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EURO-MEDITERRANEAN PARTNERSHIP AGREEMENTS: A CRITICAL ASSESSMENT

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Corrigendum

Page iii

Insert the following text underneath the text of the preface:

Acknowledgement

Chapter VII of E/ESCWA/ED/1999/2, entitled Euro-Mediterranean Partnership Agreements: A Critical Assessment, is based on two articles contained in *Journal of Mediterranean Politics*, vol. 2, No. 1, published by Frank Cass and Co. Ltd., namely, the “Introduction”, by R. Gillespie, and the article entitled “The Economic Impact of the Euro-Mediterranean Free Trade Area on Mediterranean Non-Member Countries”, by Alfred Tovias of the Hebrew University, Jerusalem.

As the result of an oversight, those source materials were not acknowledged in the ESCWA document. ESCWA wishes to express its gratitude to Frank Cass and Co. Ltd for its permission to continue to use in that document the material contained in the two above-mentioned articles.

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Insert “and acknowledgement” after the word “Preface” in the first entry.

Preface

This study has been prepared by the Economic Development Issues and Policies Division of the Economic and Social Commission for Western Asia (ESCWA) in implementation of activity No. 3214D04, entitled "Euro-Mediterranean Partnership Agreements: Critical Assessment", of the Commission's programme of work and priorities for the period 1998-1999. The study benefited from the comments provided by a number of staff members in the Division and drew on various publications of the International Monetary Fund, the European Commission and other United Nations organizations. We thank them all.

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Abbreviations

EC	European Community
ECU	European Currency Unit
EEC	European Economic Community
EEP	Euro-Egyptian Partnership
EIB	European Investment Bank
EMP	Euro-Mediterranean Partnership
EU	European Union
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GDP	gross domestic product
GSP	generalized system of preferences
ILO	International Labour Organization
IMF	International Monetary Fund
MEDA	Euro-Mediterranean Initiative
NAFTA	North American Free Trade Agreement
OECD	Organization for Economic-Cooperation and Development
SEM	southern and eastern Mediterranean
TRIPS	trade-related aspects of intellectual property rights
VAT	value added tax
WTO	World Trade Organization

The Mediterranean countries in this study comprise Arab Mediterranean countries only, and are referred to as southern and eastern Mediterranean (SEM) countries.

Executive summary

The European Union (EU)[1/] has long recognized and affirmed concern for the stability and development of the southern and eastern Mediterranean (SEM) countries.[2/] It has considered these countries a key element in its own prosperity, although the Rome Treaty of 1957 that led to its establishment bars their membership. Since the early 1970s, the EU has practised preferential economic policies towards a number of SEM countries to foster their progress through closer economic cooperation and partnership with Europe. The extent to which these policies have actually helped to enhance economic development of the SEM countries is still a question of debate. During the last few years, however, the EU and a number of SEM countries undertook to conclude partnership agreements aimed at grasping the opportunities and facing the challenges stemming from the reorientation of the policies of the EU as world trade liberalization accelerates.

To cast some light on these issues and to assist SEM countries in negotiating acceptable terms from such agreements, this study reviews the policies of the EU towards the SEM countries and the implications that arise for these countries from the agreements.

The challenges of global trade liberalization arise at a time when changes in the international trade environment have led the EU to redefine its policies towards the whole Mediterranean region. The EU has been reshaping and merging its previous country-specific policies involving trade and financial preferences into a new Mediterranean policy, aimed at establishing a new and wider partnership between the EU and SEM countries.

Economic relations between the SEM countries and the EU, their major trading partner, are being redefined in response to a number of new developments, among which are: first, the EU itself and its role are changing, with an expansion of its membership, the signing of association agreements with central and eastern European countries, and the customs union with Turkey. As a result, SEM countries are facing increased competition from countries that are geographically close to the EU. Secondly, the ongoing multilateral liberalization in trade and services within the framework of the World Trade Organization (WTO) and the General Agreement on Trade in Services (GATS) will lead to a market erosion of the preferences the SEM countries presently enjoy in the EU market, *inter alia*, due to the phase-out of the Multifibre Agreements. To be able to compete under these circumstances, the SEM countries will not only have to rethink their trade strategy, but also to implement more far-reaching liberalization, privatization and deregulation.

Imperatives of peace and security imply that the growing gap between Europe and the SEM region should be minimized. Income differences, currently at 1 to 12, would increase to 1 to 20 by the year 2010 if no measures were taken to support the economic development of the SEM countries, whose population of 220 million in 1995 would grow to over 300 million by 2010.

As agreed at the Euro-Mediterranean Conference, held at Barcelona on 27 and 28 November 1995, the central feature of this new Mediterranean policy is the implementation of bilateral free-trade agreements between the EU and each Mediterranean country by 2010. Each of the Mediterranean countries would implement additional free-trade agreements with the others; this could result in the emergence of the largest free-trade area in the world. From the EU point of view, this policy provides the only way of maintaining a form of preferences for the SEM countries in the context of the post Uruguay Round of Multilateral Trade Negotiations. Eventual benefits for the SEM countries include export gains through increased competitiveness, incentives to continue making necessary economic reforms and a more attractive

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[1/] The European Union currently consists of 15 member countries: Austria, Belgium, Denmark, Finland, France, Greece, Germany, Holland, Ireland, Italy, Luxembourg, Portugal, Spain, Sweden and United Kingdom of Great Britain and Northern Ireland. The SEM region consists of 12 countries: Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, the Syrian Arab Republic, Tunisia and Turkey as well as Palestine.

[2/] SEM countries in this study are defined as the Arab Mediterranean countries: Algeria, Egypt, Jordan, Lebanon, Morocco, the Syrian Arab Republic and Tunisia as well as Palestine.

environment for foreign direct investment from the EU. The realization of these benefits, however, depends on the responsiveness of the economies of the SEM countries to structural adjustment and on their capacity to maintain a stable macroeconomic environment.

The Barcelona Conference opened a new chapter in the history of relations between the EU and the SEM region. It launched a process of political and economic relations with ambitious development and trade objectives. It achieved virtually all its major objectives, from targeting a free-trade area between the participating countries by 2010, to a new pledge of cooperation in a broad range of political, economic and social fields. These objectives have been set up within the framework of a strategy aimed at reinforcing the traditionally close ties between the EU and SEM region.

Compared with previous initiatives, this strategy benefits from more clearly defined global objectives, both political and economic; from more specific intermediate policy objectives such as the creation of the free-trade area and fostering investment flows within this area; and from better-targeted instruments such as institutional mechanisms for promoting dialogue, technical assistance and performance-related financial assistance. The success of the strategy, however, depends significantly on the progress made towards achieving the intermediate objectives which, in turn, depend on the capability of SEM countries to meet a wide range of preconditions.

Financial and technical support from the EU to SEM countries would help to make the strategy successful. The EU has allocated approximately ECU 4.7 billion in grants for the period 1996-1999 for structural adjustment in SEM countries, with an equivalent amount in loans from the European Investment Bank, to be channelled to specific projects. About half of the funds are earmarked to prepare for free trade (private-sector development, trade-promoting schemes, infrastructure etc.), while the remainder will be devoted to poverty alleviation, rural development and environmental conservation. This kind of financial assistance is expected to alleviate the short-term costs of implementing partnership agreements.

Ensuring economic and political stability through sustained economic growth in the SEM countries has a clear priority in the external policy of the EU. Past years of preferences have led to a dependency of the SEM countries on the EU, without their being prepared for the shocks of global trade liberalization in the 1990s. Actually, the SEM countries have little choice but to speed up economic reform programmes to improve their capacity to adapt to an increasingly competitive environment.

The new Mediterranean policy of the EU is expected to address these issues. A progressive integration of the SEM countries into a large Euro-Mediterranean free-trade area, together with gradual liberalization on a bilateral basis, is considered to be the only viable way of preparing a further opening of their economies. Nevertheless, the new Mediterranean policy may turn to be inadequate for meeting the inevitable costs of adjustment for the SEM countries. The planned financial assistance of the EU is not large enough to compensate either for the loss of past preferences or for the environmental implications of trade that the EU seems keen to impose on SEM countries. As a result, economic stability, and consequently political stability in the SEM countries, could be endangered. Should macroeconomic imbalances worsen and investment capital remain insufficient, the commitments of SEM governments to trade liberalization could slacken and other economic and social pressures could increase.

Beyond the conclusions of the Barcelona Conference a case exists for granting SEM countries additional support during the transitional period. It is important that foreign direct investment flows from the EU to SEM countries be encouraged. The economies of SEM countries need the sustained support of the EU to help them implement much needed economic reform programmes. More financial assistance would help to ease the transitional difficulties of the balance of payments and budget revenues that will arise.

INTRODUCTION

The Euro-Mediterranean Partnership was established at the Euro-Mediterranean Conference of Ministers of Foreign Affairs held at Barcelona on 27 and 28 November, 1995. The Conference marked the start of a new chapter in the relations between the European Union (EU) and its southern neighbours. The proclamation of partnership between the 15 member countries of the European Union and the 12 non-member southern and eastern Mediterranean (SEM) countries is considered to have arisen out of European concern about potential instability in the SEM countries and also out of the concern of SEM countries about the increasing support of the EU for central and eastern European countries, with the latter being considered to have been favoured at the expense of the SEM countries.

While the EU feared that marginalized SEM countries would give rise to radicalism and a major exodus of economic migrants and political refugees to EU countries, the SEM countries appealed to the EU to be more even-handed when considering the economic support and financial assistance it gives to its central and eastern European neighbours. In fact, the need on the EU side to stabilize socio-economic conditions in the SEM region was, and still is, associated with two main objectives: peace and stability on the one hand and a desire to put a brake on immigration to the EU countries, on the other. The SEM countries seem to consider the Euro-Mediterranean Partnership as being a reflection of the hegemony that Europe has established over the Mediterranean region. The SEM countries may be participating in this partnership for lack of an alternative, for they remain highly sceptical.

The fall of the Berlin Wall, in November 1989, overturned Europe's geo-political and strategic landscape. The application by several central and eastern European countries to join the EU was justification for a re-balancing of relations of the EU southwards. In spite of reservations, several non-EU Mediterranean countries also wanted a new impetus to be given to their relations with the EU.

Globalization and regionalization have become two characteristics of the world economy. The constitution of regional economic groupings is outlining a new economic structure for the world. Against a background of growing interdependence, SEM countries may have recognized that they risk becoming the also-runs of the new economic world order if they are not associated with Europe, regardless of the reservations they might have.

The policies undertaken during the 1970s and 1980s by the then Economic Community (EC) in relation to SEM countries followed a traditional approach, based primarily on trade concessions, and a policy of financial cooperation, based mainly on traditional project finance. These policies have proved insufficient to sustain the economic development of the SEM countries. The need to implement a bolder policy, better able to respond to the challenges that SEM countries must meet, and to build with them a common destiny, had already led the EC to reassess the terms of its cooperation policy. In 1992, this orientation led to the implementation of the Renovated Mediterranean Policy. Given the inappropriateness of traditional methods of cooperation between the two sides, the Renovated Mediterranean Policy introduced several innovations:

(a) Financial assistance to SEM countries to be increased by 50 per cent, compared with the resources contained in previous financial protocols;

(b) A major qualitative advance to be achieved with the launching of a regional cooperation programme;

(c) A genuine partnership to be opened up by means of programmes of decentralized cooperation, which go to the very heart of civil society.

The objective of the present study is to review and assess the implications and consequences that arise for SEM countries from concluding Euro-Mediterranean Partnership agreements. The Fourth Euro-Mediterranean Summit of Economic and Social Councils and Similar Institutions, held at Lisbon on 24 and 25 September 1998 is considered to be of significance for the further development of the Euro-Mediterranean Partnership. The Declaration of the summit is annexed to this study.

I. EURO-MEDITERRANEAN PARTNERSHIP: HISTORICAL BACKGROUND

During the past few years, the EU has, by far, been the main trading partner of the Arab countries, representing approximately 58 per cent of their exports and 53 per cent of their imports. The Arab countries, however, represented only around 3 per cent of the EU interchange. The state of relations between the two sides has been considered as being a subject of trade relations. With oil exports constituting approximately 80 per cent of the total exports of the Arab countries to EU countries and with this export being subject to market fluctuations, trade relations between Europe and the Arab countries are highly vulnerable.

To establish a solid basis for these relations, the Euro-Arab Dialogue was initiated in December 1973 at a meeting of the European Council in Copenhagen. The idea behind the Dialogue was to create communication channels between Europe and the Arab countries. During the following years, the Dialogue was extended to serve the purpose of drawing together the various political stances held by the different European countries themselves as well as their diverging stances vis-à-vis the Arab countries. Although much of the Dialogue remained politically motivated, attempts were made to incorporate into it certain economic issues.

Following a long period of apathy, an attempt was made in 1989 to give life to the Dialogue. However, the Gulf crisis and war in 1990/1991 paralyzed the various encounters, and the subsequent political developments in the region slowed down attempts aimed at restarting the Dialogue. Although the Dialogue could provide the Arab League and the EU a forum for discussion of almost all issues of interest, it remained, however, beset with major limitations, particularly on economic issues. Thus, economic relations between the European Union and the Arab countries remained based on a series of bilateral agreements.

However, the 10-year Lome Convention, signed in 1989, provided a framework for relations between the EU and four Arab countries (Djibouti, Mauritania, Somalia and Sudan). The Convention, a trade and cooperation agreement signed by the then European Community and 70 countries from Africa, the Caribbean and the Pacific, guaranteed the entry of a number of industrial and agricultural products into the EC and conceded significant financial assistance.

The 1988 agreement between the EU and the countries of the Gulf Cooperation Council (GCC) aimed at establishing a free-trade area between the two sides. The agreement, however, soon lost its drive, owing to certain issues surrounding the petrochemical industry, which was the main focus of the agreement. While the GCC countries were keen to enhance the export of their petrochemical products, in which they have a comparative advantage, the EU was blocking those efforts by indicating that the EU market of petrochemical products was already saturated.

For historic and geographic reasons, relations between the EU and the Arab Mediterranean countries are considered to have been more intensive than relations between the EU and most other regions in the developing world. As a result of the anxiety felt in the southern and eastern Arab Mediterranean countries, which followed the creation of the European Economic Community (EEC) in 1957, and more particularly as a result of the establishment of the European Common Agricultural Policy and the European Common External Tariff Rate in 1967, the then six-member EEC signed what was called association agreements with a number of Arab Mediterranean countries, such as Morocco and Tunisia, in 1969. The agreements were expected to ensure the export of certain agricultural products of the signatory Arab countries to the then European Common Market, and to guarantee the free entry of a significant number of industrial products of these countries into that market.

Following the 1973 enlargement of EEC, a new European perspective of cooperation with the Arab Mediterranean countries was considered. The Maghreb countries (Algeria, Mauritania, Morocco and Tunisia) were the focus of the perspective, which had already been crystallized by the European Council at its half-yearly meeting in Paris in 1972. It was envisioned that free access of all industrial products, except textiles, of these countries to the European Common Market would be guaranteed. However, a series of preferential rates for a very limited number of agricultural products was conceded.

As a novelty in the relations between Europe and the Arab Mediterranean countries, a series of steps was taken towards creating technical, economic and social committees for cooperation. Financial assistance would be granted in accordance with the Financial Protocols, which included sectorial priorities based on the national development plans of the signatory Arab Mediterranean countries. The financial assistance was to be covered either by the European Investment Bank (EIB) or by the EEC budget, and managed by the European Commission.

The entry of Greece, Portugal and Spain into the EU gave the Euro-Arab relations a new dimension. Their entry brought about a realization in the EU of the need for economic, social and political stability in SEM countries. From this, a new Mediterranean policy emerged, particularly when some SEM countries started complaining about the loss of preferential commercial treatment, especially in the export of agricultural products. At this stage, the EU implemented additional protocols in order to adapt Mediterranean policy to the new twelve-member European Community.

In 1987, new agreements were signed with a number of Mediterranean countries to accommodate the expanded EU. In the following years, the agreements incorporated the Second Mediterranean Financial Protocols, according to which the EU would grant the Mediterranean countries financial assistance of 615 million European Currency Units (ECU) from its budget and ECU 1,003 billion from the European Investment Bank (EIB) (see table 1).

