

Arab-European Economic Partnership

With Particular Referenc to Egypt and Tunisia

by

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Introduction

This paper is a part of the works to be presented to the “*Arab-European Economic Partnership*” symposium, organized by the Arab Society for Economic Research and others, scheduled for 17-18 March 1999, in Paris. Its purpose is to provide a critical assessment of the current attempts to rebuild the Euro-Arab relationships on the basis of ”partnership”. A

number of factors delimit the attempt:

First, the present stage is a continuation of a number of efforts that started in the early sixties, shortly after the establishment of the European Economic Community. ♦

Assessment of past experience is therefore worthwhile.

Besides the Euro-Arab dialogue that started in the mid seventies and came to a halt by the end of the decade, formal relationships took the shape of bilateral agreements with several ♦

Arab countries, that were formulated in the spirit of the epoch.

Such Agreements took the shape of preferential trade agreements with some countries; ♦ others were labeled as Cooperation Agreements, basically economic in substance, and later they came under the heading of “Association Agreements” and hence had to conform with Article (238) of the Treaty of Rome (presently Article 310). ♦

During the nineties the Community reconsidered its external relationships, and laid down the basis for a new type of Association based on the concept of partnership, which took into consideration the possibility of the expansion of the area in which the EU gets a more favoured position, with potential accession of some countries. The concept of “flexible integration” served the purposes of varying depths as integration extends horizontally. ♦

This means that the change suited more strategic objectives of the EU rather than the balanced treatment implied by the concept of partnership. ♦

One outcome of this approach is that partnership was proposed for the southern flank of the EU which constitutes mainly of Eastern and Southern of the Mediterranean basin, or ESM countries. This geographic notion falls short of a proper geographic definition of the Mediterranean region, and at the same time lacks homogeneity of cultural and social factors necessary for the building up of a regional order. ♦

Another outcome, is that the situation differs from the association of Central and Eastern European countries; it is not an attempt to build a wider European region, rather it takes the shape of integration between two regions under the hegemony of the more powerful of them. ♦

But at the same time the southern region is not involved as a gathering versus the EU. For ESM countries negotiations are carried on a bilateral basis in a selective manner. Thus Libya is excluded, while Mauritania (as well as Comoros, Djibouti, Somalia & Sudan) is included in the Lomé Convention, which originally came under Part IV of the Rome Treaty. The remainder of Arab countries are included under the heading “Middle East”, which includes Iran. While Iraq is still under embargo, prolonged negotiations with the GCC (Gulf Cooperation Council) discuss the possibility of a joint free trade area, and Yemen’s relations are discussed within a joint committee. ♦

The formulation of partnership is assigned to a series of Euro-Mediterranean ministerial conferences, the first of which was held in Barcelona, 27, 28/11/1995, ended up with a “*Barcelona Declaration*”. This is a fundamental document that deserves special attention. ♦

As will be seen, and as a result of the spirit of Association, the scope of new agreements goes beyond economic matters to include political, social and cultural matters, while at the same time a reciprocal free trade area is considered as a cornerstone, with the outcome that agreements exceed the requirements of a free trade agreement proper. There is need to question the advisability of such an approach. ♦

The above arguments lead to a need for reformulating the subject. The central notion of partnership applies explicitly to ESM countries, and lies in the background with respect to some other Arab countries. A further breakdown is made of the ESM countries to Maghreb (Western in Arabic) comprising Algeria, Morocco & Tunisia, and Mashreq (Eastern in Arabic) covering Egypt, Jordan (which is not strictly Mediterranean as the rest), Lebanon, Palestinian Authority and Syria. The remaining four ESM countries are special cases. Cyprus and Malta are under preparation for full accession to the EU; Turkey looks for such accession and is presently in a Customs Union with EU; and Israel is culturally distinct from the rest, and wants to remain so and to expand its territory causing unrest in the region, in spite of the peace deliberations that are tedious due to its insistence on occupying Arab territories. Its attitude had halted the attempts made under the USA auspices to force a Middle-East regional cooperation scheme. Further it has special relationships with the EU, not only in free trade and economic cooperation, but in other areas especially scientific cooperation. But the partnership with the Arab ESM countries is not limited to trade and economic matters; in fact the package contains several elements of regional integration, which makes it unfair to speak, as the title of this symposium assumes, about Arab-European *Economic Partnership*.

It follows that we have to concentrate, when dealing with partnership, on Arab countries in the ESM region. This has also to be done under title of Association which is a specific form of external relations of the EU. Relations with other Arab countries may be only stated in so far as they relate to economic cooperation. With the EU is the main motivator, its intentions and objectives EU, and their evolution over time, especially after the turmoil of the eighties with its implications for both the second and the third worlds, bearing mind the forerunner put forward in the Western Hemisphere, in the form of NAFTA, and implications to the theory of regional integration, which was borne and grew in European literature outweigh other parties intentions and needs. This evolutionary outlook justifies consideration of the early agreements and the extent of their success in attaining objectives similar to those claimed for partnership, to judge the potential benefits of the latter, and justification of preferring it to the older generation of agreements. A lot of light may be shed on the issue by considering the contents the Barcelona Declaration. The Egyptian cooperation agreement is taken to illustrate the old, while the Tunisian association agreement and the draft Egyptian one represent the new. We draw freely on a previous paper of ours presented to the Council of Europe 1996 Mediterranean Conference on Population, Migration and Development⁽¹⁾.

Past Experience

According to *Article 310* (ex Article 238) of Rome Treaty, the Community may conclude with one or more States or international organizations agreements establishing an association involving reciprocal rights and obligations, common action and special procedure. During its early days, the Community signed its first trade agreement on 14/10/1963 with Iran⁽²⁾. An agreement was signed with Israel on 4/6/1964 and with Lebanon on 21/5/1965, and a trade agreement was concluded with Israel on 1/10/1970 on a preferential basis. An Association Agreement with Greece came into force on 1/11/1962, and an agreement on trade and related matters with Spain came into force on 1/10/1970. Both may eventually lead to establishing customs union. A more modest one was signed with Turkey on 1/12/1964, while an agreement with Malta providing for a customs union in two five-years stages entered into force on 1/4/1971. Two Association Agreements, with Tunisia and Morocco, came into force

on 1/9/1969 for a five-year period. A third with Algeria was declined by Netherlands under the pretext that Algeria declared war against Israel in 1967. A preferential trading agreement was concluded with Egypt (UAR) on 18/12/1972. Article 17 of that agreement provided for the conclusion on a wider basis of a new one. This was realized in the form of a **Cooperation Agreement** on 18/1/1977. In fact Association and Cooperation Agreements were concluded in 1976 with the three Maghreb countries, and in 1977 with Mashreq countries, Egypt, Jordan, Lebanon and Syria⁽³⁾. Their contents reflected the then prevailing conditions:

- the prevailing conception of the preferential treatment principle ♦
- assisting ESM countries in facing the economic hardships of the seventies, which were ♦
- followed by huge indebtedness in the eighties, and structural adjustments in the nineties. ♦
- explicit inclusion of political and social issues was avoided. In fact Europe insisted, during the ♦
- proceeding of the Euro-Arab dialogue to avoid involvement in political matters, which were, ♦
- and still are, of vital importance to Arab States.
- neither were social and cultural matters tackled, and migration was not considered as a major ♦
- problem at that time.

The 1976 Association and Cooperation Agreements used similar wordings⁽⁴⁾. They may be 5. illustrated by the Egyptian **Cooperation Agreement** of 18/1/1977⁽⁵⁾:

The **preamble** defined the purpose as “to establish wide-ranging cooperation which will contribute to Egypt's economic and social development and help to strengthen relations between the Community and Egypt; .. to promote, having regard to their respective levels of development, **economic and trade cooperation** between the Community and Egypt and to provide a sound basis therefor in conformity with their international obligations; .. and to establish a new model for relations between developed and developing States, compatible with the aspirations of the international Community towards a **more just and more balanced economic order**”

Article I defined the object of that Agreement in the same manner as in other agreements: “to promote overall cooperation between the Contracting Parties with a view to contributing to the economic and social development of Egypt and helping to strengthen relations between the Parties. To this end provisions and measures will be adopted and implemented in the **fields of economic, technical and financial cooperation and of trade**”.

