



Assessing the trade consequences of a failed EU-Mediterranean Free Trade Area

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1. INTRODUCTION

Envisioning a wide ‘ring of friends’ surrounding the European Union by inviting the neighbouring countries to ‘share everything with the Union but institutions’, as in the words of Romano Prodi, former President of the European Commission (Prodi, 2002), the European Neighbourhood Policy (ENP) was presented in 2004 as an expansion of the Euro-Mediterranean Partnership (EMP), created through the Barcelona Process in 1995.

To avoid the emergence of new dividing lines between the larger EU and its neighbours, the aim of the ENP has been to promote prosperity, stability and security while offering the partner countries a privileged relationship with the EU in the form of deeper economic integration and political association. The degree of integration is set out to depend on the extent to which a certain number of values are shared, namely democracy, human rights, rule of law, market economy and good governance. While the ENP does not include any prospect of EU membership, nothing is excluded in the sense that the future forms of cooperation are left to be determined.¹

In 2008, the creation of the Union for the Mediterranean (UfM) modified the format of the cooperation between the EU and its neighbours. The UfM builds on and expands one of the main objectives from the Barcelona process by not only envisioning the establishment of a Free Trade Area by 2010, but by setting out a more ambitious aim of ‘substantially liberalising trade between both the EU and Southern Mediterranean countries and Southern Mediterranean countries themselves’. (Commission, 2011b)

In order to achieve these objectives, the regional approach of the UfM is complemented with bilateral commitments in the form of Association Agreements (AA) and Action Plans between the EU and the 16 partner countries respectively; Albania, Algeria, Bosnia and Herzegovina, Croatia, Egypt, Israel, Jordan, Lebanon, Mauritania, Monaco, Montenegro, Morocco, the Palestinian Authority, Syria, Tunisia and Turkey.

However, thus far the Euro-Med cooperation has fallen short of establishing the deep and comprehensive free trade area that was envisioned. Up until now, there has been a focus on trade in goods and it is in fact argued by leaders that the 2010 deadline which was set for the trade agreement should rather have been interpreted as an expression of political will than a realistic objective, especially in light of the fact that the tariff dismantling schedules in the Association Agreements provided for transmission periods reaching beyond this time frame.

Nevertheless, the ambition with the agreement remains: to widen the scope of the agreements to address trade in agricultural products and processed agricultural goods; fishery products; services; right of establishment and investment and public procurement. The goal is also to harmonise standards and regulations, to address conformity assessment and to establish a dispute settlement mechanism.²

At present, trade liberalisation remains incomplete and a number of barriers impede the Euro-Med countries from exploiting the potentials of a full-fledged Euro-Mediterranean trading zone. In fact, traditional trade barriers related to border controls still hamper market access,

¹ See European Commission (2011a).

² See European Commission (2011b), (2011c), and (2011d).

not to mention the obstructing effect of numerous non-tariff barriers and an unpredictable business climate.

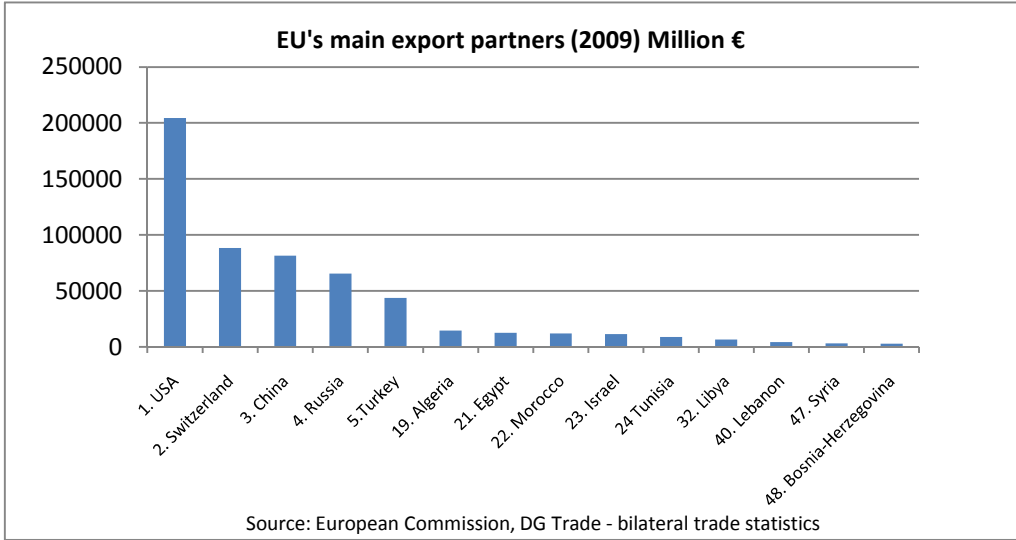
This study aims to provide a thematic overview of the main problems that EU exporters encounter in their trade relations with the Mediterranean partner countries (MPC) as well as the effects of foregone business opportunities, as they have been estimated in other studies. It does so by first setting the context, especially current trade between the EU and MPCs, while sketching out the characteristics of Euro-Med trade. Next, it summarises the results from previous quantitative analyses estimating the costs of incomplete trade liberalisation between the EU and the MPCs. Thereafter, it embarks on a qualitative thematic inventory presenting the main remaining problems hindering trade, before concluding by summarising the main findings.

2. TRADE BETWEEN THE EU AND THE MEDITERRANEAN PARTNER COUNTRIES

2.1 Trade flows

The EU is the major trading partner for the Southern Mediterranean countries. The total value of the trade between the EU and its Mediterranean partner countries was approximately 200 billion euro in 2009. The MPCs then account for 10 % of the EU’s total external trade, with EU exports representing a value of 114 billion euro in 2009. Turkey is the fifth largest destination for European exports, accounting for around 4 % of total EU exports; Algeria and Egypt follow in 19th and 20th place respectively.

Figure 1. EU’s main export partners in 2009 (rank)



The significance of the MPCs’ exports to the EU (86 billion euro) is indicated by the fact that it represents over 40 % of their total exports. For example, the EU absorbs 60.2 % of Morocco’s total exports and 55.0 % of Tunisia’s exports. Imports to Morocco from the EU represent 60.2 % of total Moroccan imports, and imports to Tunisia from EU stands for 60.6 % of total imports.³

³ These estimates have been retrieved from Kuiper (2006), p. 16.

Figure 2. EU trade with the Euro-Med countries in 2009⁴

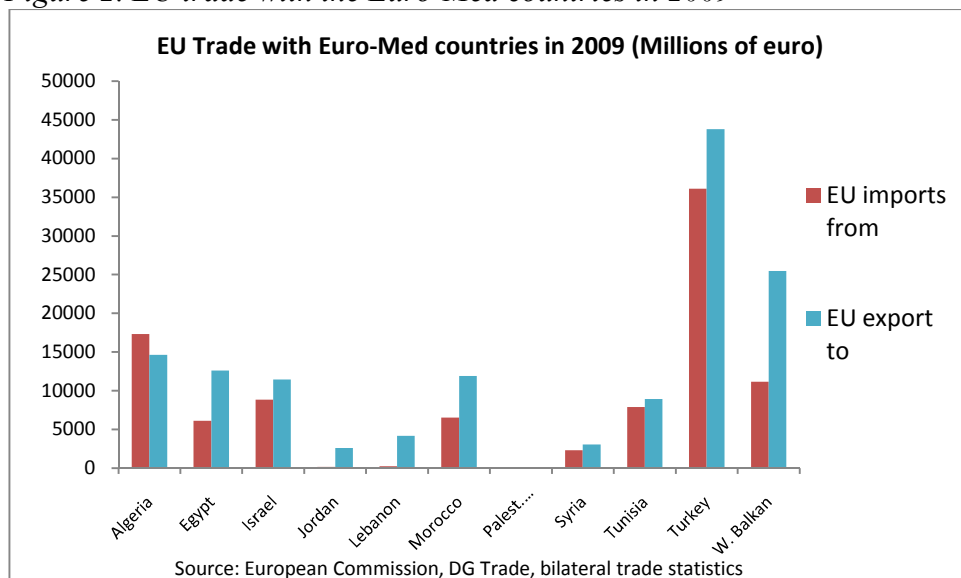


Figure 3. The share of the EU trade partners in total EU Export



EU exports to the Southern Mediterranean consist to a large extent of machinery and transport equipment (see Table 1). For example, non-electrical machinery represents for instance 20.4 % of total EU exports to Egypt, and 9.9 % of total EU's exports to Tunisia consist of electrical machinery. Exports of transport equipment account for 13.2 % of EU exports to Egypt, 10.5 % to Israel and 10.4 % to Tunisia. Pharmaceuticals and chemicals also account for a significant share of exports, for instance 14.2 % of total EU exports to Egypt. The same goes for agricultural products, representing for instance 14.1 % of total EU exports to Algeria and 9.1 % of total EU exports to Morocco.

⁴ The Western Balkans include Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia and Kosovo

Table 1. EU exports to the Euro-Mediterranean countries in 2009 (€ Millions)