TABLE 1. DEVELOPMENT OF FINANCIAL ASSISTANCE OF THE EUROPEAN UNION TO THE SOUTHERN AND EASTERN MEDITERRANEAN COUNTRIES
(*Millions of ECU*)

Year	EU	EIB loans	Policies
1975-1987	2 420	3 080	Association agreements (Global Mediterranean Policy)
1988-1991	615	1 003	New Mediterranean Policy
1992-1995	1 305	3 100	Renewed Mediterranean Policy
1996-1999	4 685	4 685	Euro-Mediterranean Partnership

Source: Celia de Anca, Barcelona Declaration: Effects of Mediterranean Integration on Regional Banking and Financial Institutions; paper presented at the seventh Annual Conference of the Arab Academy for Banking and Financial Sciences, held at Amman, 22-24 November 1997.

In the light of this development, the Declaration towards a Renewed Mediterranean Policy was issued by the EU in 1989. In December 1990, the European Council of General Affairs approved a European understanding on orientation and content of a new European policy concerning the SEM region for the period 1992-1996. This policy triggered its own political focus: the EU underlined the importance it was attaching to the issue of human rights and the establishment of democratic systems in the SEM countries. On the commercial side, the policy implied an increase in the already granted export quota, of the SEM countries to the EU. The policy also proposed a faster dismantling of tariffs and a better coordination of financial assistance to the SEM countries.

At its conference in Lisbon in June 1992, the European Council initiated a qualitative change in the Union's policy towards the SEM countries. The change was reflected in new directives for the future of the EU's policy regarding security in the SEM countries. In this policy, the SEM countries were designated areas of great interest for the EU in terms of security and social stability.

In October 1994, the EU released the Declaration on The Strengthening of Mediterranean Policy in the European Community: The Establishment of a Euro-Mediterranean Partnership. The EU indicated in this declaration that the main objective of its Mediterranean policy was to create a stable and secure Euro-Mediterranean region and that the policy should entail socio-economic strategies that could nurture a progressive development of the Euro-Mediterranean region. The declaration was approved by the heads of state of EU member countries at their semi-annual meeting in Essen, Germany, in December 1994. Also the EU Council reaffirmed its views on peace, stability and prosperity at the meeting. It was the proceedings of that meeting that formed the basis of the Barcelona Conference in November 1995. The European Council meeting in Cannes, France, in June 1995 endorsed the recommendations of the European Commission regarding the establishment of a Euro-Mediterranean Partnership.

II. EURO-MEDITERRANEAN CONFERENCE[3/]

One of the most remarkable features of the Euro-Mediterranean Conference, held at Barcelona on 27 and 28 November 1995, was a new-found spirit of cooperation between former enemies in the Mediterranean group of countries. These countries endorsed a declaration pledging to promote peace and stability in the SEM region, to respect the right to self-determination, to settle their disputes by peaceful means and to strengthen their cooperation in preventing and combating terrorism.

The Barcelona Declaration, adopted by the Conference, comprises four chapters and an annex setting out priorities for a work programme on the following subjects: political and security partnership; economic and financial partnership; social, cultural and human affairs partnership; follow-up; and work programme.

A. POLITICAL AND SECURITY PARTNERSHIP: ESTABLISHING A COMMON AREA OF PEACE AND STABILITY

The Conference participants stressed their conviction that peace, stability and security in the Mediterranean region were common assets that they pledged to promote and strengthen by all means at their disposal. In that spirit, they declared the following principles:

(a) Respect for human rights and fundamental liberties, including freedom of expression, thought and association;

(b) Equal rights of peoples and right to self-determination;

(c) Non-interference in the internal affairs of other partners;

(d) Settlement of disputes by peaceful means;

(e) Stronger cooperation in the fight against terrorism;

(f) Enhancing regional security by working for the non-proliferation of nuclear, chemical and biological weapons through adherence to, and compliance with, international agreements;

(g) A Middle East free of weapons of mass destruction, chemical, biological and nuclear, as well as their delivery systems;

(h) Respect and ensure respect for diversity and pluralism in the societies concerned, promote tolerance between different groups in society, and combat manifestations of intolerance, racism and xenophobia;

(i) Respect for the territorial integrity and unity of each of the other partners.

The Declaration adds that the signatories will take practical steps to prevent arms proliferation. They will also avoid developing a military capacity greater than their legitimate defence needs.

B. ECONOMIC AND FINANCIAL PARTNERSHIP

For the SEM region, the participants fixed three long-term objectives for the partnership:

(a) To speed up the pace of lasting social and economic development;

3/ This chapter is based on a publication of the European Commission entitled “Euro-Mediterranean Partnership”, Barcelona, 27-28 November 1995.

(b) To improve living conditions by creating employment opportunities and closing the development gap in the Euro-Mediterranean region;

(c) To promote cooperation and regional integration.

With a view to achieving these objectives, the Conference participants agreed to establish an economic and financial partnership which, taking into account the different degrees of development in the SEM region, would be based on:

(a) The progressive establishment of a free-trade area;

(b) The implementation of appropriate economic cooperation and concerted action in the relevant areas;

(c) A substantial increase in the financial assistance of EU to SEM countries.

1. *Free-trade area*

The main vehicle for progress in this direction will be the gradual establishment of a free-trade area through new Euro-Mediterranean agreements and free-trade agreements between the SEM countries themselves. The parties have set the year 2010 as the target date for the gradual establishment of the free-trade area which is expected to cover most trade with due observance of the obligations resulting from WTO.

To gradually develop the free-trade area, however, the two sides are expected to consider the following:

(a) Tariff and non-tariff barriers in manufactured products will be progressively eliminated in accordance with timetables to be negotiated between the partners;

(b) Trade in agricultural products will be progressively liberalized through reciprocal preferential access between the parties;

(c) Trade in services, including the right of establishment will also be progressively liberalized but with due regard to the GATS agreement.

The progressive establishment of the free-trade area would be facilitated by:

(a) Adoption of suitable measures regarding rules of origin, certification, protection of intellectual and industrial property rights and competition;

(b) Pursuit and development of policies based on the principles of the market economy and integration of the economies of SEM countries, taking into account their respective needs and levels of development;

(c) Adjustment and modernization of economic and social structures, giving priority to the promotion and development of the private sector; to the upgrading of the productive sector; and, to the establishment of an appropriate institutional and regulatory framework for a market economy;

(d) Promotion of mechanisms to foster transfers of technology.

2. *Economic cooperation and concerted action*

To develop economic cooperation, the Conference participants:

(a) Acknowledged that such a cooperation must be supported both by internal savings, a solid base of investment and foreign direct investment. They stressed the importance of creating an environment conducive to investment, in particular by the progressive elimination of obstacles to such investment that could lead to the transfer of technology and increase production and exports;

(b) Affirmed that regional cooperation on a voluntary basis, particularly with a view to developing trade between the partners themselves, was a key factor in promoting the creation of a free-trade area;

(c) Encouraged enterprises to enter into agreements with each other and undertook to promote such cooperation and industrial modernization by providing a favourable environment and regulatory framework. The participants considered it necessary to adopt and to implement a technical support programme for small and medium-sized industries;

(d) Emphasized the inter-dependence of their countries with regard to the environment, which necessitated a regional approach and increased cooperation, as well as better coordination of existing multilateral programmes, while confirming their commitment to the Barcelona Convention and the Mediterranean Action Plan.

3. *Financial cooperation*

Considering that the creation of a free-trade area and the success of the Euro-Mediterranean partnership would require a substantial increase in financial assistance, which must, above all, encourage sustainable local development and the mobilization of local economic operators, the Conference participants noted that:

(a) The European Council agreed in Cannes to set aside ECU 4,685 billion for this financial assistance in the form of available community budget funds for the period 1996-1999. This would be supplemented by assistance from EIB of an equal amount in the form of increased loans and bilateral financial contributions from member states;

(b) Effective financial cooperation should be managed within the framework of a multilateral programme, taking into account the special characteristics of each of the partners;

(c) Sound macroeconomic management is of fundamental importance in encouraging the success of the partnership. To this end, the Conference participants agreed to promote a dialogue on the economic policies of their countries and on the method of optimizing financial cooperation.

C. PARTNERSHIP IN SOCIAL, CULTURAL AND HUMAN AFFAIRS

The Conference participants recognized that the traditions of culture and civilization throughout the Mediterranean region, and that dialogue between those cultures and exchanges at human, scientific and technological levels, were essential factors in bringing peoples closer, promoting understanding between them and improving their understanding of each other. In this spirit, the participants agreed to establish a partnership in social, cultural and human affairs.

D. FOLLOW-UP TO THE CONFERENCE

The Conference participants:

Considering that the Barcelona Conference provides the basis for a process which is open and should develop;

Reaffirming their will to establish a partnership based on the principles and objectives defined in the Barcelona Declaration;

Being resolved to give practical expression to this Euro-Mediterranean Partnership;

Being convinced that in order to achieve this objective, it is necessary to continue the comprehensive dialogue thus initiated and to carry out a series of specifications;

adopted a work programme (see E, below), the purpose of which would be to translate the Barcelona Declaration into action.

E. WORK PROGRAMME

The work programme consists of the following: a political and security partnership; an economic and financial partnership; and a social, cultural and human affairs partnership.

The work programme will be implemented and monitored by the Euro-Mediterranean Committee for the Barcelona Process, consisting of officials from the current, previous and next presidencies of the EU and from the 12 Mediterranean countries that are not members of the EU. The Committee will meet regularly and report to the foreign ministers, who will discuss objectives and review projects.

III. PROVISIONS OF THE EURO-MEDITERRANEAN PARTNERSHIP AGREEMENTS

Essentially, the Euro-Mediterranean Partnership is an attempt to come to terms with some economic realities. It works, on the one hand, to reduce the threat of migration flows northwards, and on the other, to stimulate economic development in the SEM countries under the aegis of the regional economic hegemony, the EU. The core of the partnership is, therefore, economic in nature and is based on the concept of a bilateral industrial and services free-trade zone between the EU and SEM countries. This will go together with transitional trade grants, valued at around ECU 4.7 billion, in addition to loan aid of the same amount through the EIB for a period of five years, with other sums to follow in future financial protocols, to be directed primarily at the private sector.

These bilateral arrangements with individual SEM countries are considered to be only the first stage of a horizontal integration that is due to begin after 2010, so that, eventually, the equivalent of a single market structure will be created in the SEM region to partner the one that already exists to the north inside the EU itself. However, restrictions would remain between the two halves of the Mediterranean, notably in the trade in agricultural produce, where the constitution of the Common Agricultural Policy prohibits the introduction of free trade in these commodities. Restrictions would also continue in the area of the free movement of people. It is issues such as these that lie behind the groundswell of dissatisfaction manifest within the SEM region.

However, the Euro-Mediterranean Partnership initiative seeks to attain the following measures:

(a) To intensify the political dialogue between the EU and the SEM region countries;

(b) To achieve reciprocal free trade between the EU and the SEM countries in most manufactured goods;

(c) To grant preferential and reciprocal access for some agricultural products at a later stage;

(d) To establish conditions for the liberalization of the right of establishment and the supply of services;

(e) To facilitate free capital flows;

(f) To encourage SEM countries to take on board a wide range of trade-related EU regulations (customs, standards, competition, protection of intellectual property rights etc.);

(g) To increase economic, social and cultural cooperation between the EU and the SEM region.

The envisaged financial and technical support from the EU is expected to facilitate the implementation of these measures. An eventual accession of SEM countries to the EU is not contemplated, however, in contrast to the situation with the central and eastern European countries.

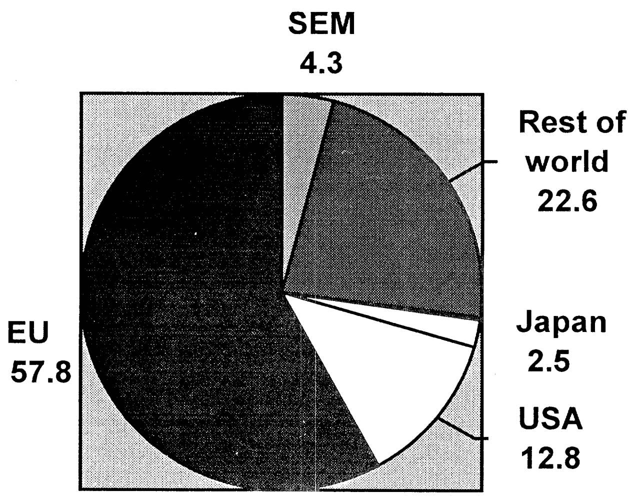
The Euro-Mediterranean Partnership agreements being signed or negotiated with SEM countries share the provisions noted below.

A. PROGRESSIVE ELIMINATION OF ALL TARIFFS ON INDUSTRIAL GOODS OVER A PERIOD OF 12 YEARS

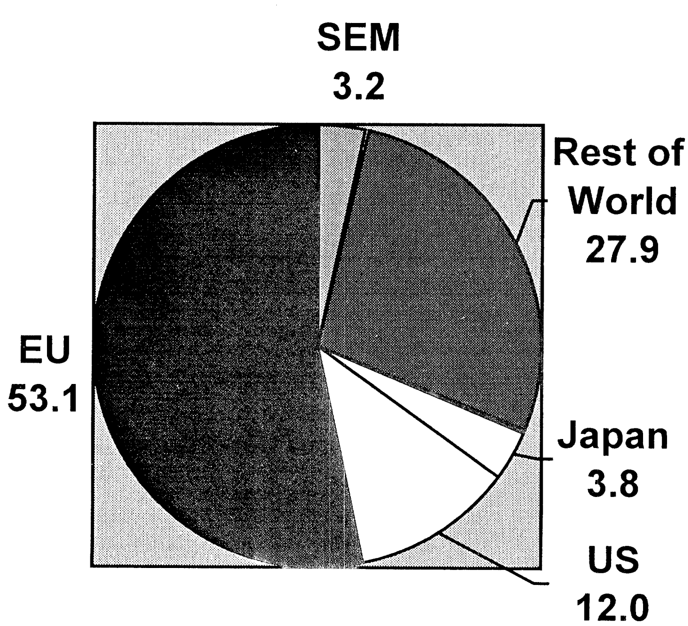
The EU is the major trading partner of SEM countries, accounting for approximately 58 per cent of exports and 53 per cent of imports (see the chart). It is also the major industrial trading partner, with most SEM industrial exports already receiving preferential customs treatment both by virtue of the Generalized System of Preferences (GSP) and of the existing bilateral agreements. Thus, in this area, the SEM countries appear to gain little from the EU agreements in the immediate future. Most of their exports of industrial goods already enter the EU with few or no restrictions, whereas they will have to dismantle the protection on their imports of industrial goods from the EU, heavily sheltered at present. Nevertheless, maintaining the status quo would lead to a relative deterioration in the position of SEM countries in the EU market, owing to the impact of the Uruguay Round, which will erode the margin granted to the exports of SEM countries by the preferential scheme and phase out the quotas for imports of textile and clothing products, an important export category for many SEM countries.

CHART. THE COUNTRIES OF THE SOUTHERN AND EASTERN MEDITERRANEAN: DIRECTION OF TRADE
(Average percentage for 1990-1995)

A. DESTINATION OF EXPORTS



B. ORIGIN OF IMPORTS



Source: International Monetary Fund, Direction of Trade Statistics Yearbook, 1996.

B. Gradual and limited trade liberalization for agricultural products

Substantive discussion on the subject will take place only by the year 2000. SEM agricultural exports to the EU will not receive favourable treatment in the short run, although in some cases, such as Tunisia, additional preferences are envisaged from the outset. However, the WTO Agreement on Agriculture will have an important repercussion on agricultural trade of the SEM countries with the EU. First, many SEM countries depend heavily on food imports, the prices of which are expected to increase following the full implementation of the Uruguay Round. Secondly, SEM countries have undertaken or will have to undertake new commitments under EMP agreements that are consistent with those agreed upon under the Uruguay Round, including the requirement to convert all non-tariff measures into customs duties.

C. Measures to liberalize services

Previous Euro-Mediterranean (association) agreements did not address the issue of services or the proposed new agreements; only the one with Lebanon proposes a liberalization of services without a reference to the GATS protective clauses. Considering that trade in services could become an area of dynamic growth and potential comparative advantage, especially in banking, insurance and shipping, for SEM countries, the agreements of the Euro-Mediterranean Partnership could provide a real opportunity to signal serious policy commitment by setting a concrete transition path to achieve a liberal environment.

