. This has constrained the diversification of exports and limited the expansion of high value added manufacturing activities. Exports of the Maghreb countries remain concentrated on a relatively small number of products and are less diversified than in other countries on the periphery of Europe. For example, the top 10 products exported by Morocco accounted for 78 percent of total exports in 2003. For Tunisia the top 10 products comprised 70 percent of total exports. In Bulgaria and Romania, in contrast, the top 10 export products provided 49 and 58 percent respectively of total exports. For Hungary, 48 percent of total exports are concentrated upon the top 10 products, while for Turkey the corresponding figure is 37 percent.” (Brenton et al. 2006, p.5)

¹⁸⁷ “A look at the nature of Euro-Mediterranean trade in each sector shows that intra-industry trade is far more significant in new export sectors (electrical, electronics) than in more traditional activities. (...) Intra-industry trade also constitutes one-quarter of Euro-Moroccan trade in mechanisms and more than 45% in electrical products. (...) in Tunisia, two-way trade accounts for more than 46% of trade with the EU in electrical goods and about 30% in electronics.” (p. 63) “In summary, we can say that industrial competition between MPC and CEEC is especially high in

3.4 Limits of the Euro-Maghreb Association Agreements

As previously seen, Maghreb countries have started since half-1990s a wide programme of reforms in order to modernise their productive sectors and to promote an export-led growth.

For all of them the Euro Mediterranean Partnership has represented an important opportunity to consolidate this process as EU is the main commercial partner and the main investor. Nevertheless, until now economic results have been disappointing both in terms of trade and FDI. These sections will deal with some of the improvements than can be pursued within the EMP context to achieve a 'leap forward' in the EU-Maghreb economic relations.

According to Hoekman and Konan (1998) the EMAAs missed the 'deep integration' phase¹⁸⁸. According to the authors: 'Deep integration' is defined as the group of actions that governments carry out to "(...) reduce the market segmenting effect of domestic regulatory policies through coordination and cooperation" (p.2) and include: health and safety regulations; competition laws; licensing and certification regimes; administrative procedures (i.e. custom clearance practices). An agreement limited to tariff reduction and elimination (i.e. shallow integration) will not be welfare improvement since it will determine trade diversion and a lost of tariff revenue. Vice-versa, several benefits will derive if the agreement will include the elimination of NTBs and the liberalisation of trade in services.

As a matter of fact, the Euro-Maghreb Association Agreements, as well as the ones with the other Mediterranean partner countries, provide only for a detailed regulation with regard to the liberalisation of trade in goods¹⁸⁹ and the creation of a FTA, while the other economic sections contain more general provisions and commitments.

textile, clothing and footwear sectors (considered as sensitive in EU) and in electrical machinery and nuclear reactors (non sensitive industries)." (p. 15)

¹⁸⁸ In their article Hoekman and Konan (2008) refer to the EU – Egypt Association Agreement, but their remarks can be extended to the whole set of EMAAs.

¹⁸⁹ According to article 6 of all the Euro-Maghreb Association Agreements, the parties agree "(...) to establish gradually a free trade area over a transitional period lasting a maximum of 12 years starting from the date of the entry into force of this Agreement (...)." For this purpose, the parties commit themselves to reduce and eliminate gradually all the tariffs and quotas existing between them; at the same time, they agree to not establish new customs duties. Industrial products are collected in different groups and for each group of products a different timetable for the dismantling of tariffs is established. In order to support the development and modernization of a competitive local industrial sector, capable to afford an increasing external competition, the AAs generally state for an immediate removal of customs duties for capital and intermediate goods, necessary to support the development, while for a more progressive reduction for the goods produced also locally, in particular with a view to favour a gradual adaptation process forwards an increased international competition and to reduce the impact of the lost of trade taxes' revenue. The whole process of tariff reduction is spread over a longer period until the complete elimination in "a transitional period lasting a maximum of twelve years". For instance, the AA with Morocco states as soon as the accord enters into force all customs' duties will be suppressed, but for goods listed in annex 3,4,6. Annex 3 products' tariffs will be reduced in the first 3 years of the treaty application in steps of 25% for year (mostly raw materials, spare parts, all the goods that are not produced in Morocco). Custom duties for Annex 4 products (mainly goods produced also in Morocco such as wear, clothes, automobiles, pharmaceuticals and chemical products) will be reduced of 10% every year for 12 years, starting from 2004. Finally, for Annex 6 goods it is not established any reduction and any decision is put off till future negotiations.

At this regard, it is widely recognised¹⁹⁰ that, in order to improve the outputs in terms of trade and FDI, it would be necessary to intervene in the Euro-Maghreb relations by following four directions:

- The liberalisation of the agricultural sector
- The liberalisation of services
- The convergence of standards and regulations
- Enhancing South-South regional integration

Liberalisation of agriculture

One of the most criticised aspects of Barcelona Process is that trade liberalization process does not include agricultural goods. In fact, although the parties commit themselves towards a greater liberalisation of their reciprocal trade in agricultural, fisheries and processed agricultural products, these sectors are still strongly protected¹⁹¹. Usually, EMAAs have provided for only some more concessions compared to previous cooperation agreements.

This aspect has been particularly criticised by the MPCs which have generally more compared advantages in the agricultural sectors and for whom this sector represents on average between the 10% and 20 % of national GDP and employs in some case more than the 40 % of active population, as in the case of Morocco.

“Continued restrictions on exports to EU agricultural markets is a major factor reducing the benefits of an EMA for Mediterranean countries. For a number of these countries agricultural export potential is important. In the Moroccan case, for example, some 28 percent of exports to the EU are agricultural. Excluding this from liberalization seriously limits the potential welfare gains of an EMA.” (Hoekman and Djankov, 1996, p. 18)

To avoid trade diversion Brenton and Manchin (2003) suggest that this process should involve the whole region and not only the single countries which present a similar market structure; in addition, it must be accompanied by “(...) a programme of upgrading sanitary and phyto-sanitary standards in the region and mechanisms to ensure compliance with those standards” (p. 3)

An similar process is scheduled for Tunisian and Algerian products.

¹⁹⁰ Brenton and Manchin (2003) have conducted one of the most complete research on this subject; they suggest EMAAs were unsuccessfully because characterised by: a) a “lack of coverage”, since EMAAs cover only industrial products and exclude agricultural products and services; b) a “lack of depth”, as focusing on the reduction of tariffs the agreements not include important technical barriers to trade (no-tariff barriers to trade) such as different regulatory systems and conformity assessment procedures; and because c) “limited by rules” by underling the negative role played by the existence of different systems of Rules of Origins (ROOs).

¹⁹¹ The European common agricultural market continues to be strongly protected, in fact 91 % of European tariffs peaks regards the agricultural products.

*Liberalisation of trade in services*¹⁹²

According to Brenton and Manchin (2003) liberalisation of trade in services can have positive effects in terms of both ‘greater economic efficiencies’ and ‘higher growth rates’; as a matter of fact, inefficient services (i.e. financial, telecommunication, transport and logistic services) may affect negatively the economic development of a country by working as a tax on trade. Moreover, like the liberalisation of trade in goods, the liberalisation of trade in services may imply transfer of knowledge and technological spill-overs which “(...) can arise both through cross-border provision of services and through foreign direct investment to establish commercial presence.” (Brenton and Manchin 2003, p. 3)

Hoekman and Konan (1998) conducted an important research on the effects of liberalisation of services in the EMP context by focusing on the Association Agreement that Egypt was at that time negotiating with European Union.

By adopting a simulation model, authors argued that EU-Egypt Association Agreement would have not determined relevant economic results because it concerned only liberalization of trade in manufactured goods; further, there was the possibility to have negative consequences for Egypt due to the potential effects of trade diversion and the lost of tariff revenues.

Vice-versa, in case of deeper integration, welfare would have increased of 4% of GDP (removal of non-discriminatory trade barriers), and of 13% in case of liberalisation of services.

The liberalisation of services may represent an important source of FDI also because many services to be provided requires the presence of the suppliers, as in the financial and telecommunication sectors. In last years the main source of EU FDI in the NMS has been represented by services’ liberalization. Services accounted for 50% of EU FDI stocks in 2003 and the 69% in 2004¹⁹³. In absolute terms the FDI stock moved from € 64,2 bn to € 112 bn in the same years, while the manufacturing sector accounted ‘only’ for € 37,8 bn in 2004¹⁹⁴.

Most part of these investments was addressed to financial and business sectors; financial intermediation stocks (monetary intermediation, insurance and pension funding, etc..) increased from € 21,7 bn to € 61 bn in 2004. A relevant growth was observed also in the business services.

On the MPCs side “(t)rade in services with and direct investment in the Mediterranean Partner Countries (MPCs) are still growing slowly.” (Eurostat, 2008b, p.1) Moreover, most part is based on

¹⁹² In the section concerning the service sector, Euro-Maghreb Association Agreements refer to the GATS’ regulations based on the implementation of the reciprocal most-favoured nation treatment under the GATS. As well as in section dealing with payment capital where in general all the EMAAs state the intention of a full liberalization of capital movement when the necessary conditions will be met.

¹⁹³ Data on FDI in NMS are taken from Foltete and Kärkkäinen (2007)

¹⁹⁴ In terms of FDI stock the manufacturing sector decreased from 26% to 23%, while in absolute terms they increased from 33,1 € bn to 37,8 € bn. Source: Foltete A. and Kärkkäinen A. (2007)

tourism and transport; in particular the former represents the biggest source of revenue for MPCs from EU (-11.777 bn) and half of total MPCs trade services revenues..

EU is a net exporter of 'other services' to MPCs. This category includes mainly business services and in particular : Communication, Construction, Insurance, IT (information and technology) and Financial services. But the numbers are still far from the NMS' ones: EU has invested only € 8,3 bn in 2004.