EU exports to Euro-Med countries	Algeria		Egypt		Israel		Jordan		Lebanon		Morocco		OPT		Syria		Tunisia		Turkey		Western Balkan		
	€ 1M	% of total	€ 1M	% of total	€ 1M	% of total	€ 1M	% of total	€ 1M	% of total	€ 1M	% of total	€ 1M	% of total	€ 1M	% of total	€ 1M	% of total	€ 1M	% of total	€ 1M	% of total	
Product groups (SITC Rev. 3)																							
1110 Agricultural products	2062.1	14.1	1592.9	12.6	890.4	7.8	276.8	10.6	508	12.1	1084.3	9.1	5.6	10.7	384.1	12.5	462	5.2	1933.8	4.4	2697.1	10.6	
1200 Fuels and mining products	669.1	4.6	1073.1	8.5	382.4	3.3	89.5	3.4	680.4	16.2	1260.1	10.6	0.1	0.3	300.7	9.8	752.5	8.4	3837.5	8.8	2245.8	8.8	
2100 Iron and steel	1899.4	13	610.9	4.8	234.9	2	23.3	0.9	76.9	1.8	529	4.4	0	0	163.4	5.3	250.3	2.8	2316	5.3	935.8	3.7	
2210 Pharmaceuticals	803.1	5.5	558.9	4.4	561.3	4.9	220.4	8.5	287	6.9	243.3	2	6.2	11.8	113.1	3.7	243.2	2.7	2446.5	5.6	1087.2	4.3	
2220 Plastics	335.3	2.3	409.1	3.2	438.6	3.8	43.2	1.7	74.7	1.8	309.7	2.6	4.5	8.6	89.7	2.9	281.7	3.2	2451.7	5.6	896.5	3.5	
2230 Other chemicals	598	4.1	832.3	6.6	975.8	8.5	159.6	6.1	201.5	4.8	617.5	5.2	2.2	4.2	213.4	7	361	4	3147.6	7.2	1759.2	6.9	
2300 Other semi-manufacturers	1126.4	7.7	808.3	6.4	1857.5	16.2	176.8	6.8	343.9	8.2	989.6	8.3	1.6	3	200.1	6.5	775.5	8.7	2714.6	3.4	3116.4	12.2	
2411 Electronic data processing and office equipment	180.9	1.2	217.5	1.7	595.6	5.2	56.2	2.2	70.3	1.7	250.1	2.1	4.1	7.9	11.7	0.4	141.6	1.6	1213.7	2.8	453.7	1.8	
2412 Telecommunications equipment	256.1	1.7	291.2	2.3	482.7	4.2	53.9	2.1	54.7	1.3	284.2	2.4	0.7	1.4	129.9	4.2	131.2	1.5	1838.8	4.2	861.8	3.4	
2413 Integrated circuits and electronic components	21.6	0.1	13	0.1	174	1.5	1.8	0.1	3	0.1	121.6	1	0	0	1.6	0.1	218.1	2.4	193	0.4	116	0.5	
2420 Transport equipment	1939.2	13.2	891.8	7.1	1206.3	10.5	470.5	18.1	750	17.9	1406.3	11.8	15.2	29	305.3	10	927.5	10.4	7431.9	17	2562.3	10.1	
2431 Power generating machinery	621.2	4.2	592.1	4.7	287.6	2.5	131	5	87.4	2.1	163.6	1.4	0.1	0.1	98.6	3.2	156.5	1.8	1122.9	2.6	268.8	1.1	
2432 Non electrical machinery	2410.3	16.4	2574.7	20.4	995.9	8.7	306.8	11.8	271.1	6.5	1523.4	12.8	4.6	8.8	559.1	18.3	929.6	10.4	4583.9	10.5	2454	9.6	
2433 Electrical machinery	704.1	4.8	605.1	4.8	583.5	5.1	127.4	4.9	137	3.3	786.5	6.6	2.7	5.1	137.2	4.5	886.9	9.9	2042.4	4.7	1153.1	4.5	
2500 Textiles	74.8	0.5	123.3	1	110.7	1	20.2	0.8	48.4	1.2	995.6	8.4	0	0.1	27.3	0.9	1158.7	13	942.3	2.2	876	3.4	
2600 Clothing	45	0.3	50.8	0.4	118.1	1	22.4	0.9	156.3	3.7	159.8	1.3	0	0	29.2	1	264.9	3	541.9	1.2	725.8	2.9	
2700 Other manufactures	536.6	3.7	677	5.4	979.8	8.5	254.3	9.8	322.9	7.7	758.9	6.4	3.4	6.5	148.2	4.8	662.7	7.4	2810.6	6.4	2142.9	8.4	
3000 other products	88.1	0.6	151.6	1.2	179.8	1.6	55.7	2.1	40.8	1	106	0.9	0.8	1.6	27.1	0.9	62.1	0.7	729.3	1.7	286.5	1.1	
Total	14371.3	98	12073.6	95.6	11054.9	96.3	2489.8	95.8	4114.3	98.3	11589.5	97.3	51.8	99.1	2939.7	96	8666	97.1	42298.4	94	24638.9	96.8	

Source: European Commission - DG Trade - bilateral trade statistics

Despite the Euro-Med cooperation and relatively high yet volatile GDP growth figures of between 2 and 6 % in general, the Southern Mediterranean countries are lagging behind in the global economic development. Table 2 and 3 gives an overview of the comparatively weak GDP and GDP/capita figures in MPCs. In this respect, insufficient openness to multilateral trade and investment has been considered by many scholars a ‘key obstacle’ to economic growth and employment.⁵ Many MPCs have far too small trade sectors, and trade has overall be depressed by a weak institutional and infrastructural framework. The insufficient integration into the global economy of the MPCs is illustrated by their low participation in international production sharing. For example, Poland imported as many intermediate parts and components as eight Arab countries together in year 2000⁶. (Müller-Jentsch, 2005: xiii, xv)

Table 2. Economic data for selected Euro-Med countries

	GDP at current market prices (million EUR) (2009)	GDP per capita at current market prices (EUR) (2009)	GDP composition by sector		
			Agriculture	Industry	Services
Albania	8 500	2 661	18.9 %	23.5 %	57.6 %
Algeria	116 408 (2008)	3 350 (2008)	8.3 %	61.5 %	30.2 %
Bosnia Herzegovina	12 268	3 192	6.5 %	28.4 %	65.1 %
Croatia	45 379	10 246	6.8 %	27.2 %	66 %
Egypt	111 424 (2008)	1 497 (2008)	13.5 %	37.9 %	48.6 %
Israel	138 075 (2008)	18 892 (2008)	2.4 %	32.6 %	65 %
Jordan	11 388 (2006)	1 872 (2006)	3.4 %	30.3 %	66.2 %
Lebanon	18 282 (2008)	4 863 (2007)	5.1 %	15.9 %	79 %
Mauritania			12.5 %	46.7 %	40.7 %
Monaco			0 %	4.9 %	95.1 %
Montenegro	2 981	4 720	-	-	-
Morocco	54 851 (2008)	1 779 (2007)	17.1 %	31.6 %	51.4 %
Occupied Palestinian Authority	3 409 (2008)	976 (2007)	5 %	14 %	81 %
Syria	29 486 (2008)	1 538 (2007)	17.6 %	26.8 %	55.6 %
Tunisia	24 768 (2006)	2 446 (2006)	10.6 %	34.6 %	54.8 %
Turkey	441 600	6 142	8.8 %	25.7 %	65.5 %
EU-27	11 788 711	23 600	1.8 %	25.2 %	72.9 %

Sources: Eurostat (2010); CIA World Factbook

Table 3. Annual GDP growth (%) in the Euro-Med countries, 2000-2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Albania	7.3	7	2.9	5.7	5.9	5.5	5	6	7.5	2.5
Algeria	2.2	2.9	4.7	6.9	5.2	5.1	2	3	2.4	2.1
Bosnia Herzegovina	5.5	4.4	5.3	4	6.1	5	6.2	6.8	5.4	-2.9
Croatia						4.2	4.7	5.5	2.4	-5.8
Egypt	5.4	3.5	2.4	2.3	1.9	4.5	6.8	7.1	7.2	4.6
Israel	9.2	0	-0.7	1.5	1.5	5.1	5.7	5.3	4.3	0.8
Jordan	4.2	5.3	5.8	4.2	8.6	8.1	7.9	8.5	7.6	2.3

⁵ See e.g. IMF (2005).

⁶ The eight countries in the example include Morocco, Algeria, Tunisia, Egypt, Jordan, Syria, Lebanon, West Bank and Gaza.

Lebanon	1.3	4	3.4	3.2	7.5	0.9	0.7	7.6	9.3	9
Mauritania						5.4	11.7	1.9	3.7	-1.1
Montenegro						4.2	8.6	10.2	8.9	-1.6
Morocco	1.6	7.6	3.3	6.3	4.8	3	7.8	2.7	5.6	4.9
Syria	2.7	5.2	4	1.6	5.8	4.5	5.1	4.2	5.2	4
Tunisia	4.7	4.9	1.7	5.6	6	4	5.7	6.3	4.6	3.1
Turkey	6.8	-5.7	6.2	5.3	9.4	8.4	6.9	4.7	0.7	-4.7
Annual percentage growth rate of GDP at market prices based on constant local currency										
Source: World Bank										

Notwithstanding greater access to the European market since the 1970s, the industrial sector in the MPCs has remained shielded from outside competition by high tariff barriers. Consequently, the industrial sector in North Africa and the Middle East is underdeveloped and largely uncompetitive; it has neither improved its competitiveness nor been forced to undergo restructuring. Some of the MPCs have yet manage to sustain some economic growth, but often because they are rich in raw materials and energy sources like oil and natural gas. In such cases, there is always a risk for a so-called Dutch disease effect: the inflow of foreign exchange results in appreciation of the currency while it simultaneously deteriorates the conditions for industrial export.⁷

Table 4. Trade-policy characteristics of the Euro-Med countries

	Association Agreement with the EU (signed/entry into force)	WTO accession	Imports-to GDP ratio (2009)	GPA	Bilateral FTAs
Albania	In force 2009 (Stabilisation and Association Agreement)	2000		Observer (2001)	Bosnia Herzegovina, Macedonia (FYROM), Moldova, Serbia and Montenegro, UNMIK (Kosovo), Croatia, EU, Turkey, CEFTA
Algeria	2002/2005	-	29.2 %	-	EU
Bosnia Herzegovina	In force 2007 (SAA)	Observer		-	Albania, CEFTA, Croatia, EU, Macedonia (FYROM), Moldova, Turkey,
Croatia	In force 2005 (SAA)	2000		Observer (1999)	Albania, CEFTA, Bosnia Herzegovina, Macedonia (FYROM), Serbia and Montenegro, EU, EFTA, Moldova, Turkey
Egypt	2001/2004	1995	23.8 %	-	EFTA, Turkey, EU,
Israel	1995/2000	1995	23.9 %	Accession 1996	EFTA, EU, Mexico, Turkey, USA, Canada,
Jordan	1997/2002	2000	56.0 %	Observer (1995) negotiating accession	EU, EFTA, Singapore, USA
Lebanon	2002/2003	Observer	49.7 %	-	EU, EFTA
Mauritania		1995		-	
Monaco	Full customs integration with France (EU)	-		-	Full customs integration with France (EU)
Montenegro	In force 2010 (SAA)	Observer		-	Albania, CEFTA, Croatia, EU, Moldova,

⁷ Kuiper (2006) makes this argument.

Morocco	1996/2000	1995	33.9 %	-	EU, EFTA, Turkey, USA,
Palestinian Authority	1997/1997	-		-	EFTA, EU, Turkey
Syria	Initialled 2008	Observer	42.2 %	-	EU, Turkey,
Tunisia	1995/1998	1995	46.6 %	-	EU, EFTA, Turkey
Turkey	Customs Union 1996	1995	22.6 %	1996	Albania, Bosnia Herzegovina, Croatia, Macedonia (FYROM), Morocco, Tunisia, PLO, ECOTA, EFTA, EU, Egypt, Israel, Syria,

Source: WTO; WorldTradeLaw, European Commission – DG Trade – Bilateral Relations

2.2 The scope of the Euro-Med Association Agreements

The Euro-Mediterranean Association Agreements (AA) focus on the free movement of goods, with the objective of establishing free trade areas between the EU and its partners within a transition period of 12 years from the entry into force of each AA. Tariffs, quantitative restrictions and measures with similar effect are to be eliminated, and new fiscal measures with restrictive effects must not be introduced. In exceptional cases, exemptions from the tariff dismantling schedules might be authorised, e.g. to protect infant industries or sectors undergoing restructuring. The AAs also cover provisions on remedies against trade, including anti-dumping measures and safeguards, as well countervailing measures. There is however a scope for trade restrictions on grounds of public morality or security, or protection of human health, wild life etc. The similarities with the GATT agreement are many.