D. Measures to liberalize the right of establishment

Measures to liberalize the right of establishment are being sought in the draft agreement with Lebanon, well beyond what is contemplated in other Euro-Mediterranean agreements, which refer only to WTO commitments. As in the case of services, by liberalizing the right of establishment, a country signals that it is open to foreign direct investment and willing to make this pledge, thus increasing the incentive to foreign firms to establish themselves, with the ensuing concomitant financial and technology transfers.

E. Adoption of a wide range of trade-related regulations of the European Union

Harmonization of rules and regulations would facilitate trade. Two important areas where harmonization is envisaged are the following:

(a) Competition policy. Since competition policy plays a key role, the agreements envisage the adoption and application of the basic EU competition rules, a progressive elimination of non-tariff barriers, and harmonization of safeguard and anti-dumping provisions within five years. During the transition period, the rules of the General Agreement on Tariffs and Trade (GATT) with respect to the countervailing of subsidies would apply and WTO consistent anti-dumping legislation would remain applicable in most cases. State aid for disadvantaged regions would have to be compatible with EU competition rules;

(b) Intellectual property rights. EU-SEM agreements generally refer to commitments of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). For non-members of WTO, the legal framework would have to comply with WTO requirements in terms of both scope and enforcement. Due to concerns about enforcement capacity, a transition period is envisaged.

IV. ECONOMIC EFFECTS OF THE EURO-MEDITERRANEAN PARTNERSHIP AGREEMENTS ON SOUTHERN AND EASTERN (ARAB) MEDITERRANEAN COUNTRIES

During the first half of the 1990s, most SEM countries began opening up their economies against the backdrop of mostly successful economic performance. Economic growth rates averaged approximately 4 per cent annually; social indicators improved significantly and prudent monetary and fiscal policies started restoring domestic as well as external economic balances. The economic development strategy of most of the countries began shifting from import substitution and state intervention in the economy towards a market-based and export-oriented policy. Protection was lessened, mainly through the roll-back of quantitative import restrictions, but also by virtue of the formal accession of some countries and the planned accession by others to GATT and WTO. Incentive was given to a policy of export promotion and diversification through tax-exempt labour-intensive offshore processing facilities, as with Egypt and Tunisia. However, the value added produced by the facilities is considered to have been limited, and the linkages they could establish with the domestic economy remained insignificant, thus providing only minimal competition on the domestic markets.

For the EU, the Euro-Mediterranean Partnership agreements are seen as being part of increased efforts towards strengthening EU relations with SEM countries. The agreements, far-reaching cooperation in the areas of economic, finance and politics, are meant to be the vehicle for this strengthening. The building of a Euro-Mediterranean Economic Area, as called for in the Declaration of the Barcelona Conference of November 1995, is considered to be part of a broader European strategy to forge various trade alliances. At the core of the agreements is the establishment of a free-trade area in most industrial products over a 12-year period. For European companies, the resulting dismantling of tariff protection in the SEM countries would expand market access. For the SEM countries, it could improve resource allocation which, combined with the harmonization of trade-related regulations and increased assistance from the EU, should enhance prosperity and employment. Consequently, the agreements are expected over time to promote income convergence and ensure political stability and security on both shores of the Mediterranean.

During the coming years, the Euro-Mediterranean Partnership agreements are expected to provide significant impetus to SEM countries for opening up their economies. The agreements would create opportunities to credibly pursue far-reaching liberalization of trade in a gradual fashion. The commitments, which the SEM countries would make under the agreements, go far beyond what most of them offered at the multilateral level under the Uruguay Round. The commitment to a 12-year programme provides a detailed timetable for trade liberalization. Moreover, the agreements have their own disciplines for enforcing compliance with the commitments. The prospects of having closer links to Europe and the offer of Europe to SEM countries to help reduce income disparities across these countries are mobilizing forces.

With the commitment of the SEM countries to liberalize their trade, the agreements would become a catalyst for overall economic reform and modernization strategies. The agreements would do this by committing these countries to a course of action that could be completed successfully only through the implementation of a range of supplementary economic reform policies.

It is estimated that the overall additional welfare gain to most SEM countries would be the equivalent of 2.5 to 4.5 per cent in annual gross domestic product (GDP), once the agreements are fully implemented. The reallocation of labour and capital to sectors of comparative advantage, following the removal of protection-induced distortions in the prices of traded goods, would be the major factor behind the gain. However, the gain the SEM countries would have from their agreements with the EU is expected to be reflected significantly in dynamic increases in total factor productivity. This would result, on the one hand, from a wider acceptance of the products of SEM countries in the EU, due to the harmonization of their quality standards with product quality standards in the EU and, on the other, from increased efficiency in trading with the EU, due to the liberalization and upgrading of financial, telecommunication and transportation facilities which are expected to lower the costs of imports from, and raise the prices of exports to, the EU.

It is noteworthy, however, that the Euro-Mediterranean Partnership agreements are expected to provide a business environment conducive to domestic and foreign investments, thereby increasing capacity growth in addition to accelerating the transfer of technology. A number of SEM countries, especially Morocco and Tunisia, have based high hopes on the experience of the integration of Portugal and Spain in the EU following their membership; and the closer links established between the EU and the central and eastern European countries, and between the Mexico and the United States of America after the creation of the North American Free Trade Agreement (NAFTA), all these developments have been cases of substantial increase in incoming foreign direct investment. The following channels have been identified: first, the Euro-Mediterranean Partnership agreements would reduce uncertainty for investors by providing contractual assurances of access for products of SEM countries to European markets. In addition, by enhancing the credibility of economic reform commitments of the authorities of SEM countries by the visible locking-in of reforms as a result of the agreements themselves; and more generally by the acceleration of the move towards a fully market-based and open economy. Secondly, the above-mentioned dynamic increases in productivity, for example, through the adoption of EU standards and regulations, may lead to an increase in the return on capital.

In addition to the above-mentioned dynamic gains, there would be static gains to the SEM countries. These gains would stem from trade creation made possible by the lowering of the protection that results from a reduction in the dispersion of tariffs, which inevitably accompanies their elimination. By contrast, for the EU, the benefits would come from trade creation made possible by the reallocation of the factors of production to export sectors in response to lower SEM import trade barriers.

There are still some reservations, however, about the expectation of SEM countries of inward foreign direct investment that might be triggered by reduced uncertainty owing to the Euro-Mediterranean Partnership agreements. First, unlike Portugal and Spain, membership of the EU is not a prospect for the SEM countries. Secondly, the SEM countries are competing against each other in attracting foreign investors. Moreover, the signing of Euro-Mediterranean Partnership agreements with other SEM countries may tilt incentives away from investing in SEM countries that have already signed such agreements towards investing in Europe through the "hub and spokes" effect, as long as trade barriers among the individual SEM countries exceed the bilateral tariffs of these countries with the EU. Thirdly, the Euro-Mediterranean Partnership agreements are not expected to automatically improve the investment climate in all SEM countries. Even in countries such as Tunisia, with a solid record on macroeconomic stability, no sharp upturn has been observed in the sentiment of foreign investors towards Tunisia or in actual in-flows of foreign capital over the past two years since signing the agreement with the EU.

The leverage of the Euro-Mediterranean Partnership agreements for helping the SEM countries to establish a regulatory and judicial climate conducive to foreign direct investment beyond what would have been implemented in their absence remains to be assessed. The envisaged benefits are delayed over the 12-year transitional period. No static benefits from resource allocation are expected during the first five years due to the increase in effective protection during this period that results from earlier tariff reductions on capital goods, raw materials and intermediate goods, and on final goods later in the transitional period. Moreover, the full beneficial impact will take more than 12 years, as it requires the reallocation of capital in addition to that of labour. The dynamic gain from lower costs will also accrue only over time. One exception could be a new sense of urgency to accelerate the implementation of supporting structural reforms linked to the additional aid from the EU.

The credibility of the commitment of the governments of SEM countries regarding structural reforms would derive from the formal nature of the Partnership Agreements and the availability of financial and technical assistance from the EU to help implement the needed structural reforms. The credibility would be enhanced by undertaking commitments going beyond minimum WTO requirements in the areas of investment and services or increasing security of market access. There are many strong arguments in favour of such an approach: in many sectors, particularly in services, foreign direct investment, through the establishment of foreign firms, has proved to be the most direct method of enhancing competition and efficiency.

To the extent that the partnership agreements form part of a strategy to liberalize trade more generally, possible welfare losses would be reduced. There are other reasons to open up more generally. Since intra-SEM trade is limited, the set of Euro-Mediterranean agreements would provide an incentive for what is generally referred to as a hub-and-wheel pattern of trade, that is, one where there is an incentive for firms to set up in the EU to profit from the free-market access to all other partners, while deterring EU firms from investing in SEM countries. Only intra-SEM liberalization could counter that risk effectively. Furthermore, SEM exports are already too concentrated in Europe, a market which is growing more slowly than the rest of the world, particularly east and south-east Asia. It is, therefore, important that, concurrently, external barriers to trade and foreign direct investment vis-à-vis other countries should be reduced as well.

To reap these benefits, SEM countries must develop strategies that depend on progress towards achieving the intermediate objectives of the Partnership Agreements. The objectives, in turn, will depend on the ability of SEM countries to meet the wide range of generally accepted preconditions. These are as follows:

(a) Macroeconomic stability. The SEM countries need to adopt a responsive exchange-rate policy supported by sound monetary and fiscal policies. The larger a country's past macroeconomic instability, the greater the credibility gap it will have to overcome to attract investors;

(b) Low reliance on trade taxes. Participation in a free-trade area is likely to lower revenues from trade taxes. Thus, the higher a country's initial reliance on trade taxes, the more effort is required to change the structure of taxation towards domestically based taxes, and the greater the restraints on expenditures that maybe needed to limit the fiscal impact of entry into a free-trade area;

(c) Low external debt burden. A large external debt at the outset of trade liberalization complicates macroeconomic adjustment and may cloud the prospects for attracting investors. This is because high debt service places a heavy burden on the budget and the balance of payments. Moreover, investors would be concerned if the debt burden reflected large past macroeconomic imbalances and if they believed that it might lead to a future increase in taxation or a re-introduction of trade and exchange controls;

(d) High degree of openness. A country that starts comprehensive trade reform long before its entry into a free-trade area minimizes the shock of structural adjustment from such entry, fosters a smoother reallocation of resources and minimizes trade-diversion effects. The trade reform would have to include an across-the-board reduction in tariffs and the elimination of quantitative restrictions and non-tariff barriers;

(e) Liberal regulatory framework. Controls on goods and factor markets hinder the efficient reallocation of resources and limit the transmission of the positive effects of trade reform. Price controls also offer in value explicit or implicit budgetary subsidies, making fiscal discipline more difficult to sustain;

(f) Comprehensive social safety net. The reallocation of resources from previously protected sectors to the export sector and to efficient import-substituting activities is likely to take time, thus resulting in losses in temporary employment opportunities. In addition, macroeconomic adjustment and the implementation of comprehensive liberalization measures can cause the real incomes of some groups to decline in the short run. In order to minimize the transmission costs, a social safety net, targeting benefits to the most vulnerable and providing support and retraining for displaced workers, is critical.

To assess how close SEM countries are to meeting these preconditions, four factors are examined as follows:

(a) Inflation. This is an indicator of a country's financial policy stance. The volatility of rates of inflation over, say, the last 10 years is a useful indicator of past macroeconomic instability. Inflation rates and inflation volatility in most SEM countries were significantly higher than the EU average over the last 10 years;

(b) Budget deficit. The budgetary position reveals the extent to which a country is vulnerable to excess demand pressures. Fiscal discipline is a fairly recent development in most SEM countries; this is a trend that needs to be reinforced;

(c) Real effective exchange rate. This can suggest past macroeconomic imbalances. The pattern in some SEM countries reveals high inflation rates coupled with insufficient exchange rate flexibility, which results in prolonged periods of over-valuation of the real exchange rate, followed by large corrective nominal exchange rate savings;

(d) External current account position. This indicator has to be examined cautiously since, in some SEM countries, trade and/ or exchange restrictions limit imports.

The four indicators suggest that all SEM countries need to strengthen macroeconomic policies, particularly as inflation remains higher than the EU average. This will require tighter financial policies; that the exchange rate be more responsive; and the adoption of more restrained fiscal and monetary policies to minimize potential divergences between the actual and new exchange rates. Virtually all SEM countries rely heavily on trade taxes and, thus, have to strengthen their domestic tax systems as they phase out tariffs vis-à-vis the EU and other trading partners. Lowering the external debt to a GDP ratio will be critical for some SEM countries, where a fiscal adjustment stronger than that suggested by their actual budget deficits will be needed. Although these countries have lower external debt to GDP ratios, most other SEM countries will also have to make serious efforts to reduce this ratio. The external debt burden of the SEM countries is moderated, however, by the fact that some of the debt was contracted on concessional terms.

V. FINANCIAL EFFECTS OF THE EURO-MEDITERRANEAN PARTNERSHIP AGREEMENTS ON SOUTHERN AND EASTERN (ARAB) MEDITERRANEAN COUNTRIES [4/]

The Euro-Mediterranean Partnership agreements are expected to be beneficial in the long-run for the SEM countries involved, but there will be costs in the short- to medium-term.

Most of the costs, including those of adjustment, normally come early in the short-term, whereas most of the benefits arise in the medium- and long-term. The benefits tend to be dynamic in that they result gradually over time as adjustment takes place. They are part of the process, not once and for all occurrences. The policy maker has to be careful to distinguish between private sector interests and their expression and the welfare costs or benefits to the economy and the general public.

The creation of a free-trade area between the EU and SEM countries is a preferential trade arrangement that both liberalizes and distorts trade. If trade between the EU and SEM countries were to be liberalized, it would expand because it would face lower restrictions and lower tariff and non-tariff barriers than previously. The consumers of the SEM countries would be better off, whereas producers of import-competing goods would be worse off, and customs revenues would decline because of lower prices. However, trade creation (see page 31 below) generally results in a net increase in welfare that outweighs any loss of tariff revenues.

The creation of a free-trade area would also have an economic impact as reflected in what is called trade diversion (see page 30 below) which would result when, due to lower tariffs facing EU products, consumption is diverted away from other foreign products and towards EU products. If, however, the EU is not as efficient as other foreign suppliers, (it is a higher cost source of supply), trade diversion may lead to a net welfare loss.

Whether the SEM countries stand to win or lose, that is, whether the benefits of trade creation will outweigh the losses from trade diversion, is an empirical matter. It is, however, expected that, on the whole, there will be a small net welfare loss, because the EU may be a less efficient, higher cost supplier than competitors from other regions. But the overall tax burden (the ratio of tax revenues to GDP) could be significant in most SEM countries, owing to the high ratio of import duties to total tax revenues. The higher this ratio and the higher the import quota of any Mediterranean country from the EU, the higher the potential loss of customs revenues (i.e., tax revenues from import duties) and the higher the loss in GDP, i.e. the ratio of tax revenues to GDP.

To avoid such losses, SEM countries must reform their fiscal systems together with trade liberalization. The required fiscal reform can be divided in two parts: first, increase dependence on direct taxes (i.e. income and profit taxes) so that these could constitute a higher share of tax revenues; secondly, gradually introduce taxes on goods and services as an alternative to customs and tariffs. These taxes would be best reflected in the value added tax (VAT), which, however, would require a major structural reform in tax assessment, collection and administration.

Fiscal reform, changing the tax structure and reforming tax administration, is a costly matter, since it also implies changes in accounting and record-keeping for individuals and businesses. Under the proposals being negotiated in the Partnership Agreements, tariff reductions would only take effect after a grace period of five years, followed by a reduction in tariff rates over a period of seven years. This makes a total of 12 years. The major tariff reductions, however, are expected to take place during the last three years of this period, so they would be delayed and the loss in customs revenues would be postponed. Consequently, with the fiscal impact of the Agreements thus being delayed, the grace period is expected to be used for implementing the fiscal and tax reforms.

[4/] Parts of this chapter are based on a publication by the International Monetary Fund entitled "Impact of European Union Association Agreements on Mediterranean Countries", August 1998.

Another potential cost would result from restructuring the industrial and agricultural sectors. As tariffs and other forms of protection are phased out, both industry and agriculture will have to undergo structural change.