The negotiations between EU and Morocco and Tunisia countries for a deeper liberalization of trade in services have been launched in 2008¹⁹⁵. These negotiations turn around the Istanbul Framework Protocol on Service Liberalization. This protocol, presented at the conference of Euro-Mediterranean Trade Ministers held in Istanbul in July 2004, contains a regional MFN clause which aims to ensure the consistency and coherence of the bilateral agreements. Algeria has not started such negotiations until today.

Regulation convergence on industrial products: standards and certifications

According to several studies¹⁹⁶, different standards (health, safety and technical) and conformity assessment procedures represent an important obstacle to international trade. Even when they are not established to discriminate against foreign traders, they often act as non-tariff barriers (NTBs) to trade; for instance, when standards differ from the exporter country to the importer one, producer may face tests and certifications twice: one for the internal market and one for the destination market. Two are the possibilities to reduce these differences: by the harmonisation of national regulations (both unilaterally or mutually) or by the recognition of regulations (even in this case both unilaterally or mutually).

One of the main differences in the relations between European Union and the Maghreb countries, on one side, and between European Union and New Member States, on the other side, lies in the convergence of standards and regulatory policies.

In the Euro-Maghreb Association Agreements the industrial standards and conformity assessment question is dealt with among the activities of economic cooperation; in particular, agreements promote the use of European standards and conformity assessment procedures and techniques and underline the importance to upgrade laboratories and metrology bodies.

¹⁹⁵ Negotiations started during the 2008 EuroMed Trade Minister Meeting held in Marseille

¹⁹⁶ Hoekman and Djankov (1996); Hoekman and Konan (1998).

In addition, a Mutual Recognition agreement is prospected among the parties, but only when the necessary conditions will be met.¹⁹⁷

In the case of EU NMSs, the process to adhere to the EU implied from the beginning a process of approximation to the EU laws and regulations (including standards and regulations) within the context of the implementation of the '*acquis communautaire*'.

Before the accession to the community certain Candidate States adopted the Protocols to the Europe Agreements on Conformity Assessment and Acceptance of Industrial Products (PECAs) which aimed at creating an enlarged internal sectors, on the basis of the sectors identified by the acceding countries¹⁹⁸. In the European Agreements candidate countries were encouraged to proceed forward a full approximation of laws and regulations to that of the EU, in particular "(...) in the field of industrial standards and conformity assessment, the Europe Agreements aim to achieve the candidate countries' full conformity with Community technical regulations and European standardisation and conformity assessment procedures. They also envisage the conclusion of agreements on mutual recognition in these fields."¹⁹⁹

In the field of standards and regulatory policies only two countries among the South Mediterranean partners have advanced relations with the European Union: Israel and Turkey.

Israel signed an agreement on Good Laboratory Practices that entered into force in May 2000. Turkey (which is a candidate country for EU membership since 1999 Helsinki European Council) has established since January 1st 1996 a Custom Union with European Union.²⁰⁰ In this framework Turkey adopted the EU common external tariff and signed several trade preferential agreements with the countries already partners of EU.

Primavera (2004) underlines that these act contributed to a bigger international openness of Turkey, since the EU common tariff was lower than the previous Turkish one and that all the trade agreements implied the removal of trade barriers. Turkey has adopted the commercial policy of European Union, in particular Ankara has started the adoption of the European industrial standards and the gradual harmonization of EU laws in the field of competition, intellectual property rights.

Euro-Mediterranean governments adopted an Action Plan on Trade and Investment Facilitation at the 2002 Euromed Conference of Trade Ministers in Toledo. The plan aims at simplifying border

¹⁹⁷ At this regard Hoekman and Djankov (1996) underline "The core EU approach of mutual recognition is based upon the idea that a partner country's regulation and conformity assessment mechanisms can offer equivalent levels of protection to those provided by corresponding domestic rules and procedures. (...) Where 'equivalence' between levels of regulatory protection embodied in national regulations cannot be assumed, the only viable way to remove the TBT question is for the member states to reach agreement on a common set of legally binding requirements (harmonization)." (p. 8) "(...) Under a MRA each country is given the authority to test and certify in its own territory, and prior to export, the conformity of products with the other country's regulatory system" (p. 9)

¹⁹⁸ Information on the PECAs are taken from EU website: <http://ec.europa.eu/enterprise/regulation/pecas/pecas.htm>

¹⁹⁹ Information on the PECAs are taken from EU website: <http://ec.europa.eu/enterprise/regulation/pecas/pecas.htm>

²⁰⁰ The CU provides for the free movement of industrial goods between the two parties, services and agricultural products are regulated by separated preferential agreements.

procedures, adopting common international standards and common administrative procedures. As a matter of fact in this field there are still important and persisting differences.

Enhancing a South-South intraregional integration

One of the main objectives of the Barcelona Declaration is the promotion of an intra-regional integration process among South Mediterranean partners.

Since the research's focus is on the EU-Maghreb relations, this section will focus on the Maghreb intra-regional integration, but most of the remarks here made can be extended to the whole MENA region.

Several articles of the Euro-Maghreb Association Agreements underline the importance of the area's economic integration; actually, this is considered an important condition for the successful development of the partnership. An intra-regional integration process is expected indeed to produce, on one side, positive economies of scale and competition effects already discussed in the first chapter (in particular due to a market enlargement, scale effects, increasing investments and competition); on the other side, such a process would avoid the development of a 'hub and spoke' system, with a central hub represented by European Union and several small spokes constituted by SMPCs, which may represent an important obstacle to FDI (Hoekman and Djankov, 1996).

3.5 Maghreb intra-regional integration

Low Maghreb intra-regional merchandise trade

Currently Maghreb countries participate in several regional trade agreements.²⁰¹ All of them, by including also Mauritania and Libya, are reunited under the Arab Maghreb Union (AMU) umbrella. But although this organization, created in February 1989, continues to be considered a strategic objective in all the official events, it has concretely finished taking decisions since 1995²⁰². This was mainly due to the tensions between Algeria and Morocco on the West-Sahara question.

Algeria, Morocco and Tunisia are also members of the Great Arab Free Trade Area (GAFTA). The GAFTA was launched in 1997 by a resolution of Arab League's Social and Economic Council and

²⁰¹ For a detailed overview on this subject, see Brenton et al. (2006)

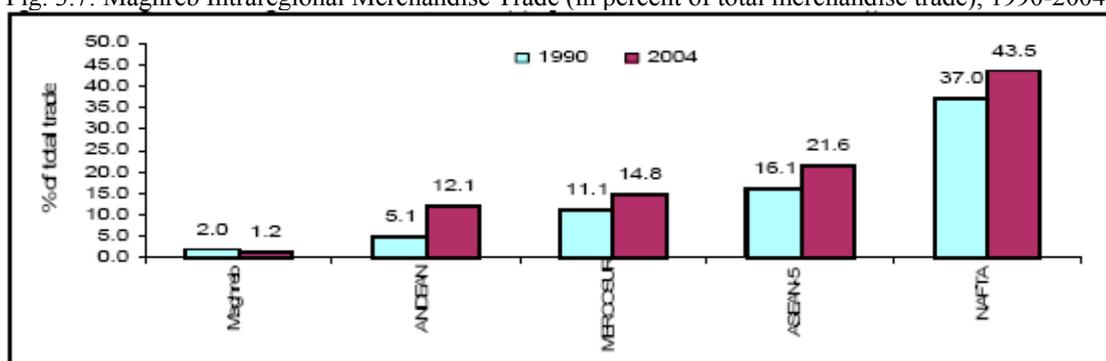
²⁰² AMU last official document was signed in 1994.

originally included 14 members²⁰³ from all the Arab region, among which Morocco and Tunisia. Algeria joined the agreement in 2002.

Nevertheless, according to a recent study of World Bank (2006) intra-regional merchandise trade in the Maghreb area²⁰⁴ represented only 1,2% of Maghreb total trade in 2004.

These are very disappointing data, especially if compared to other emerging regional blocks, as showed by the figure 3.7. In addition, Maghreb is the only area where intra-regional trade has decreased over the last years (it was 2% in 1990).

Fig. 3.7: Maghreb Intra-regional Merchandise Trade (in percent of total merchandise trade), 1990-2004



Source: World Bank (2006), p. 12

Among the main reasons there are:

- The high tariffs protection. As we have seen in the previous sections, Maghreb tariff protection is higher compared to the other emerging economic regions, also to the same Mediterranean average. Even if GAFTA provides for the complete elimination of merchandise trade barriers, it is too early to estimate the agreement's effects, even because Algeria has joined the agreement only recently. In addition, most of tariff peaks are concentrated in the agricultural sector which represents an important part of Maghreb production.

- Similar factors' endowments and trade structures. Maghreb countries are indeed labor-abundant countries. According to World Bank (2006) "(...) Maghreb merchandise exports share similar factor intensities, particularly Morocco and Tunisia. Main merchandise exports in Tunisia and Morocco (clothing, textile yarns, and floor covers) are labor intensive in production whereas most Algeria's export products like chemicals, plastic materials, and aluminium are energy intensive. (...)Morocco and Tunisia are intensively importing parts and components and using these materials

²⁰³ Syria, U. A. Emirates, Jordan, Lebanon, Tunisia, Bahrain, Saudi Arabia, Qatar, Oman, Kuwait, Egypt, Morocco and Libya. In order to establish a wide Arab free trade area, the 1997 resolution provided for the gradual reduction (10% each year) of tariffs and taxes of similar effects as well as non-tariffs import restrictions until their total removal in 2007. Each country had the possibility to draw up a temporary list of exceptions for sensitive products; today these exceptions are still in place only for agricultural products. Moreover, by anticipating the original timetable, the deadline for the complete elimination of tariffs was planned in 2005. (Brenton et al. 2006).