The free movement of goods does not generally apply to agricultural products. Chapters 1-24 in the Combined Nomenclature⁸, which includes agricultural products like live animals, animal products, vegetable products, animal or vegetable fat and prepared foodstuffs, are exempted. Nonetheless, the countries agree, to use the language in one AA, to ‘progressively establish a greater liberalisation of their trade in agricultural products’. (Euro-Med AA, c.f. Israel: Art. 11) The present agricultural commitments are limited in scope and come mostly in the form of larger quotas and some tariff reductions.⁹

This is not the only diversion of AAs from the concept of a deep and comprehensive trade agreement. In the field of services, the AAs basically reaffirm the contracting partners’ GATS¹⁰ commitments and the principle of national treatment. EU and the MPCs agree however, to quote a section in a typical AA, to ‘consider extending the scope of the Agreement to include the right of establishment of companies [...] and the liberalisation of the supply of services’. (c.f. AA EU-Egypt, Art. 30) The limited scope of the service liberalisation is illustrated by the case of Algeria, which according to the AA commits to granting Community companies a treatment ‘no less favourable than that accorded to companies of any *third country*’ [our italics] with respect to commercial presence, or services mode 3. (Art. 23) Moreover, in the field of movement of workers (mode 4), an EU company established in Algeria is allowed to ‘temporary employ’ employees with Community nationality, ‘provided that such employees are key personnel’ as defined by the agreement. Entry into Algeria and temporary presence of nationals of EU Member States is permitted for ‘persons working in senior positions’ (Euro-Med AA, c.f. Algeria: Art. 33, 34)

⁸ For the Combined Nomenclature c.f. *Commission Regulation No 861/2010 amending Annex I to Council Regulation No 265/87 on the tariff and statistical nomenclature and on the Common Customs Tariff*, available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:284:0001:0887:EN:PDF>

⁹ See also Kuiper (2006), p. 7.

¹⁰ For GATS schedules of commitments see the WTO Services Database, available at: http://www.wto.org/english/tratop_e/serv_e/serv_commitments_e.htm

Furthermore, with respect to financial services, the stated aim of the Euro-Med cooperation is to ‘create a favourable climate for investment flows’ (Euro-Med AA, c.f. Algeria: Art. 54) Provisions on standardisation are modest, stating that ‘the parties shall aim to reduce differences in standardisation and conformity assessment’. (Euro-Med AA, c.f. Egypt, Art. 47) Regarding the protection of intellectual property rights (IPR), the Euro-Med agreements state that ‘adequate and effective protection of the intellectual, industrial and commercial property rights’ should be ensured. (Euro-Med AA, Israel: Art. 39)

The AAs include provisions on competition, in the form of denouncing anti-competitive practises restricting competition, including abuse of a dominant position and distortive public aid. State monopolies of a commercial character must assure non-discrimination in the practice of public procurement, and public enterprises which have been granted exclusive rights must not engage in trade distortive practices. (Euro-Med AA, c.f. Egypt: Art. 34)

In other words, the AAs are selective and partial in their coverage. Often they do not extend beyond WTO commitments, especially in behind-the-border issues. By definition, trade agreements of that kind cannot have any sizeable effect on the larger economy.

3. REVIEW OF LITERATURE ON THE EURO-MED TRADE RELATIONS

In this chapter, the results of research on the Euro-Med agreements will be reported, especially research with a quantitative approach. There is no broad estimate on the quantitative effects on the entire region, and this paper does not make an attempt to give a full account of possible quantitative effects. Most of the research covers particular areas or regions. However, the chapter will focus on research which delivers results which is believed to be of principal value, even if the research sometimes is a bit old.

3.1 Limited substantial scope of the Euro-Med Association Agreements

The limited scope of the Euro-Med trade agreements has been subject to reactions among scholars, who tend to recall the restraining effect of incomplete liberalisation.

The Euro-Med AAs are of a restricted nature, a characteristic considered by Montanari (2007) to result from a conflict of interest between the EU and its partners. The combined effect of the agricultural protectionism, the long transition periods for tariff liberalisation, the exclusion of services and the limited provision of financial support has reduced the positive impact that the trade cooperation could have had on the competitiveness of Mediterranean manufacturing sectors.¹¹

Scholars like Dell’Aquila and Kuiper (2003), which tend to take a critical view, question whether trade liberalisation between the EU and the MPCs can have any significant positive impact on economic growth, considering that the modest economic growth in the MPCs also is due to problems that need to be addressed by domestic reforms, which particularly ought to aim at limiting state intervention as well as reforming the political economy to reduce the dependency on non-trade incomes.

This is a general feature in several analyses of the agreements, and it leads some scholars to consider if there even are net gains emerging from the Euro-Med agreements. A key problem

¹¹ Montanari (2007), pp. 1021, 1028-1029.

for those aiming at putting figures on potential costs and benefits is that trade agreement with so many, and big, exemptions will provide for few dynamic gains. Export benefits in key sectors will be forgone as the agreements exclude goods like agriculture and textiles, which are central to export gains for many MPCs. Moreover, there will be little displacement effects in such sectors, prohibiting one of the chief dynamic gains to run its course through the economy: the need for behavioural change as competition grows. General import gains will also be difficult to exploit as many MPCs do not have the trade-institutional framework needed for those benefits to be generated.

Furthermore, the AAs with the Euro-Med countries are even in contradiction with the EU's goal to promote stability, according to Kuiper (2006), since the combined effect of reducing tariffs on manufactured products while excluding agriculture will hinder the MPCs from exploiting their comparative advantage in agricultural production. This is a point which has attracted interest in the wake of recent political development in North Africa and the Middle East. Generally, it is not far-fetched to assume that the Euro-Med agreements have had a little or no effect on many MPCs capacity to grow and generate greater welfare for the population.

The form of the Euro-Med cooperation has also been the subject to criticism from European businesses, which consider the excessive concentration of the UfM on the input side rather than output aspects to be a principal weakness. The UfM should in order words focus on concrete growth generating projects, instead of dealing with structures and responsibilities. In relation to this, European business representatives advocate a greater involvement of the private sector in the framing of the UfM priorities, while also requesting a clearer division of the mandate.¹²

3.2 Trade in agricultural products

Predictably, many scholars deplore the fact that a large part of trade in agricultural goods is not covered by the Association Agreements. Dell'Aquila and Kuiper (2003) stress that this reduces the opportunities for the Mediterranean economies to attract investment to a sector of economic importance. This should be seen against the background that the agricultural sectors account for around 13.5 % of the GDP in Egypt, 17.1 % in Morocco and 10.6 % in Tunisia.¹³ Exclusion of agricultural liberalisation originates principally from the EU's stance in agricultural policy, reflecting diverging regional interests within the Union and dominant defensive interests in the field of agriculture. Agricultural liberalisation would notably intensify the direct competition to the agricultural industry in Southern Europe as several MPCs can offer similar goods and can fairly rapidly increase volume for exports.¹⁴

Trade in agricultural products is however not completely absent from the AAs, and the EU has experienced a limited improvement of the market access to the MPCs. Bilateral agreements have been signed with Israel and Egypt regarding progressive liberalisation of trade in agricultural and processed agricultural goods, and fish and fishery products; and negotiations on the matter are also ongoing with Tunisia and Morocco.¹⁵ The AA with Israel has for instance facilitated EU exports of cheese, beef, potatoes and some types of prepared fruit. The agreement with Morocco opens up to a certain extent for EU exports of cereals, dairy products, oils and fats. Within the framework of the customs union, Turkey offers EU preferential treatment on 33 % of all agricultural exports to Turkey (the latest figure is from

¹² See e.g. BusinessEurope (2010a) and ANIMA et al., (2010).

¹³ CIA (2011).

¹⁴ Kuiper (2006).

¹⁵ European Commission (2010); Lannon & Martin (2009), p. 32.

2003), notably with low to zero tariff rate quotas (TRQ) on cattle, frozen meat, dairy products, bulbs and plants, fruit, cereals, vegetable oil and tomato puree.¹⁶

In other cases, TRQs limit the effect of tariff reductions. In the case of Tunisia, a certain number of tariff lines are reduced to zero, although within the limitation of TRQs; these products include live animals, beef and poultry, dairy products, cereals, seed oil, sugar, potatoes and tobacco. EU exports of products like cheese, creamy products and animal fodder also benefit from preferential tariff rates within certain TRQs to Egypt, and the agreement with Algeria envisions reductions in tariff rates for EU exports of products like cattle, beef, powder milk, seed, potatoes, cereals, oilseeds and sugar.¹⁷

3.3 Services

In the Euro-Med literature, scholars practically unanimously advocate further liberalisation of trade in services. Montanari (2007) draws attention to the fact the Euro-Med agreements cover services to a lesser extent compared with previous agreements between the EU and the Central and Eastern European Countries (CEEC). The CEEC agreements included provisions on the right of establishment and supply of services and movement of workers, while the Euro-Med simply refers to the GATS commitments of the signatories. Montanari argues that this difference with respect to the scope of the agreements can be traced back to the distinct end goals of the two respective integrations processes. The integration of the Eastern European countries aimed at preparing the CEECs for EU membership, while the Euro-Med FTAs represent a case of lighter economic integration.

Given the reference in the AAs to the GATS, it must be noted that GATS commitments of the Southern Mediterranean countries who are WTO members are not particularly far-reaching. Table 5 presents an overview on the commitments made in sub-sectors. Tunisia has for instance bound only 3 out of 11 possible sectors, Egypt 4 and Morocco 7. Jordan has the greatest number of bound sectors (11), illustrating its more liberal policies towards investment, while also reflecting the relatively large share of services (around 66 % of GDP) in the Jordan economy.¹⁸

Table 5. Sectoral GATS commitments (2002)¹⁹

Sector	Egypt	Jordan	Morocco	Tunisia	Israel	Turkey
Business		×	×		×	×
Communications		×	×	×	×	×
Construction	×	×	×			×
Distribution		×				
Education		×				×
Environmental		×	×		×	×
Financial	×	×	×	×	×	×
Health/Social		×				×
Tourism	×	×	×	×	×	×
Recreational		×				
Transport	×	×	×			×
Total	4	11	7	3	5	9

Source: Müller-Jentsch (2005); WTO Trade Policy Reviews

¹⁶ For longer analysis, see Dell'Aquila & Kuiper (2003), p. 31-32.

¹⁷ Dell'Aquila & Kuiper (2003).

¹⁸ Müller-Jentsch (2005).

¹⁹ The GATS agreement was negotiated in 1994 and since then no revision has been made.

The sector with the most extensive commitments is the tourism sector, which is also the GATS sector with most commitments in general; 88 % of the WTO countries have bound commitments in the tourism sector. It should be noted that although several countries among the Euro-Med WTO members have bound commitments in financial services, communications and transport, the actual liberalising effect of these commitments is limited.²⁰ This is partly because countries tend to bind liberalisation already achieved rather than to negotiate real liberalisation. At the same time, studies suggest that the Euro-Med countries could benefit considerably from service liberalisation. The EU's share of the total export of services (principally travel and transportation services) to the Mediterranean countries was only 18 % in 2000, while the share of goods was as large as 78 %. This indicates a potential to increase the trade volumes, according to Brenton & Manchin (2003).

Deficiencies in the liberalisation and provision of backbone services hamper the possibilities of economic development of the Southern Mediterranean countries. This category includes services facilitating cross-border exchanges, like telecom and financial services, but also more tangible services related to infrastructure and transport. Given the increased fragmentation of international processing and production chains, e.g. outsourcing to developing countries, a well-functioning structure of backbone services is crucial in order to enable businesses to operate.

In this respect, it is pointed out that for instance financial services tend to be deficiently developed in many MPCs. Their financial markets are generally dominated by banks, with a minor role for capital markets. State-ownership is extensive in banking and insurance; for example 46 % of the total bank assets in Tunisia are state-owned, 70 % in Egypt, 95 % in Algeria and 100 % in Syria. State ownership is however almost absent in Jordan and Lebanon, and in Morocco 27 % of the bank assets are state owned. Regarding the telecom sector, mobile telephony has been opened up to competition, but major restrictions apply to the fixed line networks, as shown by data from the World Bank (see Table 6).