There are transitional costs of adjustment: industries and input factors that are actively affected by a reduction in their effective rate of protection will experience a reduction in output and income, respectively. Gradually, investment and input factors would move to other sectors that have retained or gained a comparative advantage. The gradual reduction of trade barriers over the period of 12 years would result in a delay in the structural adjustment in addition to the above-mentioned fiscal reform.

To minimize the possible losses from trade diversion and to reduce the cost of adjustment, it would be important to maximize the benefits derived from a number of the available Euro-Mediterranean programmes. First, there would be opportunities for close integration, as the Euro-Mediterranean Partnership agreements cover a range of issues going well beyond trade. The benefits would not only arise from reducing tariffs and non-tariff barriers. There are additional dimensions: liberalization could extend to services; technological transfers would improve product quality; harmonization of product quality standards would render products more marketable in the EU; harmonization of regulatory regimes and administrative requirements with the EU would facilitate trade, promote investment and enhance competition in domestic markets; and there would be increased efficiency in trading, due to improvements in telecommunications and transport. Secondly, the Euro-Mediterranean Partnership agreements would contribute to lock-in reforms, anchor expectations and enhance credibility, thus attracting more foreign direct investment. Thirdly, the EMP agreements would require rethinking numerous aspects of the policy framework, since comparison reforms to trade liberalization are indispensable if the liberalization is to succeed. Fourthly, the agreements could be a first step towards great unilateral trade liberalization. The benefits for SEM countries from free trade with the EU would be substantial, but they would be considerably larger if liberalization were conducted with the rest of the world.

On the cost side of the Euro-Mediterranean Partnership agreements, two aspects could be highlighted for SEM countries: the loss in fiscal revenues and the cost of temporary unemployment and idle capacity. The SEM countries expect that both would be mitigated through additional financial assistance from the EU. It is estimated that the loss in fiscal revenues would rise steadily from approximately 0.2 per cent of GDP in 1996 for Tunisia and from a forecasted percentage of GDP in 1998 of 0.3 for Jordan and 0.4 in 1999 for Egypt to around 2.4 per cent in 2008, 2.6 per cent in 2010 and 2.9 per cent in 2011, respectively, when the agreements with these countries are fully implemented.

To put these numbers in perspective: fiscal revenues from customs duty amounted to approximately 4.4 per cent of GDP in 1995 for Tunisia, 6.8 per cent in 1996 for Jordan and 6.4 per cent in 1995 for Egypt. Hence, nearly half of the receipts from customs duties would still remain for Tunisia, around 60 per cent for Jordan and 55 per cent for Egypt, after the agreements with the EU are fully implemented. This is because of the exclusion from the agreements of some dutiable imports, such as industrial commodities with agricultural content, and the fact that around 30 per cent, 45 per cent and 55 per cent, respectively, of the imports subject to taxation in the three countries originate from outside the EU. In comparison, value added tax and excise tax combined amounted to around 8.8 per cent of GDP in 1995 for Tunisia and are forecasted to amount to 9.8 per cent in 1998 for Jordan and 9.4 per cent in 1999 for Egypt. Consequently, the estimated fiscal revenue loss, once the agreements are fully implemented, would correspond to about 27 per cent of these domestic indirect taxes for Tunisia and Jordan and 31 per cent for Egypt.[5/]

[5/] ESCWA calculation based on budget publications of the three countries.

Box 1. Lebanon: liberalization of services and right of establishment within the framework of a Euro-Mediterranean Partnership agreement [6/]

The draft agreement of October 1996 under negotiation with Lebanon raises interesting points. One weakness in the agreements for example of Morocco and Tunisia, is that they essentially refer to the liberalization of services to the adoption of the GATS under WTO, under which both countries made very limited commitments. By contrast, the liberalization of services has been central to the discussions with Lebanon.

Owing to the structure of the Lebanese economy, the benefits of liberalization of commodity trade with the EU are lower than in the case of most SEM countries. Losses from trade diversion are expected to exceed the gains from trade creation. This may result in a net welfare loss of around 0.3 to 0.4 per cent of GDP. Trade diversion is larger because the share of Lebanon's imports originating from the EU is only about 50 per cent. Trade creation is smaller because of the limited production of tradeable goods relative to imports in Lebanon, as reflected in its large structural trade deficit. Thus, the impact of a Euro-Lebanese agreement will do more to raise consumption than to stimulate commodity production.

Consideration of dynamic welfare gains for commodity exports would not change this conclusion; even if not smaller in percentage terms than in the case of some other SEM countries, they apply to a smaller base and are therefore less significant in absolute value. Only if the agreement were to generate substantial new investment, including in export-oriented activities, and stimulates the services sector, would it be favourable.

A key government goal is to restore Lebanon to its earlier position as a regional hub for services through, for example, substantial inward foreign investment. Lebanon already has a significantly more liberal economic regime than most other countries in the region. The agreement under discussion builds on this strength. Thus, Lebanon and the EU seem to be prepared to grant most favoured nation treatment in all services covered by GATS, except in transportation. As regards the right of establishment, i.e. the freedom to engage in foreign direct investment and be treated as a national without limitation in regard to maximum equity stakes or operations, Lebanon has wisely given up its earlier insistence on reciprocity. EU companies will receive national treatment in Lebanon while Lebanese companies will enjoy most favoured nation status in the EU. The gains of freeing services can be very substantial, if difficult to measure, given that the protection of services is not based on tariffs and therefore does not have a price equivalent. The additional liberalization in services; right of establishment and its impact on enhancing foreign direct investment from Europe; lowering costs; and gaining competitiveness through technology transfers should be the main benefit of a Euro-Lebanese Partnership agreement.

The fiscal revenues cost to Lebanon is higher than in any of the other SEM countries. It has been estimated that Lebanon would loose between 4 and 4.5 per cent in revenues after 12 years, not taking into account the indirect effects. The high costs stem from the fact that about half of budgetary revenues in Lebanon are obtained from customs duties, about half of imports originate from the EU, and industrial goods with higher tariffs constitute a large share of imports from the EU. With this in mind, proposed import tariff reductions are delayed, with most of the reduction taking place in the final three years of the envisaged 12-year transitional period, providing Lebanon with the time to build up a broad-based consumption tax, such as VAT. The benefits from reducing effective protection on commodity trade would also come correspondingly late.

The proposed Partnership agreement between the EU and Lebanon has added to the debate on the distribution between the different SEM countries of the total envelope of Euro-Mediterranean assistance. The Lebanese authorities feel that the three criteria for financial assistance proposed by the EU, namely, population, per capita income, and willingness and ability to undertake economic reforms put Lebanon at a disadvantage. They stress the financial costs of reconstruction of Lebanon, the costs of trade diversion and Lebanon's efforts in liberalizing services.

6/ Henri Ghesquiere, "Impact of European Union Association Agreements on Mediterranean Countries", working paper of the International Monetary Fund, August 1998, pp. 11-12.

The fiscal revenue loss would be higher for the three countries if account is taken of the impact of trade diversion and of a possible temporary setback in other tax revenues, as the growth of the export industry, which is often tax exempt in the three countries, makes up only gradually for the adverse impact of the agreements on the import substitution sectors.

During the first years of the implementation of the Agreements, the fiscal revenue loss may aggravate external as well as internal financial imbalances. However, fiscal neutrality can be established, for example, by broadening the domestic tax base by the removal of exemptions of direct and indirect domestic taxes and strengthening the tax administration. In this context, however, distributional issues may cause complications. At first sight, the fiscal revenue loss of the government is the gain of the non-governmental sectors, which would benefit from lower prices of imported goods. In practice, the introduction of measures to compensate for the fiscal revenue loss could be complicated if importers and producers do not pass on the benefits of the tax breaks to the consumers who are likely to bear the brunt of offsetting tax increases.

Furthermore, preferential trade liberalization could carry the risk that a portion of the fiscal revenue loss of the SEM countries is captured by exporters from the EU to the extent that tariffs that remain on non-EU imports create room for raising the prices of European exports. This would aggravate further the deterioration in the terms of trade of the SEM countries that comes with trade diversion. It is probably on these grounds that SEM countries have involved the fiscal revenue loss as justification for increased financial assistance from the EU. Alternatively, the above-mentioned fiscal neutrality could be preserved through a reduction in expenditures, which would also be consistent with reducing the size of government in the economy.

The other main cost, namely, the cost of transitional unemployment and idle capacity, would result from the reallocation of capital. It is estimated that, for Jordan and Tunisia, the cost of shifting and retraining labour for each country could amount to about one year's salary for each worker who moves to a different industry, and for Egypt to around two years' salary. Total adjustment costs are estimated at approximately 6 per cent of GDP for Jordan, 5 per cent for Tunisia, and 4 per cent for Egypt, as workers who transfer to a different industry eventually comprise 4 per cent, 7 per cent, and 2 per cent of the labour force, respectively. This cost, however, could be considered as a one-time adjustment cost because in the case of the three countries it would be spread over the period from the fifth year of the agreement, i.e., the period starting at the end of the five-year grace period, until the capital stock is reallocated, which would be beyond the twelfth year. Although the ratio of transferred workers to total labour force may not constitute a permanent increase in unemployment, the changes in output across sectors and the associated adjustment costs may nonetheless be substantial. These costs would be mitigated to the extent that the agreements spur additional investment and generate dynamic benefits.

Two differences stand out in a comparison of the transitional costs in the case of the three countries with those of Mexico under the North American Free Trade Agreement (NAFTA) and those resulting from agreements concluded between the EU and central and eastern European countries. First, each of the three countries is considered to have high levels of trade protection measures at the outset of its agreement with the EU. While this may enhance the net benefits of trade liberalization, it may also raise the costs of transition. It is noteworthy, however, that the level of political-economic difficulties usually relates to the level of costs of liberalization, notwithstanding the presence of significant net profits. This is due to the difficulties of compensating those who lose out. Secondly, the conditions for what is referred to as open regionalism or deep integration are less prevalent in the three countries than in Mexico or the central and eastern European countries.

The costs of upgrading the industrial sectors and the environment in which they operate in order to make them able to meet increased foreign competition in their home markets and abroad have been estimated in various ways. A broad definition, which includes recapitalization of industrial enterprises, modernization of their equipment and a portion of public sector infrastructure investment has been estimated to be in the range of 2 to 5 per cent of GDP annually during the period from 1998 to 2010 for most of the SEM countries. A more narrow definition, comprising specific public programmes aimed at facilitating technology transfer, vocational training and retraining, and diffusing knowledge about technologies and export possibilities is expected to be financed by a combination of the resources of enterprises, foreign grants and budgetary expenditures. However, to help mitigate the fiscal revenue loss and transitional adjustment costs and in exchange for increased market access of European firms, the EU is committed to providing financial assistance.

The costs of trade diversion for Egypt and Jordan are considered to be substantial, mainly because the EU accounts for only 45 and 32 per cent of trade, respectively, of their imports. Free trade between the two countries and the EU is estimated to result in a welfare gain of only 0.2 and 0.1 per cent of GDP. Accordingly, to raise the welfare gains significantly, partnership agreements between the EU and both Egypt and Jordan, as well as other Mediterranean countries in a similar situation, need to have considerable leverage effects in improving the cost structure of doing business and thereby indirectly enhance prospects for inward foreign direct investment. If it is assumed that the partnership agreements also reduce administrative costs incurred by traders and eliminate the tax inherent in an inefficient service sector in any of the Euro-Mediterranean Partnership countries, due for example, to poor customs procedures and lack of quality control, and that this reduction applies to all international trade, the welfare gains could be expected to rise to between 1.8 and 2 per cent of GDP. Also the Euro-Mediterranean Partnership agreements could be used as catalysts for reducing government intervention in the service sector. Indeed, Egypt, for example, has been advised to surpass the commitments made by Tunisia with respect to liberalizing services and foreign investments.

VI. IMPROVING THE COST/ BENEFITS MAGNITUDE OF THE EURO-MEDITERRANEAN PARTNERSHIP AGREEMENTS [7/]

A challenge facing policy makers in SEM countries is to sustain the initial momentum created by the appeal of closer linkage with the EU through the Euro-Mediterranean Partnership agreements. The agreements are expected to be implemented in a manner that secures their full benefits while limiting the costs. The benefits, which would vary from country to country, are expected to result in improved investment and environment, thus a rise in GDP growth. This is considered to be a consequence of the lowering of protection and the reduced cost of trading brought about by increased cooperation between these countries and the EU, particularly in the areas of harmonization of standards, norms and customs services. But it will also be the result of improved credibility of the economic reform policy of the SEM countries. It should be mentioned, however, that the spectre of import substitution sectors, being dismantled without sufficient investment taking place in the export-oriented sectors, cannot be dismissed. To employ the Euro-Mediterranean Partnership agreements as a tactical vehicle to foster comprehensive supply enhancing reforms and thereby achieve the hoped-for optimal effects, the following is stated:

A. ACCELERATION OF ELEMENTS OF THE AGREEMENTS AND SUPPORTING MEASURES DURING THE TRANSITIONAL PERIOD

Considering that several SEM countries have been engaged for many years in trade liberalization, the 12-year transitional period, the maximum allowed under GATT, is considered to be relatively long. While the long transition period permits adjustment to be spread over time, it also delays the benefits and could be counter-productive. Shortening the transitional period, however, may undermine public support for the partnership agreements or reopen other aspects. Moreover, given the comprehensiveness of the agreement and the supporting measure they require, the full-year transitional period may be needed. A preferred strategy would be for the governments of the SEM countries to reaffirm the final date and take all measures necessary to ensure the credibility of timely completion without having to invoke safeguard clauses that open room for extension beyond the 12-year transitional period, thereby reducing concerns about policy reversals. Therefore, within the 12-year transitional period, the governments of the SEM countries could advance some of the provisions of the agreements which are delayed, such as the tariff reductions, some of which could be advanced with a view to reducing effective protection sooner. The governments could also unilaterally advance some of the more difficult supporting measures, thereby dispelling a false sense of the amount of time available. The measures could be in the areas of financial services, social safety net provisions, increased labour market flexibility and regulatory framework to attract foreign direct investment.

B. ENHANCING THE MULTILATERAL DIMENSION OF TRADE LIBERALIZATION

The preferential trade arrangements foreseen by the Euro-Mediterranean Partnership agreements both liberalize and distort trade. A solution could be discriminatory free-trade arrangements between the EU and the SEM countries, where the latter could view the partnership agreements as a mechanism for their integration into the world economy, not only the European economy. In parallel with the implementation of the partnership agreements, a multilateral trade liberalization could be beneficial in a number of ways, as follows:

(a) The cost of trade diversion would be avoided. As they stand, the Euro-Mediterranean Partnership agreements divert imports away from more efficient non-EU sources to higher cost EU suppliers, thereby reducing the cost of trade liberalization. By contrast, unilateral reduction of tariffs (trade liberalization) from all geographical sources on a most-favoured nation basis would allow the full benefits of the competitive impact;

[7/] Ibid., based on chapter V.

(b) Liberalization on a most-favoured nation basis, either unilaterally or within the WTO framework, is a practical way of lowering trade barriers among the various SEM countries themselves. This is important to counter the hub-and-spoke phenomenon. The sooner regional and global protection approaches levels prevailing vis-à-vis the EU, the more likely that investment will take place in SEM countries. A number of these countries are already engaged in efforts aimed at trade liberalization among themselves following a long history of disappointing results. Liberalization by each SEM country, on MFN basis, is likely to be less complicated than seeking to establish comprehensive free-trade agreements with the other countries;

(c) Multilateral liberalization avoids incentives for transshipment to the free-trade partner country with the lower external tariff. Therefore, the multilateral trade liberalization obviates the need for a verification of the application of the rules of origin. The result would be lower costs to exporters, more efficient customs administration and better governance.

C. STRENGTHENING THE INTEGRATION OF REGIONAL TRADE

The previous attempts at regional trade integration among the SEM countries have had a disappointing history. The experience of these countries typifies that of many failed attempts of integration of regional trade in the developing world as the trade liberalization was based on import substitution and state planning, not export orientation and market-based decision-making. The participating SEM countries saw the integration of regional trade as a means of surmounting the inherent scale limitations of their protected domestic market for manufacturing. The bilateral protocol trade arrangements in SEM region, in which member countries selectively determine specific products and quantities to be traded, are examples of politically-driven trade that fails to yield much benefit. In fact, the failure of the many attempts of SEM countries to integrate regional trade can be attributed, in part, to attempts to reduce protection on a product by product basis rather than across-the-board with many exception lists, and to the policy of maintaining high tariffs to outside countries instead of establishing a globally open environment.