Title I of the Agreement is reserved for economic, technical and financial cooperation, defining in broad terms the possible areas of cooperation between the contracting parties. Cooperation efforts are to be complementary to those made by Egypt, paying regard to the objectives and priorities of her development plans and programs, particularly infrastructure and industrialization and promotion of sales of her exports. They are to be geared towards permitting the removal of non-tariff and non-quota (but not quota) barriers likely to impede access to either market. They cover cooperation in the fields of science, technology, development of natural resources, the fisheries sector, the protection of the environment, as well as encouragement of private investments which are in the mutual interest of both Parties. The Community was to participate in the financing of any measures to promote Egypt's development under the conditions laid down in *Protocol 1 on technical and financial cooperation*, which contains guidelines and specific provisions for the implementation of technical assistance projects and allocations of loans by the European Union (the EIB), account being taken of the possibilities offered by triangular cooperation.

Title II is reserved for the trade cooperation aspect of the Agreement, taking account of their respective levels of development and of the need to ensure a better balance in their trade, with a view to increasing the rate of growth of Egypt's trade and improving the conditions of access for its products to the Community market. The **concessions** granted by the European Community to Egypt were composed of:

- phasing out customs duties on industrial products one year after signature of Agreement; ♦

abolishing all quantitative restrictions for products originating in **Egypt** other than those listed in Annex II to the EEC Treaty (Treaty of Rome) and some textiles categories (in line with the *MFA*); and ♦

subjecting selected agricultural products to tariff concessions according to a positive list. ♦
Annex II to which reference is made, covers the majority of agricultural products; some of these were subjected to concessions within restrictive limits, both quantity-wise and time-wise. **Egypt** was entitled to introduce into its trade arrangements with the Community new customs duties or charges having equivalent effect and new quantitative restrictions or measures having equivalent effect and to increase the duties and the quantitative restrictions or charges or measures having equivalent effect applied to products originating in or going to the Community, where such measures are necessitated by **Egypt's** industrialization and her development requirements. *Protocol 2* to the Agreement determined *rules of origin* applicable to trade between the contracting parties, i.e., the conditions to be satisfied by products to qualify for exemption from customs duties;
Title III, establishes a *Cooperation Council* which is designed to take decisions which are binding on the contracting parties, and provide a forum for discussing matters related to the implementation of the Agreement.

The Maghreb countries were permitted the right of **cumulation of origin**. Over the lifetime of the Agreements some countries, especially Tunisia, Morocco and Israel, managed to obtain wider concessions. The renewal of the *financial protocols* related to those agreements which were supposed to enter into force at the beginning of 1988, was to reflect the Council's statement of 30 March 1985, in providing for the cooperation to be concentrated on priority sectors for development, in particular agriculture and industry, and on Mediterranean regional cooperation. On 25/6/1987 an *Additional Protocol* to the Egyptian Cooperation Agreement (and other ESM agreements as well) was signed to allow for changes arising from accession of Portugal & Spain to the Community. Customs duties applicable under the Agreement to imports into the Community of products originating in **Egypt** covered by the Agreement and listed in *Annex A* to that Protocol were to be phased out over the same periods and at the same rates as provided in the Act of Accession of Spain and Portugal to the Community. A *Trade and Economic Cooperation Committee* was to be set up for the purpose of improving the operation of the institutional mechanisms of the Agreement.. It would facilitate the regular exchange of information on trade and production data and forecasts, and explore possibilities for cooperation in areas covered by the Agreement

It is thus clear that the agreements that are to be replaced by the partnership agreements, 6 were based on a preferential basis, at a time when the UNCTAD efforts paved the way to the GSP (Generalized System of Preferences) consistent with GATT rules. They were geared to the development needs of the ESM parties, and included, besides preferential arrangements for exports from the ESM party, technical and financial assistance tailored to those needs. There was explicit recognition of the differences in respective levels of development and of the need to improve the conditions of access for ESM products to the Community market so as to precipitate the rate of growth of **their** trade and ensure a better balance in their trade. It was implicit that such an approach enhances the possibility of advent of foreign investment to the ESM parties to work on a "hub and spokes" basis, and of relieving migration pressures. Thus an assessment of the value of those agreements should be based on how far such objectives were realized, and how significant were the changes in respective flows:

(a) **Impact on Trade:** To assess the impact of association agreements, we calculated the ratios of trade with EU to total trade of the seven ESM Arab countries (i.e., excluding the Palestinian Authority) and the comparative ratios of coverage of imports to exports. The same ratios are given for six of these countries, excluding Algeria whose trade was affected by the specific behaviour of hydrocarbons. It is true that the rate of coverage of exports to imports

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Table (1) Ratios of Trade with EU to Total Trade, and Trade Coverage
(from data in current US \$ million)

Item	Seven Arab ESM Countries				Six Countries (without Algeria)			
	79-82	83-86	87-90	91-94	79-82	83-86	87-90	91-94
Ratio of Trade with EU to Total Trade (%)								
Exports.	51.8	57.5	57.4	60.8	52.8	44.2	49.5	55.7
Imports	48.6	48.4	48.9	50.2	43.9	43.4	45.9	47.3
Ratio of coverage of imports by exports (%)								
Trade with EU	68.5	72.0	76.3	75.8	48.0	38.9	54.0	57.1
Total Trade	64.4	60.5	65.0	62.6	39.9	38.1	50.0	48.5

Source: Tables 9 & (10) in, El-Imam: "New Strategies for Development Co-operation, 1997.

higher in the case of trade with the EU, and that it has risen over time, especially for the six countries, but this was not accompanied by a similar increase in the coverage of total imports; in fact the situation worsened for the group of seven, meaning that improvement in exports to EU were at the expense of exports elsewhere. If Algeria is excluded the ratio of exports to Europe fell indeed during the second period, and regained its former importance only recently. Imports remained less dependent on the EU, but they also tended to rise recently more than proportionately. This shows the original high interdependence and its change over time. As to the development of trade capabilities as a result of the opening of European markets to ESM countries, the second part of the table shows that trade has fallen between the first and second periods, then accelerated its growth later on, giving an overall growth rate (at current prices) of 5.77 % in the case of exports to EU and 5.30 % for total exports. Imports rose more slowly, but rather faster than overall rates, which helped to improve the rate of coverage. In other words, there is no evidence that the so-called market opening did stimulate the expansion of the economies of the said countries, and assist in significantly improving their trade performance

In fact, Tunisia, which is claimed to have skillfully run its agreement, shows relatively deteriorating rate of exportation to the EU. In a recent study⁽⁶⁾ the ratio of exports to the EU to exports to the R.o.W. was compared with a similar ratio for all developed countries. The Tunisian ratio went down from 2.053 times similar developing countries ratio in 1976-1981, to a factor of 1.253 over the period 1987-90. In the case of Egypt, and in spite of the growth of her trade with the EU, the rate of coverage of imports by exports fell from 48 % in 1979 to 32 % in 1993. This is a partial expression of the mounting indebtedness during the eighties. One possible explanation is that the application of the GSP to other developing countries narrowed down ESM's privilege over them. Many ESM countries were competing with each other in similar products to which the EU introduced at the same time several restrictions. Agricultural products were and still are, the victims of the European CAP; exemptions accorded to them remained within very narrow limits, and were frequently granted off the season. Textiles were subject to the *MFA* constraints, which are now being gradually relaxed only to give way to fierce competition from other producers, especially in the Far East. However, the Commission claims that there had been an improvement in manufactured exports of the ESM countries, with a rise in their ratio to total exports from 28 % to 54 % (from 40 % to 77 % for Morocco, and from 24 % to 66 % for Tunisia). The situation improved with respect to agriculture, with the introduction of tariff quotas, but their ratios did not improve significantly. Some writers claim that this should not be regretted since agriculture is not as dynamic as manufacturing industry. The countries concerned failed to develop their farming activity to the extent necessary to improve their food security situation⁽⁷⁾. These

remarks indicate that the relative gains in industrial goods were not translated into absolute gains; total exports had been shown not to have improved as they should have done. The high dependence of Arab countries on the EU is accompanied by very low rates on the other side. Table (2) shows that the ratios of Arab exports to EU imports were below 2 %, and

Table (2) Ratios of ESM Arab Countries Trade to EEC Trade, 1979-1994
(million US \$)

Arab	Ratios for Seven Countries %				Ratios for Six Countries %			
	79-82	83-86	87-90	91-94	79-82	83-86	87-90	91-94
Exports.	1.90	1.95	1.12	1.26	0.85	0.67	0.56	0.73
Imports	2.71	2.74	1.48	1.60	1.73	1.75	1.05	1.23

Source: Table (12) in, El-Imam: "New Strategies for Development Co-operation, 1997.

kept going down until recently. The fall was more marked for Algeria as may be seen from comparing the two sets of figures. Imports were much more important but they have also shown a similar pattern. This may be partly due to the growth of inter-EU trade, but care has to be given to the growth of the size of the EU itself over time.