²⁰⁴ In World Bank 2006 Maghreb is understood as Morocco, Algeria and Tunisia.

for local assembly of items such as telecommunications equipment, non electrical machinery and office machinery. These assembly operations are generally labor-intensive in nature.” (p. 18)

Analogously, Maghreb countries show similar trade structures as confirmed by the low trade complementarity index and by similar comparative advantages.

Maghreb countries trade complementary index, which measures what is the level of complementarity between the regional export and the regional import²⁰⁵, is low, especially if compared with the EU, NAFTA, MERCOSUR and ASEAN-5.

Moreover, since the similar factor endowments and trade composition Maghreb countries show to have very similar comparative advantages in labor-abundant and low value-added products. This is particularly valid for Morocco and Tunisia while Algeria has comparative advantages for petroleum products. (World Bank, 2006)

On the basis of all above-mentioned reasons, World Bank research concludes that Maghreb countries are over-trading between themselves and that there is a low potential for Maghreb intraregional merchandise²⁰⁶. Only by pursuing a strategy of a deeper and wider integration Maghreb countries would be able to reach better results.

Femise Report 2005 argues that main causes of low intra-regional trade are institutional rather than economic or political. “A field survey undertaken by the Arab League in 2004 on the major impediments that face the Arab business community pointed out that problems are concentrated in three main areas: abuse of technical barriers to trade (TBT) and sanitary and phytosanitary measures, vague rules and regulations especially when it comes to authentication of origin of goods, and customs procedures.” (p. 58) From this point of view, the Agadir Agreement is expected to be an important step forward.

The Agadir Agreement

The Agadir Agreement assumes a particular meaning because this accord has entirely developed within the framework of the Euro-Mediterranean Partnership.

²⁰⁵ In other words if one Maghreb country imports what the other Maghreb countries export and vice-versa.

²⁰⁶ The World Bank report uses a panel gravity trade model drawing on a sample of 170 countries over the period 1980-2004. “(...) according to recent empirical evidence, the potential for Maghreb intraregional merchandise trade appears limited. Using a panel gravity trade model drawing on a sample of 170 countries over the period 1980-2004, we find that, on average, Maghreb countries are over-trading with each other. The potential for intra Maghreb FDI also appears limited. While the model suggests that Algeria has over-invested in Morocco by 2 percent of Morocco’s GDP relative to what is predicted by the model, Tunisia is receiving less-than predicted FDI from its neighbors Algeria and Morocco (equivalent to 0.33 and 0.4 percent of Tunisia’s GDP, respectively)” (World Bank 2006, p. ix)

By going beyond the bilateral dimension of free trade agreements Turkey has signed with Israel (1997), Tunisia (2005), Morocco (2006), Syria (2007) and Egypt (2007), this is indeed the first attempt of South-South regional integration among Mediterranean partners and represents an important step towards the achievement of a wider 2010 Euro-Mediterranean Free Trade Area. For this reason this initiative has been strongly supported, both technically and financially (€ 4 ml), by the European Union.

Among Maghreb countries only Morocco and Tunisia are members of the Agadir Agreement, while the other two partners are Egypt and Jordan .

The agreement, which was signed on 22/2/2004 by entering into force on 6/7/2006, aims to create a Free Trade Area among its partners²⁰⁷; to approximate their legislations and to coordinate their policies. Further, it is an open agreement since, as stated in article 30 of the “Agadir Declaration”, “Each Arab country that is a member in the Arab League and the Great Free Trade Area, which are connected with the European Union by a partnership agreement or a free trade agreement may request to accede to this Agreement.”²⁰⁸ A new accession will be decided unanimously by the Member Countries reunited in the Ministers of Foreign Affairs Committee.

Beyond the expected positive effects of the tariffs dismantling process, an important aspect which differentiates the Agadir Agreement from the other above-mentioned Arab preferential trade agreements is the fact that this adopts *the Pan-Euro-Mediterranean system of cumulation of origin*. *A system of cumulation of origin*²⁰⁹ is “(...)a system that allows contracting parties to use originating products from each other” without the finished product losing the benefits (reduced or duty free access) when entering in one of them. Within this system originating products of country A can be further processed or added to products originating in country B, and destined to be sent in country A, just if they were originating in country B; this is a *bilateral cumulation system* .

It is important to underline that cumulation, to be applied, needs contracting countries operating with identical rules of origin (ROOs), that’s the rule to establish the originating status of products. Usually a system of bilateral cumulation is established through a free trade agreement or an autonomous arrangement.

²⁰⁷ FTA in the field of manufactured products; on NTBs and services there is only the commitment of the countries, while agricultural products’ regulation will follow.

²⁰⁸ The Agadir Declaration is available on the web-site: www.agadiragreement.org

²⁰⁹ By the *Origin* it is possible to define the economic nationality of a good in the international trade: actually the origin of a good is not only defined on the basis of its economic provenance but also by taking into consideration the working or processing goods are subjected to in the countries which benefit from a preferential treatment.

So that “Preferential origin is conferred on goods from particular countries, which have fulfilled certain criteria (to get originating status products must be either “wholly obtained” or sufficiently worked or processed) allowing preferential rates of duty to be claimed”. Source: http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/

Advantages of such a system are to assure transparency to the economic transactions, to harmonise procedures especially in the field of customs, to increase the intra-regional economic cooperation both between the Community and the MPCs and among the MPCs themselves.

Currently, members of the Euro-Mediterranean Partnership take part into *the system of Pan-Euro-Mediterranean cumulation of origin* which is a *diagonal cumulation system* since it include 42 states so that “ (...) products which have obtained originating status in one of the 42 countries may be added to products originating in any other zone of the 42 without losing their originating status within the Pan-Euro-Med zone”²¹⁰.

Main characteristics of *the Pan-Euro-Mediterranean cumulation system* (PEMCS) is the ‘variable geometry’ rule which means that “(...) countries of the Pan-Euro-Med zone can only cumulate originating status of the goods if the free trade agreements including a Pan-Euro-Med origin protocol are applicable between them. Consequently, a country of the zone which is not linked by free trade agreements with the others is practically outside cumulation’s benefit”²¹¹. In other words, if country A (European Union) has a trade agreement including a Pan-Euro-Med origin protocol with country B (Tunisia) and with country C (Algeria), but countries B and C have not a trade agreement including a Pan-Euro-Med origin protocol between them, then country A will be encouraged to trade with countries B and C and vice-versa, but countries B and C will not be encouraged to trade between them, since their combined finished products will not enjoy the originating status and will not get the benefits.

As a matter of fact the system of Pan-European cumulation of origin has included since 1997 EU, EFTA, CEECs and, since 1999, Turkey; only recently European Union has decided to extent this system to its south Mediterranean partners.

In fact, as Wippel (2005) underlines, first Euro-Mediterranean Association Agreements were characterised by different ROOs and, as a consequence, they established different system of cumulation of origin, that in turn could not be ‘accumulated’ among them. Different ROOs make impossible to establish a diagonal cumulation system. (p. 11) In this regard, already in 1998 the European Commission approved a document which underlined the necessity to gradually introduce a cumulation of origin system in order to facilitate the establishment of a Euro-Mediterranean Free Trade Area. At this regard the Euro-Mediterranean Free Trade Area and consequently all the different agreements which constitute it “(...) would be based upon identical rules of origin and a system of cumulation providing the necessary linkages between the agreements.” (European Commission 1998, p. 2)

²¹⁰ http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/

²¹¹ From http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/preferential/article_783_en.htm

But only in 2005²¹² the Council of the European Union approved a Commission proposal to amend protocols on rules of origin annexed to the Euro-Mediterranean Association Agreements (IP/05/1256) that had been meanwhile stipulated.

But, as above said, for the *rule of variable geometry* South Mediterranean countries to fully enjoy cumulation's effects need to be linked by a free trade agreement with the other PEMCS members. For this reason the Agadir Agreement represents an important step forward in the process of regional integration by allowing its member countries to cumulate origins between them, and between them and the other PEMCS members.

Since its recent implementation, there are still not available data or studies on the Agadir Agreement's effects on trade, but it is interesting to quote previous studies conducted on the trade effects of the Pan-European cumulation system.

According to Augier, Gasiorek and Lai-tong (2005), which conducted a study on trade in all goods, in intermediate goods and manufactured goods, the introduction of the Pan-European system of cumulation of origin in 1997 has determined an increase of trade between spokes by between of 7% - 22%, in details "(...) the introduction of cumulation of the PECS type raised trade among the spoke economies by between 7.4% and 22.1%, and that the absence of cumulation reduces trade substantially, with the lower and the upper bounds of our estimates being in the neighbourhood of 25% and 70% respectively. Calculating the exact welfare effects of this new trade is not possible without extremely detailed information on costs, technology and market structures for thousand of products and dozen of nations, but we can be sure that the welfare gains are positive from revealed preference arguments. If firms located in the spoke economies reacted to the cumulation-induced relaxation of ROOs by buying more from other spoke economies, it must be because doing so lowered their costs. This, in turn, must have led to some combination of lower prices and high profits." (p. 601)

Those results have been confirmed and re-enforced by a successive research conducted by Gasiorek et al. (2008) according which cumulation served to increase trade between 14% and 72%, and best results have been achieved in the Clothing, Leather, Electrical Machinery and Transport equipment sectors. "The evidence above indicates that the introduction of diagonal cumulation significantly impacted on trade flows between the cumulating countries. (...) For the EU's southern Mediterranean partner countries this is an important conclusion – for it suggests that participation in

²¹² "A system of Pan-Euro-Mediterranean cumulation of origin is being created. For this purpose the Council of the European Union on 11 October 2005 approved a Commission proposal to amend protocols on rules of origin annexed to the various agreements (IP/05/1256). The system will be applicable between the EC and Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia, West Bank and Gaza Strip, the EEA / EFTA countries (Iceland, Norway and Switzerland (including Liechtenstein)), the Faroe Islands and Turkey (including coal and steel and agricultural products)." [Http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/preferential/article_783_en.htm](http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/preferential/article_783_en.htm)

the Pan-Euro-Mediterranean rules of origin is likely to increase the degree of intra-regional integration, and is likely to enhance the positive welfare effects of closer integration with themselves and with the EU". (p. 19)

Problem could rise by the fact that all the Agadir countries participate at the same time in other free trade agreements with other rules of origin; they are all members of the Great Arab Free Trade Area (GAFTA) which is characterised by a different system of rules of origin, Morocco and Jordan have a free trade agreements with United States. This can create a certain confusion and a phenomenon of overlapping which risks to minimise the positive effects of the Agadir Agreement²¹³. (Femise, 2005)

Finally, it is important to underline that theoretically among Maghreb countries and EU it is already in force *a system of full cumulation*. Unlike the bilateral and diagonal cumulation systems, *a system of full cumulation* provides for the cumulation of working and processing and not for the cumulation of origin. This means that such a system allows non-originating products from country A (Morocco) to be further processed or worked in country B (Algeria) as well as in country C (Tunisia) and D (EU) (provided that country A, B, C, D take part in the same full simulation system).