The various bilaterally concluded Euro-Mediterranean Partnership agreements are expected to enhance the need for integration of regional trade. Interestingly, the agreements would facilitate regional integration by:

(a) Reducing trade protection in the SEM countries over the 12-year period, thereby improving competitiveness on a sounder basis than the existing bilateral trade agreements among these countries, which are not necessarily consistent with comparative advantage;

(b) Enhancing transparency, for example, in the context of competition policy;

(c) Harmonizing regulatory aspects and procedures bilaterally with the EU, thereby providing the SEM countries, de facto, with common standards they might otherwise find difficult to negotiate between themselves;

(d) Assisting with infrastructure linkages between the various countries themselves.

Integration of regional trade would be very important for countries such as Jordan, Lebanon and the Syrian Arab Republic for whom the region accounts for a significant share of their foreign trade. Although the existing trade among these three countries themselves and between them and other SEM countries is driven to some extent by barter deals and protocol trade agreements that specify preferential tariff rates on specific lists of goods of the region, there is room for further expansion of intra-regional trade. However, the dismantling of tariffs on imports from the EU will put imports from other SEM countries at a disadvantage. Thus, exporters and importers in intra-regional trade who see their trade replaced by imports from the EU will be powerful voices in favour of lowering tariffs on trade between themselves to levels applying to imports from the EU.

In Euro-Mediterranean Partnership agreements as well as in possible intraregional agreements, the rules of origin are important as they are expected to help determine the potential for trade diversion resulting from free-trade agreements. The cumulation of rules of origin in the agreements concluded between the EU and each of Tunisia and Morocco is expected to enhance trade between these two countries. In contrast, cumulation of rules of origin does not apply in the agreement between the EU and Jordan or in the proposed agreement between the EU and Lebanon, as only goods largely of Jordanian and Lebanese origin qualify for duty-free export into the EU.

The extension of cumulation rules to Jordan and Lebanon and to the other SEM countries would be beneficial to all partners in the agreements. Realizing the benefits, however, requires that barriers to intra-regional trade be eliminated, and that existing commodity specific preferential trade agreements be converted into full-fledged free-trade agreements.

D. STIMULATING A POSITIVE MACROECONOMIC RESPONSE

It is expected that by lowering import prices, the effect of the Euro-Mediterranean Partnership agreements on the economies of SEM countries would be to stimulate the overall demand in the economies of these countries. However, in order to prevent a deterioration of domestic and external balances, a key condition for higher foreign and domestic investment, policy makers in SEM countries would probably have to implement compensating fiscal policies and allow the real exchange rate to depreciate in response to market forces. A positive macroeconomic policy response further requires a monetary policy stance that aims to consolidate the low levels of inflation currently prevailing in the SEM countries.

While trade liberalization often founders on the adverse budgetary revenue implications, expansionary macroeconomic policies often lead to a reversal of trade liberalization. Therefore, macroeconomic stability and trade liberalization should go hand-in-hand. Relating this basic guideline to the fiscal effect of the Euro-Mediterranean Partnership agreements on the SEM countries, any adverse budgetary impact of the agreements should be fully offset through alternative high quality revenue sources or expenditures reductions. This is important to give the agreements credibility. In fact, given the delayed profile of the tariff reductions, a strong fiscal adjustment stance up front would strengthen perceptions that the agreements will be implemented in full.

Although it could be said that this undertaking could be considered manageable, the budgetary policy process in the SEM countries, indicates that the task is demanding both technically and politically. This is because trade liberalization takes place alongside other structural developments that may also add medium-term budgetary pressures in SEM countries, such as the gradual deterioration of pension and social security systems. Added to this could be the declining trend in population growth or the financial burden from public sector enterprise restructuring. These come in addition to all the usual pressures for increased government expenditures and leave little room for trade liberalization to act as a further source of demand expansion.

The SEM countries are expected to maintain stability in their external economic relations, as many of them are attempting to lower the ratio of external debt to GDP to sustainable levels. In addition, these countries, in order to have their trade balance unaffected by the agreements, may have to adjust the exchange rate of their currencies to levels that could help dampen import demand and encourage exports sufficiently. In the absence of an exchange rate adjustment, which for most SEM countries may entail a depreciation of the real exchange rate of their currencies, the trade balance could deteriorate to levels unbearable for these countries. Moreover, any balance of payments burden may not be sustainable in the long-run. Pressures could develop eventually either for a disorderly exchange rate adjustment or to reintroduce formal or informal foreign exchange or trade restrictions on EU countries or other partners.

Admittedly, increased foreign aid or private capital inflows that could be triggered by the Euro-Mediterranean agreements would provide for the necessary financing. Recent experience in Asia, however, warns against excessive trade imbalances combined with fixed nominal exchange rate anchors. Although the Euro-Mediterranean agreements are expected to help strengthen the supply response of the export sector, the governments of SEM countries are, in turn, also expected to lean towards letting the exchange rate respond to market forces. Exchange rate flexibility is significant regardless of any productivity gains which are supposed to enhance competitiveness. To support such an exchange rate policy, the concerned SEM countries may have to maintain tight monetary and fiscal policies.

E. Enhancing economic structural adjustment reforms

The Euro-Mediterranean Partnership agreements require that import protection be fully dismantled by the end of the 12-year transitional period. This makes it crucial for the SEM countries to strengthen the supply response of their export sectors. At the same time, however, the agreements facilitate this process by incorporating several reform measures explicitly and, more generally, through policy conditionality. By taking this into consideration, the SEM countries are expected to accelerate and enhance economic structural adjustment programmes and build upon and exploit the principles of trade liberalization which are inherent in the agreements. Moving in this direction would advance the benefits for SEM countries. Otherwise, the benefits may risk coming late while the transitional costs are felt early.

A timely implementation by SEM countries of the provisions of the Euro-Mediterranean Partnership agreements, particularly in the area of cooperation in streamlining the export sectors with the EU countries, could be significant for the SEM countries. Among the measures that could accelerate the implementation are those relating to the upgrading of testing laboratories; the concluding of agreements for the mutual recognition of certificates of product standards; and the establishment of building regulations. The easing of burdensome port and customs procedures would help in this regard. High service and transaction costs would hamper efficient production and export expansion. These costs include excessive insurance fees, high port service costs, losses caused by wastage and breakage of goods due to low quality transportation and storage, and excessive costs of telecommunication services. Reducing these costs would help the export sectors compete abroad.

Except for Lebanon, the SEM countries have not fully made use of the opportunity of committing to the right of establishment in their partnership agreements. While it might not have been realistic to expect negotiations on an already bold initiative to have gone much further, the SEM countries are expected to seek in upcoming reviews to adapt their partnership agreements and strengthen the liberalization of services and right of establishment. By indicating that they are open to foreign direct investment, SEM countries could increase the incentives for foreign companies to establish and transfer much needed know-how.

However, other complementary economic policy reforms are needed to help to ensure the attainment of important dynamic gains, minimize transitional costs, bolster the credibility of the government's strategy, and make the economies of SEM countries more globally competitive. Among the economic policy reforms that are also considered important for bolstering the economies of the SEM countries are, for example, privatization and administrative and judicial reforms. Privatization would help provide immediate opportunities to foreigners for direct and portfolio investments. It would also help confirm with investors the government's seriousness about reducing its role in the economy, a prerequisite in many SEM countries for ensuring that trade liberalization yields the expected benefits of greater competition on product markets.

Moreover, privatization of key input and services industries would reduce the investor's concerns about the availability of these inputs. Opening up services of telecommunications, ports and electricity to foreign investments would make available adequate technology and lead to the avoidance of bottlenecks, thereby supporting the export sector. However, administrative and judicial reform programmes, particularly those concerning procedures governing private sector activity, would further facilitate foreign investment. Clearer interpretation and tighter enforcement of laws on collaterals and on financial disclosures would greatly improve the functioning of financial markets. Investors want security of rights and quick, transparent and consistent judicial decisions. Red tape and administrative discretion are usually considered important constraints by foreign investors.

Although the provisions of the Euro-Mediterranean Partnership agreements do not address these issues directly, they could, however, spur policy makers in SEM countries to accelerate these reforms. Nevertheless, the agreements do provide for the adoption of basic EU competition policy rules with respect to collusive behaviour, abuse of dominant position and competition distorting state aid, to the extent that these affect trade with the EU. Given the prevalence of state-owned enterprises, this would have important benefits. Another area of economic standard reform is increased labour market flexibility. Combined with stepped-up social safety net provisions, this should help to reduce the transitional costs.

F. FINANCIAL ASSISTANCE

Financial aid by the EU to SEM countries, as entailed in the partnership agreements, is expected to be seen in the broader context of the strategic objectives of the agreements. It is justified as compensation for the fiscal revenue loss and the adjustment cost incurred; support for industrial upgrading; and as an incentive to encourage governments to implement the agreements and the structural reforms needed to ensure their success.

Under the agreements, disbursing aid to SEM countries is conditional on the implementation of programmes of structural reform agreed upon between the governments of these countries and the EU in close cooperation with the International Monetary Fund and the World Bank.

As to the question of whether conditionality attached to EU grant money would accelerate the reform process, there are two schools of thought. The standard view holds that financial assistance can have an important catalytic impact on economic policy reforms, particularly in a crisis situation and when new rules of policy-setting are formulated. A number of events come to mind in this context: the Marshall Plan; the debt crisis in Latin America; and, the demise of socialism in central and eastern Europe. Against this, however, the thinking is that financial assistance has limited leverage in co-opting governments to assume ownership of structural reform programmes. Another question relates to conditions: disbursements of financial assistance are conditional upon the implementation of the preferential tariff reductions, less so on the implementation of the deeper integration policies, and not on other complementary measures such as extending liberalization to the multilateral levels.

The governments of SEM countries, however, seem to prefer to receive financial assistance for general budget support and invoke the fiscal loss to that effect. Nonetheless, the question arises as to whether earmarking a portion of these funds for specific budgetary expenditures can ensure the ultimate success of the Euro-Mediterranean Partnership agreements. To a significant extent, this success would depend on the quality and magnitude of economic and technical cooperation on the side of the EU. Enhancing this cooperation is significant, as it would make the regulatory and judicial environment in the SEM countries conducive to foreign direct investment. Moreover, the SEM countries are expected to benefit, via the partnership agreements, from the extensive experience of the EU with the harmonization of diverse regulations among its member countries. The availability of pre-tested and internationally accepted rules and procedures, for example in customs and documentary requirements, saves the SEM countries the costs of formulating them. The agreements also provide a framework for direct linkages through transfer of know-how and close cooperation between the private sectors in both regions. It is worth noting, however, that not all policies and practices of the EU countries, including, for example, labour-market regulations or social-security systems, can be emulated by SEM countries.

Box 2. The European Union and the Palestinian Authority

The Oslo Declaration, in September 1993, followed by the establishment of a Palestinian Administration in parts of the Occupied Territory, gave a boost to cooperation between the European Union and the Palestinians. With the aid provided by the member States, the European contribution accounts for one third of the international support for the Palestinians, putting it easily in first place among donors to the development of the West Bank and Gaza Strip.

In programming this aid, the European Commission applies, in particular, the priorities defined by the Palestinian Authority. Since the Barcelona Conference, the Palestinian Authority has become a full partner of the European Union.

The European Union is concentrating its action on the rehabilitation of infrastructure in the field of education, health, public services, and urban authorities.

Box 2. (*continued*)

The European Commission is implementing a programme for the development of the private sector that provides concrete assistance to companies to develop their commercial activity with the aim of meeting local demand and increasing their export capacity. A Palestinian business support centre has been established in Ramallah, West Bank, which coordinates a programme for consultation, information and training.

G. Improving market access and broadening the partnership agreements to agriculture

The absence of a significant increase in access for exports of the SEM countries to the EU reflects a significant limitation of the benefits of the Euro-Mediterranean Partnership agreements. This issue, however, reflects the fact that SEM countries have already been enjoying non-reciprocal preferential access under the 1976 trade and cooperation agreements that were concluded with most of them.

Irrespective of this, the Euro-Mediterranean Partnership agreements are considered to have the advantage for SEM countries of affirming by international treaty their nearly duty-free access. Nonetheless, increased opening of the EU markets would enhance welfare for the SEM countries and EU consumers alike. From a political economy point of view, it would be a powerful signal of reciprocity that SEM countries could use to justify various measures of deeper economic integration to their own citizens.

For most SEM countries, the export of manufactures was already admitted duty free for unlimited amounts or, as in the case of textiles, for specified quotas under bilateral voluntary agreements, which often exceeded actual exports. The Euro-Mediterranean Partnership agreements, however, leave room for protection through non-tariff barriers, such as the administration of antidumping, the provisions of which are considered to constitute a continued impediment to market access. Under the Euro-Mediterranean Partnership agreements, while the adoption of European competition policy would bring relief from countervailing duty action, exporters in SEM countries will still have to be concerned about antidumping. Egypt and Lebanon, for example, have been advised to seek relief from antidumping in exchange for the adoption of European competition policy.

The deferment of substantive negotiations concerning trade liberalization in agricultural goods until the year 2000 in the case of Morocco and Tunisia, and until 2002 in the case of Jordan and Lebanon, is largely explained by the official difficulties of reforming the common agricultural policy of the EU and resistance on the part of European agricultural interest groups who compete with SEM exports.

European agriculture is clearly a case of trade diversion. Egypt and Morocco, in particular, have emphasized their concern for increased access for agriculture. The limited additional access offered to these and other SEM countries stands in contrast with the agreements concluded between the EU and the central and eastern European countries. For Egypt and Morocco, as well as other SEM countries, continuing restrictions on access to the EU agricultural market limits the potential welfare gains of the agreement. Tunisia would benefit from increased access for olive oil at EU support prices; Egypt, from increased access for potatoes; Jordan, for tomatoes and vegetables and for Lebanon it would be for fruits; although the advantage for all of these countries could be eroded as a result of closer correspondence in the future of the EU support prices with world market prices.

Also in the SEM countries, agricultural production is heavily protected through tariff and non-tariff barriers. Reciprocal liberalization of agricultural trade would provide further benefits to consumers on both sides of the partnership agreements. Including agriculture in the agreements can provide a powerful sign of full, open and outward-oriented free trade. At the same time, faster liberalization of agriculture in SEM countries, even unilaterally, only limited steps are programmed under the WTO rules, would help to avoid new distortions that may result if resources flow from the relatively unprotected industrial sector into the agricultural sector.

VII. THE IMPACT OF THE EURO-MEDITERRANEAN FREE-TRADE AREA ON SOUTHERN AND EASTERN (ARAB) MEDITERRANEAN COUNTRIES

A. THE CREATION OF A FREE-TRADE AREA AND TRADE-RELATED ECONOMIC VARIABLES IN SEM COUNTRIES

The main economic elements of the Euro-Mediterranean Partnership agreements are: the creation of a Euro-Mediterranean free-trade area to be completed by the year 2010; and a substantial increase of the financial assistance given by the EU, and drawn on its own budgetary resources for the period 1996-1999.

To start with the second element, the practice, and, in relation to the Euro-Mediterranean policy of the past, the system of bilateral financial and technical protocols, the last series of which were scheduled to end by October 1996, have been upgraded and replaced by a new regulation called the Euro-Mediterranean Initiative (MEDA), dealing with SEM countries under a unified framework that will deal with all cooperation activities on a multi-annual basis.

In the area of trade, the establishment of a Euro-Mediterranean free-trade area by the year 2010 implies a departure from the existing arrangements, which basically have been in place since the mid-1970s when the first Global Mediterranean Policy of the European Union took shape. The new situation will oblige those SEM countries that have not done so already to give tariff- and quota-free access to industrial products originating in the EU, and probably partial free trade in agricultural products as well. Since by 2010 the EU will include most of the central and eastern European countries, the opening of the EU markets will include the latter, as well. Another issue is that SEM countries must eliminate duties on goods originating in other SEM countries. Moreover, the EU expects that SEM countries will gradually adopt the competition and origin rules of the EU.

To assess the possible gains or losses that may arise from the free-trade area, it is necessary to have a clear understanding of a number of key variables in SEM countries. These variables are: (a) degree of openness of the economies of SEM countries; (b) level of most favoured nation (MFN) tariffs; (c) customs duties; and (d) content of the Euro-Mediterranean Partnership agreements in relation to the free-trade area.