(b) Impact on Investment: One of the main claims for opening markets via reducing trade obstacles, is that capital is encouraged to locate its activity in the party receiving preferential treatment of its exports to benefit from increased exports to the party offering concessions. Table (3) summarizes the development of foreign capital flows and GFCF as well as GDP of

Table (3) Flows of Foreign Investment to ESM Countries & Ratios to GFCF & GDP

Item	Averages in million \$ US				Annual Growth Rates %			Overall Gr. Rate
	79-82	83-86	87-90	91-94	83-86	87-90	91-94	
FDI Outflows	-18.4	-18.7	-21.6	-52.3	0.37	3.71	24.78	9.11
FDI Inflows	1,139.4	1,091.0	1,258.4	1,307.1	-1.08	3.63	0.95	1.15
FDI GDCF	35,169	38,034	39,013	40,742	1.58	0.51	0.87	1.23
GDP	110,126	131,560	144,693	158,514	3.62	1.92	1.84	3.08
GDCF/GDP %	31.9	28.9	27.0	25.7	-1.96	-1.35	-0.98	-1.78
FDI/GDCF %	3.2	2.9	3.2	3.2	-1.95	1.99	0.00	0.00

Source: Tables (13) & (14) in, El-Imam: "New Strategies for Development Co-operation, 1997.

the ESM countries. It may be noted that FDI figures includes inter-Arab investments, which received a good deal of encouragement during the eighties. Some Arab countries, like Tunisia, were quite active in persuading Arabs to invest in some sectors, such as tourism, to which trade preferences have no bearing. The meager rise in FDI inflows did not catch up with concurrent rates of inflation. Actually, rates of GFCF to GDP showed a persistent downward trend, and the ratio of inflows to GFCF remained practically stable at 3.2 %, which means a deterioration in relation to GDP. In fact recent experience shows that expansion of both total and foreign investments depended clearly on positive action taken by the given countries to rectify their domestic economic conditions and improve investment environment. This partly explains the poor performance of trade within the same period.

(c) Significance of Financial Assistance: During the period of implementation of agreements four protocols provided for the two decades 1977-1996, around ECU 2065 million in the form of grants and over ECU 3000 million in the form of loans from the EIB, a ratio of 2:3 in

which loans became more important over time. Egypt's share was 32 % of grants or ECU 661 million, and 26 % of loans or ECU 792. million. Total allocations represented less than 1 % of GFCF of the ESM countries, hence less than 0.3 % of GDP. Thus, the assistance provided hardly helped in closing the growing foreign, hence domestic, gap.

(d) South-North migration: The counterpart of the investment claim is the corresponding improvement in development conditions of the ESM countries, expressing the old Robertson dictum that “trade is the engine of growth”, hence less pressure to migrate in search for job opportunities abroad, due to a decline in the rate of unemployment, accompanied with more plausible wage rates. Estimates based on *Eurostat* figures⁽⁸⁾ show that migration tended to grow over the eighties and early nineties. In fact the worry about such trends underlies the shift to the “partnership” concept with a ban on further migration.

To conclude the experience of preferential agreements which were assumed to encourage the process of development as a result of promotion of exports to the EU, and the technical and financial assistance provided to ESM countries, seems to be negative in all respects: export promotion, increased investments specially out of FDI, and curbing migration. Development of those countries has to be sought in other areas than merely the external sector.

The New European Approach towards Regional Cooperation

7. The underlying motive for the European initiative is two-fold: The first and maybe more fundamental, is the desire to curb migration pressures from ESM countries, especially at a point where the social issues in general, and the unemployment problem in particular, are receiving serious attention in the European arena. The second, maybe equally important, is the claim that there is a desire to shift from the transfer type of relationship, the sometimes called the “*Marshal-formula*” to the exchange or so-called “*EU-formula*”. The motto “*trade not aid*” is applied in reverse to that claimed in the sixties by the developing countries. It is the more developed nations that are holding the slogan, both the Americans (NAFTA) and the Europeans. This is happening at a time when the neo-regionalism is taking shape within the more general process of globalization, replacing the regional-integration endeavours practiced by the Europeans among themselves. A good deal of confusion arises from the fact that the two types of regional integration are sometimes mixed together⁽⁹⁾, with the implication that the proposed partnership agreements belongs to the neo-functional thesis, so far successful only in the European context. Similarly there is a confusion in assessing the merits of the new versions of regionalism on the basis that the ideal state is that of multilateralism, which is a quite old controversy that receives new vigour under the emerging process of globalization.

8. The new approach to relations with the Mediterranean countries have to be distinguished from the purely Mediterranean cooperation, for countries north and south of the basin, which have been invited by President Mubarak of Egypt in November 1991 to establish a forum of its own, though of course the European parties observe the general objectives of the EU. On the other hand the new approach kept tracking developments in the European conditions, rather than in both sides of the Mediterranean. This may be summarized as follows:

8.1. A **new Mediterranean Policy** was formulated by EU in **1990/91**, expressing the tendency to increase the financial assistance provided to ESM, especially that directed towards regional cooperation.

8.2. The **fundamental turn** took place in **1993** when a new formula was proposed for Morocco and Tunisia in the Maghreb with whom association agreements were negotiated in 1994, and Israel with whom a free trade agreement was concluded in 1989. Again Egypt, still adhering to her policy of getting the Mediterraneans region together, insisted on treating all ESM countries in the same manner⁽¹⁰⁾. She announced in 1994 her readiness to negotiate a similar agreement. The

EU extended the offer to other Mashreq countries. Negotiations with Algeria and Syria (in an attempt to put pressure on her to join peace talks), were only permitted in the Madrid European Council (15-16/12/1995).

8.3. The Copenhagen European Council (21-22/6/1993) instructed the Commission to prepare a White Paper on long-term strategy to promote growth, competitiveness and employment⁽¹¹⁾. The first sentence of that paper⁽¹²⁾ stated that “The **one and only reason** (for the White Paper) is **unemployment** ...The difficult thing ... is how to tackle it”. The Paper concentrated on ways and means of **opening markets** and benefiting from the changes occurring in the world and asserting **global integration**. Mention was made of association of members of EFTA; four agreements were concluded with them in 1994. This was to be accompanied by developing the relations with Eastern Europe and the former Soviet Union. “**Anchoring the southern Mediterranean region into the European economy**” was the heading of the section relating to ESM countries⁽¹³⁾. The opening phrase of this section is quite illuminating: “The Mediterranean neighbours, from Morocco to Turkey, represent the southern part of the European Union’s future economic and social environment. With a rapidly growing population of some 200 million people at present, these countries represent as **important an export market potential** as Eastern Europe. It is of vital political and economic importance for the European Union to develop this relation into a **closer economic symbiosis**. The first steps towards a possible Euro-Mediterranean free trade area have been already made. ... It is also possible that the successful outcome of the peace-negotiations in the Middle East and the process of economic liberalization which is under way will boost intraregional trade. All these developments should during the coming decade, lead to a substantial increase in entrepreneurial activity in the ESM countries, marked by **more direct investment**, more joint ventures, more agreements of production sharing and, in general, a much higher level of **industrial and trading interaction**. These geo-strategic developments on Europe’s southern flank is bound to have a positive impact on the European employment situation, thanks to the economic dynamics that will be generated in the Mediterranean basin For this potential to become a reality the Community must **contribute actively to the process of economic and social transformations** which had already started in these countries, towards more open, regionally integrated and efficient economies.”

8.4. The Corfu European Council (24-25/6/1994), adopted the proposals of the White Paper⁽¹⁴⁾ and asked the Commission to prepare a **strategic communication** on strengthening the Mediterranean policy of the European Union and establishing a **Euro-Mediterranean partnership** to gear European Union policy more towards **peace, stability, security and socio-economic development in the region**⁽¹⁵⁾. The proposals put forward in the strategic communication by the Commission (19/10/1994) indicated that the Euro-Mediterranean partnership was intended chiefly for the Maghreb and Mashreq countries and Israel. It would begin with a gradual liberalization of trade, supported by a substantial financial aid package, before moving on to closer political and economic cooperation and moving **finally to a close association**. The Commission also suggested launching a general aid program of ECU 5.5 billion for the period 1995-99. In future the EU’s Mediterranean policy should become **multi-faceted**, encompassing all those areas where **interdependence** exists, such as economic development and trade, social stability, migration, the environment and security. Eventually the aim is to **create a Euro-Mediterranean area** of 600 to 800 million inhabitants across 30 to 40 countries. On its part the Parliament came out in May 1994 in favour of a new Mediterranean assembly, and in September approved an overall policy towards the Mediterranean countries.