But, as a matter of fact, "(t)his provision, however, is not in force due to the fact that intra-Maghreb economic integration is pending and a 40% value-added clause is being applied reciprocally." (Wippel 2005, p. 11)

²¹³ For a detailed analysis of compatibility problems between the Pan-Euro-Mediterranean system of cumulation and Great Arab Free Trade Area rules of origins' system of cumulation see Wippel (2005). Author argues that "(...) if, for example, a product is assembled or processed in Tunisia and includes material from another Agadir country such as Egypt, different ROOs are to be applied depending on the ultimate European or Arab destination of the product. This complicates already costly certification procedures further, requires adjustment of production processes, and is, therefore, not an incentive to more trade and industrial co-operation among Arab countries, nor does it invite investment.⁶⁶ This discrimination against intra-Arab trade is particularly dubious since the EU is simultaneously in the final stages of negotiating an FTA with the GCC, and it remains to be seen what cumulation regime will finally be agreed upon." (p. 19)

Chapter 4. The Euro-Med Partnership in the light of Regionalism

4.1 Introduction

The previous chapters introduced the Euro-Mediterranean Partnership and analysed its main characteristics. The EMP was presented as a regional initiative aiming to promote and consolidate cooperation between EU and MPCs in a wide set of fields, from security to trade, from political dialogue to socio-cultural cooperation.

Ever since the beginning, economic issues assumed the central role in the Partnership; in particular, the creation of a Euro-Mediterranean Free Trade Area seems to be the drawing power of the whole initiative.

On the basis of what was stated above, the first part of this chapter asks whether the Barcelona Process has helped establish a process of regional integration in the Mediterranean Basin as defined by Regional Integration Agreement introduced in the 1st Chapter; that is, whether a shift of authority towards the supra-national level in key areas of national policy is currently undergoing among the Euro-Mediterranean partners.

In the second part, the chapter will analyse the Euro-Mediterranean Partnership in light of the theoretical contributions introduced in 1st Chapter. In doing so, the EMP will be analysed by taking into account both the economic and the political schools of thought, the underlying idea being that both the economic and the political contributions are complementary for a comprehensive analysis of the same phenomenon.

4.2 The Barcelona Process and regional integration in the Mediterranean region

As stated in the 2nd Chapter, first attempts towards a regional integration within the EMP's political-security basket failed just a few years after the launch of the Barcelona Process. In particular, the Euro-Mediterranean Charter of Peace and Stability represented an ambitious project as it aimed to be the first step towards the creation of a cooperative security system in the Mediterranean; through this system Euro-Med partners would have had the opportunity to face and jointly manage tensions and crises in the region, thanks in part to the establishment of a decision-making mechanism working with the rule of *consensus*.

It is widely recognised that the main reason behind the failure of this project was the outbreak of the *Second Intifada* in 2000, which led to a rapid deterioration of the Palestinian-Israeli conflict, and consequently the refusal of the other Arab partners to continue any discussions with Israel. However, several scholars (Attinà 2002, Aliboni 2004) argue that negotiations failed not only because of the recrudescence of Palestinian–Israeli conflict but due to the strong differences between Arab and European security cultures that emerged over the years.

According to Attinà (2002) the European proposal to create a Euro-Mediterranean Regional Security Partnership²¹⁴ encountered strong resistance within the Arab security culture, “(...) that is currently centred on self-help and national military power. Moreover, the double nature of the partnership security strategy (i.e. the co-operative and comprehensive dimension) is difficult to accept to Arab policy-makers. The Arab elite does not deny the benefits of good relations and economic co-operation with Europe, but the conditional requirements posed by the European Union to socio-economic and political adaptation and to military and strategic transparency cause strong resistance.” (Attinà 2002, p. 12)

Aliboni (2004)²¹⁵ affirms that profound disagreements between Arabs and Europeans also exist regarding the key-concepts underlying any political and security cooperation and dialogue, such as democracy, human rights and fundamental freedoms. Such differences caused the failure of the Charter of Peace and Stability. For this reason, according to the author, it is necessary to work on them in order to develop a common language as a pre-requisite for any form of dialogue.²¹⁶

Currently, regional cooperation in the area is mainly about the implementation of partnership-building measures. Nevertheless, in the last few years important initiatives have been implemented, among which there is the approval in 2005 of a Code of Conduct on Countering Terrorism which commits Euro-Med partners to cooperate against terrorism and to adopt methodologies conforming to the rule of law and human rights.

²¹⁴ “*Regional security partnership* is the name given to the security arrangement of an international region that originates from the consensus of the states to cooperate on the reduction of violence and enhancement of stability and peace in the region by making use of different types of agreements and mechanisms like formal security treaties, security international organizations, joint action agreements, multilateral dialogue processes, peace and stability pacts including confidence-building and preventive diplomacy measures, and also measure for influencing the domestic structures and processes of the countries at risk of internal violence. A regional security partnership does not exclude any relevant power of the international politics of the region. It includes almost all the countries of a region and also extra-regional powers.” (Attinà, 2002, p. 2)

²¹⁵ Democracy is one of the most discussed and controversial principle in the Barcelona Declaration, and a clear example of the compromises partners reached within the document; as a matter of fact the document states the importance of the development of law and democracy, but at the same time recognises that “(...) in this framework the right of each of them (the partners) to choose and freely develop its own political, socio-cultural, economic and judicial system”. (Barcelona Declaration, p. 2)

²¹⁶ “The aim is not to ignore or eliminate differences to 'flatten' values: rather, the aim is to learn what the differences are so as to work out how to promote cohabitation and co-operation” (Aliboni 2004, p. 4)

Furthermore, in 2003 a Euro-Mediterranean Parliamentary Assembly²¹⁷ (EMPA) was established; although it has a purely consultative role, the purpose of the EMPA is to be an instrument to enhance contact and dialogue between Parliamentarians and citizens in the entire Mediterranean region.

The shift of authority towards the supranational level has not occurred in the political and security fields; for this reason, it is possible to talk of regional cooperation but not of regional integration. In the economic field, however, the integration process seems to be in a more advanced phase, in particular due to the creation of a wide Euro-Mediterranean Free Trade Area. Nonetheless, it is important to underline that this process actually presents both shortcomings and achievements. The main shortcomings relate, first of all, to the fact that the EMP, with the respective Association Agreements, has not yet produced the expected 'leap forward' in Euro-Med economic relations and, secondly, that the Euro-Mediterranean Free Trade Area has been developing as a 'hub and spokes' system.

Chapter 3 analysed the evolution of relations between EU and Maghreb countries in the context of the Partnership. Available data demonstrate that there have not been particular changes in terms of trade and FDI. Relations between the two sides continue to be characterised by a strong asymmetry in favour of the Community, while neither Algeria, Morocco, nor Tunisia have achieved considerable improvements in terms of share in total EU imports or export. Similarly, no significant progress had been observed in terms of EU FDI flows towards Maghreb countries. Rather, in last recent years these countries have consolidated a marginal position compared to other countries preferred by European investors.

Further, FDIs appear to be linked more to individual large investment operations (i.e. the privatization of public assets) rather than to a stable trend following the consolidation of macro-economic indicators.

The 3rd Chapter stressed that Maghreb countries are still characterised by important structural deficiencies such as, for instance, a manufacturing production mainly based on no-dynamic and low value-added products which is increasingly subjected to a strong international competition. At the same time, some sectors within the Partnership framework where it should be necessary to intervene in order to improve performances both in terms of trade and FDI have been identified. In particular, it would be necessary to move towards a 'deeper integration' - which goes beyond the

²¹⁷ Established in 2003 by the Naples Euro-Med Ministerial Conference, the Euro-Mediterranean Parliamentary Assembly has a consultative role; in particular it expresses its views on all issues relating to the Partnership, including the implementation of the association agreements and adopts resolutions or recommendations, which are not legally binding, addressed to the Euro-Mediterranean Conference.

Source: http://www.euoparl.europa.eu/intcoop/empa/assembly/default_en.htm

process of tariff dismantling by also involving the liberalisation of the agricultural sector and of trade in services - as well as striving for convergence in the field of technical requirements and industrial standards. In this regard there is still much to do.

Secondly, the Euro-Mediterranean Free Trade Area (EMFTA) has been developing as a 'hub and spokes' system. Within the EMP framework, the process of trade liberalisation is in fact occurring through several bilateral agreements: the Euro-Mediterranean Association Agreements. The main consequence is that currently the EMFTA is more the sum of several bilateral FTAs rather than a single preferential trade agreement in which all contracting parties agree with each other on the mutual reduction and/or removal of tariffs barriers.