Liberalisation of IT-enabled services is still lagging behind in the Southern Mediterranean countries, which hinders the MPCs from exploiting their comparative advantages (cultural and geographical proximity to Europe; young educated workforce). This should be seen in the light of estimates suggesting that 25 percent of traditional IT jobs are being outsourced from developed to developing countries, and that 30 % of European companies are likely to offshore parts of their business.

Table 6. Liberalisation of the IT-sector in the Euro-Med (2008)

	Status of main fixed-line telephone operator	Level of competition: Competition (C), partial competition (P), monopoly (M)		
		International long distance service	Mobile telephone service	Internet service
Albania	public	P	P	C
Algeria	public	P	P	C
Bosnia-Herzegovina	mixed	C	C	C
Croatia	mixed	C	C	C
Egypt	mixed	M	C	C
Israel	mixed	C	C	C
Jordan	private	C	P	C

²⁰ Müller-Jentsch (2005).

Lebanon	public	M	M	C
Mauretania	mixed	C	C	C
Montenegro	private	C	C	C
Morocco	mixed	C	C	C
Syria	public	M	P	P
Tunisia	mixed	M	C	P
Turkey	mixed	C	P	C

Source: World Bank (2010)

Moreover, tourism (services mode 2) is an important sector for the MPCs, accounting for around 20 % of total exports for Egypt, Jordan and Morocco. The tourism sector is the most liberalised service sector in the region with relatively few restrictions limiting foreign participation. Measures to facilitate the provision of services are however desirable, argues several scholars, including development of the infrastructure and liberalisation of air transport. Another important sector that needs restructuring is the electricity sector, where state-owned monopolies generally account for a large part of the market.

From the perspective of companies exporting to the Southern Mediterranean, service liberalisation is in fact underlined as a top priority. BusinessEurope stresses the need for reforms in order to facilitate and safeguard investment and to assure legal certainty. This would require a widening of the scope of the Euro-Med cooperation to address investment and services - areas where businesses recognise great potentials, for example in the financial services sector, telecommunications, distribution, energy, environmental services, logistics and transportation.²¹

Moreover, a survey conducted by MedAlliance amongst the business community shows that the absence of free movement of business people (mode 3), insufficient business support programmes, and complicated access to available technical assistance instruments are perceived as the major weaknesses of the Euro-Med trade cooperation. Similarly, the main obstacles for increasing trade and investment are insufficient networking and matchmaking instruments, red tape, absence of free movement for business people, lack of reliable information, logistics and export procedures etc. It can also be noted that 81 % of the over 40 000 participating companies in the survey consider that the present trade in goods and services, as well as the investment flows do not match their potential.²²

3.4 Investment

Inflow of foreign direct investment (FDI) to the MPC is hampered by cumbersome investment regimes dissuading foreign companies from investing in the region, other than in the hydrocarbon sector.²³

The number of FDI projects in the Southern Mediterranean region increased to 826 projects in 2010, compared to 542 in 2009. The increase in the total value of the FDI is however less significant, € 33.2 bn in 2010 compared to € 28.4 bn in 2009. This reflects the decrease in the average investment value of individual projects, declining from € 52 million (2009) to € 40 million (2010). Naturally, it also reflects the economic crisis, which hit investment flows hard. This indicates the somewhat smaller scale of current FDI projects, which often take the

²¹ BusinessEurope (2010a); ANIMA et al., (2010).

²² MedAlliance (2009).

²³ IMF (2005).

form of joint-ventures, partnerships and extensions of existing facilities on location, as European enterprises and SMEs in particular seek to minimise the risks.²⁴

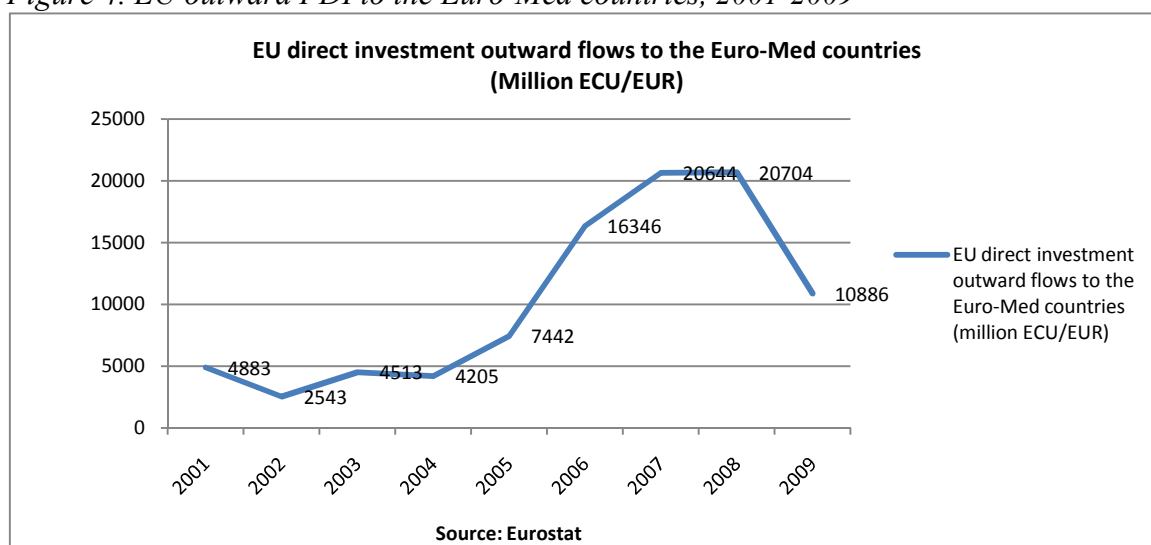
Table 7. Foreign direct investment inflows to the Euro-Med countries 2007-2009 (\$ Millions)

FDI inflows 2007-2009 (Millions of dollars)	2007	2008	2009
Albania	662	988	979
Algeria	1 662	2 646	2 847
Bosnia Herzegovina	2 077	1 064	501
Croatia	5 023	6 140	2 605
Egypt	11 578	9 495	6 712
Israel	8 798	10 877	3 892
Jordan	2 622	2 829	2 385
Lebanon	3 376	4 333	4 804
Mauritania	138	338	-38
Montenegro	921	916	1 311
Morocco	2 803	2 487	1 331
Occupied Palestinian Authority	28	52	33
Syria	1 242	1 467	1 434
Tunisia	1 616	2 758	1 688
Turkey	22 023	18 148	7 611
EU-27	923 810	536 917	361 949

Source: United Nations Conference on Trade and Development (2010) 'World Investment Report 2010: Investing in a Low-carbon Economy'

European companies are the major investors in the Southern Mediterranean region, accounting for around half the value of the total FDI, and 54 % of all FDI projects in 2010.²⁵

Figure 4. EU outward FDI to the Euro-Med countries, 2001-2009

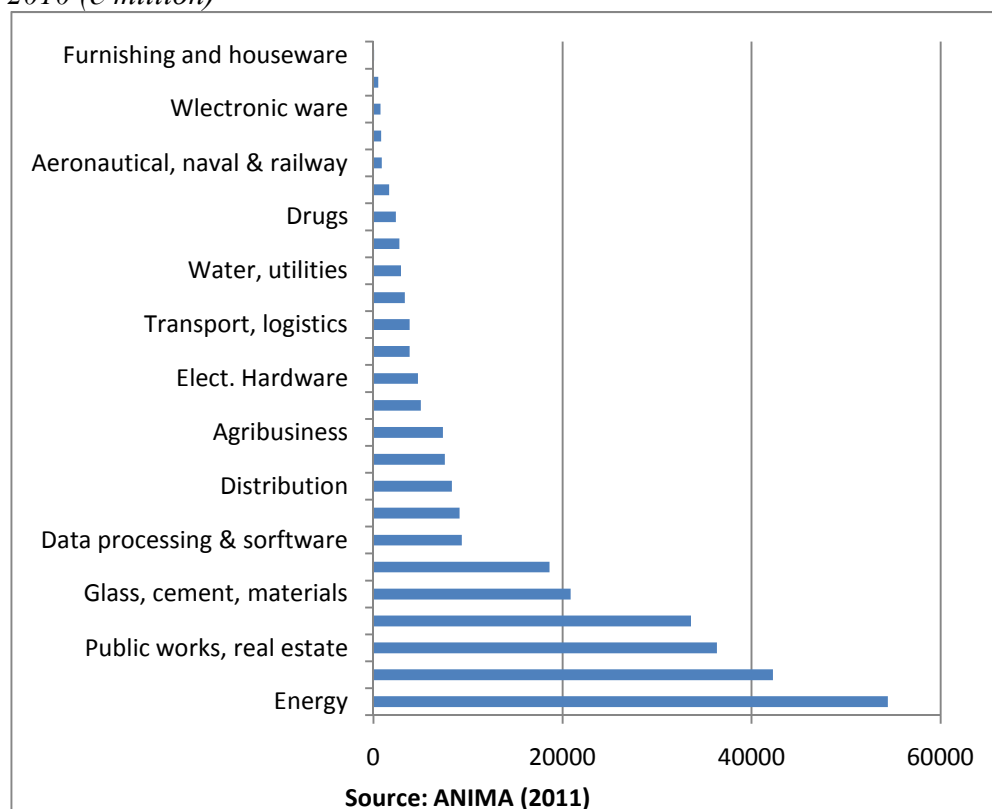


Regarding the sectoral distribution of FDI, the energy sector, banking and insurance, real estate and telecom sectors attract the greatest share of inward FDI to the region (see Table 8). Turkey, Egypt and Israel have been the three largest recipients of FDI during 2007-2010. It is estimated that almost 175 000 direct jobs and 585 000 indirect jobs were created by FDI in year 2010.

²⁴ ANIMA (2011).

²⁵ ANIMA (2011).

Table 8. Sectoral distribution of inward FDI in 11 Southern Mediterranean countries²⁶ in 2010 (€ million)



The Euro-Med trade agreements do not significantly address the liberalisation of services and FDI. Several scholars recall that this hinders the inflow of knowledge, given the important link between investment and local establishment of services. Moreover, disregarding the liberalisation of services and investment might have serious consequences for the Mediterranean economies as the increased competition from foreign imports will not be balanced by greater inflows of investment to the service sector.²⁷ This is especially problematic in FTAs with considerable exemptions for sectors important to export performance in the MPCs. It is also problematic for European Union firms with an interest in the region. A lot of trade with developing countries is driven by Foreign Direct Investments, and scant coverage of investment issues in the Association Agreements inevitably devaluates the agreements potential for trade creation.

It has also been noted by scholars that the hub-and-spoke character of the Euro-Med agreements is of concern. Scholars warn that the bilateral agreements between EU and the MPC, in combination with insufficient regional integration, might have the effect of redirecting investment flows to the nucleus of the trading network, i.e. the EU, at the expense of the MPCs.²⁸

3.5 Potential economic gains from the liberalisation of trade

The Association Agreements focus on the dismantling of tariffs on goods and the MPCs have actually committed to considerable tariff reductions, like in the cases of Tunisia and Morocco.

²⁶ The data is based on figures from 11 Mediterranean countries; Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestinian Authority, Syria, Tunisia and Turkey

²⁷ Dell'Aquila & Kuiper (2003), p. 39-41.

²⁸ Kuiper (2006), p. 8.