8.5. Adopting the proposals put forward in the Commission’s strategic communication, the Essen Council (9-10/12/1994) confirmed that the Mediterranean represented a priority area of strategic importance to the European Union, which should support efforts to transform the region into a zone of peace, stability, prosperity and cooperation. It envisaged a policy composed of action on two levels.

(i) The first is **bilateral**, composed of renewing the agreements with each of ESM countries, in the form of Euro-Mediterranean **association agreements embodying a political and security component, an economic and financial component and social and human component**. Two partnership agreements were signed, on 17/7/1995 with Tunisia, and on 14/11/1995 with Morocco after solving her dispute with Spain over fisheries.

(ii) The second level was **multilateral**, for whose purpose a conference was to be held in Barcelona to be attended by the foreign ministers of the 15 EU members and the 12 ESM countries, to discuss **long-term prospects of partnership** between Europe and ESM countries, so as to help reaching agreement on a series of broad policy guidelines for economic and political cooperation between the two parties in preparation for the next century. This may take the form of a **new charter** that would be consistent with the efforts supported by the EU in the OSCE⁽¹⁶⁾, and its follow-up may be carried out by means of an **institutional setup** whose structure may be formulated along the lines reflected by the experience of Europe in Security and Cooperation.

8.6. Thus the partnership supported by the Essen Council satisfies a number of considerations:

There exist several aspects common to the two regions, especially in environment, energy, migration, trade and investment. The EU has a vital interest in assisting the ESM countries in overcoming the challenges they face. ♦

The objective should be the establishment of a **partnership** between Europe and ESM countries, starting by forming a **free trade area** between them supported by appreciable financial assistance, to be developed later through more intimate political and economic cooperation, to be agreed upon by the two parties at a later stage. ♦

Extending the scope of dialogue to cover the issues of security, so as to devise new procedures to realize peace, and the move towards the creation of Euro-Mediterranean area of peace and stability. The start will be a political dialogue based on respect of democracy and human rights. This political dimension receives, in fact, great emphasis in the new European policy. ♦

Persuading each of the ESM countries to free her trade with the EU within the framework of the WTO. This requires these countries to modernize their economies and increase their competitiveness during a long transitional period during which the EU provides them with assistance to help in restructuring and rebuilding their economic structures. This is hoped to create the largest free trade area in the world covering the EU, countries of central and eastern Europe, and all the Mediterranean countries not members in the EU. ♦

Entering into several areas of cooperation with the ESM countries which would be jointly determined. These areas may include industrial cooperation, energy, environment, new technologies in information and communication, services, capital, science and technology, decentralized cooperation, combating drugs, illegal migration and tourism. ♦

8.7. The Commission set out in a new communication (8/3/1995) the main priorities for a future Euro-Mediterranean partnership: backing for **economic transition**, a more equitable socio-economic balance and **regional integration**⁽¹⁷⁾. On 7/6/1995 the Commission adopted a proposal for a Regulation for a **new MEDA budget heading**⁽¹⁸⁾ to become a single instrument replacing the system of bilateral financial protocols. This covers all cooperation with the countries concerned as a group. The Council, 9/3/1995, reiterated the importance of multilateral regional Mediterranean cooperation for the **environment**. The Cannes European Council (26-27/6/1995) endorsed this approach and invited European and ESM countries to act together to a greater extent to ensure that the Mediterranean becomes, more so than at present, an area of exchange and dialogue guaranteeing peace, stability and the well-being of those who live around it. The Council described this as “An ambitious policy of **cooperation** to the south” that “forms a counterpart to the policy of **openness** to the east and gives the European Union’s external action its geopolitical coherence”⁽¹⁹⁾. It calls for political dialogue, realization of sustainable and balanced economic and social development, combating poverty,

and the need for greater understanding between cultures through a reinforcement of the human dimension exchanges. It further asserted that the proposed partnership is not another forum for resolving conflicts, hence does not offer a substitute for the Economic Middle East Summits belonging to the ongoing peace process. Further, it is not to replace the other activities and initiatives aimed at strengthening dialogue and cooperation between the two parties.

8.8. In its **position paper** regarding the Barcelona Conference, the Cannes European Council indicated that it seeks an **overall partnership** based on strengthening democracy and respect for human rights, which constitute an essential element in relations between Europe and its ESM neighbours. Thus the proposed partnership would comprise **three main elements**:

- ◆ a **political and security** aspect, which relates to internal and international policy principles including respect for fundamental freedoms and establishment of the rule of law, and the guidance of relations between States by principles acceptable to all, both being conducive to stability. Account should be taken of specific cultural features in the region.

- ◆ an **economic and financial** aspect, considered to help building a zone of shared prosperity, based on free trade. This involves three types of action:

- negotiation of *free trade area* agreements of reciprocal nature with each country and for the Mediterranean region, covering aspects beyond simple trade in goods;
- cooperation in the fields of *economic development*, resources and infrastructure, noting that aid to ESM countries is not a substitute for their own developmental endeavours;
- increased *financial assistance* to support the necessary adjustments to be undertaken by countries, observing the importance of helping in mobilizing domestic resources, with emphasis on private sector investment.

- ◆ a **social and human** aspect aiming at encouraging exchanges among civil societies, and decentralized cooperation in education, training, youth, culture and the media, as well as greater cooperation in actions against drug trafficking, terrorism and international crime..

It also fixed the budget appropriations to be set aside over the period 1995-99 for financial cooperation with the Mediterranean countries at ECU 4.685 billions..

The Barcelona Conference

9. The Barcelona Euro-Mediterranean ministerial conference took place on 27,28/11/1995⁽²⁰⁾. The European Union and its Mediterranean partners adopted at the end of the proceedings, a **Declaration** in which they decided to establish a **multilateral and lasting framework** of relations based on a **spirit of partnership**, with due regard for the characteristics, values and distinguishing features peculiar to each of the participants⁽²¹⁾. This multilateral framework is regarded as the counterpart to a **strengthening of bilateral relations** which it is important to safeguard, while laying stress on their specific nature. The *Declaration* followed the lines indicated in the Cannes Council position paper. It called for:

- ◆ Establishment of a “Political and Security Partnership”, as a basis for a “common area of peace and stability”, with the possibility in the long run of drawing a **Euro-Mediterranean pact** in order to create an "area of peace and stability in the Mediterranean".
- ◆ Establishment of an “Economic and Financial Partnership”, taking into account the different degrees of development, as a basis for a “an area of sharing prosperity”.
- ◆ Establishment of a “Partnership in social, cultural and human affairs” based on “developing human resources, promoting understanding between cultures and exchanges between civil societies”.

10. The section on **Economic and Financial Partnership** defined the long-term objectives as: (i) the acceleration of the pace of sustainable socio-economic development; (ii) improvement of the living conditions of their populations, increase in the employment level and reduction in the development gap in the Euro-Mediterranean region; and (iii) encouragement of

regional cooperation and integration. Further there was separate mention of the debt problem, where it was agreed to continue the dialogue in order to achieve progress in the **competent fora**. The contents of this partnership followed the tripartite program adopted by the Cannes Council:

The progressive establishment of a **free-trade area**; the year 2010 being the target date for its completion, to be created by means of **bilateral agreements**. Tariff and non-tariff barriers to trade in manufactured products will be progressively eliminated according to timetables to be negotiated with each EU partner; trade in agricultural products will be progressively liberalized through reciprocal preferential access among the parties; trade in services including right of establishment will be progressively liberalized having due regard to the GATS agreement. Special attention was given to transfer of technology. Appropriate **economic cooperation** and concerted action in the relevant areas, observing that voluntary regional cooperation is a key factor in promoting the creation of a free-trade area. The attached work program broke down economic cooperation into sectors, detailing actions to be taken in agriculture, industry, transport, energy, telecommunications and information technology, regional planning, tourism, environment, science and technology, water and fisheries and investment. The section on industry emphasized the role of the private sector and the modernization and restructuring of existing enterprises, cooperation among small and medium enterprises, and the use of international or **European standards**. Creation of employment was mentioned with respect to industry but not agriculture, where emphasis was on improving production capabilities. Social sectors were covered by the last part which included also sections on migration and illegal migration. (a)

a substantial increase in the EU's **financial assistance** to its partners, estimated at ECU 4,685 m. out of the Community budget for the years 1995-1999, besides increased loans from EIB, and bilateral assistance. (b)