1. *Degree of openness of the economies of SEM countries*

Table 2 shows that the Maghreb countries (here, Algeria, Morocco and Tunisia) and the Syrian Arab Republic, are substantially more export-dependent on the EU than Lebanon (17.7 per cent) and Jordan (8.3 per cent). However, the share of the SEM countries in the exports of any other SEM country is less than 10 per cent, except for the Syrian Arab Republic (18 per cent). This share is particularly low for Algeria (1.4 per cent) and Lebanon (3.2 per cent). The weight of European Mediterranean countries (France, Spain, Italy and Greece) in the exports of Egypt, the Syrian Arab Republic and the Maghreb countries is high. Except for Egypt (39.8 per cent), it is close to 50 per cent.

As to imports, all SEM countries are highly dependent on the EU (see table 2), reaching approximately 72.3 per cent for Tunisia, 66.6 per cent for Algeria, 54.1 per cent for Morocco, 43.6 per cent for Lebanon, 40.5 per cent for Egypt, 39.6 per cent for Jordan, and 30.1 per cent for the Syrian Arab Republic. However, the share of the SEM countries in the imports of any other SEM country is less than 13 per cent. It is particularly low for Egypt (1.8 per cent), Lebanon (2.1 per cent), Tunisia (2.5 per cent) and Algeria (3.1 per cent). The weight of European Mediterranean countries in the imports of the Maghreb countries is high, averaging around 49 per cent for the three countries combined. It is 32.5 per cent for Lebanon, 21.4 per cent for Egypt, 19.8 per cent for the Syrian Arab Republic and 14.1 per cent for Jordan.

2. *Tariff levels*

For several years now, most SEM countries have engaged in trade policy reforms including, in most cases, the progressive elimination of quantitative restrictions on imports and a movement towards tariffication, with the unexpected result of increasing fiscal revenues.

The consolidation, and in some cases the reduction, of tariff rates is considered to have resulted in an increase in effective tariff protection rates. For example, in the case of Tunisia, the increase in the rate on the import of textiles is estimated to be close to 100 per cent. Table 3 indicates the applied tariff rates in a number of SEM countries.

TABLE 2. INTERCHANGE OF FOREIGN TRADE OF THE SEM COUNTRIES, 1995
(*Percentage*)

	Exporting countries						
Importing countries	Algeria	Egypt	Jordan	Morocco	Syrian Arab Republic	Tunisia	Lebanon
EU (15 countries)	62.2	52.5	8.3	61.4	58.1	80.0	17.7
Other SEM countries	1.4	4.6	9.2	5.2	18.0	9.2	3.2
Euro-Mediterranean countries	48.4	39.8	1.8	49.2	46.9	48.8	13.1
All Mediterranean countries	49.8	44.4	11.0	54.4	64.9	58.0	15.3
	Importing Countries						
Exporting countries							
EU (15 countries)	66.8	40.5	39.6	54.1	30.1	72.3	43.6
Other SEM countries	3.1	1.8	13.2	3.8	10.4	2.5	2.1
Euro-Mediterranean countries	55.6	21.4	14.1	44.3	19.8	49.9	32.5
All Mediterranean countries	58.7	23.2	27.3	48.1	30.2	52.4	34.6

Source: International Monetary Fund, Direction of Trade Statistics Yearbook, 1997.

TABLE 3. POST URUGUAY ROUND RATES OF NOMINAL TARIFF PROTECTION AND OTHER TRADE TAXES
(*Percentage*)

Tariffs and taxes	Algeria	Egypt	Morocco	Tunisia
Tariffs				
Range	0-60	5-70	5-35	0-43
Simple average	25	30	23	27
Other taxes	-	2-5	10-15	10-30
Tariff and other taxes (average)	25	34	36	35

Source: The Euro-Mediterranean Partnership, Political and Economic Perspectives, Richard Gillespie ed., (London, Frank Cass, 1977).

Notes: Average tariff rates result by dividing tariff revenues by total imports. The Uruguay Round has left applied rates about the same as before.

3. *Customs duties*

Customs duties are considered to be significant for the financial standing of all SEM countries. In fact, customs revenues explain some of the anxieties manifested by several SEM countries during the negotiations with the EU, which suggested that value added tax be introduced to compensate for losses in

4. *Contents of the Euro-Mediterranean Partnership agreements in relation to the free-trade area*

A scheduled elimination of customs duties for a number of categories of products originating in the EU is a major issue, contained in the Euro-Mediterranean Partnership agreements. Contents of the categories are to be negotiated separately between the EU and each of the SEM countries. Customs duties on the first category would be eliminated upon entry into force of the partnership agreement. Customs duties on the second category would be phased out over a period of five years following the entry into force of the agreement. For the third category, customs duties will be eliminated over the transitional period of 12 years, i.e. one twelfth every year, starting with the entry into force of the agreement. The fourth category relates to products submitted to tariffs that will not be reduced during the first five years of the agreement, but then will be phased out over the remaining seven years of the transitional period.

Another issue referred to in the agreements that relates to the free-trade area is that of the EU standards and norms. Although the EU indicates that it does not want its standards and norms to be imposed on SEM countries, the overwhelming significance of the EU market for most SEM countries, would force these countries to adjust to EU standards and norms unilaterally. Actually, what the EU seems not to want is to have to consult SEM countries when setting standards and norms if they concern the latter; that is, it will not allow SEM countries to participate in the decision-making process, something that was accepted in the case of other countries, such as Norway and Iceland, which are only members of the European Economic Area and not the EU. A concrete example will suffice: whereas Norway and Iceland could be consulted in the process of setting standards for canned fish or for defining different fish species, such as sardines or tuna, Morocco, another big fishing country, will not be consulted at all, even after the partnership agreement is implemented.

B. THE ECONOMIC EFFECTS OF CREATING A EURO-MEDITERRANEAN FREE-TRADE AREA

1. *Static effects*

(a) *Trade diversion*

In dealing, for example, with the trade and welfare implications of the proposed free-trade area, the question arises as to whether increased import of manufactured and agricultural products from the EU would replace import-competing production, i.e. trade creation, or imports from third world countries, i.e. trade diversion. In answering this question, it should be observed that the degree of overlap between EU exports and domestic production in SEM countries is generally small. The scope for trade creation seems correspondingly small as well. However, there are import-substituting industries in most SEM countries, currently protected by high tariffs. These industries are expected to be significantly affected by the creation of the free-trade area where tariffs will be eliminated.

Much of what the SEM countries import from the EU does not compete with local production; rather it competes with imports from Japan, the United States of America or other countries. It is noteworthy, however, that the creation of the free-trade area would imply a fair amount of trade diversion against OECD countries[8/] other than those of the EU, as well as against other countries. Trade diversion effects are particularly awkward for those countries that still rely largely on tariffs as a source of fiscal revenue. A priori there is a wider margin for trade diversion effects to emerge in those SEM countries such as Jordan and the Syrian Arab Republic, that buy a large share of their imports in countries other than those of the EU.

The reverse preferences to be conceded to the EU by the SEM countries, which were rejected as a form of new colonialism in the 1970s, are significant insofar as average Most Favoured Nation tariffs in these countries are not negligible, and thus the margin of preference to be offered to the EU (and other SEM countries if bilateral free-trade areas are signed among the latter) is huge.

8/ Japan and the United States are members of the Organization for Economic Cooperation and Development.

(b) *Trade creation*

Regarding potential trade creation, the scope is smaller for those SEM countries that are the most complementary to the EU economies. In this context, Jordan comes to mind, but Lebanon follows closely. Complementarity means that there is not much scope for redeployment of resources. The higher the share of the EU in total imports, the higher the likelihood in trade creation. In this respect, the Maghreb countries are much better placed than other SEM countries. Moreover, countries that are still highly protected by large import-substitution programmes, leading to inefficient diversification, are likely to gain from trade creation in that resources trapped in capital-intensive industries, largely in the public sector, would have to move out to export-oriented sectors such as clothing. The question is whether, on balance, these reverse preferences will lead to net job creation in SEM countries. After all, this is one of the avowed aims of the Euro-Mediterranean Partnership agreements.

The answer to this question is certainly negative in the short-run, since, as indicated above, the partnership agreements will improve market access in the EU only in the domain of textiles and clothing. In the long run, however, much will depend on the generosity of the EU regarding market access for agricultural products, which would create tremendous job opportunities, and cumulation of origin. It is considered cynical for the EU to ask the SEM countries to implement economic structural adjustment programmes, while being itself unprepared to adjust in sectors in which it no longer has a comparative advantage, including large segments of the agricultural sector in the Euro-Mediterranean member countries.

Another way for the EU to reciprocate in trade would be by improving market access through the elimination of some non-tariff barriers other than quantitative restrictions, which together with tariffs were eliminated under the operation agreements signed in the mid 1970s. This, however, would imply moving away from the free-trade area concept and towards the creation of a Euro-Mediterranean Economic Area for goods by concluding, for example, mutual recognition agreements in as many areas as possible, starting with those relating to technical barriers, such as certification, testing, norms and standards. The EU has plenty of time to improve the economic content of the Euro-Mediterranean Partnership agreements until the year 2010, when the different free-trade areas must be in place.

(c) *Trade deflection*

It is well known that large tariff differences among members of a free-trade area incite traders to deflect trade, which then obliges the customs authorities to tighten the application of controls at borders, counter to the initial aim of the free-trade area of promoting exchange and understanding. In the case of the European Free Trade Association, for example, not only were tariff rate differences smaller than in the SEM region, i.e. the EU versus the SEM region, but geographic dispersion made trade deflection more costly and certificates of origin a matter of lesser importance.

2. *Dynamic effects*

Dynamic effects usually derive from economic integration. However, the effects apply to potential exporters and not to import-competing producers. For example, the argument for economies of scale in favour of economic integration, which argues that the latter can overcome the problem of having too small a local market, does not apply in the case of the Euro-Mediterranean Partnership. It is doubtful whether enlarging the European Economic Area market by adding the SEM markets will allow EU firms to benefit from additional economies of scale. The argument does not apply to SEM countries exporting to the EU either, since market access in that direction does not improve unless cumulation of origin rules are implemented. There is no doubt, however, that the exploitation of economies of scale would be enhanced if free-trade area agreements were concluded among neighbouring SEM countries, for example between Egypt and Jordan, and Jordan, Lebanon and the Syrian Arab Republic.

It is also argued that regional integration will attract investors wishing to exploit the new preferential status. In this context, it means that the EU might attract investors in view of the improved market access available to EU-based exporters to SEM countries. If what is argued above about trade-diversion effects is right, it may then happen that such investors would invest in the Mediterranean countries that are members of the EU in order to penetrate the SEM markets. In other words, investments that were made in the past to produce in protected SEM countries and to supply their markets would be shifted to nearby developed countries, for example Spain or Italy, to do the same from there.

What is clear from these dynamic arguments is that, ceteris paribus, the Euro-Mediterranean Partnership is likely to increase direct investments in the "hub", namely the EU, and not in the "spokes", namely the SEM countries, unless the latter link with each other. This, however, is not likely to happen before 2010.

Another argument, which states that integration will destroy local monopolies and oligopolies, refers to a process that could benefit SEM countries in the long run. This is because the level of imperfect competition in these countries is significant, not the least in the import-competing sectors, which are subsidized directly or indirectly by the state, or where production is nationalized.

The creation of the free-trade area between the EU and SEM countries would force the latter to change their development policies and anchor their economic reform programmes, thus making them credible. In this context, the benefit that could be derived from the creation of the free-trade area is that the governments of SEM countries can impose liberalization on reluctant monopolistic industries by using the excuse that there is a free-trade area to implement. In a sense, the establishment of the free-trade area should be catalytic, in that it signals the commitment of SEM countries to reform. The establishment of the free-trade area should also increase the government's general credibility. All of this is expected to attract foreign direct investment. However, without the right of establishment inscribed in the partnership agreements, and without the harmonization of standards and norms, and with no liberalization contemplated in the domain of services, capital inflows will be limited.

It should be mentioned, however, that if all the above-mentioned static and dynamic effects lead to an increase in GDP growth rate or simply to a once-and-for-all increase in GDP growth rate, this in turn will lead to an increase in domestic savings and, therefore, domestic investments. Paradoxically, however, one way to slow down the negative impact of trade diversion, as mentioned above, is by having long transitional periods, but this in turn would slow down the positive dynamic effects on which the SEM countries seem to be counting.

3. *Cumulation of rules of origin*

The Euro-Mediterranean Partnership agreements allow for what is called bilateral cumulation, meaning, for example, that Lebanon can use EU-originating materials in goods produced for the EU market, in which case the usual test of sufficient transformation of non-originating materials to declare the goods as originating in Lebanon is not necessary, provided that processing in Lebanon is more than symbolic. For example, with regard to textiles, the rule is that in order to get duty free access to the EU markets, it is necessary that spinning and weaving take place in Lebanon if the cotton is being imported from a non-EU country. However, if Lebanon buys the cotton from Greece, which is an EU member country, then weaving in Lebanon is not necessary in order to obtain the duty exemption in the EU.

With the Euro-Mediterranean Partnership agreements being expected to soon allow diagonal cumulation, Lebanon, for example, would not then have to buy the cotton only from an EU member country to get a duty exemption in the EU. Lebanon would be allowed to buy cotton from an SEM country that has a Euro-Mediterranean Partnership agreement and sell the yarn in the EU without proof of sufficient transformation. However, in both bilateral and diagonal cumulation, the provisions apply only to originating materials.

This indicates that the EU is not suggesting full cumulation, which is the form applied in the European Economic Area. Full cumulation would provide for the cumulation of processing as well, i.e. firms could process goods where they wanted, in the EU or in the SEM countries, and products would be labeled simply "Euro-Mediterranean" and no longer "Lebanese" when entering the EU under the duty-free regime.

Admitting cumulation, however, even of the diagonal type, would be important for many SEM countries, because it would improve market access for them to the EU; increase SEM intraregional trade; and enlarge sourcing possibilities of materials and products. Several economies of the SEM region, such as the Egyptian and the Syrian Arab Republic economies, are sufficiently diversified to capitalize on the EU offer.

Box 3. The Euro-Mediterranean policy of Egypt

Egypt's Euro-Mediterranean policy is considered to have been a direct response to two major developments: the convening of the Madrid Peace Conference in October 1991 and the upgrading of the Euro-Maghreb cooperation within the framework of the 5+5 formula, according to which five southern Mediterranean Arab countries (Algeria, Libyan Arab Jamahiriya, Mauritania, Morocco and Tunisia) would enter into a collaborative and institutionalized venture with five northern Mediterranean countries (France, Italy, Malta, Portugal and Spain). The 5+5 formula excluded Egypt because that country was facing the risk of the then European Community becoming preoccupied with central and eastern Europe and Maghreb, which jeopardized Egypt's own interests.

To face this development, the president of Egypt initiated in 1991 what was then called a Mediterranean Forum to replace the 5+5 formula with a Pan-Mediterranean formula. Fortunately for Egypt, the Libyan Arab Jamahiriya-Western crisis broke out in 1992 and the Europeans decided to postpone a Euro-Maghreb summit that had been planned for 1992. However, the idea behind the Mediterranean Forum, as indicated by Egypt, was that the Forum should focus on promoting areas of economic cooperation, while political cooperation could be handled in other forums or be brought into the Mediterranean Forum at a later stage. Egypt was also concerned about a dialogue between the different cultures in the Mediterranean basin. Egypt has been arguing that the issue of controlling the movement of labour can only be tackled through subsidizing development projects in the source countries, improving the terms of trade of these countries and establishing a free-trade zone between the EU and SEM countries. Egypt has also been calling for a review of EU aid programmes to SEM countries and for reconsideration to be given to debt relief, technology transfer, control of multinational companies and the need to address the social consequences of economic reform programmes.

The issue of agricultural exports to the EU has been the major stumbling block in the EU-Egyptian negotiations concerning a Euro-Egyptian partnership agreement. Whereas the draft agreement is said to have exempted European industrial exports to Egypt from all Egyptian tariff and non-tariff barriers, it placed restrictions on the agricultural exports from Egypt to the EU. The EU offered only limited increases in the quotas for Egyptian agricultural exports, extension of the importation seasons and entry to the EU market for additional agricultural products.