It is noteworthy though that some industrial tariffs still remain; Morocco maintains tariffs on imports of equipment from the EU, and Tunisia keeps its tariffs on motor vehicles and manufactures. Meanwhile, the EU does not need to reduce its tariffs in many cases, as a result of the significant unilateral tariff dismantling in the 1970s.²⁹

Table 9. Changes in tariffs as foreseen by the Euro-Med agreement (% reduction in tariffs)

Sector	Tariffs on imports originating in the EU, % reduction		EU tariffs on imports originating in the MPCs, % reduction	
	Morocco	Tunisia	Morocco	Tunisia
Cereals	0.0	0.0	0.0	0.0
Oil seeds and vegetable oils	-11.6	-2.4	0.0	-0.2
Vegetables, fruit and nuts	0.0	0.0	0.0	0.0
Spices and other crops	-3.0	-11.5	-0.4	-17.7
Plant-based fibres	0.0	0.0	0.0	0.0
Sugar cane, sugar beet, sugar	0.0	0.0	0.0	0.0
Animal products and wool	-0.2	-0.4	0.0	0.0
Milk and dairy products	-1.9	-0.9	-0.1	0.0
Natural resource extraction	-22.6	-81.8	0.0	0.0
Food and beverages	-65.5	-58.8	-60.6	-77.2
Textiles and leather	-100.0	-99.7	0.0	0.0
Petro-chemicals	-100.0	-99.9	0.0	0.0
Wood, paper and mineral products	-100.0	-100.0	0.0	0.0
Metals and metal products	-100.0	-100.0	0.0	0.0
Various types of equipment	-95.1	-100.0	0.0	0.0
Motor vehicles and manufactures	-100.0	-84.4	0.0	0.0

Source: Kuiper (2006)

According to one study, the income effect of the tariff liberalisation is likely to be more considerable in Morocco than in Tunisia, both in absolute and relative terms, with an estimated GDP increase of 4.84 % (see Table 10). This is a significant GDP effect and it results from the dismantling of the high tariffs on manufactures in Morocco. In comparison, the GDP effect in Tunisia is estimated to be 2.63 %. The smaller effect on the Tunisian economy is linked to the fact that Tunisia has more considerable tariff protection for its agricultural sector, in comparison with the lower tariffs applied to manufactures.³⁰

The relatively small economic importance of the Tunisian and Moroccan economies for the EU is reflected in the insignificant GDP impact that these Association Agreements are likely to have on the EU; 0.01 % GDP increase for Northern European countries, and 0.02 % for Southern European countries, given no tax replacement.³¹

Table 10. Income effects of the current Euro-Med agreement (\$US millions, 2001)

	No tax replacement		With tax replacement	
	Total	Share of base GDP (%)	Total	Share of base GDP (%)
Morocco	1645	4.84	-892	-2.63
Tunisia	512	2.63	-318	-1.64
Northern EU	768	0.01	649	0.01
Mediterranean EU (Pt, Ita, Esp, Gre)	350	0.02	295	0.02
Rest of the world	-702	0.00	-646	0.00
Total	2572	0.01	-912	0.00

²⁹ Kuiper (2006), p. 11.

³⁰ Kuiper (2006), pp. 7 and 18.

³¹ Kuiper (2006), p. 18.

Source: Kuiper (2006:18)

However, the revenues from custom duties are so important in Morocco and Tunisia that replacing them with taxes would imply increasing consumer taxes with 9.6 % and 8.5 % respectively. Consequently, argues one scholar, in a scenario of tax replacement, the GDP effect would in fact be negative for both Morocco (-2.63 %) and Tunisia (-1.64 %).³²

In the event that the scope of the Association Agreements would be expanded to also fully liberalise trade in agricultural goods, it is possible to see that the EU would benefit from greater exports of cereals and spices, whereas the textile industries in Morocco and Tunisia would notably benefit from improved market access to the EU. (Kuiper, 2006: 28)

Table 11. Output effects by sector and region with full liberalisation, including complete removal of tariffs on agricultural goods (% change)

	No tax replacement				With tax replacement			
	Morocco	Tunisia	EU north	EU Med	Morocco	Tunisia	EU north	EU Med
<i>Agriculture</i>	5	14	0	0	-5	7	0	0
Cereals	-8	-45	3	1	-17	-51	2	1
Vegetable oils	7	844	0	-7	-6	797	0	-6
Vegetables and fruit	10	13	0	0	3	5	0	0
Spices and other crops	-5	-21	0	1	-13	-29	0	0
Plant-based fibres	6	-1	-1	0	-4	-7	0	0
Sugar	7	7	0	0	-4	-2	0	0
Animal products	17	-2	0	0	3	-12	0	0
Dairy	-20	-22	0	0	-30	-30	0	0
Natural resources	-3	-4	0	0	-5	-6	0	0
<i>Manufacturing</i>	10	3	0	0	0	-4	0	0
Food and beverages	8	-3	0	0	-2	-10	0	0
Textiles and leather	49	23	0	0	32	15	0	0
Petro-chemicals	-5	-5	0	0	-11	-10	0	0
Wood, paper	-11	-10	0	0	-18	-17	0	0
Metal products	-9	-4	0	0	-17	-13	0	0
Equipment	9	-12	0	0	0	-19	0	0
Motor vehicles	-9	-8	0	0	-18	-15	0	0

Source: Kuiper (2006), p. 28.

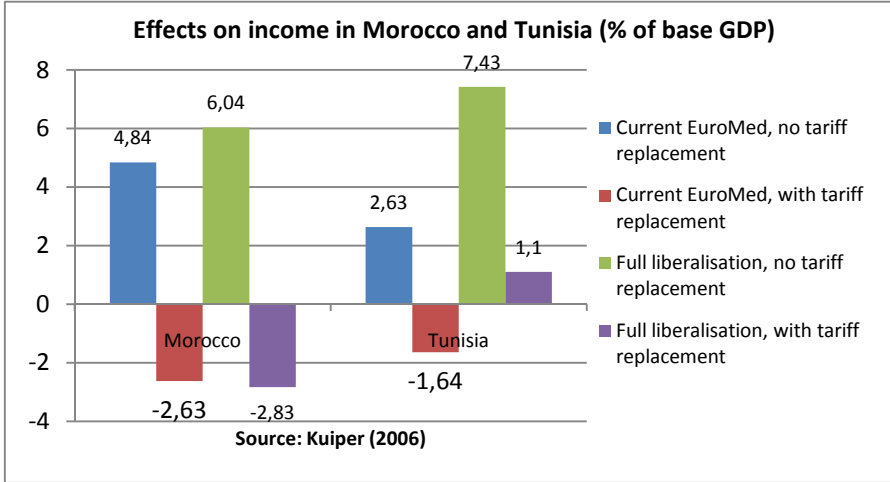
In a scenario of complete liberalisation, it is in particular the Northern European countries which are likely to benefit from the improved market access for exports of cereals, animal and dairy products to the MPCs. In fact, 71.7 % of Moroccan and 67.3 % of Tunisian imports of animal products, and 87.2 % of Moroccan and 65.5 % of Tunisian imports of dairy products already originate from the Northern European countries.

At the same time, Southern European countries might face a surge in imports of vegetable oil; the EU already absorbs 25.2 % of Moroccan exports and 82.1 % of Tunisian exports. The production of vegetable oils in the southern European countries is likely to diminish by -7 % at the same time as the Tunisian output can increase by up to 844 %, according to simulations of complete trade liberalisation. Such a dramatic increase is however not plausible in reality,

³² Kuiper (2006), pp 18-19.

given biophysical limitations. As a result, the total positive effect of liberalisation in Tunisia is not likely to be as remarkable as figures suggest.

Figure 6. Summary of GDP effects of trade liberalisation in Morocco and Tunisia



On a general level, apart from cereals and vegetable oils, a complete Euro-Med liberalisation is likely to have only a modest impact on the EU output in most fields. This result reflects the relatively limited size of the North African economies.

3.6 Rules of Origin

Complex overlapping provisions of Rules of Origin (ROO) constitute an obstacle to Mediterranean trade, especially since there is currently an array of bilateral ROO protocols in the Association Agreements. The European Commission envisions however to replace these complex arrangements by the System of Pan-Euro-Mediterranean cumulation, established in 1997.³³ The Pan-Euro-Med cumulation system provides for diagonal cumulation of origin, meaning that ‘products which have obtained originating status in one of the 42 countries may be added to products originating in any other one of the 42 without losing their originating status within the Pan-Euro-Med zone’³⁴. This permits for example North African countries to process materials imported from the EU and later re-export the finished products to the EU under preferential tariffs in the agreements. In order to benefit from the possibility of cumulation of ROO, there must be a FTA including a Pan-Euro-Med origin protocol adopted between the countries in question. Consequently, even if a country is a member of the UfM, it cannot benefit from the cumulation of origin unless it has concluded in FTAs with the other countries in the zone.³⁵

In fact, according to gravity model regressions³⁶ estimating the effects of ROO on aggregate trade flows, the levels of manufacturing trade are approximately 40-45 % lower in the absence of cumulation of ROO between countries, compared to what would usually be expected. In accordance with this, computable general equilibrium (CGE) modelling shows that the effects of extending the Pan-European system of cumulation are likely to be significant. Table 12

³³ European Commission (2005b) and (2011d).
³⁴ The 42 countries include the EU, the EEA/EFTA countries (Iceland, Norway, Switzerland, Lichtenstein), the signatories of the Barcelona Declaration (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia and the Palestinian Authority of the West Bank and Gaza Strip); and also the Faroe Islands and Turkey
³⁵ European Commission (2011f) and WTO (2007), pp. 56,126, and184.
³⁶ The gravity model regressions are based on data from 1995 and 1999. 40 countries are included in the sample; the EU, the CEFTA, the Baltic States, countries participating in the Barcelona Process, US, Canada, China and Australia. (Augier et. al, 2006)

shows the estimated impact on trade flows in three possible ROO cumulation scenarios. The first scenario (a) estimates the impact of the implementation of the AAs between the EU and Tunisia and Morocco, in combination with free trade between Tunisia, Morocco and other participants in the Pan-European system of cumulation. Secondly (b), the effects of a more wide-ranging trade liberalisation between the Southern Mediterranean countries and other Pan-European participants are analysed. The third (c) scenario calculates the effect of ROO cumulation while assuming perfect international mobility of capital. Tariff reductions of 100 % are assumed in all cases.³⁷

Table 12. Impact of ROO cumulation on aggregate manufacturing production and welfare.

	Egypt	Israel	Turkey	Morocco	Tunisia
a) Tunisian and Moroccan Trade liberalisation					
Welfare (% of base GDP)	0.09	0.01	0.03	0.26	0.34
% change in manufacturing production	2.05	0.65	-0.85	2.98	2.48
b) All SMCs in Pan-European with no capital mobility					
Welfare (% of base GDP)	0.76	0.41	0.15	0.49	0.57
% change in manufacturing production	10.59	2	1.1	3.35	3.07
c) All SMCs in Pan-European with capital mobility					
Welfare (% of base GDP)	1	0.41	0.2	0.61	1.04
% change in manufacturing production	11.84	2.34	1.5	4.83	9.84

Source: Augier et. al (2006: 22)

The CGE estimation (a) of the impact of ROO cumulation combined with complete tariff liberalisation suggests welfare increasing effects, for instance 0.26 % in Morocco. The manufacturing production is estimated to increase by more than 2 % in Egypt, Morocco and Tunisia. The expected welfare and production gains in the more extreme scenarios (b) and (c) indicate that the impact of ROO cumulation and liberalisation is positively correlated to production volumes and economic welfare. (Augier et. al, 2006: 20-22)

4. INVENTORY OF OBSTACLES TO TRADE IN EURO-MED PARTNER COUNTRIES

This section presents an inventory of existing barriers to trade in the Southern Mediterranean countries with respect to border measures, non-tariff barriers as well as aspects related to the business climate. The chapter will build on previous chapters, and in the interest of avoiding repetition some problems will only be covered briefly.