The *Declaration* asserted the importance of internal savings and direct foreign investment for promoting capital formation, thus supporting transfer of technology and increased production and exports. It indicated the need to take necessary measures to encourage enterprises to enter into agreements with each other, and for implementing technical support programme for SMEs. It was further agreed that the implementation of the *Declaration* would be monitored through periodic and *ad hoc* meetings of the Foreign Ministers. The Parliament adopted, on 14/12/1995, a resolution on the Barcelona conference. The Madrid European Council, 15-16/12/1995, welcomed the Barcelona *Declaration*, which it considered the beginning of a broad new Euro-Mediterranean association. (c)

11. There are a number of **remarks** that relate to the **foundations** of the *Declaration*, namely the concept of **partnership**, and others that relate to the **contents** of the *Declaration*:

It is one thing to speak about Mediterranean regional cooperation, and another to try building regional integration between one region and a set of heterogeneous countries that happen to exist around its southern borders. The multilateral level served by the *Declaration* can be straightened out only by a dialogue between two well-defined regions. This calls to refer it back to **Euro-Arab dialogue** adding the political dimension formerly denied by the EU. The present boundaries of the multilateral framework cover 27 countries, but boils down to the whole EU and some “mini” partners. Some partners, such as Cyprus and Malta will change hats just by joining the EU. A more subtle difficulty arises when other European countries join the EU, and the mini partners find themselves tied to countries for whom they have no say in selecting as partners. Definitely costs and benefits will change. ♦

It is evident that the concept of so-called “**spirit of partnership**” is a loose and a **catch-all** one. At some points it implies the parties’ mutual concern with each other’s problems; but in essence it emphasizes the shift from the preferential-treatment approach to a give-and- ♦

take approach. If the former had proved incapable of meeting requirements of promotion of trade or investment, the latter is less likely to do so; in fact it is apt to put more pressure on the ESM economies, in spite of agreeing to pay due regard for the characteristics, values and distinguishing features peculiar to each of the participants. The spirit declines the sense of **interchange**: it gives the right of capitalist and business man to practice in the ESM countries while denies the corresponding right of workers to practice on the other side of the Mediterranean.

The term “partnership” is not simply a European decision, it should be a statement of facts. There is no point in recognizing that disparities are persisting. The important thing for Arabs is not merely to get together into a free trade area, by themselves or via Europe, less so being tied up to a wider free trade area, but to realize a fundamental advance in their conditions that can make equality a reality on which partnership would be based later on. ♦

While the free trade area is a fundamental component, in spite of the likelihood of unequal shares in costs and benefits, it is far from constituting a step along a systematic process of (regional) integration according to the traditional (functional) **theory** adopted by Europe in its integration. It does not conform with the common market concept, although it combines some of its elements, such as freedom of capital movement and coordination of policies. But at the same time there is mention of a region worth while of drawing a pact among all partners. This is a sort of a **lop-sided integration** that tailors neo-regionalism to fit the needs of the more advanced economies⁽²²⁾. Further, there is a talk, as already seen above, about “anchoring the southern Mediterranean region into the European economy”. In spite of the merits claimed by some writers to the anchoring process⁽²³⁾, it assumes some sort of a hegemony of the more advanced member of the arrangement over weaker members. ♦

The concept of partnership assumes a state of even interdependence. But this assumes the prior realization of effective interdependence at the **national level**, and with countries at the same level of development. For countries at different levels of development the claim of interdependence is a guise for dependence traditionally considered to call for building regional arrangements according to the degree of proximity between member countries⁽²⁴⁾. ♦

Cooperation rather than integration is the means to bring regions closer.

It was stated that participants would pursue policies based on the **principles of market economy**, and the **integration of their economies** taking into account their respective needs and levels of development. This includes giving priority to the promotion and development of the private sector, and to the establishment of an appropriate institutional and regulatory framework for a market economy, complemented with programs designed to mitigate the resulting negative social consequences. This means that in spite of the claim that participants are free to choose their political, socio-cultural, economic and judicial system, there is an imposition of the principles adopted by European countries, in spite of recent evidences that they have adverse outcomes to developing countries, starting with the so-called Asian “tigers”. Rather than advocating doubtful economic models and trying to rectify the “**resulting negative social consequences**”, there is need for adopting more suitable systems that take in consideration the needs of both economic and social progress. Countries in the South have to be free to choose their own “*third way*”; call it the “**fourth way**”. It may be mentioned that current assistance provided through protocols to outstanding agreements is mainly directed towards assisting in economic restructuring along lines imposed by international institutions, not necessarily conforming to development needs, ♦

The attempt to copy certain **cultural characteristics** from alien communities has proved unfruitful. This was lately recognized by the EU itself when formulating its new social policy⁽²⁵⁾, especially with reference to the principles of mobility and flexibility prevailing in the North-American model (and propagated by the *Declaration*), while the East Asian

model showed the possibility of achieving similar levels of advancement on different cultural and institutional foundations. Proposals for cooperation in the areas of science, education, youth, civil society are considered as assistance from the developed to the less developed implying an attempt to reorient their cultural foundations. They are coupled by subjecting so-called partners to the European standards and specifications. A by-product of this attitude is to feed migratory movements with cultural motives, while at the same time put fuel into extremist views revolting against what they consider as cultural hegemony.

In spite of the great value that may be attributed to respect of **human rights** and of the fundamental freedoms, the call for exchanges of information on such matters opens the way to subjecting mutual relations, including the strict conditions of economic cooperation, to the rather vague interpretations of human rights, and using the claim of their violation as a pretext for halting implementation of economic commitments. In fact the concept of human rights should not be interpreted the northern way, as rights of the individual versus the state. They should include the **rights of nations**, including the *right to development* and to deal freely with measures imposed by the North while pursuing its developmental activities and fetching solutions for its specific problems. ♦

Further there is no point in **incriminating discrimination** on grounds of race while allowing Israel to practice it and using it as a basis for its citizenship across the whole world. ♦

The claim that the parties shall pursue a mutually and effectively verifiable Middle East Zone free of weapons of **mass destruction**, nuclear, chemical and biological, and their delivery systems, has to be strictly applied. So far, there is no evidence of forcing Israel to get rid of her mass destruction arsenal at a time the mere *offensive weapons* owned by Iraq are used as a justification for destroying the country, its infrastructure, economic structure and its whole nation, infants first. This is a bad omen for the strict and fair interpretation and implementation of clauses included in the *Declaration*. ♦

Given Importance of claims for peace and acceptance of **coexistence**, priority should be given to Arab priorities for development, sovereignty over their territories and **just peace**. ♦

Experience shows that at the time so-called illegal migration should be stopped, refuge is given to **extremist elements** and the claimed respect for freedom of expression is twisted to protect offenses to systems of values and cultures of so-called partners. ♦

Again, while it is wise to advocate giving due care to reconciling economic development with **environmental protection**, the more advanced countries usually use their own interpretations of protection of environment as a means of protecting their economies against advantages possessed by less developed countries. Further, a good deal of environmental hazards in developing countries, are not only of a local nature, and are due to domestic factors, but are also the results of practices in the more advanced countries. ♦

There is an assumption that the proposed types of Association Agreements are the right thing to do, both from the North's objective of stability, and that of development in the South. One of the main elements of stability is curbing south-north migration, On the one hand the needs of development in ESM countries are not best served in this manner, and at the same time it is doubtful that the resulting type of growth - if any - would succeed in combating unemployment, hence migration. The pattern of development worth while for countries in the South is that based on **collective self-reliance**, supported by education and cooperation in research and technology building, rather than on the hazards of unpredictable external factors, such as exports, foreign capital and transfer of technology. It may be noted that **external factors**, such as oil changes, hostilities and international disturbances in the world monetary and economic orders played a more important role than the preferential treatment offered by the Community to ESM countries. ♦

Whereas there is need for support for the role to be played by the **civil society** in the Arab region, this should not be used as a means to infiltrate into Arab societies, distort priorities ♦

and create frictions among units of the civil society and between them and their respective States. Nor should cooperation between **local authorities** and support of regional planning be means to propagate the European way of decentralization. Such cooperation presupposes maturity in indigenous groups and elaboration of visions based on own cultures. The same applies to proposed meetings among **youth**, the most dynamic group in migration.

It is true that high **population growth** is a problem. But the attitude of European countries in the Cairo Population Conference seems to neglect the issue of development in the South. There is need to give attention to this issue in an agreement at the regional level.

The whole approach raises the issue of an **optimum regional grouping**, whether with respect to the size and boundaries of a region (this applies to Europe itself), the depth of integration and its implications for cultural proximity and social cohesion, the tools to be applied, and the stages of the regional integration process, and the nature of the preliminary cooperation activities to be undertaken, as well as the viable institutional framework and its evolution over time.