Furthermore, since the European Union is the main partner in each bilateral agreement, the Euro-Med FTAs constitute a 'hub and spokes' structure where the *hub*'s role is played by EU while Mediterranean partner countries are the *spokes*.

This process has created a system where potentially two MPCs have both abolished their trade barriers towards the European manufactured products, but still maintain a high tariff protection between themselves. As a matter of fact, such a system may constitute an important obstacle to the economic development of the 'spokes'. As already seen in the 3rd Chapter, an increased South-South intra-regional integration is expected to produce positive effects due to economies of scale and increased competition effects. Furthermore, it is expected to promote FDI.

Given the reduced dimension of the individual Mediterranean local markets coupled with the relevant amount of tariffs and non-tariff barriers in force among them, a potential investor or supplier would find it more convenient to establish their firm in the EU territory (the hub) and from there to have economic relations with each of the Med countries (the spokes) by enjoying all the trade facilities, fiscal incentives and more favourable conditions available within the EMP bilateral dimension. Vice-versa, "(t)he creation of a Euro-Mediterranean area with common rules and procedures would allow both an increased flow of FDI from Europe as a result of "allocation" choices oriented to the penetration of new markets and to achieve higher levels of efficiency. On the other hand, greater integration would be a incentive to the strengthening of interregional FDI flows and the implementation of investment strategies on a regional basis, which can promote the consolidation of specific areas of product specialization and the emergence of competitive local firms on the international level." (Primavera 2004, p. 13)

Nonetheless, there are other elements which support the idea that in the Mediterranean Basin, among the countries of the northern and southern shores, a process of economic regional integration is currently taking place. These include the recent Agadir Agreement and the establishment of the Pan-Euro-Mediterranean system of cumulation of rules of origin.

The Barcelona Declaration underlines several times the importance of South-South regional integration within the Euro-Mediterranean Partnership. For this reason the Agadir Agreement, which entered into force in July 2006, assumes a particular importance because, by going beyond the bilateral dimension of Turkey-led free trade areas²¹⁸, it is the first regional attempt at South-South integration among MPCs entirely developed within the framework of the Euro-Mediterranean Partnership, and represents an important step towards the achievement of a wider regional Free Trade Area.

Among Maghreb countries, only Morocco and Tunisia take part in the Agadir Agreement; the other two partners are Egypt and Jordan.

Even if it is too early to evaluate the first results of such agreement, this represents an important step forward in order to increase trade among Med countries; the 3rd Chapter has shown that MPCs have a higher average in terms of tariffs protection compared to other emerging economic regions in the world, around 17%; in addition Maghreb countries are all above this average. For this reason, even if in its first phase the Agadir Agreement will deal mainly with the liberalisation of trade in goods, this is expected to have considerable effects in terms of intra-regional trade.

Furthermore, it is important to underline that the agreement is open to the participation of other members as “(e)ach Arab country that is a member in the Arab League and the Great Free Trade Area, which are connected with the European Union by a partnership agreement or a free trade agreement may request to accede to this Agreement.” (Agadir Declaration, art. 30)²¹⁹

The Agadir Agreement is supposed to increase intra-regional trade and to promote regional integration not only by reducing tariff barriers among members, but also by allowing them to enter completely into the Pan-Euro-Mediterranean system of cumulation of origin.

As seen in the previous chapter, the *Pan-Euro-Mediterranean cumulation system* (PEMCS) is a diagonal system of cumulation based on a ‘variable geometry’ rule which means that “(...) countries of the Pan-Euro-Med zone can only cumulate originating status of the goods if the free trade agreements including a Pan-Euro-Med origin protocol are applicable between them. Consequently, a country of the zone which is not linked by free trade agreements with the others is practically outside cumulation’s benefit”²²⁰.

This means that if country A (European Union) has a trade agreement, including the Pan-Euro-Mediterranean protocols on rules of origin, with country B (Tunisia) and with country C (Morocco),

²¹⁸ In October 2005 the negotiations for Turkey Accession to European Union started. Since then Turkey has had to adjust its commercial policy to the European Union one; for these reasons Ankara has signed since 2005 FTAs with Tunisia (2005), Morocco (2006), Syria (2007) and Egypt (2007). An Israeli-Turkey FTA was already in force since 1997

²¹⁹ The Agadir Declaration is available on the web-site <http://www.agadiragreement.org/index.html>

²²⁰ From http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/preferential/article_783_en.htm

but countries B and C do not have trade agreement including the same protocols with each other, then country A will be encouraged to trade with countries B and C and vice-versa, but countries B and C will not have incentives to trade between each other, since their combined finished products will not enjoy the originating status and will not get the benefits of the preferential trade agreements. In this regard, by deciding to adopt the Pan-Euro-Mediterranean protocols on rules of origin within the Agadir Agreement, the Agadir members have entered completely into the PEMCS. Beyond the expected advantages in term of intra-regional trade, this decision also has important symbolic value. This is well shown by the fact that during the negotiations, as Wippel (2005) underlines, not all the Agadir members agreed to harmonise the Agadir Agreement rules of origin with the PEMCS. In particular “(t)he main problem was the compatibility of Euro-Med and Pan-Arab cumulation regimes. Tunisia, Jordan and Egypt favoured the Pan-European system, while Morocco preferred the rules applied in other Arab trade agreements, fearing that otherwise export options would be considerably limited.” (p. 11)²²¹

For this reason the final decision to adopt the same protocols on rules of origin shows a precise willingness to proceed toward economic integration with the EU; even if this does not solve the existing problem of compatibility and overlapping in the same MPCs of different protocols of rules of origin in relation to different preferential trade agreements these countries participate in.

4.3 Theoretical explanation of the Euro-Mediterranean Partnership

Previous chapters have shown that both political and economic factors have played an important role in the development of the Euro-Mediterranean Partnership. In particular it is possible to affirm that the influence of these factors has varied in relation to the partners, or group of partners, under examination. In order to better organise the links between the theoretical contributions and the EMP analysis tab. 4.1 summarise the main theories and interpretations of Regionalism which may be

²²¹ “With these recent developments, the main issue in preparing the Agadir Agreement was harmonising its rules of origin with those of the EMAAs, and especially with the proposed implementation of the Pan-Euro-Med cumulation regime. When ROOs were discussed at trade officials meetings in 2002, participants failed initially to reach an agreement. The main problem was the compatibility of Euro-Med and Pan-Arab cumulation regimes. Tunisia, Jordan and Egypt favoured the Pan-European system, while Morocco preferred the rules applied in other Arab trade agreements, fearing that otherwise export options would be considerably limited. Finally, in accordance with the conclusions of the 2003 Euro-Med trade conference, the Agadir states decided to adopt the Pan-Euro-Med regime both among themselves and with the EU without amendment. Hence the Arab-Mediterranean protocol of origin is likewise characterised by a complicated set of product-specific ROOs, including the need for a tariff leap, minimal processing requirements and/or substantive value added. In this sense it will not only contribute to a common Mediterranean Arab FTZ, but also to a wider Euro-Med zone. The inclusion of the new Pan-Euro-Med protocol was highly welcomed by the 2004 Euro-Med trade ministers’ conference. In August 2004, a first follow-up round of the senior officials committee in Amman recommended elaborating an action plan to guarantee a common interpretation of ROOs.” (Wippel 2005, p. 11)

relevant to explain the case of the EMP. These theories and interpretations are then checked against the analysis in chapter 2 and 3 in order to highlight if and how they can be useful in explaining the EMP. Their possible usefulness is also differentiated from the point of view of European Union and the Maghreb countries

Tab. 4.1: Theories and interpretations of Regionalism

Theories and interpretations of regionalism (see Chapter 1)	Relevant to explain the case of EMP	Reasons
<i>International economics</i>		
RIAs welfare effects		
<i>Trade creation and trade diversion effects</i>	Yes / Partly/ Maghreb Yes / Partly/ EU	For Maghreb countries the reduction of tariffs on EU imports is supposed to determine a considerable trade creation effect because of the EU accounts for a large share of Maghreb total trade
<i>Imperfect competition and economies of scale</i>	Yes / Partly / Maghreb Yes / Partly/ EU	Given the low level of intra-industry trade between the EU and the Maghreb, no considerable 'economies of scale' effects are foreseeable. Potentially positive effects are expected if the process of industrial diversification will consolidate (especially in Morocco and Tunisia).
<i>Foreign Direct Investments</i>	Yes / Strongly /Maghreb No / EU	Through the EMP and the Euro-Mediterranean Free Trade Area, one the main purposes of Maghreb countries is to attract more FDI
<i>Trade-productivity link</i>	Yes / Strongly /Maghreb No / EU	No specific studies are available on trade-productivity links for Maghreb countries, nevertheless this represents a hoped-for gain for the Maghreb.
RIAs main causes		
<i>RIAs as an instrument to enter into the global market (especially for developing countries)</i>	Yes / Strongly /Maghreb No / EU	Since Maghreb countries are characterised by a high level of tariff protection, the liberalisation of trade with their main global trading partner represents a gradual process to enter into the global economy
<i>RIAs as a step in an outward-oriented 'development strategy'</i>	Yes / Strongly /Maghreb No / EU	Through the EMP Maghreb countries have been implementing a FDI- and trade-driven 'development strategy'
<i>RIAs as a way to overcome stagnating WTO multilateral negotiations</i>	No / Maghreb No / EU	EMP deals mainly with trade of goods liberalisation. For what concerns non-trade sectors (i.e. investments, technical requirements and industrial standards, and so on) the EMAAs contain just a declaration of intent
International political economy		
<i>The role of domestic interest-groups and of societal pressures in shaping RIAs</i>	Not verifiable	