Egypt, so far, has rejected this offer, arguing that a partnership agreement should maintain a balance between the liberalization of industrial trade and agricultural trade and that each party was entitled to benefit from the areas in which it enjoyed a comparative advantage. Moreover, Egypt argues that the liberalization of its agricultural trade with the EU would not hurt EU agriculture as this trade represents only a small fraction of the total agricultural production imported from the EU, and that Egypt is a net importer of EU agricultural goods. The value of the agri-exports from the EU to Egypt is almost five times that of the agri-exports from Egypt to the EU. Therefore, the argument goes, an EU-Egypt partnership agreement has to address itself to this trade imbalance, if the philosophy of the agreement is to be based on the economic development of Egypt and reciprocal commitments.

There are four other issues that have not been agreed upon yet and generate public controversy, particularly within Egypt's business community. These issues are standards and specifications, rules of origin, intellectual property rights, and competition policy.

With regard to standards and specifications, the EU is proposing to Egypt the adoption of European norms and specifications. Consequently, Egyptian exporters would have to conform to norms and specifications that have been tailored to the needs and tastes of European consumers. Egypt argues that its exporters would find it difficult to adopt to these rules over a period of only 12 years.

Box 3. *(continued)*

With regard to rules of origin, the EU is proposing a unified protocol on the subject to all SEM countries, to be annexed to each agreement. The critics of this issue argue that the unified protocol would impose a ceiling on the value of the non-originating materials as a percentage of the total cost of the final product. This would be in contradiction to the Uruguay Round agreements which required a minimum local added value. According to the EU formula, as the total cost of the final product diminished, the value of the non-originating materials would also diminish. With Egypt having a relative advantage in the area of labour costs, it could use only a limited amount of non-originating materials, hence the Egyptian argument that this in fact reflects a non-tariff barrier imposed on its exports by the EU and could negatively affect Egyptian industries.

With regard to intellectual property rights, the EU asked Egypt to accede to seven international treaties relating to these. Egypt was already a signatory to three of these treaties. Such rights would come into effect three years after finalizing a Euro-Egyptian partnership agreement. Under the Uruguay Round agreements, Egypt enjoyed a 5-year grace period, extending to 10 years in the case of the pharmaceutical industry. According to some Egyptian circles, the agreements on the intellectual property rights would have a positive effect on the flow of foreign direct investment to Egypt; according to others, such agreements would constrain its ability to use modern technology and would negatively influence the pharmaceutical industry and the availability of medicine at affordable prices to most segments of the population.

With regard to the competition policy, the thinking in Egypt is that the EU is proposing its own competition rules and that these rules should be used as a reference point. Consequently, Egyptian companies would have to resort to EU and international law firms in case of any future trade disputes concerning rules of competition, a process that would entail high costs for Egyptian companies.

Considering the four issues mentioned above, the proposed Euro-Egyptian partnership (EEP) agreement has been subjected to a number of severe criticisms by Egyptian officials, the main ones being the following:

(a) The concessions: EEP has not granted Egypt any concessions in addition to those given under the 1977 Euro-Egyptian Protocol and under the 1994 Uruguay Round agreements;

(b) Erosion of Egyptian industries: critics of the EEP contend that allowing full access of EU industrial products to the Egyptian market would hurt the Egyptian industry;

(c) Hurting the Egyptian industry would undoubtedly lead to unemployment. Integration with the EU economies would also result in rising social expectations without real economic development with which to satisfy them. All of this would lead to various forms of social instability and probably dislocation;

(d) Although the amount of promised financial aid is the largest in the history of EU-Mediterranean relations, such aid is insufficient, if compared with what has been promised to eastern Europe. While the promised aid to eastern Europe, with a total population of only 96 million, amounted to US$8.8 billion, the promised aid to the Mediterranean countries, with a population of around 205 million, amounted to only US$4.7 billion. If it were recognized that the SEM countries were less developed than their central and eastern European counterparts, it would be understood just how limited the aid promised under the Euro-Mediterranean Partnership agreements is.

Source: ESCWA mission to Egypt, 26-29 September, 1998

VIII. CONCLUSIONS AND RECOMMENDATIONS AND ELEMENTS FOR A PLAN OF ACTION

A. CONCLUSIONS

During the past decade, the growth in trade of the SEM region lagged behind that of virtually all other regions of the world. The region became less integrated into the world economy and the real per capita income of most of the countries in the region declined. The continued pursuit of inward-oriented policies together with the decline in oil prices account in large part for this disappointing performance. Most SEM non-oil-producing countries remain among the most protectionist in the world, a policy stance that has led to a deterioration in productivity and has adversely affected the welfare of their populations.

SEM countries are at an important juncture. Given the increasing globalization and integration of the world economy, SEM countries are expected to act rapidly to participate in this process by implementing appropriate outward-oriented policies that will lead to an increase in productivity and trade, and thereby an improvement in the standards of living of their populations. Failure to act will leave them lagging even further behind other regions, which have begun to reap the benefits of trade liberalization and other structural reforms.

Fortunately, the impetus for SEM countries to act rapidly is now in place, in the form of multilateral trade liberalization initiatives currently underway. Policy makers in the region have generally recognized the opportunities presented by Euro-Mediterranean Partnership agreements and other initiatives. A number of these policy makers have begun to take the steps necessary to reap the benefits. The policy implications for SEM countries of these agreements would probably vary from one country to another, depending on their current trade regime, including any preferential agreements in effect; the commitments, if any, made within the framework of the WTO; the country's resource endowment; and the magnitude of current distortions in the economy that have arisen from the imposition of trade and other restrictions.

There will be costs for trade liberalization for some SEM countries: the loss of preferential access to certain markets, increased exposure to international competition from other producers and higher prices for food imports. In addition, there are likely to be fiscal losses, as well as social and economic hardships arising from the displacement of workers as previously protected sectors could be opened to competition before other sectors can expand to create additional employment opportunities.

However, these costs can be minimized. The transitional costs of trade liberalization can be ameliorated if complementary macroeconomic and regulatory reforms are undertaken and appropriate outward-oriented policies pursued. The conclusion of bilateral arrangements with the EU would also help to broaden the opportunities for trade, by securing market access, anchoring reform and regulatory changes, enhancing credibility of the commitment of countries to trade liberalization, and encouraging investment. Furthermore, the financial assistance available from the EU to offset the costs of trade liberalization, including, for example, the loss of trade-related fiscal revenues, and to support broader reform efforts will be important in easing the resistance of domestic interest groups.

The Euro-Mediterranean Partnership agreements provide the SEM countries with a major impetus towards an open trade regime over the 12 years that follow the signing of the agreements. The agreements also constitute a powerful catalyst for overall economic reform programmes. With the signing of the agreements, the governments of the SEM countries are committed to a course that can be completed successfully only by adopting far-reaching economic reforms.

The benefits that could arise from the agreements could be substantial, but they are uncertain. They will come relatively late, and will be forthcoming only if major supplementary economic reform programmes are implemented consistently and early on. Another challenge that may face the governments of the SEM countries would be to ensure continued macroeconomic stability while overseeing a socially acceptable transformation of the productive structure of their economies. Ultimately, the SEM countries that entered or will enter into agreement with the EU do so because the agreement represents the best and possibly the only attractive choice for the small economies of these countries in the rapid ongoing globalization process.

It is because of globalization, in particular, that the SEM countries have no viable alternative but to integrate the Euro-Mediterranean Partnership agreements into a comprehensive development strategy. The SEM countries should start as early as possible making full use of the 12-year transitional period. To succeed in this undertaking, the trade liberalization aspect of the agreements should be completed through multilateralism and extension to agricultural trade. In the end, the success of the Euro-Mediterranean Partnership agreements depends on their ability to generate a critical mass of foreign investment in labour-intensive export-oriented sectors. This in turn will require substantial further transformation of the societies of the SEM countries. Trade in services, the right of establishment, privatization, a newly defined role for the government, and deep changes in judicial and administrative practices will be needed.

The macroeconomic policy response will need to combine firm fiscal discipline with high-quality social safety-net provisions, thus allowing room for exchange rate-flexibility while maintaining financial stability.

The plan for the progressive establishment of a Euro-Mediterranean free-trade area leaves aside key economic sectors such as agriculture and petrochemicals. The partnership proposed by the EU seems to refer to classical free-trade areas, i.e. tariff- and quota-free trade, at a time when access to the EU markets is mostly hindered by other non-tariff barriers. The EU is asking the SEM countries to adjust by opening up their markets to EU exports, arguing that this will be good for their economies. It does not, however, prescribe the same for its own economies when it comes to agriculture and petrochemicals from SEM countries.

As in the Renovated Mediterranean Policy of 1990, the main supplementary effort to be made by the EU is financial. Initially, at least, more financial assistance will be given to the SEM countries without altering any element in the international division of labour around the Mediterranean basin. The EU considers this subject taboo since it would require the EU Mediterranean member countries, namely France, Greece, Italy and Spain, to let the SEM countries specialize in those products in which they have the most comparative advantage, that is, agriculture and petrochemicals. This is the real meaning of anchoring SEM countries to the EU (a motto that surfaces time and again in the texts of the EU Commission), as is being proposed also for central and eastern European countries.

Just as important as the issue of agriculture and petrochemicals, is the prevalence of many non-tariff barriers in trade between the EU and SEM countries. But there is no intention of creating a Euro-Mediterranean Economic Area replicating the European Economic Area. Key EU concessions, such as the participation of SEM countries in European standard institutions or mutual recognition of professional qualifications, are ignored. It is precisely all these elements that are critical if the EU wants the SEM countries to be anchored to the EU economy. This, namely, through the emergence of a web of intra-industry trade relations based on subcontracting, joint-ventures and direct investments. Therefore, the question is, which concrete economic concessions does Europe want to make in order to realize the idea launched by the EU Commission of establishing a zone of shared prosperity.

What seems clear is that the Euro-Mediterranean Partnership will deepen the asymmetric trade interdependence between the SEM countries and the EU. An even larger share of the import of SEM countries will originate in the EU, displacing not only inefficient local producers, quite likely in most SEM countries, but also foreign suppliers outside the EU, which is more likely in the case of Egypt, Jordan and the Syrian Arab Republic. This may have a negative effect on the revenue side of the budgets in SEM countries, since tariff revenues will sharply decrease, and on their balance of payments, in terms of foreign currency spent on imports.

As indicated in the study, the EU must provide for greater quantities of transitional financial assistance if it really wishes to see genuine economic development taking place in the SEM countries and ensure that enclave economies will not be created in those countries designed to serve the EU-markets, or result in them becoming mere satellites of the EU without experiencing the promised prosperity.

It is anxieties like these that lie behind the cautiousness of several SEM countries. There are more basic fears behind those anxieties: even if, in macroeconomic terms, development succeeds on the terms proposed by the partnership policy, this would not necessarily produce genuine prosperity. There is little convincing evidence that wealth trickles down the economic pyramid created by neo-classical economic development. And if it does not, the political tensions already growing in the region would intensify. Good governance may be countered by the very process of economic development itself, unless genuine prosperity is one of the by-products.

Similarly, continued bars to migration, in a world in which information is ever more readily available, will both feed popular frustration and incite support for domestic political alternatives, although the business élite, by virtue of its participation in the globalized business culture that is emerging, will be able to participate. Thus, cultural divides within SEM countries are likely to intensify as part of the consequences of the pattern of economic development proposed under the policy of the partnership agreements, since significant segments of the population are excluded from the development process. This in turn, would transform the political and security projects for the SEM region into additional sources of social conflicts.

It is also worth noting that several Governments in the SEM region may fear the consequences of economic transparency, which is supposed to accompany the economic restructuring required by the Barcelona Declaration. Transparency, whether economic or political, could threaten the hegemony of influential groups in SEM countries; and these groups are bound to resist it, even as they declare their enthusiasm for the partnership. This is particularly true for the endemic political and economic problems which are not expected to be addressed in favour of these groups, provided the partnership agreements are fully implemented.

The Euro-Mediterranean Partnership agreements are ambitious. They may offer a significant opportunity for SEM countries. But at the same time, they offer little guarantee of a solution to their social, political and economic problems. The agreements contain inherent contradictions in the prohibition of the free movement of persons and in the limitations imposed on agricultural trade. They suffer from an intolerance and incomprehension of the political realities in which the world of the SEM region operates. Moreover, they offer virtually nothing to resolve the problems of peace in the region. However, the Euro-Mediterranean Partnership is probably the only alternative for SEM countries to be integrated in a world of increased globalization, if they do not want to risk becoming marginalized in this process.

B. Recommendations and elements for a plan of action

If any SEM country enters into a partnership agreement with the EU, a number of economic and financial policy reform issues will need to be implemented. Entering into a partnership agreement implies a commitment to the process of economic reforms, and increases the credibility of economic policies and policy makers. The major policy issues that need to be addressed are as follows:

(a) The Euro-Mediterranean Partnership agreements provide an opportunity for SEM countries to identify and determine their international commercial strategies for the next century. With most of the economies of the SEM countries being small, they should avoid creating preferential trade zones and move instead towards multilateral tariff reductions in order to avoid the potential losses from trade diversion;

(b) The SEM countries need to undertake radical fiscal reforms to reduce their dependence on import taxes and to introduce alternative indirect taxes on goods and services. The SEM countries should also increase the share of direct taxes, i.e. income and profit taxes, in total tax revenues;

(c) Entry into the partnership agreements as well as to the WTO would imply replacement of quantitative trade barriers such as licences by taxes, tariff equivalents or tariff barriers.

In sum, despite all the potential benefits ensuing from the Euro-Mediterranean agreements, important challenges have to be overcome for them to result in higher rates of growth of per capita income and exports. By themselves, the agreements will not solve all problems, they only offer opportunities. Most important, SEM countries themselves have to take measures to minimize the transition costs. First, supportive structural reforms are essential; secondly, liberalization with the rest of the world would contribute to reduce possible benefit losses; and thirdly, the SEM countries involved should try to enter into free-trade areas between themselves in order to avoid the hub-and-spoke structure of trade. However, it is important that sufficient external financial assistance be forthcoming, as this would enhance the political feasibility of trade liberalization and other reforms, by offsetting some of the fiscal losses and facilitating the necessary restructuring.

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Annex

DECLARATION OF THE FOURTH EURO-MEDITERRANEAN ECONOMIC AND SOCIAL SUMMIT (Lisbon, 24 and 25 September 1998)*

1. The representatives of the economic and social councils and other organizations representing economic and social operators, attending the Fourth Euro-Mediterranean Economic and Social Summit, held at Lisbon, 24 and 25 September 1998:

reiterate their desire to contribute to the achievement of the political, security, economic, financial, social, cultural and human objectives laid down in the Barcelona Declaration, adopted at the Euro-Mediterranean Conference of 27 and 28 November 1995;

emphasize the continuation and deepening of the Euro-Mediterranean dialogue in order to heal division, dispel misunderstandings, and promote the common area of peace, stability and prosperity which the Mediterranean ought to be;

consider, in keeping with the Casablanca Declaration, that cooperation between countries on both sides of the Mediterranean, aimed at achieving the objectives laid down in the Barcelona Declaration, must entail shared responsibility for reconciling interests: economic assistance and gradual democratization;

underline the need to pursue efforts to facilitate the establishment of a free-trade and integration area by the year 2010, as one way of generating shared prosperity among the countries of the Mediterranean basin. In this context, Euro-Mediterranean cooperation entails shared responsibility between Northern, Eastern and Southern Mediterranean countries in defining and promoting a model for growth and economic, social and cultural development which reflects the particular characteristics of each of the countries concerned and the use of the appropriate resources with which to achieve this, on the same legal basis as the declaration of the ILO International Conference of June 1998 on fundamental human rights at work;

consider that the European Union's contribution to the creation of Euro-Mediterranean area should not be confined to measures governing free trade, but should involve support for the process of moving towards economic modernization as well as of boosting investment to the region and implementing social cushioning measures, within the framework of an approach which facilitates adjustment and affords organizations representing economic and social interests a major role.