The New Generation of Agreements

12. Examples of the rather similar new generation agreements based on partnership may be given by the first of them, namely the Tunisian Agreement, and by one which is still being negotiated, the Egyptian one, wherever it differs. The document for the Tunisian agreement is called “**Euro-Mediterranean Agreement establishing an association between the European Communities and their Member States, of the one part, and the Republic of Tunisia, of the other part**”⁽²⁶⁾. The Decision of the Council and the Commission on this agreement, its annexes, protocols and declarations, was issued on 26/1/1998⁽²⁷⁾.

The Preamble states that the Community, its Member States and Tunisia wish to strengthen their links and to establish lasting relations, based on **reciprocity, partnership and co-development**. Reference is made to recent political and economic developments both in Europe and in Tunisia, and to the considerable progress made by Tunisia and its people towards achieving their objectives of *full integration of the Tunisian economy in the world economy* and her participation in the community of democratic nations; importance of relations in an overall Euro-Mediterranean context, and the objective of integration between the countries of the Maghreb. Regular **political dialogue** is to be established, and cooperation is to be sustained by regular dialogue on **economic, social and cultural issues**, bearing in mind the economic and social disparities between the Community and Tunisia.

Article 1 speaks of establishing an association between the **Community and its Member States, of the one part, and Tunisia, of the other part**. Its aims are:

- to provide an appropriate framework for political dialogue between the Parties; ♦
- establish the conditions for the gradual liberalization of trade in goods, services and capital; ♦
- to foster the development and prosperity of Tunisia and its people through dialogue and cooperation to promote trade and expand harmonious economic and social relations between the Parties; ♦
- to encourage integration of the Maghreb countries by promoting trade and cooperation between Tunisia and other countries of the region⁽²⁸⁾. ♦

promote economic, social, cultural and financial cooperation ♦

- Rather than speaking about Maghreb integration. the Egyptian agreement adds:
- to encourage regional cooperation with a view to the consolidation of peaceful coexistence and economic and political stability. ♦

The **second** article reiterates what have been expressed by the Cannes Council and Barcelona Declaration stating that “Relations between the Parties, as well as all the provisions of the Agreement itself, shall be based on **respect for human rights and democratic principles**

which guide their domestic and international policies and constitute an **essential element** of the Agreement". This reflects the emphasis on human rights mentioned before.

Title I relates to **Political Dialogue**, that shall help build lasting links of solidarity between the partners thus contributing to the prosperity, stability and security of the Mediterranean region and bringing about a climate of understanding and tolerance between cultures. We recall our preceding remarks concerning the advisability of introducing such clauses in an agreement mainly designed for the creation of a free trade area, and the insistence on including the political dimension, persistently denied before by Europe in the Euro-Arab dialogue. It may be added that the rather broad phrasing used caused Egypt to suggest adding that this should not "contradict with the Parties' other commitments".

Cooperation in **social and cultural** matters is detailed in **Title VI**, composed of four chapters: the first on "workers", the second on "dialogue in social matters", the third on "cooperation in the social field", and the fourth on "cooperation on cultural matters". The last **title VIII** deals with "institutional, general and final provisions".

13. **Four titles** (II) to (V) relate to the **economic** dimension. The first, on "free movement of goods"; the second relates to "right of establishment and services"; the third to "payments, capital, competition and other economic provisions", and the fourth concerns "economic cooperation", broken down to sectors, while "**financial** cooperation" is outlined in a separate **title (VII)**. Six **Annexes** relate to items of goods mentioned in the text, while Annex (7) deals with Tunisian obligations with respect to intellectual, industrial and commercial property. Three **Protocols** determine arrangements for imports by each of the two parties of agricultural and fishery products originating in the other, while the fourth, composed of 7 titles defines the concept of 'Originating Products' and methods of administrative cooperation.

A number of Declarations follow including one on safeguarding Tunisia's interests

14. With respect to **industrial products** no new customs duties on imports nor charges having equivalent effect shall be introduced in trade between the Community and Tunisia. Products originating in Tunisia shall be imported into the Community free of customs duties and charges having equivalent effect and without quantitative restrictions or measures having equivalent effect. For imports of goods originating in Tunisia listed in Annex 1, the EU may introduce rates on their agricultural component reflecting differences between the price on the Community market of the agricultural products considered as being used in the production of such goods and the price of imports from third countries where the total cost of the said basic products is higher in the Community. This clearly obviates any competitive advantage for Tunisia (Egypt as well).

Concessions by Tunisia for the free entry of industrial products originating in the Community is broken down into four categories. Products considered to be non-sensitive that are not included into Annexes 3 to 6 (essentially capital and intermediate goods) have to be exempted from customs duties and charges having equivalent effect upon entry into force of the Agreement (Article 11.1). Duties on a second group (listed in Annex 3), considered to be semi-sensitive, would be reduced by 15 % from basis duties at entry of agreement then by similar rates annually for the following four years, to be followed by removal of the remaining 25 % on the fifth year. For more sensitive products the pace of reduction is set at the start then annually at 8 % so as to be completed on the twelfth year (Annex 4). For another list (Annex 5) reduction by 22 % takes place after the fourth year, to be followed by an annual rate of 11 % so as to be completed over twelve years. A list of still more sensitive products (Annex 6), is to be re-examined by the Association Council 4 years after the Agreement's entry into force.

Article 14 sets certain exceptions to the above rules for infant industries, or certain sectors undergoing restructuring or facing serious difficulties, particularly where these difficulties produce major social problems.

15. The issue of **agricultural products** is more intricate, and it proved to be a stumbling block in the face of the negotiations of the Egyptian Agreement, unduly prolonging them. Protocols 1-3 to the Agreement define the conditions for imports of agricultural products of each party into the other, and those of fishery products originating in Tunisia. Here concessions are limited to lists of selected products to be subjected to progressive liberalization, including limits and timing for such liberalization. Mid-term reviews starting the year 2000, allowed for revision of liberalization measures to be applied from 1/1/2001. In fact the negotiations during the Uruguay Round pinpointed difficulties arising from the EU's CAP in spite of successive attempts, up till now, to rectify it. A similar position with respect to an Agreement with Poland was interpreted as an indication of preferring the Polish workers to Polish products, i.e., an **explicit invitation for migration**. The CAP "may be the most important trade policy stimulating emigration - not by design, but in its effects"⁽²⁹⁾. If the main motive for Europeans to preserve the intricate CAP system is to ensure a fair share to their agricultural communities hardly constituting 5 % of their populations, there should be recognition of the consequences of the much heavier weight agriculture holds in the ESM economies. An equal exchange of benefits is not realized by giving full advantage to the EU in industrial products in which it possesses competitive advantage, and denying a similar advantage in agriculture to ESM countries. Expansion of the EU eastward would further complicate the situation, as the cases of Portugal and Spain have proved. Let us recall that ESM agricultural exports to EU are less than 1 % of its total exports.

16. The **basic duty** is that applied on 1/1/1995, or any lower duties determined later. This may deprive Tunisia from raising these rates as a result of tariffication of non-tariff constraints allowed by GATT 1994. It may be noted that industrial exports were already exempted in the previous agreement. Discrepancies in burdens are quite clear. EU Tariffs are much lower than those applied by Tunisia. In fact a devaluation of 10 % (or more as usually demanded by the IMF) would give all Tunisian exports, and not only those of origin, more privileges than those offered by the Agreement. Tunisia and other ESM countries are obliged to forgo higher duties and the revenues derived of them at a time of involvement in stabilization programs. Further the specific pattern of listing industrial products into the four groups with earlier liberalization of intermediate goods may reduce the effective rate of protection for products derived therefrom. But at the same time it may create trade diversion as a result of increased competitiveness of inputs imported from EU than from more efficient suppliers from outside (including Arab and other developing countries, or even the States or Japan). This coupled with the way the rules of origin are expressed may involve ESM countries in production activities less suitable than those based on different sourcing. This is all the more so since the 15 members of EU (later on more) will give the EU an edge in satisfying rules of origin. Further the definition of origin in terms of processes recognized by the HS (Harmonized System) would give the more industrialized EU partners the right to determine the processes to be developed in the given ESM country.

This raises the issue of cumulation of origin within ESM partners, and the potential Pan Arab Free Trade Area already under way since last year. Such an area includes, *inter alia*, Arab Mediterranean countries. There is room for effecting the Declaration by the Community relating to Article 29 of the Agreement, which states her willingness to consider cumulation of origin in Tunisia's trade with such countries, if Tunisia concludes agreements with them with a view to establishing free trade. This should be extended to agreements with countries beyond the ESM region. But at the same time such cumulation will be of little value if not coupled with development of sectors in intermediate products, so far receiving little attention and are likely to face stronger competition from the EU as a result of the specific pattern of liberalization approved by Tunisia (and most likely other ESM partners as well).