4.1 Market access

4.1.1 Insufficient regional trade integration

Trade in the Mediterranean region is hampered by the limited economic integration in the region. ‘The lack of progress on the opening up of South-South Mediterranean seriously hampers our ability to make large investments’, according to Philippe de Buck, Director General of BusinessEurope.³⁸ The intra-regional trade flows represented a value of 15 billion euro in 2009, which is one of the lowest figures in the world for regional integration. Intra-regional investment between countries in the Southern Mediterranean region represents only 3 % of total FDI. Recent initiatives to liberalise intra-regional trade include the Agadir Agreement which entered into force in 2006 between Tunisia, Morocco, Jordan and Egypt.

³⁷ Augier et. al (2006), pp 12-23.

³⁸ BusinessEurope (2010).

Aiming for substantial liberalisation of trade and harmonisation of standards and custom procedures, the impact of the Agadir Agreement is however estimated to have been ‘modest’, partly due to remaining non-tariff barriers.³⁹

In addition, the Greater Arab Free Trade Area (GAFTA), established in 1997 between 14 countries in the Mediterranean region, envisioned a free trade area for goods by 2008. The agreement has however no economic impact of consequence, according to Brenton and Manchin, due to the exclusion of trade in services and investment, at the same time as the intra-regional trade in goods in the region is not showing particular potential. (Brenton; Manchin, 2003: 6)

The Mediterranean countries basically trade with the EU instead of with each other. In terms of export, over 50 % of the exports from the region goes to the EU, while NAFTA absorbs around 18 % of the total exports. Turkey is the largest recipient of intra-regional exports, accounting however for less than 2 % of the total regional exports. Regarding imports, around 40 % of the total imports of the region originate from the EU, while only 6 % of the imports are represented by intra-regional trade. Imports from NAFTA account for around 7 % of total imports. (De Wulf, Maliszewska et al. 2009: 41-42) The EU is likewise the major investor in the Mediterranean region; with 48 % of all FDI projects on average. The EU represents for instance 66 % of the inward FDI to Morocco, 29 % of FDI to Egypt, 22% to Tunisia, 9.6 % to Israel and 5 % to Jordan. (De Wulf, Maliszewska et al. 2009: 58-59)

Moreover, the fact that the Mediterranean countries produce and export very similar types of goods (De Wulf, Maliszewska et al. 2009: 90) reduces the extent to which these countries are natural trading partners. In addition, the present situation, characterised by complex tariff schedules as a result of numerous overlapping FTAs, is not conducive to promoting the intra-regional trade.

Also, the lack of regional trade integration is not just related to existing trade barriers *per se*, but should be seen against the background of the geopolitical situation in the region, which is hampering the trade flows, notably in the case of the trade between Israel and its neighbours. (WTO, 2006: Israel)

4.1.2 At the border – tariff barriers

Exports from the EU to the Mediterranean partner countries are still hampered by traditional barriers to trade in the form of tariffs, quantitative restrictions and cumbersome customs procedures. (c.f. De Wulf, Maliszewska et al. 2009)

Exports of agricultural products are not duty free as a result of the predominant inclusion of industrial goods in the AAs. (c.f. EU-Egypt AA, 2001) EU exports to Tunisia of agricultural goods faced average tariffs of 64 % still in 2005. (WTO, 2005: Tunisia) Another example of restrictions on agricultural goods is the prohibition in Egypt on imports of natural products, vitamins and food supplements; such products can only be sold and marketed by domestic companies in possession of a manufacturing licence. (USTR, 2010: Egypt)

Furthermore, the AAs provide for extensive transition periods for tariff dismantling. The EU-Egypt Agreement allows for instance for transition periods of 3, 9, 12 or 15 years, depending on the category of the industrial goods. (EU-Egypt AA, 2001) In the case of

³⁹ European Commission (2009), p. 4, (2011b) and (2011e). ANIMA (2011), p. 6.

Lebanon, a progressive elimination of tariffs on imports between 2008 and 2015 is timetabled.⁴⁰

In addition, the tariff elimination is in some cases incomplete in the sense that the pace of the schedules is not followed. For example the EU exports to Tunisia had duty free access in only 39.19 % of the tariff lines in 2005, although the implementation of the AA was initialised in 1998. The same problem applies to Morocco; in 2008 the EU had duty free access in 40.32 % of the tariff lines.⁴¹ But, one step in the right direction is the fact that Tunisia's commitments on tariff reductions have permitted a reduction of the average tariffs on imports of merchandises from the EU to 6.3 %.⁴²

The tariff profiles of the Mediterranean countries (Table 12) indicate that although tariff dismantling schedules provide for the progressive elimination of tariffs, the EU might still face high tariffs until the removal of the tariffs is completed; the average applied MFN tariff in Morocco is at a level of 14.4 %, for instance.

Table 12. Tariff Profiles of selected the Euro-Med countries

WTO Tariff Profiles	Tariffs: simple average final bound, %		Tariffs: simple average MFN applied, %	
	Agriculture	Non-Ag	Agriculture	Non-Ag
Albania	9.5	6.6	7.9	4.5
Croatia	11.4	5.5	10.7	4.0
Egypt	95.4	27.7	70.7	9.2
Israel	73.3	11.5	16.5	5.0
Jordan	23.6	15.2	18.6	9.0
Mauritania	37.8	10.7	-	-
Morocco	54.4	29.3	42.1	14.4
Tunisia	116.1	40.7	40.9	18.6
Turkey	60.8	17.0	42.9	4.8

Source: WTO Tariff Profiles

Administrative border procedures

Inefficiencies related to administrative border procedures for customs clearance are repeatedly pointed out as impediments to trade and blamed for causing particular problems to EU exporters.

Customs clearance in MPCs is generally time consuming. Sometimes several competent agencies deal with the product approval and unsatisfactory coordination between them result in costly delays.⁴³ According to a survey among companies importing to eight Arab countries⁴⁴, the average time required to release goods imported by air freight is 2-5 days; 2-10 days by sea shipment and 1-3 days by road shipment. This can be compared to the norms of less than 6 hours, less than 24 hours and 4 hours respectively. On average, between 10 and 20 signatures are required to clear goods imported by air freight or by sea freight, and 11-15 days are needed for imports by road transportation.⁴⁵

⁴⁰ European Commission (2005b).

⁴¹ De Wulf, Maliszewska et al. (2009), p. 167.

⁴² WTO (2005).

⁴³ De Wulf, Maliszewska et al. (2009), p. 90, 116.

⁴⁴ The countries in the survey include Gaza-West Bank, Egypt, Jordan, Lebanon, Saudi Arabia, Syria, Tunisia, UAE.

⁴⁵ Zarrouk (2003), p. 53-54.

Moreover, inconsistent application of regulations by customs officials, who sometimes lack adequate training, is also mentioned as a weakness, according to EU business representatives.⁴⁶ Lack of transparency and ‘discretionary application’ of custom regulations is for example reported in Egypt, notably with regard to the WTO principle of transaction/invoice value for customs valuation.⁴⁷

The relatively poor results of the MPCs in the Global Enabling Trade Index (WEF) illustrate the cumbersome border administration procedures and the lack of customs efficiency in these countries. A number of documents are required to clear imports, and corruption and irregular payments appear to occur on a relatively frequent basis.⁴⁸

Table 13. Enabling trade factors – border administration

Enabling Trade Index 2010	Efficiency of customs administration		Efficiency of import procedures				Transparency of border administration		
	Country	Burden of customs procedures, 1-7 (best)	Custom services index, 0-12 (best)	Efficiency of the clearance process, 1-5 (best)	Time to import (days)	Documents required to import (number)	Cost to import (US\$ per container)	Irregular payments in exports and imports, 1-7 (best)	Corruption Perceptions index, 1-10 (best)
Rank / total average score									
Albania 59 / 4.13	3.6	8.7	2.1	18	9	710	3.6	3.2	
Algeria 119/3.14	2.7	5.0	2.0	23	9	1 428	2.8	2.8	
Bosnia Herzegovina 80/3.85	3.5	3.5	2.3	16	7	1 090	2.4	3.0	
Croatia 45/4.5	3.8	7.8	2.6	16	8	1 414	3.7	4.1	
Egypt 76/3.88	4.0	6.0	2.1	15	6	823	3.4	2.8	
Israel 26/4.76	4.0	9.5	3.1	12	4	605	5.7	6.1	
Jordan 39/4.55	4.6	6.8	2.3	19	7	1 290	5.2	5.0	
Lebanon	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Mauritania 117/3.30	4.0	2.0	2.4	42	11	1 523	3.1	2.5	
Monaco (data for France) 20/5.02	4.8	9.5	3.6	11	2	1 248	5.1	6.9	
Montenegro 43/4.47	4.0	6.3	2.2	14	7	890	4.1	3.9	
Morocco 75/3.90	4.1	8.2	2.2	17	10	1 000	3.6	3.3	
Palestinian Authority	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Syria 104/3.50	2.9	1.3	2.4	21	9	1 625	2.8	2.6	
Tunisia 38/4.57	4.2	n/a	2.4	21	7	858	4.8	4.2	
Turkey	3.4	7.5	2.8	15	8	1 063	3.4	4.4	

⁴⁶ De Wulf, Maliszewska et al. (2009), p. 90, 116.

⁴⁷ European Commission (2005a).

⁴⁸ WEF (2010).

Rules of Origin (ROO)

The complex patchwork of rules of origin modalities in the Southern Mediterranean countries impedes trade in the region. Difficult to outline, the various inconsistent ROO provisions in the region entail transaction costs for businesses and complicates the work of customs authorities responsible for determining the origin of products. Complicated ROO also reduce the attractiveness of the MPCs for foreign investors.⁴⁹

The ROO criteria differ across different sectors. For example, in the Moroccan, Tunisian and Algerian Association Agreements with the EU, the requirement is that 60 percent of the value added for automobiles and machines must be domestic/EU. For textiles, a minimum of two processing stages have to be performed within the EU, for instance spinning and weaving, or weaving and assembly. In addition, the divergent GAFTA provisions complicate trade relations further. Moreover, incomplete provisions on diagonal cumulation of value added for determination of ROO also impede regional trade.⁵⁰

Ongoing work aims however to replace the current mix of bilateral ROO protocols in the AAs by the System of Pan-Euro-Mediterranean cumulation, providing for diagonal cumulation of origin.⁵¹ In 2005, the European Council approved a Commission proposal to amend the origin protocols in the bilateral Association Agreements with the goal of replacing these with the Pan-Euro-Med cumulation system.⁵² The Pan-Euro-Med Protocol is presently in force between the four signatories of the Agadir Agreement.⁵³

In parallel to this, full cumulation⁵⁴ applies between the countries in the European Economic Area, and the EU, Algeria, Morocco and Tunisia, at the same time they apply diagonal cumulation with other Pan-Euro-Med countries, between which the trade relations are not frame by FTAs.⁵⁵

Table 14. Year of application of the protocols on ROO providing for diagonal cumulation in the pan-euro-zone. Bilateral cumulation (B), diagonal cumulation (D), full cumulation (F)

	EU	Algeria	Egypt	Israel	Jordan	Lebanon	Morocco	Palestinian Authority	Syria	Tunisia	Turkey
EU		2007 B D F	2006 B D	2006 B D	2006 B D	B	2005 B D F	2009 B D	B	2006 B D F	⁵⁶ B D
Algeria	2007										
Egypt	2006				2006		2006			2006	2007
Israel	2006				2006		2006			2006	2007
Jordan	2006		2006		2006						2006
Lebanon											

⁴⁹ Müller-Jentsch (2005), p. 87.