2. The participants in the Summit:

once again stress that the development of Euro-Mediterranean cooperation and partnership must be based not only on initiatives by the European Union and the governments of the states bordering the Mediterranean, but also on the participation of economic and social operators and other representatives of civil society and on dialogue between the organizations which represent them. Similarly, economic and social councils and similar institutions must at the same time serve as rallying points and as instruments for carrying forward discussions on the main cooperation issues in the region; as for a for consultation, dialogue and thought, they represent an important element in the dynamic flowing from the Barcelona Declaration;

recommend that the administrative and political authorities enshrine the involvement of the economic and social partners in all areas of economic, social and cultural life as a fundamental principle, in the firm belief that this approach is capable of facilitating the more effective implementation of the decisions and measures taken, of ensuring that such decisions and measures are fully accomplished by

* Reproduced as presented at the Summit.

acting as a catalyst for the potential social effects, and of providing projects with an assured form of validation;

consider that this participatory development approach must spur governments that provide technical and financial support for the activities and organizations of the economic and social operators with a view to discussing and implementing the measures in which they are involved;

in this regard, reaffirm the important role of the economic and social councils in developing a Euro-Mediterranean Partnership, and reaffirm their encouragement for the establishment of institutions of this kind in countries where they do not yet exist.

3. The delegations present at the Fourth Euro-Mediterranean Summit:

in the light of the lessons of the Casablanca, Paris and Casablanca Euro-Mediterranean Summits, consider that meetings of the economic and social councils and similar institutions should be seen as a constant striving to raise standards in order to achieve a better understanding and a convergence of views on how to approach the major problems facing the Euro-Mediterranean area. They acknowledge that referring important issues relating to the creation of a Euro-Mediterranean area to each summit of economic and social councils constitutes a method which contributes to a more precise and objective vision and assessment of the real situation of each of the countries concerned, and that this awareness of specific situations facilitates the search for appropriate solutions to the problems which arise;

note that the economic and social partners are not yet sufficiently familiar with the objectives of deepening Euro-Mediterranean cooperation in the political, security, economic, financial, social, cultural and human fields; and observe, in this regard, that the establishment of Euro-Mediterranean economic cooperation networks drawing in comparable operators enhances mutual information and understanding, broadens consultation and assists in decision-making;

reiterate the conclusions and recommendations adopted at previous Summit concerning external debt, energy, migratory flows, water, small- and medium-sized enterprises and the role of the social partners in cushioning the social impact of economic convergence;

continue to attach the highest importance to the monitoring and evaluation on measures and activities designed to implement these conclusions and recommendations, but note that they have met with varying degrees of success and the provisions they contain have typically remained largely unimplemented in the field;

consider that the most important conclusions and recommendations should be the subject of initiatives by all the economic and social councils and similar institutions of the region, putting the choices set out in them into the form of "opinions" or "initiative and proposals" drawn up by common agreement, and to be submitted to governments via the official channels in each country.

This approach would make the guidelines laid down by the annual summit of Mediterranean economic and social councils homogenous, consistent and effective, and would thereby consolidate the partnership process, lending it resilience and dynamism. The implementation of the priority recommendations would entail the establishment of action programmes, bringing together the legal supports and/or bases, the necessary funding and the relevant sources, the operators concerned, and timetables for implementation.

4. In the course of their working sessions the participants in the Fourth Euro-Mediterranean Economic and Social Summit discussed:

the Report on investment in infrastructure and the role of the economic and social interest groups in the construction of the Euro-Mediterranean area, drawn up by the Algerian National Economic and Social Council (CNES), in collaboration with the Italian National Economic and Labour Council (CNEL) and the Economic and Social Councils of Tunisia and Spain;

the Report on the role of the Euro-Mediterranean economic and social partners in developing and improving national and Euro-Mediterranean vocational training instruments with a view to the establishment of a free-trade area and the opening-up of economies, drawn up by the Economic and Social Committee of the European Union, with the collaboration of the Economic and Social Council of Greece and representatives of the economic and social partners of Turkey.

Following the discussions referred to in the previous point, the delegations participating in the Fourth Summit approved the following conclusions and recommendations:

4.1 Investment in infrastructure

basic infrastructures are key factors in giving shape to Euro-Mediterranean areas; together, they help stimulate interchange. Without any doubt, they represent the cutting edge of growth and social progress, and lie at the heart of contemporary issues of development and spatial and regional balance. In this regard,

whereas investment in infrastructure touches upon one of the most important dimensions of the Barcelona process, since it is the key to striking a real balance in North-South relations with, firstly, the obligations incumbent upon the Northern Mediterranean under the terms of aid to the countries of the Southern and Eastern Mediterranean and secondly, the new constraints which the Southern Mediterranean must take on in order to carry out reform and forge ahead with development and integration by modifying the regulatory system to bring it up to the level required and to attract investment;

having regard to the geopolitical and geoeconomic stakes involved in creating Euro-Mediterranean area;

taking note of the major disparities between the Northern and Southern Mediterranean countries and which are most clearly-and sometimes brutally-reflected in basic infrastructures;

the participants in the Fourth Euro-Mediterranean of Economic and Social Councils meeting in Lisbon,

underline the need for the European Community to introduce more appropriate cooperation, taking account of the internal imbalances affecting most of the countries of the Southern and Eastern Mediterranean and everywhere to support the present shift towards more liberal economies and greater democracy;

consider that the ambitious project put in motion by the Barcelona Declaration must be backed by a suitable range of legal and organizations measures and resources matching the strategy and objectives laid down.

more particularly, they recommend:

with regard to funding

since infrastructures require major investment, thought should be given to identifying all the resources which might be harnessed to strengthen and intermesh Euro-Mediterranean infrastructures. This approach, which should be based on an infrastructure master-plan for funding, could embrace other relevant aspects: technology transfer, training, management, the environment, research and the role of the economic and social partners.

with regard to transport infrastructures

the development of a global, integrated transport system should be based on the modernization of existing networks and measures to create, expand and connect national networks in accordance with a multimodal approach and conditions covering the future investment and the arrangements for the necessary participating and funding. Coordination action of this type could flow from the establishment of a "Mediterranean transport infrastructure masterplan", a "network of networks", taking account of all these aspects and extending from infrastructure construction and the choice of priority, selective projects, to organizational and management development, including locally-based vocational training initiatives. The masterplan should also assess practicable alternative financial solutions and lay down the funding arrangements most appropriate to the investments deemed most urgent by means of an accelerated decision-making process for the established objectives. The primary objectives should be:

- to narrow the existing gap between the principles enshrined in the Lisbon Declaration on multimodal corridors and their effective implementation,

- to integrate transport networks between the countries of the European Community and the Southern and Eastern Mediterranean countries,

- to interconnect the transport infrastructure networks of all the partner countries with a view to creating an interregional, multimodal and interoperative network,

- to open short-distance sea routes, which are an essential element in the multimodal transport chain: road-sea or raid-sea.

with regard to telecommunications infrastructures

whereas the telecommunications sector, in the context of the emerging global information society and information highways, remains of the first importance, lending impetus to many strategies based on the restructuring of enterprises, the opening-up of markets, privatization and technical and technological innovation,

whereas the existence of captive markets and profitable investment opportunities for companies in the advanced countries should enable the degree to which demand can be met in the Southern and Eastern Mediterranean countries to improve over time, and encourage a durable adoption of European standards,

they recommend that plans to develop and interconnect telecommunications infrastructures be drawn up. The investment secured should take account of national and/or regional strategies in order to ensure their efficacy and to reduce their cost, and should pursue the following essential objectives:

- optimization of equipment and how it is used,
- enhancement of the management and operating systems of existing networks,
- extension of applications to other sectors,
- increased range of telephony and other services on offer in each country,
- network interconnection to improve information flows

with regard to energy cooperation

whereas with a view to sustainable development, energy cooperation should assume its full importance so as not to reduce the role of the producer countries of the Southern and Eastern Mediterranean to that of mere suppliers of primary energy, the participants recommend, in keeping with the resolutions adopted at the Second Summit of Economic and Social Councils in Paris, that:

energy cooperation should also cover infrastructures, in order to develop and interconnect energy networks between the various Mediterranean countries. These projects are recognized as being of joint interest, aimed at establishing or strengthening electricity and gas connections between the countries of the European Union and their Southern Mediterranean partners,

restructuring of the Mediterranean petrochemical and refinery industries should bring in those Southern Mediterranean countries possessing raw materials and comparative advantages. In this context, the environmental protection and energy-saving aspects of the modernization of refinery and petrochemical infrastructures should be based on appropriate implementation measures.

with regard to water infrastructures

In addition to the resolutions adopted at the Third Summit of Economic and Social Councils in Casablanca, the participants of the Fourth Summit of Economic and Social Councils recommend the following:

pursuit of environmental protection and the conservation of sweet water resources requires significant changes in patterns of behaviour and policy. Real choices remain to be made if water resources and ecosystems are to be safeguarded for the generations to come. They will frequently have to be proposed in an international political context;

agreements on international water courses must embrace a wide range of spatial planning and land use issues, in addition to hydrology. The definition and implementation of a real strategy for the use of water resources in the entire region is of the utmost urgency. Most states are embarking upon major development projects to supply drinking water and to establish networks, requiring a growing and sizeable mobilization of financial resources, together with all those aspects concerning the training of users;

water infrastructures should be seen as a precondition for launching any productive activity, and cooperation in this field must encompass a wide range of activities:

- the construction of dams and storage and supply reservoirs provides for a direct impact on resource supply, meaning the total quantity of water resources available to a country,

- upgrading of water supply infrastructures in urban centres reduces network losses, which reaches 40% in some countries,

- the introduction of advanced irrigation systems eliminates waste through evaporation and leakage, and substantially increases efficient use of the resource,

- domestic and industrial sewage treatment plants allow waste water to be re-used for agricultural purposes.

with regard to the role of the socio-economic operators

The participants of the Fourth Euro-Mediterranean Economic and Social Summit consider that:

greater involvement of private sector operators and the economic and social partners serves to extend action by the public authorities, the latter retaining the primary responsibility for infrastructure works within a the economic and social operators are playing an increasingly important part of the international scene, providing grounds for advocating a withdrawal by the state from areas and sectors which can be better managed by such operators. This observation is also valid for the infrastructure sector, which should increasingly resort to private sector initiative and consult trends in public opinion concerning development, equipment, spatial planning and environmental issues;

framework of integrated spatial planning policies;

promoting new forms of cooperation, reflecting the complex and specific nature of infrastructure-related enterprises and projects, entails a direct commitment by governments, a commitment which is becoming essential in order both to mobilize funding and to offer companies the guarantees they need to participate;

access to the new technologies is likely to accelerate modernization and progress and thus to reduce the development gap. Competitiveness depends on upgrading human resources, rationalizing management methods and skilled use of the most efficient technological innovations. Consequently, the European partnership should strive to remove obstacles to the free movement of technologies, without which intensified and diversified cross-Mediterranean exchanges cannot be expected.

4.2 Vocational training

The transfer of skills and knowledge – of which vocational training is just one component, albeit one of the most important – should be geared more towards developing existing potential, as it is this which provides the best future for societies participating in cooperation programmes. Consequently, the partners of the Fourth Euro-Mediterranean Summit call for:

an improvement in the procedures of setting objectives and selecting priority measures;

the range of representative programme partners and participants to be broadened so that the latter include those closest to the people and to economic activity;

the information provided by selected partners with a view to identifying requirements to be filled out with the views of immigrants living in Europe, without however eroding the sphere of responsibility of local and regional actors in the areas they represent;

more emphasis on programmes designed to strengthen the role of women and encourage employers to recruit women, so that one day full equality will be a reality;

more funds to support vocational training programmes, in line with the political objective of establishing a free-trade area by 2010;

the active involvement of Economic and Social Councils throughout the Community, following proper dialogue with the most representative economic and social players from the selected areas on the Southern and Eastern sides of the Mediterranean, in determining training and other social needs and in preparing the measures to be put in place (selection of programmes; choice of objectives for fixed term programmes; allocation of implementing responsibilities; definition of indicators and methods for assessing results);

the organization, before the implementation of an approved programme begins, on meetings and seminars for those who are or could be involved in the programme, in order to brief them and secure their acceptance and active participation;

the creation and strengthening of vocational training structures. In this regard, the cooperation of the European Training Foundation, whose remit has been officially extended to education and training in the Mediterranean area, should be secured. The Foundation's expertise should be fully exploited in order to help devise and implement education and training programmes. The work of the ILO's International Training Centre should also be drawn in;

the establishment of supervision measures and mechanisms to correct and shortcomings during the implementation phase.

4.3 Specific cooperation projects in the Euro-Mediterranean area

Following the work carried out since the First Euro-Mediterranean Economic and Social Summit, the Economic and Social Councils and similar institutions of the Euro-Mediterranean area are aware of the need to implement specific cooperation projects between these bodies. As the Casablanca Declaration says, the primary objective of such projects should be to bring together and develop a mutual understanding between the social partners on both sides of the Mediterranean, and to promote social dialogue as a driving force for progress and economic and social development.

Following the experience of recent years, we call for the correction of certain shortcomings which came to light in the implementation of past programmes:

as bilateral cooperation models are still predominant – thus limiting the opportunities for a diversified exchange of skills and information between the socio-economic partners in relation to other national systems of social dialogue and training – the global approach to programmes needs to be balanced. In this respect, the participants in the Fourth Euro-Mediterranean Economic and Social Summit stressed the enthusiasm in Euro-Mediterranean countries for a substantial reinforcement of MEDA's regional component. The regional component currently account for only 10% of total cooperation, while the bilateral approach accounts for the remaining 90%.

information on the content of cooperation programmes needs to be improved, and a greater effort needs to be made to increase the awareness of the economic and social partners. New types of programmes also need to be tried out.

it is necessary to encourage closer cooperation between the partners in the region or areas covered by the same cooperation programme. This could be achieved by developing a network of contacts, boosting the institutional awareness of partners, and, lastly, by stimulating the exchange of experiences and specialized skills at regional and sub-regional level in the specific areas covered by the relevant programme.

there is also a need to improve information on the content of the partnership and on the programmes, ensuring the transparency necessary for the active participation of all the players. It is also vital to promote and simplify the criteria for access to MEDA funds and the implementation procedures.

in the interests of greater efficacy, the work of the monitoring group on the implementation of the recommendations of the Summits of Economic and Social Councils and Similar Institutions must be framed by terms of reference drawn up by each summit which, in complete independence, shall determine its priorities for action in the light of the work programmes adopted in plenary and shall regularly renew the membership of the group.

The delegations participating in the Fourth Summit adopted the proposals put forward by the action programme monitoring group established at the Third Summit in Casablanca. The proposals call for the approval of a set of projects to be submitted as soon as possible to the relevant EU bodies for financing through existing mechanisms, in particular through the MEDA programme.

The delegations agreed on the submission of the following cooperation projects – descriptions of which are appended:

WEBCES: creation of an Internet website providing select documentation from economic and social councils and similar bodies;

TRESMED: the consultative role of the economic and social partners. EU visits and seminars for the social-economic players of the Southern and Eastern Mediterranean countries;

Social dialogue and social systems;

Players involved in vocational training;

Observing and influencing the labour market;

Local development in partnership.

It was also decided that the theme of one of the reports for discussion at the Sixth Summit, to be held in the year 2000, will be "Training in agriculture" and that the Economic and Social Council of France will direct the preparation of the report.

4.4 The representatives of the Economic and Social Councils and other similar institutions unanimously accepted the invitation from the National Economic and Social Council of Turkey to hold the 1999 summit in Turkey.

The preparatory committee for the summit will be drawn from the National Economic and Social Council of Turkey (which, as sponsoring organization, will be responsible for coordination), the Economic and Social Committee of the European Union and the Italian National Economic and Labour Council.

The topics for the reports to be discussed at the next summit will be:

"Environmental protection in the Mediterranean". The report will be drawn up by the Italian National Economic and Labour Council in cooperation with the Economic and Social Council of France, the Moroccan National Council for Youth and the Future and the Algerian National Economic and Social Council.

"The role of women in economic and social life and, in particular, the integration into the labour market". The report will be drawn up by the Economic and Social Committee of the European Union in cooperation with the Economic and Social Councils of Spain, Tunisia and Greece.

The Fifth Euro-Mediterranean Economic and Social Summit will also discuss a report on the implementation of the work programme, in conjunction with:

an examination of the follow-up to the proposals and recommendations approved at previous summits;

the introduction of suggestions for new initiatives and projects for discussion.

The report on the implementation of the work programme will be introduced by the action programme monitoring group, to be coordinated by the Economic and Social Committee of the European Union and the Moroccan National Council for Youth and the Future, with the participation of the Economic and Social of Spain and France.