17. Title IV of Protocol 4 on **rules of proof of origin** refers to to "EUR.1 movement certificate" used by the EU. This is not the only place where EU practices are extended to its

partners. More important are regulations defined by Chapter 2 of Title IV on “competition and other economic provisions”. Acts by undertakings or through official aid, leading to restricting competition, or the abuse of a dominant position (a concept defined by the Treaty of Rome), “shall be assessed on the basis of criteria arising from the application of the rules of Articles 85, 86 and 92 of the Treaty establishing the European Community and, in the case of products falling within the scope of the European Coal and Steel Community, the rules of Articles 65 and 66 of the Treaty establishing that Community, and the rules relating to state aid, including secondary legislation”. Since the Treaties referred to are balanced in their structures, reference to some of their articles in connection with an ESM Agreement will cause imbalance in rights and obligations⁽³⁰⁾. Further the said articles give the European Commission certain powers which are understood with respect to EU but not ESM countries. Another illustration of binding the latter countries is Annex 7 relating to **intellectual, industrial and commercial property**, requiring that by the end of the fourth year Tunisia shall accede to a number of multilateral conventions tailored to European conditions, with a possibility to extend the list later on. To this we may add the call in the Work Program of the Barcelona *Declaration* of “fostering the association of Mediterranean countries with the Treaty on the **European Energy Charter**”, irrespective of the divergence of interests.

18. A number of studies dealt with the impact of such Agreements on economies and sectors of ESM countries. Overall assessments are based usually on comparative static Computational General Equilibrium, CGE, comparing results with and without trade liberalization. Two sets of assumptions limit their value. The first is that comparisons are based on prior full employment of resources. This is far from true, especially with respect to labour (hence its seeking migration), in countries with over 15 % open unemployment, and appreciable underemployment. The second is the assumption of mobility of resources assumed in some versions of these models, no mobility in others, without clear consideration of the costs of either. Even with their shortcomings, results are not encouraging. For Tunisia the net outcomes are found to range between small negative to small positive effects. One study concluded that⁽³¹⁾: “Tunisia may not have a great deal to gain in economic terms from entering into the FTA with the EU .. trade deviating effects of such discriminatory tariff reductions are likely to be harmful, especially in the short run. Further the FTA does not in itself appear likely to generate an inflow of capital into Tunisia that would materially increase Tunisian welfare”. Let us recall that partial WTO liberalization proved beneficial to more advanced economies, and rather doubtful for the less. Backwash effects of regional or global liberalization are well known, and may include some desirable outcomes such as closing down of whole sectors proving uncompetitive without protection and exclusion of inefficient firms, even in comparative advantages sectors. Other effects involve additional costs, namely restructuring of potentially competitive sectors to survive increased competition. The fully beneficial effect is expansion of firms and sectors that fulfill efficiency requirements to benefit from the expansion of the market and trade creation opportunities. But it is highly unlikely that this latter will compensate for the formers. Experience of developing countries regional arrangements (e.g., East Africa, LAFTA) show that discrepancies in the stage of development and cost of transactions, even with closer development levels, would give more weight to negative effects, and make financial compensations ineffective. Note that the share of each ESM countries in financial assistance is ECU 80 million per annum. The so-called welfare benefits accruing to consumers as a result of cheaper imported European products are likely to be outweighed by lower of nominal incomes as a result of declining activities. One study of the Tunisian economy indicated that **restructuring** requirements are rather heavy. Sectors earning about one third of the Tunisian industrial GDP are expected to face the threat of **getting out of business**, sectors providing another third have to undergo structural changes in order to remain competitive⁽³²⁾. Similar effects were also estimated with respect to Morocco⁽³³⁾, although she was seeking full accession to the EC since 1987, and is adopting a strategy of full anchorage to the EU⁽³⁴⁾. There are claims that chances for FDI would be much better⁽³⁵⁾, but with the

above-mentioned restructuring requirements, Tunisia, for example, will need a rise of FDI present share of 0.7 % of private investment to 40 %, or from 0.7 % of GDP to 8.6 % which are quite unlikely⁽³⁶⁾. In fact one may expect the “hub and spokes” rule to act in reverse. One of the major attractions is improved productivity, and more optimistic views for Tunisia and Morocco, expect that productivity changes would be due to reallocation of factors among sectors, rather than enhancements of productivity within specific sectors⁽³⁷⁾. In the case of Egypt, it is considered that concerted efforts to implement economic reform, and the upgrading the quality and reducing the cost of services are of critical importance⁽³⁸⁾.

19. **Sectoral** Effects depend on the specific conditions in each ESM partner. For the Egyptian key industries of textiles and finished garments industries, it is observed that internal negative effects play a more important role than external ones⁽³⁹⁾. On the other hand, Egyptian producers complain of the proposed rules of origin since they raise obstacles to the possibilities of vertical integration in the industry⁽⁴⁰⁾. An example of the interplay between WTO and EU partnership agreements is the pharmaceutical sector. The TRIPs agreements are likely to shift competitive advantages in Egypt away from indigenous private and public companies to wards the foreign-owned companies that specialized in R&D-based production. There will be a rise in prices and a loss to consumers’ welfare⁽⁴¹⁾. With the local costs and prices accordingly rising and prices of imports from EU in the domestic market lowered, several steps have to be taken over the graduation periods to keep the industry viable. It may be noted that the partnership agreements do not include much by way of liberalizing services. So far the tendency is to limit this to what is being introduced by the evolution of GATS⁽⁴²⁾.

Conclusions

20. A number of points need emphasizing at this concluding point:

- ◆ The partnership concept and contents are a European choice. Objectives such as peace and security, prosperity, reciprocity, domination of the free market system and association that may lead to deeper integration, need not reflect Arab interpretations or priorities.
- ◆ Nor is the pattern proposed consistent with orthodox integration theories. A free trade area is a strict form of economic integration. Other dimensions, especially political, social and cultural depend largely on the potentials of social cohesion. Rather than cohesion between European and Arab communities, there should exist coexistence and mutual understanding and the term “dialogue” (actually used with respect to non-economic dimensions) should be carried in its own framework. Here is a call for Euro-Arab dialogue as a separate action from the narrow limits of strict integrational endeavours.
- ◆ ESM countries are asked to give more concessions while getting little beyond what the preferential treatment of the previous set of agreements offered. The situation is further complicated by unequal concessions, by differences in treatment of agricultural countries.
- ◆ Rules of origin have to give due attention to conditions in ESM countries, and practices of (indirect) protective nature have to be abandoned. Among others the unequal treatment of products originating in both parties, such as the right to impose duties on the agricultural components of processed products, has to be eliminated either by its removal or by giving a similar right to the ESM partners for imposing duties on industrial components whose prices are lower in Europe, being the counterpart of area of agricultural advantage.
- ◆ Past experiences and present outlooks make encouragement of investments doubtful, domestic or foreign. The amount if restructuring, especially in the early period is huge, and the proposed financial assistance, though raised, is far from satisfactory.
- ◆ Experience of developing countries deny the “trade is the engine of growth” dictum. Much has to be done on the production side, including structural changes to give more chances for promotion of intermediate goods industries in ESM countries, with the corresponding capabilities to readjust production techniques. The type of partnership proposed gives more chances for domination of the not necessarily suitable European techniques.