⁵⁰ Müller-Jentsch (2005), p. 86-87.

⁵¹ European Commission (2005b) and (2011d).

⁵² European Commission (2011f).

⁵³ Lannon & Martin (2009), p. 32.

⁵⁴ Full cumulation of origin implies that 'any processing of a good within the area [...] is counted as qualifying value content regardless of whether the process is sufficient to turn it into an originating good. In this case, the whole preferential area is considered a single territory, and any processing within it is counted towards the determination of origin'. (WTO, 2007: 184)

⁵⁵ Commission (2011f).

⁵⁶ Years of application: products covered by the EC-Turkey customs union (2006); agricultural products (2007); coal and steel products (2009)

Morocco	2005		2006		2006				2006	2006
Palestinian Authorities	2009									
Syria										2007
Tunisia	2006		2006		2006		2006			2005
Turkey	¹⁰		2007	2006			2006		2007	2005

Source: Commission (2009b)

4.2 Non-tariff barriers (NTBs)

4.2.1 Government procurement

The procedures for government procurement in the Southern Mediterranean countries have been subject to criticism, particularly with regard to lack of transparency and ‘adequate review measures’.⁵⁷ Among the MPCs, only Israel and Turkey are signatories of the Government Procurement Agreement (GPA) in the WTO, and Albania and Croatia are observers, while Jordan is currently negotiating accession. The other MPCs remain outside the GPA, and certain countries reportedly have no intention to join, like Egypt, Morocco and Tunisia.⁵⁸

Discrimination in government procurement is widespread in MPCs. Price preferences are often given to national companies, thereby granting them advantages in competition with foreign bidders. Price preferentials of 15 % are for instance granted by authorities in Egypt, Turkey and Mauretania, and in Tunisia, offers from national companies or offers including national products are given a 10 % price preferential.⁵⁹ Although Israel is a member of the GPA, its defence industry is exempted from the provisions of the GPA and offset arrangements up to 20 % of the contract apply.⁶⁰

Lack of transparency in public procurement is in general reported to be a widespread problem, mentioned for instance in reports on Israel⁶¹ and Egypt, in the latter case the Egyptian Prime Minister has the right to decide the rules, conditions and terms for certain projects.⁶²

Employment regulations in the public procurement procedures might also hinder foreign companies to participate successfully in the bidding. In Jordan, there is for instance an obligation for bidding companies to have a local representative,⁶³ and in Lebanon, the ratio of the employment of foreigners in certain projects is sometimes restricted; also, joint-ventures between foreign and Lebanese companies are in some cases required.⁶⁴

Other aspects in the public procurement procedures hindering foreign companies to participate relate to application procedures. Moroccan public procurement tenders often set a 90 days deadline for applications, which reduces the possibility for foreign companies to apply for projects. In addition, there is no official website where the Moroccan authorities publish information about public tenders, information is instead published in local newspapers

⁵⁷ European Commission (2010), p. 5.

⁵⁸ De Wulf, Maliszewska et al. (2009), p. 96.

⁵⁹ European Commission (2004e) and (2005a); WTO (2002); USTR (2010).

⁶⁰ European Commission (2004a).

⁶¹ USTR (2010: Israel).

⁶² USTR (2010: Egypt).

⁶³ European Commission (2004b).

⁶⁴ European Commission (2005b).

and sent to foreign embassies.⁶⁵ In Turkey, the application procedure for foreign companies is complicated by the requirement to use model contracts.⁶⁶

In addition, European companies can have disadvantages compared to businesses from other countries with which the Mediterranean countries have preferential agreements, like the FTAs that Israel and Morocco have with the US.⁶⁷

4.2.2 Technical Barriers to Trade (TBTs)

Product standards, technical regulations and requirements regarding certificates of conformity constitute barriers to trade as the exporters to the Mediterranean countries face a complex variation of standards, and sometimes time consuming procedures for market approval. Rules for labelling and packaging as well as regulations relating to products like foodstuffs, pharmaceuticals and textiles imply additional costs and uncertainties for European exporters.⁶⁸

The principles of non-discrimination and transparency should apply to technical regulations, standards and conformity assessment procedures, according to the WTO Agreement on Technical Barriers to Trade (TBT). The European Commission reports however that this is 'not always the case', while referring to Egypt as an example.⁶⁹

Testing procedures complicate trade as they vary between different products. Also, laboratory tests for product approval are criticised to be time consuming and non-reliable due to lack of staff and of adequate equipment.⁷⁰ For example, in Egypt imports of nutritional supplements, dietary food and medical equipment have to be approved by the Egyptian Ministry of Health and Population. This approval procedure is set out to take 6-8 weeks, but the procedure can sometimes take 4-12 months for certain products. In addition, mandatory annual renewal of import licences costs approximately 650 euro.⁷¹

Within the framework of the UfM, the aim is to conclude bilateral agreements on Conformity Assessment and Acceptance of Industrial Products (ACAA), including approximation of the regulations in the partner countries. As part of the ACAA, the EU and Israel concluded a sector specific agreement in 2009 for Good Manufacturing Practice of Pharmaceuticals.⁷²

The Euro-Med trade agreements are however criticised for their lack of ambition with regard to technical regulations and conformity assessment systems. Comparing the Euro-Med with the EU-CEE agreements, Brenton & Manchin (2003) note for instance that the CEE agreements have more ambitious provisions on harmonisation of conformity assessment legislation and participation in specialised organisations. Also, the language in the CEE agreements is more determined when it comes to the approximation of technical standards to EU legislations. For the CEEs, the agreement states that 'parties shall cooperate', while the Euro-Med envisions mutual recognition once considered to be 'appropriate' or 'as soon as the conditions for them are met'. In addition, the provisions on technical assistance are clearer in the CEE agreements.

⁶⁵ USTR (2010: Morocco).

⁶⁶ USTR (2010: Turkey).

⁶⁷ De Wulf, Maliszewska et al. (2009), p. 96.

⁶⁸ De Wulf, Maliszewska et al. (2009), p. 81.

⁶⁹ Commission (2005a).

⁷⁰ De Wulf, Maliszewska et al. (2009), p. 81.

⁷¹ USTR (2010: Egypt).

⁷² European Commission (2010).

4.2.3 Sanitary and phytosanitary (SPS) measures

A number of SPS measures complicate exports of European food and animal products to the MPCs. Regulations and standard requirements vary between different countries and concerns are raised as to whether national treatment of alike products can be assured. SPS measures in the MPCs include for example regulations related to the shelf-life of products and certification procedures for Halal and Kosher meat. Moreover, import bans have for instance been in place prohibiting live birds and bovine meat imports to Egypt, Jordan, Morocco and Israel.

4.2.4 Services

In conformity with the provisions on services and the right of establishment in the AAs, negotiations on further cooperation are ongoing between the EU and Egypt, Morocco, Tunisia and Israel. The European Commission reports however that ‘progress was limited’ in these areas during 2009.⁷³

Systemic shortcomings related to backbone service hinders the integration of the Euro-Med countries into the world economy, and it is for instance estimated that transport inefficiencies in eight Arab countries⁷⁴ imply economic costs between € 3 and 7 billion per year. In the field of infrastructure and transport, both maritime, road and air transport could benefit from improvement, for instance liberalisation of port services, authorisation for private operators to provide terminal and airport services, restructuring of public railway companies, modernisation of customs procedures etc.

Regarding the potential benefits of service liberalisation, studies estimate that the liberalisation of services could boost the GDP growth in Tunisia by 7 %, to a large extent as a result from liberalisation of FDI. In the case of Egypt, liberalisation of merchandise trade could increase the welfare by 4 %, but a more substantial liberalisation including services, market access and harmonisation of standards could entail welfare gains of between 13-20 % of GDP.⁷⁵

In practice, complications related to the visa applications restrict the trade in services between the EU and the MPCs. European businesses encounter difficulties in obtaining visas for professionals and their family members, for instance in the financial services sector in Morocco and Tunisia.

Regulations with regard to employment of nationals also hinder EU companies from doing business in the MPCs. For example, in Lebanon, restrictions in the employment regulations apply to certain professional sectors, in which only Lebanese nationals are entitled to work.⁷⁶ Employment regulations in Egypt put limits to the employment of non-nationals in sectors like professional/consulting and financial services, insurance and tourism, where the ratio of non-nationals employed in a company cannot be superior to 10 %. In information and communication technology industries (ICT), it is required that 60 % of the management

⁷³ European Commission (2010), p. 4.

⁷⁴ Morocco, Algeria, Tunisia, Egypt, Jordan, Syria, Lebanon, West Bank and Gaza.

⁷⁵ Montanari (2007); Brenton & Manchin (2003).

⁷⁶ European Commission (2005b).

positions must be occupied by Egyptians within three years from the establishment of the company.⁷⁷

Tourism accounts for around 20 % of Moroccan, Egyptian and Jordan exports. Although consumption abroad (mode 2) is the primary method of exports, commercial presence (mode 3) is also an important component, for instance in the form of hotels and resorts etc. Conditions for FDI in hotels and resorts are quite liberal, but restrictions in adjacent services, like shuttles, excursions or travel agency services reserve those additional services for national tour operators. Given the vertical integration of the tourist sector, with tourist agencies offering package deals, such restrictions can complicate the operation of business. Restrictions on the movement of workers can also impede the business possibilities for tour operators, hindering for instance the entry of guides and hotel staff to work in the hosting country.

Foreign direct investment and right of establishment

Many of the MPCs have restrictions on FDI, often in the banking, finance, telecom and transport sectors.

Regulations in Jordan restrict foreign investors from acquiring complete or partial ownership of companies offering security and investigation services, as well as sport clubs, stone quarrying for construction and also road transportation services. The government can however authorise exemptions, although the approval procedure for exceptions is criticised for being too selective.⁷⁸ The Algerian government adopted new measures in 2009 restricting FDI by the requirement of a minimum Algerian shareholding of 30 % for companies engaged in foreign trade and 51 % for other companies. In the maritime transport sector a minimum of 40 % Algerian shareholders is required.

FDI in Egypt has been liberalised to a limited extent but restrictions continue to apply to sectors like construction, engineering, tourism, maritime transport and financial services. The situation is similar in Lebanon, which has a number of regulations in force restricting FDI, for instance limitations of the share value that foreigners can own in banks, brokerage firms, leasing companies, companies managing mutual funds, financial institutions established as joint stock companies and maritime agencies.

Israel is reported to have a relatively open non-discriminatory investment regime with the exemptions of the acquisition of land and investment in the defence sector. Restrictions do apply however to postal and telegraph services sectors as well as tourism and international fixed telecommunications.⁷⁹ In addition, prior approval is required for investment in sectors like electronic commerce, banking and insurance.⁸⁰ In the case of Croatia, the FDI provisions are reportedly liberal, but restrictions in the form of licensing and prior approval apply to sectors like banking, insurance, transport, energy and telecom.⁸¹ Although most sectors in Turkey are open to foreign investors, some restrictions still apply to real estate acquisition, financial and legal services as well as to the areas of broadcasting, petroleum, mining and fishing.