<i>RIA as locking-in mechanism</i>	Yes / Strongly / Maghreb EU / No	A FTA with the EU as an instrument to influence positively foreign investors on the effectiveness and irreversibility of reform process
International relations		
Neofunctionalism		
<i>Spill-over mechanism</i>	No / Maghreb Yes / Strongly / EU	The EU's goal is that a successful economic cooperation may promote further common activities, also in the political and security fields. From the point of view of Maghreb countries there is a greater availability to cooperate on the economic side, rather than on questions related to political reforms and security
<i>Central role of domestic interest-groups and international institutions' officials</i>	Not Verifiable	
Liberal Intergovernmentalism		
<i>Political leaders and economic interest-groups are the main promoters of a regional integration process</i>	Not Verifiable	
<i>Macro-economic preferences determine such decisions</i>	Not Verifiable	
Neorealism		
<i>RIAs as an instrument to guarantee economic and military security</i>	No / Maghreb Yes / Partly / EU	Through the EMP, EU aims to ensure that socio-economic instability in Med countries may spill-over into the Community; European main concerns are energetic security, and the question of illegal migration flows
<i>RIAs to support political-military alliance</i>	No / Maghreb No / EU	Currently no military alliances between the two parts are in force
<i>RIAs to promote economic and political influence</i>	Yes / Partly / Maghreb Yes / Partly / EU	The end of the Cold War paved the way for the establishment of a wide regional agreement in the area, the EMP represented for the EU an opportunity to consolidate its economic and political power in the region
<i>The necessity of a 'regional hegemon' in order to achieve a RIA</i>	No / Maghreb Yes / Partly / EU	It may be argued that the EU used its hegemonic role to promote the EMP
Neoliberalism		
<i>Increasing interdependence and shared interests determines international cooperation</i>	Yes / Strongly / Maghreb Yes / Strongly / EU	Both the sides have a strong interest in promoting cooperation. The EU aims to deal with stability and security in the area, and to manage cross-borders phenomena such as illegal migration, organised crime, pollution, socio-economic stability in Med countries. On the other side, Maghreb countries see in the EMP an opportunity and an instrument to deal with domestic economic development and with worrying social situations, and also to enjoy the EU's technical and financial assistance

<i>Institutions matter (i.e. to promote exchange of information, to increase transparency, to reduce coordination costs)</i>	Yes / Partly / Maghreb Yes / Strongly / EU	One of the main purposes of the Barcelona Process is to promote cooperation, dialogue and exchange of information among partners. The recent Union for the Mediterranean has re-enforced this aspect
<i>Political effects of the economic cooperation</i>	No / Maghreb Yes / Strongly / EU	See ‘spill-over mechanism’
<i>The amity of democracies. Regional cooperation to reduce values and principles gap</i>	No / Maghreb Yes / Strongly / EU	By adopting an approach similar to the one used with CEECs, through the EMP the EU aimed to reduce the gap in terms of democracy and market economy. Maghreb countries have proved to be more interested in the economic opportunities than in political reforms

Source: Chapter 1, Author’s elaboration. ‘Not verifiable’ due to the lack of available data and analysis

As seen in the 2nd Chapter, the European Union promoted the Euro-Mediterranean Partnership mainly in order to safeguard and enforce the stability and the security in the region. At the beginning of the 1990s the EU was concerned that the increasing destabilization in some of the MPCs could spill-over into the Community; the main threats were the rapid population growth, the recurrent social crisis, large-scale migration, and the growth of religious fundamentalism (European Council, 1992).

In this regard, the EMP seems to draw inspiration from a wider concept of security which was developing at the end of the Cold War. As Troiani (2000) argues this concept, developed mainly within the CSCE/OSCE framework, went beyond the military dimension to also include socio-economic stability and the welfare of citizens (in other words, including a social and economic dimension). The Conference for Security and Cooperation in Europe²²² (CSCE) was the first to introduce, in addition to the security basket other two baskets concerning economic cooperation and human rights. This decision was based on the awareness that it was not possible to achieve security and stability in the European region without also tackling socio-economic and socio-cultural problems²²³ (Troiani, 2000, p. 158).

On the basis of this concept, the purpose of the EMP is to establish a broad framework of cooperation to manage common problems at the regional level. As Attinà (2003) underlines, there is a wide agreement in considering the Partnership “(...) a region-level process of building mechanisms and institutions to set the local aspects of global trends and problems.” (p. 183)

²²² The Conference for Security and Cooperation in Europe (CSCE) was held for the first time in Helsinki in 1973. it represented an attempt to promote dialogue and cooperation between Western and Eastern European countries during Cold War. In 1995 the Organization for Security and Cooperation in Europe (OSCE) has replaced the CSCE

²²³ Troiani (2000) underlines that often the main threats to the security derives from an unstable trend of the economy which may imply illegal migration, organised crime, terrorism and social tensions.

Increasing interconnections and globalisation promote the development of cross-border phenomena whose management requires a joint trans-national effort.

Tab. 4.1 shows that both Neorealist and Neoliberalist conceptual categories help explain the Barcelona Process from the EU perspective.

Before analysing these main schools of thought it is useful to make some brief remarks on the role of domestic interest-groups in shaping this initiative; as a matter of fact, in this regard, there are no available data and analyses, nevertheless it is possible to develop some general observations. Considering the fact that before the launch of the EMP, Maghreb industrial products already had free-access to EU markets and not vice-versa, one can argue that European domestic-groups would have not had particular reasons to oppose a FTA with those North African countries: on one side, export-oriented groups would have increased their trade, while, on the other side, no special changes would have occurred for EU import-competing sectors.

Vice-versa, it is more probable that the process of tariffs dismantling would have caused bigger concerns for Maghreb industries, which, albeit with a 12-year transition period, would have faced the full power of European competition.

By referring to the case of Egypt, El-Sayed Selim (1997) argues that the decision to join the EMP caused a deep divergence among Egyptian decision-makers, between pro- and against-Partnership forces²²⁴. Probably this occurred also in Maghreb countries but there is a lack of information in this regard. Finally, it is important to underline that all the theories which stress this element have been developed by referring to democratic states, where the mechanisms and the dynamics through which domestic groups may influence or determine national trade policies are more transparent and analyzable.

Both Neorealism and Neoliberalism agree on the EMP's underlying rationale to promote security and stability in the area; but according to the former the EU has used its dominant position (or hegemonic role) in the region to impose the Barcelona Process on its peripheral hinterland (Joffé, 2001).

In light of this interpretation the EU is mainly concerned with energetic security and the question of migration flows. In fact, since the oil price shocks of 1973 and 1979-80, Western developed countries have realised their vulnerability and decided to intervene in order to safeguard their future energy supplies .

But unlike the US, which has had the will and the means to intervene military to 'defend' these interests (i.e. the 1987 US intervention in behalf of Kuwait to support Iraq in the Iran-Iraq War, or

²²⁴ El-Sayed Selim (1997) underlines that in particular Foreign and Industry Ministries supported the Euro-Mediterranean Partnership

the 1st Gulf War in 1990/91), the EU does not have such an option at its disposal. For this reason the EMP is mainly an economic initiative.

Although for many MPCs a FTA with the European Union might have represented a threat to their economic sector, Joffé (2001) argues, these countries were ‘forced’ to accept this initiative due to their economic dependence on the European economy and their geographic proximity.

As seen in the 1st Chapter, in recent years there has been increased attention towards a ‘realist’ analysis of EU trade policies, which, as many authors argue, are often motivated by the necessity to safeguard economic security and international influence, in particular vis-à-vis US trade policies in the world.

According to our opinion, the EU has undoubtedly used its hegemonic role to promote the Partnership and to consolidate its economic and political influence in the region after the end of the Cold War, but the EU strategy in the Mediterranean and the set of actions implemented are explainable through the Neoliberal conceptual categories: the emphasis on the role of human rights and democracy, the progressive political effects of economic interdependence and the role of multilateral institutions.²²⁵

In the Barcelona Declaration there is a strong emphasis on the promotion of democracy and on the respect of the rule of law and human rights. From this point of view it is possible to explain the Barcelona Process as an instrument to reduce the gap (or to prevent the gap from becoming wider) between the two shores of the basin by promoting “(...) economic development, full respects of human rights and fundamental freedoms, the development and the consolidation of democracy and the rule of law.” (European Council 1992, pp. 20-21²²⁶)

The underlying idea is based on the general amity of democracies. Several authors stress that democratic structures and mechanisms generally limit the possibility of war and conflict by promoting peaceful settlement of disputes and a more transparent exchange of information (Ikenberry 1999)

Aliboni (2004) points out that with the EMP the European Union wanted to adopt the same approach used with the Central and Eastern European Countries (CEECs) that applied for membership in 1993. CEECs were indeed asked to fulfil the so-called Copenhagen Criteria, that is to have stable institutions to guarantee democracy, the rule of law, human rights and respect for and protection of minorities, a functioning market economy, and the ability to take on the obligations of Community membership. By referring to the Barcelona Declaration, the author argues "(t)he terms of the Declaration seem to indicate that the parties fully understand the need to promote democracy

²²⁵ This list is inspired by Ikenberry (1999)

²²⁶ As seen in Chapter II in the Lisbon European Council Conclusions it is possible to find many of the principles and of the concepts at the basis of the Barcelona Declaration.

and human rights. However, as subsequent developments reveal, the principles in the declaration reflect less Arab than EU values.(...) During the extended Charter talks, political reform practically vanished, replaced by attempt to codify principles and norms to ensure the stability of incumbent Arab regimes. The Arab partners expressed two main concerns over successive EU submitted drafts: the need to ensure that co-operative security mechanisms envisaged in the first chapter of the Declaration did not surreptitiously become a form of military co-operation with Israel even before the latter had attained peace with Syria, Lebanon and the Palestinians; and making sure that the promotion of political reform did not dangerously interfere with regime stability" (pp. 8-9)

Nevertheless, according to Aliboni (2004), Arab countries have continued to keep the initiative alive because they are more interested in the economic opportunities offered by the EMP, but at the same time they have tried to manage the political reforms' issue so as not to threaten their internal stability and authority. This behaviour has been encouraged by an often ambiguous EU approach: on one side, the EU has continued to promote in the official documents and events the necessity of political reforms, but, on the other side, in practical terms the EU has, especially in recent years, paid more attention to the stability in the region rather than to an effective reform process. This is highlighted by the fact that the EU has never suspended the Euro-Mediterranean Association Agreements, by using the negative conditionality provided for by the agreements, even in the face of important violations of human rights.