- Programs such as those offered to Portugal have to be considered with a view to assist bringing more integration in the domestic and (Arab) regional integration as a step towards wider integration, with Europe and the rest of the world. ♦
- Further there is need to give wider range for mobility of labour, as well as capital to match those required at the domestic level, for benefiting from liberalization processes. ♦
- The fundamental thing is that for the Arabs to rectify their developmental strategies, and that this isto be seriously considered in external cooperation arrangements. They have to pay more attention for the development of their human resources, basic and applied research, and reduction of transactions costs. Regional scientific cooperation has to go beyond Israel. ♦
- Equal opportunities have to be provided by MEDA which, as it stands, favours the more dynamic, hence the comparatively less needy partners. ♦

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- See for example, Charles Oman: *Globalisation and Regionalisation, The Challenge for Developing Countries*. OECD, Development Centre Studies, 1994. (9)
- See Raouf Ghoneim (the former principal Egyptian negotiator): "The Egyptian-European Partnership", in the Annex to the weekly *Al-Ahram Al-Eqtisady* of 17/7/1995. (in Arabic). It may be noted that a customs union was to be completed with Turkey by 1995, whereas Cyprus and Malta were considered for accession to the EU. (10)
- See point 1018 of, Commission of the European Communities: *XXVIIIth General Report of the Activities of the European Communities, 1993*. Brussels, Luxembourg, 1994. (11)
- European Commission: *Growth, Competitiveness and Employment; The Challenges and Ways Forward into the 21st Century*. Brussels, Luxembourg, 1994. p. 9. (12)
- ibid.*, p. 126. (13)
- See point 1194 of, European Commission: *General Report of the Activities of the European Union, 1994*. Brussels, Luxembourg, 1995. (14)
- ibid.*, point 845. (15)
- The Organization of Security and Cooperation in Europe (formerly conference CSCE between 1973 and 1994). It may be noted that four ESM countries, Algeria, Egypt, Morocco and Tunisia, and Israel are associate members in that organization whose main objective is to actively participate in solving European Disputes. During a visit to the Gulf region in 1997, the British foreign minister called for an early consideration of the idea, which shows that the idea extends beyond the Mediterranean boundaries, while at the same time concentrates on disputes threatening security. (16)
- Notice that the so-called "region" included Israel as well as ESM Arab countries. It intersects with the MENA region as defined by the World Bank and for the proposals for a Mid-Eastern regional integration schemes. (17)
- Similar to PHARE, Poland & Hungary, Aid for Economic Restructuring, which became Program of Community aid for Central and East European countries, and to TACIS, Program for technical assistance for the new independent States & Mongolia. (18)
- See Cannes European Council: *Extract from the Presidency Conclusions*. Cannes 26-27 June 1995. (SN 211/95, Part B) p. 15. It may be mentioned that some members of the EU like France were inclined to strengthen the cooperation with the South, while others like Germany gave more weight to openness towards the East. (19)
- Point 839 in, European Commission: *General Report of the Activities of the European Union, 1995*. Brussels, Luxembourg, 1996. (20)
- For the full text of the Declaration see, Europa site: "Barcelona Declaration adopted at the Euro-Mediterranean Conference". Final version 2 rev. 1, 27, 28/11/1995. See also EC: *Bulletin of the European Communities*, no. 11, 1995. (21)
- For more about the comparison between traditional regional integration and neo-regionalism, see our previous works, quoted in Note (1) before. For another point of view see, Robert Z. Lawrence: *Preferential Trading Arrangements, the Traditional and the New*. ECES (Egyptian Center for Economic Studies), Working paper No. 6, December 1996 (22)

- See for example, Francois, J. F.: *Anchoring Policy Reform: External Bindings and the Credibility of Reform*. Paper presented to the ECES Conference on *How Can Egypt Benefit from its Partnership Agreement with the EU*. Cairo, June 26-27, 1996. (23)
- Notice the big differences already indicated in the rate of dependence of each region on the other in their foreign trade. (24)
- See p. 26 of, CCE: *Livre Vert sur La Politique Sociale Européenne; Options pour L'Union*. Luxembourg, 1993. (25)
- See Europa Site: *Document 298A0330(01)* - 27/07/1998. (26)
- See Europa Site: *Document 398D0238* - 27/07/1998. See also, EU: *Official journal NO. L 097* , 30/03/1998 P. 0001 - 0001. (27)
- However, some writers expect that the vertical integration, EU-ESM, is likely to dominate the much weaker horizontal south-south integration. See, e.g., Bachir Hamdouch: *Perspectives d'Une Zone de Libre-Echange entre le Maroc et l'Union Européenne*. Working Paper 9619 of the Economic Research Forum, Cairo. 1996. (28)
- See p. 6 of, Bhning, W. R. and M.-L. Schloter-Parades (eds): *Aid in Place of Migration*. A WEP study. International Labour Office, Geneva, 1994. (29)
- However, some writers attribute to the harmonization of regulatory procedures the advantage of reducing transaction costs associated with trade and improving the investment climate. See, e.g., Bernard Hoekman and Simon Djankov: *Towards a Free Trade Agreement with the European Union, Issues and Policy Options for Egypt*. ECES, Cairo, Working Paper No. 10, March 1997. (30)
- See, Brown, Drusilla, K., Alan V. Deardorf, and Robert M. Stern: *Some Economic Effects of the Free Trade Agreement Between Tunisia and the EU*. Paper presented to the ECES Conference, 1996, mentioned before. However two IBRD studies expected net gains of 1.7 % for Tunisia and of 1.5 % to Morocco. See, Rutherford, Thomas F., & David Tarr: *Morocco's free trade agreement with the European Community, a quantitative assessment*. Policy Research Working Paper 1173, World Bank, 1993. For the same authors: *The free trade agreement between Tunisia and the European Union*. World Bank, 1995. (31)
- Zaafraan, Hafez: *The Free Trade Area and Foreign Investment. Analytical Factors in the Euro-Tunisian Example*. pp. 263-72 in, *Arab Homeland and the Alternative Integration Schemes*, 1997, *op. cit.*, especially p. 265 (in Arabic). (32)
- Mahgoub 1997, *op. cit.*. It may be mentioned, between parentheses, that desire by developed economies to reduce backwash effects were behind the MFA, presently phased away. (33)
- See Hamdouch, *op. cit.*, p. 19. (34)
- See for example, John Page and John Underwood: *Growth, the Maghreb and the European Union; Assessing the impact of free trade agreements on Tunisia and Morocco*. ECES, Working Paper No. 7, December 1996. (35)
- See, Zaafran 1997, *op. cit.*, p. 268. Even if this takes place, its liabilities would be prohibitive. (36)
- See, Pack, Howard: "Technology gaps between industrial and developing countries; are there dividends for latecomers ?" *Proceedings of the World Bank Annual Conference on Development Economics*. World Bank, 1992. (37)
- See Hoekman & Djankov, 1997, *op. cit.*, p. 28. (38)
- Hanaa Kheir El-Din & Hoda Ek-Sayed: "Potential Impact of a free trade agreement with the EU on Egyptian textile industry". Paper presented to the ECES (Egyptian Center for Economic Studies) Conference on *How Can Egypt Benefit from its Partnership Agreement with the EU*. Cairo, June 26-27, 1996. (39)
- Rasha A. Abdel-Hakeem: *The effects of the EU-Egyptian free trade agreement on the Egyptian textile and finished garments industries*. ECES, Cairo, Working Paper No. 15, 1997. The head of the Egyptian Federation of Industries, M. F., Khamis called those rules "the shark". Business men in several industries voiced warnings against the terms of the proposed Agreement, e.g., in cereals processing, tanning and leather, food industries and engineering industries. (40)
- Arvind Subramanian and Mostafa Abdel-Latif: *The Egypt-EU partnership agreement and the Egyptian pharmaceutical sector*. ECES, Cairo, Working Paper No. 11, March 1997. (41)
- Mahmoud Mohieldin: *The Egypt-EU partnership agreement and liberalization of Services*. ECES, Cairo, Working Paper No. 9, February 1997. (42)

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المشاركة الاقتصادية العربية الأوروبية

مع إشارة خاصة إلى تجربتي مصر وتونس

تبدأ الدراسة باستعراض التجارب السابقة للاتفاقيات الأوروبية مع دول المتوسط العربية على مدى العقدين السابقين، مع الرجوع إلى نصوص الاتفاقية مع مصر كنموذج. ثم أجرت تقييما لتلك التجارب بالاعتماد على معايير تطور التجارة بين الطرفين والقدرة على تشجيع الاستثمار ومغزى المعونات المالية الأوروبية والأثر على حركة الهجرة. وأنت النتائج سلبية في الغالب. ثم انتقلت إلى إعادة النظر التي أجراها الاتحاد الأوروبي في سياسته المتوسطة خلال التسعينات، موضحة أهداف الاتحاد الأوروبي منها، بالرجوع إلى وثائق الاتحاد الأوروبي، وإعلان برشلونة بين الجانبين، وتحليل محتويات الاتفاقية التي أبرمت مؤخرا مع تونس، والقضايا التي تثيرها المفاوضات التي ما زالت تجري مع مصر. وتخلص الدراسة إلى أن تلك المحاولات جميعا تعكس وجهة نظر أوروبية، وغابت عنها رؤية ذاتية عربية، كما أنها لا تلتزم بالقواعد التي ترسمها نظريات التكامل الاقتصادي الإقليمي. وتتوقع أن تعود الفائدة من التجارة على الجانب الأوروبي. وتشكك في وجود أثر إيجابي على تشجيع الاستثمار في الجانب العربي، أو تحقيق الهدف الأوروبي في إيقاف الهجرة العربية إليه. وتؤكد على امتلاك العرب نظرة تنموية ذاتية وإحياء الحوار العربي الأوروبي على أساسها.