The centrality of the economic basket has already been emphasised by the present research. Significantly, the Euro-Mediterranean Association Agreements' most detailed sections refer to the liberalization of trade and the establishment of a free trade area. Over the last few years economic cooperation has consolidated its central position within the Partnership, a process also favoured by the more marginal role played by the political-security and the socio-cultural baskets. As seen in the 1st Chapter, the underlying idea is that economic integration may positively affect intergovernmental cooperation in the political-security fields as well, in particular by establishing interconnections, by reducing the mutual distrust which typically characterises international relations, by promoting cooperative dynamics and mechanisms whose benefits may spill-over in the political fields. In this regard, the very history of the European Union shows the importance of proceeding towards economic integration in order to achieve and consolidate a wider and more ambitious integration process.

Finally, for what concerns the role of multilateral institutions, although the EMP is characterised by a 'light' institutional structure (Attinà, 2001)²²⁷, mainly based on Euro-Med ministerial and senior

²²⁷ This quotation is taken from Panebianco (2009). Further, with regard to the EMP 'light' institutional structure Panebianco (2009) argues: "The EMP institutional architecture is not established with international treaties or formal agreements; instead, it is the result of political documents and substantial agreements and is subject to change over time.

officials meetings, it is important to underline that the original ambition of the Partnership was to establish a cooperative security system endowed with an appropriate decision-making mechanism; in this regard, the Euro-Mediterranean Charter for Peace and Stability would have represented the first step of such a system. The failure of the Charter's project marked the impossibility to proceed in this direction and led to the adoption of less ambitious partnership-building measures.

Without a doubt, from the early 2000s important changes, both outside and within the European Union, have influenced EU policies towards the Mediterranean. On one side, "(t)he vents of 9/11, the wars in Afghanistan and Iraq, the heightened tension in Middle East and declaration of US-led war against terrorism (...)" (Pace 2007, p. 661) led to an escalation of tension and violence at the global level and to increased EU attention towards security issues, particularly transnational terrorism (Joffé, 2008)²²⁸.

On the other side, the 2004 EU enlargement led to a re-definition of the role of the Community as a global actor in the international arena. In this regard, the 2003 European Security Strategy²²⁹, developed on the model of US National Security Strategy, exemplifies this changed approach at global level.

The 2004 European Neighbourhood Policy reflects these changes. As a matter of fact the ENP seems to be more framed in terms of EU interests than in terms of common values and shared principles, as the EMP was. Such interests are mainly the welfare and the security of European citizens. (Del Sarto and Shumacher, 2005)

Nevertheless, although the ENP emphasizes EU security interests, the Neighbourhood policy continues to rely on the same Barcelona Process values as the promotion of democracy and the rule of law, free trade and open markets, the respect of human rights and the establishment of a cooperative framework for a joint management of common problems.²³⁰ In this regard it is

EMP institutions range from meetings of governmental representatives (i.e. conferences of Ministers of Foreign Affairs or sectoral Ministerial meetings, senior officials' regular meetings, young diplomats' training and information seminars) to civil society networks; it includes also a parliamentary dimension. The non-governmental dimension of cooperation is considered as an important *atout* of the EMP and the EU supports it also financially. In this respect, it has to be recalled that since 1996 EuroMeSCo acts as a concrete example of partnership building measures by bringing together institutes of research debating on security related issues. In December 2003 the EuroMed parliamentary forum has been transformed into the Euro-Mediterranean Parliamentary Assembly. In April 2005 the EuroMediterranean Anna Lindh Foundation has been established in Alexandria with the aim to foster dialogue among cultures." (p.3)

²²⁸ According to Joffé (2008), since 2001 EU relations with its immediate periphery has been influenced by an "(...) overriding concern relating to threat of transnational terrorism." (p. 148)

²²⁹ European Commission, 2003. Aliboni (2005) underlines the 2004 enlargement represents the 'proximate motivation' of the European Neighbourhood Policy, while the ENP's roots have to be found in the 2003 European Security Strategy (ESS).

²³⁰ "The quality of international society depends on the quality of the governments that are its foundation. The best protection for our security is a world of well-governed democratic states. Spreading good governance, supporting social and political reform, dealing with corruption and abuse of power, establishing the rule of law and protecting human rights are the best means of strengthening the international order. Trade and development policies can be powerful tools for promoting reform. As the world's largest provider of official assistance and its largest trading entity, the European Union and its Member States are well placed to pursue these goals. Contributing

interesting to quote what the 2003 European Security Strategy itself affirms “(t)he best protection for our security is a world of well-governed democratic states. Spreading good governance, supporting social and political reform, dealing with corruption and abuse of power, establishing the rule of law and protecting human rights are the best means of strengthening the international order. Trade and development policies can be powerful tools for promoting reform.” (European Union 2003, p. 10)

Yet, despite the official language of ENP documents, it is evident that the gap between official documents and speeches and reality has widened in recent years; although the EU has continued to promote cooperation and integration in the economic fields, the same has not occurred in the field of political reforms.

As several authors underline, in recent years the EU has been more interested in maintaining the stability in the region, the current ‘status quo’, rather than promoting democratic reforms. Its main interests seem to lie in containing illegal migration and transnational terrorism (Joffé, 2008) rather than in promoting political reforms.

Furthermore, after the Hamas victory in the 2006 Palestinian democratic elections, this approach has consolidated, as Pace (2007) underlines “(...), in their fear of what the outcome of involvement of Islamist actors in the political, economic and social transformation processes could look like, EU actors appear to be complicit with (authoritarian) regimes in sidelining Islamist reform movements.” (p. 670)

Finally, the recent Union for the Mediterranean (UFM) seems to confirm and enforce the EU ‘neoliberal approach’ in the area, in particular by considering the increased role of multilateral institutions and the emphasise in the economic interdependence.

The Union for the Mediterranean is indeed a considerable step ahead in Euro-Mediterranean relations, since it introduces what can be defined as a ‘heavy’ institutional structure. The aim is to increase the participation and the political level of Mediterranean countries and to carry out concrete and tangible regional projects.

Secondly, although the main UFM documents continue to underline the importance of democracy and the respect of law and human rights, this initiative undoubtedly focuses on economic cooperation by providing for the implementation of exclusively business-oriented projects.

According to Aliboni and Ammor (2009) one can identify a ‘two-stage’ strategy behind this decision. As a matter of fact, in light of the reluctance of MPCs to proceed towards political reforms and participate actively in a regional cooperative security system, through the UFM the European

to better governance through assistance programmes, conditionality and targeted trade measures remains an important feature in our policy that we should further reinforce. A world seen as offering justice and opportunity for everyone will be more secure for the European Union and its citizens.” (European Union 2003, p. 10)

Union aims to provide impetus to regional cooperation by promoting concrete and tangible business-oriented regional projects; in this way EU hopes that such a mechanism will gain legitimacy and efficiency and will eventually become useful instrument to deal with cooperation in the political-security field as well.

In conclusion it is possible to agree with what Attinà (2003) says about the Europeans' main concern, which is to preserve "(...) international economic conditions allowing the continuation of economic growth and internal stability in the framework of European Union development." (p. 16)

In order to do so, the author continues, the EU aims to proceed with an integration process in the Mediterranean by adopting a flexible strategy based on 'various integration programs and their flexible implementation'. The object of this strategy is to link North Africa to the liberal-capitalist world by strengthening Euro-Med relations.

In this process the economic sector plays the primary role, while the other sectors will benefit by the spill-over effect of the achievement of the first sector.

The Maghreb countries' development strategy

As seen before, according to a Neorealist interpretation, Maghreb countries were 'forced' to accept the EMP initiative because of their economic dependence and their geographic proximity. But this analysis is not convincing at all with regards to Mediterranean countries' motives to enter the Partnership.

In this regard, economic theories are useful to provide another point of view, to analyse the same phenomenon from another perspective.

The Euro-Mediterranean Partnership, and the decision of MPCs to create a free trade area with EU, may be analysed in the wider context of New Regionalism.

According to many economists New Regionalism was developing at the very beginning of the 1990s, in those years, the world witnessed the development of several regional integration agreements, such as the NAFTA and the MERCOSUR.

Furthermore, the Euro-Maghreb Association Agreements show the typical characteristics of New Regional Integration Agreements, including:

- a) an outward-oriented approach (in order to promote a FDI- and market-driven growth);
- b) the presence of the so-called 'Deep integration' features;
- c) the North-South partnership, which links together developed and developing countries;

In the light of these interpretations, for Maghreb countries the EMP was an important instrument to promote the socio-economic transition from the status of developing countries to that of emerging countries (Radwan and Reiffers, 2005).

In a world characterised by increasing competition, Maghreb countries saw in a RIA with the European Union the opportunity to ‘anchor’ their economy in order to attract more FDI and to proceed towards a complete, but gradual, integration into the global economy. For this reason, over the last two decades they have undertaken important programmes for the modernization and the reform of their economic and institutional sectors.

Maghreb countries hoped the EMP could help this process in three main ways: through positive competition effects; by increasing FDI; and thanks to EU financial and technical assistance.

The gradual liberalization of trade with the EU was expected to reduce market distortions and to allow national productive sectors to gradually adapt to increasing international competition and achieve international standards. With this in mind, all the countries have been implementing several programmes - such as the so-called ‘*Programmes de mise à niveau*’- to support their productive sector.

As seen in the 1st Chapter, there is a close link between RIAs and FDIs. In this regard the three north African countries saw in the Euro-Mediterranean Association Agreements an instrument to attract more EU FDI. The launch of or the accession to a preferential trade agreements may contribute to attract more FDIs in two ways, by providing for a locking-in mechanism to convince foreign investors about the effectiveness and irreversibility of the undergoing process of reform and modernization; and by including the so-called ‘Deep-integration’ features, such as regulation of investments, competition policies, intellectual property rights, technical standards and requirements. The 2nd Chapter has shown that the Euro-Mediterranean Association Agreements cover in detail only the process of tariff dismantling, while they contain mainly declarations of intent for what concerns the ‘deep integration’ features. Nevertheless, all the Maghreb countries have been unilaterally promoting FDI-friendly legislation such as the 1990s new Code of Investments, and national programmes of privatization. Furthermore, negotiations in those sectors are currently taking place within the EMP framework.

Finally, within the EMP, Maghreb countries have received EU financial and technical assistance through the MEDA-ENPI budget lines and the FEMIP loans.

General conclusions

During the early 1990s, the world witnessed the development and the strengthening of many regional arrangements and/or organizations. In recent years regional integration agreements (RIAs) have grown exponentially. Nowadays, almost all countries participate in a regional agreement; and even the geographical areas that had long been excluded, such as the Asia-Pacific area, currently see a rapid spread of RIAs.

This phenomenon has led to a renewed theoretical interest in *Regionalism* and regional integration processes; in particular, in the fields of International Relations and International Economics several authors have helped stimulate a lively debate on these topics.

In this regard, after having presented the main definitions of Regionalism and Regional Integration Agreement according to the different disciplinary areas, the 1st Chapter - drawing inspiration from Mattli (1999) - defines a Regional Integration Agreement as an agreement by which two or more independent states decide voluntarily to link each other in the economic and political domains to the extent that authority over key areas of national policy is shifted towards the supranational level. The present research has focused on this kind of agreements.

Today, Regionalism is mainly an economic phenomenon: many of such agreements are in fact characterized by strong economic integration, in the shape of free trade areas and customs unions, but at the same time they pursue considerable geo-political and security interests. In order to carry out a comprehensive analysis of this phenomenon, I adopted a multi-disciplinary approach for the analysis of such agreements: as a matter of fact, international economic studies have traditionally focused on the welfare effects of regional integration agreements, while political scientists have mainly dealt with the causes and the dynamics of regional political and integration processes. The research's underlying idea was that adopting a multi-disciplinary approach, an approach which draws from both international economic and international political studies, would be helpful to carry out a comprehensive analysis of the same agreement.

In order to have a better understanding of the general phenomenon, the research has focused on a specific case: the Euro-Mediterranean Partnership.

The Euro-Mediterranean Partnership seems to represent a clear example of this new wave of RIAs. The EMP was launched in 1995 by including both the members of the European Union and twelve North African and Middle East countries. This initiative, which has evolved significantly over the years, is based mainly on the creation of a Euro-Mediterranean Free Trade Area but at the same time it provides for the establishment of a wide framework of cooperation in the political-security and socio-cultural fields.

After having presented the main characteristics of the Partnership, this research focused on two main issues: on one hand, the research tried to establish whether the Euro-Mediterranean Partnership has effectively promoted a process of regional integration- as defined in Chapter 1 - in the Mediterranean Basin both in the political and in the economic spheres; on the other, it analysed the Partnership in the light of main theoretical contributions introduced in the same Chapter.

With regards to the first issue, in the Mediterranean Basin the EMP is currently promoting a process of regional cooperation but not of regional integration in the political-security fields. As a matter of fact, the first attempts towards the creation of a cooperative security system among the Euro-Mediterranean partners failed just a few years after the launch of the Partnership.

As widely recognized, the main reason of this failure was the outbreak of the Second Intifada in 2000; this event led to a recrudescence of the Israeli-Palestinian conflict by nullifying the positive results reached during the two Conferences on the Middle East Peace Process held in Madrid (1990) and Oslo (1994). The escalation of violence in the Middle East also led to the refusal of the other Arab EMP partners to continue any political and security negotiations with Israel within the EMP framework. However, other authors argue that the project of a cooperative security system in the Mediterranean failed also due to the existence of important differences between European and Arab security cultures. Today political and security cooperation in the region mostly concerns the implementation of partnership-building measures, even though recently important common initiatives have been adopted, including the approval of a Euro-Mediterranean Code of Conduct on Countering Terrorism and the launch of a Euro-Mediterranean Parliamentary Assembly.

Vice-versa, the EMP economic and financial basket has effectively promoted a process of economic integration in the region, even though both shortcomings and achievements characterize this process. The present research has identified two main shortcomings: the creation in the region of a 'hub and spokes' system and the lack of the expected 'leap forward' in economic relations between EU-Mediterranean partner countries.

Firstly, as pointed out in the 4th Chapter, the Euro-Mediterranean Free Trade Area is currently the sum of several bilateral free trade areas rather than a single comprehensive agreement in which all contracting parties agree with each other on a mutual tariffs dismantling process. Such a 'hub and spokes' system implies negative consequences both in terms of trade (MPCs are in fact characterized by high tariff protection levels between each other, and intra-regional trade remains low) and in terms of FDI.

Secondly, the 3rd Chapter analyzed how economic relations have evolved between EU and Maghreb countries, and showed that the expected 'leap forward' in terms of FDI and trade performances has not occurred. Since the launch of the Euro-Mediterranean Partnership EU-Maghreb trade relations

have remained stable, in particular the share of Maghreb countries in EU total trade has not varied, meaning that so far the process of economic integration has not had particular effects. These data have been compared with equivalent data from some Central and Eastern European Countries, where trade increased notably already during the CEECs pre-accession phase to European Union. Similarly, Maghreb countries have a marginal position in terms of FDI, since they received around 0,3 % of EU FDI in 2007; FDI seem linked more to single investment operations than to a consolidated upward trend. Nevertheless, data on FDI inflow in Maghreb countries as a percentage of total world show a slight upward trend.

On the other hand, the Agadir Agreement and the entry into the Pan-Euro-Mediterranean Cumulation System are two important achievements for the realization of a broad regional free trade area. The Agadir Agreement is in fact the first attempt at South-South regional integration among MPCs. This agreement was developed within the Euro-Mediterranean Partnership framework and enjoyed the technical and financial assistance of EU. Currently only four countries - Morocco, Tunisia, Jordan and Egypt - participate in the agreement, which is open to other Mediterranean partner countries.

Beyond the expected advantages in terms of increased trade (the Agadir Agreement entered into force in 2006), this agreement is important because it allows Agadir Members to fully enter into the Pan-Euro-Mediterranean Cumulation System (PEMCS) of rules of origin. As Chapter 3 has argued, this represents an important step in the creation of an effective Euro-Mediterranean Free Trade Area, even from a symbolic point of view.

In addition, recent studies on the effects of the Pan-European System of Cumulation (PESC) have recorded significant improvements in trade performance for the countries that have adopted such a system. Similar results are expected for Agadir members as well.

Finally, the analysis of the Euro-Mediterranean Partnership has confirmed the suitability of a multi-disciplinary approach for the study of regional integration processes.

Previous chapters showed that both political and economic factors have played an important role in the development of the Partnership. In particular, it is possible to affirm that the influence of these factors has varied according to the partners, or groups thereof, under examination.

With the necessary caveats, it is possible to argue that the Maghreb countries' decision to join the Partnership was mainly driven by economic reasons, while the EU saw the EMP mainly as a useful tool to address geo-political and security questions in the Mediterranean area. Undoubtedly, the EU also had an economic interest in liberalising trade with the Maghreb, which would most probably have led to an increase in EU exports, new investment opportunities and, more generally, a way to consolidate the already strong EU presence in those countries. Nevertheless, it is possible to say that

the main reason was to adopt a multidimensional approach to security in the area in order to enforce and safeguard the stability in the Mediterranean Basin.

From the Maghreb countries' perspective, economic interests seem to prevail over the political and security ones. The EMP was mainly seen as an opportunity to 'anchor' their economies to the EU and to strengthen a FDI- and trade-driven 'development strategy'.

In light of these considerations, the 4th Chapter provided a theoretical analysis of the same initiative by adopting a joint International Relations and International Economics theoretical approach; the underlying idea is that the combined use of these theoretical approaches is better suited to a comprehensive analysis of the Euro-Mediterranean Partnership than the use of a single approach would be. In particular, International Relations appear to be more suitable in explaining the Barcelona Process from the point of view of the European Union (by focusing more on stability and security), while the theories of International Economics seem to be more suitable for explaining the same initiative from the Maghreb countries' perspective.

In this regard a clear example has been provided by the Neorealist interpretation of the Partnership, according to whose analysis the EMP has been in fact imposed on MPCs due to the hegemonic role of the EU. On the other hand, several economic analyses argue that a regional integration agreement with the European Union was welcomed by many of MPCs, which saw this initiative as an opportunity to proceed with a 'development strategy'.

As a matter of fact, *Regionalism* (and Regional Integration Agreements) remain a very diversified phenomenon; regional integration agreements are in fact very different from one another both in terms of institutional structure (EU vs. NAFTA) and in terms of scope.

Furthermore, the causes of RIAs may vary significantly from one agreement to the next since both political and economic factors play an important role in the establishment of regional arrangements.

This makes it necessary – in accordance with Gilpin's (2003) '*eclectic approach*' – to carefully analyse each single agreement in order to understand its motivations and implications, and to identify the right combination of both the economic and the political theoretical approaches which will better suit the specific case.

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