⁷⁷ European Commission (2010a); USTR (2010: Egypt).

⁷⁸ USTR (2010: Jordan); WTO (2009: Jordan).

⁷⁹ WTO (2006: Israel).

⁸⁰ USTR (2010: Israel).

⁸¹ WTO (2010: Croatia).

It can be noted finally that formal regulatory barriers to FDI might not always constitute the principal obstacles to foreign investment. In the case of Morocco, legislation to encourage foreign investment is already in place, instead, the main obstacles to FDI are associated with ‘complicated procedures for business registration and lack of transparency in the regulatory framework’.⁸² The same thing goes for Jordan, which seeks to encourage foreign investors through its Investment Promotion Law, yet complicated licence procedures and cumbersome accounting and tax laws continue to discourage foreign investment.

4.3 Business environment

4.3.1 Protection of intellectual property rights

Insufficient protection of intellectual property rights remains a general concern for foreign companies doing business in the MPCs. Some weaknesses in the legal provisions remain, but most countries have adequate legislation in place. The main problem relates instead to inefficient enforcement of existing legislation protecting copyrights, trademarks and patents. Counterfeiting of products, infringements on trademark rights and piracy of for example books, computer software, music recordings and motion pictures are widespread. Insufficient trademark protection is also a significant concern for the data industry and for textile and industrial design.⁸³

The responsible authorities often lack the capacity to enforce existing IPR regulations and to initiate criminal cases. Commission reports conclude that ‘the powers of enforcement bodies as well as legal sanctions need to be significantly enhanced to effectively fight piracy and counterfeiting’.⁸⁴

It can also be noted, on an industry specific level, that the pharmaceutical industry continuously raises concerns about disclosure of information submitted to the authorities for market approval of pharmaceutical products.

4.3.2 Business climate: administration, corruption, infrastructure

Deficiencies in the business climate and weak legal systems are among the greatest obstacles hindering exports and investment.⁸⁵ Taking the example of Morocco, the USTR reports that the unpredictability derived from the lack of transparency within the governmental and judicial administration combined with corruption on lower levels discourages foreign companies from doing business. In addition, arduous tax systems and employment regulations as well as practical barriers like underdeveloped transportation systems contribute to reducing the attractiveness of these countries.

The imperfect business climate is illustrated by the ranking of the Euro-Med countries in the Global Enabling Trade Report by the World Economic Forum. Taking for instance the example of Turkey, scoring 3.9 out of 7 for both categories ‘transport and communications infrastructure’ and ‘business environment’, the index shows that improvements are desirable

⁸² European Commission (2004c), p. 19.

⁸³ See e.g. USTR (2010: Jordan) and (2010: Turkey); WTO (2008: Turkey); European Commission (2005a) and (2005b).

⁸⁴ European Commission (2010) and (2009a).

⁸⁵ Zarrouck (2003), p. 54.

to encourage foreign exporters and investors. The generally poor results with regard to corruption also points at a major problem deteriorating the business climate.⁸⁶

Table 15. Business environment in the Euro-Med: Enabling Trade index

Countries' Business environment (Rank out of 125)	Enabling Trade Index: Market access (1-7 scale)	Enabling Trade index: Border Administration (1-7)	Enabling Trade index: Transport and communications infrastructure (1-7)	Enabling Trade index: Business Environment (1-7)	WB/IFC: Rankings on the Ease of Doing Business (out of 183)	Corruption Perceptions Index 0-10 (Highly corrupt – very clean) (Transparency International)
Albania (59)	5.0	4.1	3.2	4.2	82	3.3
Algeria					136	2.9
Bosnia Herzegovina (80)	4.5	3.4	3.5	4.0	110	3.2
Croatia (45)	4.8	4.1	4.5	4.4	84	4.1
Egypt (76)	3.4	4.0	3.7	4.4	94	3.1
Israel (26)	4.5	5.2	4.7	4.6	29	6.1
Jordan (39)	4.4	4.6	3.9	5.3	111	4.7
Lebanon					113	2.5
Mauritania (117)	3.9	2.8	2.7	3.7	165	2.3
Monaco (Data for France)	3.8	5.4	5.8	5.1	26	6.8
Montenegro (43)	4.9	4.2	3.9	5.0	66	3.7
Morocco (75)	3.6	4.2	3.5	4.3	114	3.4
Palestinian Authority						
Syria (104)	3.4	2.9	3.0	4.7	144	2.5
Tunisia (38)	4.7	4.5	3.9	5.3	55	4.3
Turkey (62)	4.4	4.1	3.9	3.9	65	4.4

Sources: World Economic Forum - The Global Enabling Trade Report 2010; Transparency International - Corruption Perceptions Index 2010; WB/IFC Doing Business 2011(Indicators: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business.)

Israel (rank 26), Tunisia (38) and Jordan (39) are the best performing MPCs in the Enabling Trade Index 2010. Israel has improved its ranking since 2009 (29), mostly because of an increase in the use of information and communication technology (ICT) as well as improvements in personal security, although the latter remains a concern. Persisting burdensome customs procedures also constitute obstacles hindering efficient trading.

Tunisia has the best enabling trade score among the North African countries, to a great extent as a result of its efforts to liberalise trade and reducing the complexity of its tariff structures. Tunisia still has high MFN-tariff rates even if tariff peaks have been eliminated. Akin to Israel, burdensome customs procedures remain a major concern. Other aspects that could be addressed in order to further improve the business climate include FDI liberalisation, greater efficiency in the financial market and development of the infrastructure and the transportation system.

Morocco (75) has declined in the ratings since last year (55), mostly as a consequence of protective tariff policies in the form of a decreasing number of duty-free tariff lines for MFN-countries at the same time as the complexity of its tariff structures has increased.

⁸⁶ Transparency International (2010).

Liberalisation with respect to foreign participation in the domestic market, for instance in the transport services sector, is underlined as a key area that needs to be addressed in order to enhance the business environment.

4.3.3. State intervention

State intervention in the Southern Mediterranean economies restricts the possibilities of doing business in these countries. State controlled production represents 30 % of GDP in Tunisia and Egypt, and almost 60 % in Algeria. The Euro-Med Association Agreements do not include any definition of state monopoly. Although the ambition is for the Mediterranean countries to adapt their legislations to the *acquis communautaire*, there is a significant gap between the EU practice and the situation in the MPCs.

There are an abundant number of examples of state intervention, but the cases of Morocco and Egypt can serve as illustrations. State monopolies exist in Morocco in the sectors of postal services, water and electricity supplies, phosphates, hazardous waste management, wholesale fruit and vegetable distribution, fish halls and slaughterhouses.⁸⁷ In Egypt, state ownership has been extensive, although a privatisation plan presented in 2004 envisaged privatisation of 125 out of 178 state owned companies.⁸⁸ Telecom Egypt has a de facto monopoly and Egypt Air controls the airline operation to Cairo. Moreover, the Egyptian National Postal Organisation controls the allowance for private and foreign actors to provide postal and distribution services. (USTR, 2010: Egypt)

Price controls are used by some governments in the form of price ceilings to assure access to affordable food products and medicines. For instance, Jordan applies price controls on products like bread, barley, fuel, water, electricity and pharmaceuticals (WTO, 2009: Jordan) and the Egyptian government applies price ceilings in the pharmaceutical sector. From the point of view of foreign companies, this might be troubling in cases when price ceilings are inadequately adjusted to inflation and rising costs for raw materials. (USTR, 2010: Egypt)

Restrictions of foreign ownership of land and real estate are in force in some countries. Foreign nationals are not allowed to acquire agricultural land in Morocco, although long-term leases of land for non-agricultural use can be permitted. In Turkey, foreign nationals are not allowed to own more than 2.5 acres of land, and together foreigners cannot own more than 10 % of the land in one development zone. There are however no restrictions on the amount of land that foreign companies with a legal presence in Turkey can be in possession of.

4.3.4 Competition policy

Regarding competition policy, great problems remain in the Southern Mediterranean countries, although reforms have been initialised in for example Egypt. Except for Turkey and Israel, the regulatory framework for competition policy is rather weak in most of the MPCs and some countries, like Jordan, Lebanon and Morocco, even lack adequate legal and institutional frameworks. Moreover, the competition policies that actually are in place vary significantly within the region in terms of substance. For instance, a company controlling more than 25 % of the market is in possession of a dominant position according to Egyptian law, whereas the threshold in Israel is 50 %. Regulations on mergers and acquisitions are absent from Egyptian law, but neatly controlled in Israeli law, and also under supervision in Tunisia.

⁸⁷ WTO (2009: Morocco).

⁸⁸ WTO (2005: Egypt).

In general, anti-competitive behaviour takes place in the MPCs and enforcement of existing competition regulations remains inefficient. Supervising competition authorities are often not powerful enough to independently control the initiation of investigations and enforce rulings. Their weakness is also due to insufficient budgets and inadequately trained staff. In addition, many exemptions apply within competition policy given the large role of the state in the economy, e.g. state-monopolies; infrastructure projects, and vast use of public aid.

4.3.5 Dispute settlement procedure

Given that not all Euro-Med countries are members of the WTO and consequently not connected to its dispute settlement procedure, unpredictability is omnipresent in the trade relations between the EU and the MPCs. To correct for this, the establishment of a dispute settlement mechanism is one of the objectives of the UfM. Advances in this field include the bilateral protocol on the creation of such a mechanism that was signed between the EU and Tunisia in 2009, and negotiations are ongoing with Jordan, Morocco, Egypt, Israel and the Palestinian Authority.⁸⁹

4.3.6 Cultural differences, linguistic barriers etc.

Besides tangible tariff and non-tariff barriers to trade, it is necessary as a final note to recall that informal barriers to trade in terms cultural differences and linguistic problems might discourage EU business from trading with the Mediterranean neighbours. Business surveys show that while French and Italian companies find it rather trouble-free to do business with countries like Tunisia, Morocco and Egypt, German companies tend to hesitate and might instead invest in the MPCs through their affiliates in Southern Europe.

5. CONCLUDING REMARKS AND SUMMARISING TABLES

This study has presented an inventory of barriers to trade in the Southern Mediterranean region. Building on the findings of previous quantitative studies analysing the effects of barriers to trade between the EU and the Mediterranean partner countries (MPC), this study has identified the main remaining barriers to trade in the form of border measures, non-tariff barriers as well as aspects related to the business climate in the MPCs.

The narrow scope of the bilateral Euro-Med Association Agreements significantly limits the potential trade enhancing effect of the Euro-Med FTAs. This is due to the focus on trade in goods and the exclusion of trade in agriculture, services and investment as well as the lack of measures to address non-tariff barriers in a satisfactory manner. This is a serious flaw in the agreements which present huge difficulties for European firms that want to engage in MPCs. It also prevents the MPCs from exploiting the gains from open exchange with the European Union.

The inventory of existing barriers to trade has showed that concerns remain regarding market access and inefficient customs procedures. Non-tariff barriers continue to restrict trade, which is already hampered by fairly small regional integration. In fact, technical barriers to trade, lack of harmonisation of standards, complex and overlapping Rules of Origin provisions, lack of transparency in government procurement, inefficient enforcement of IPR and weak legal systems all contribute to hindering trade within the region as well as between the EU and the

⁸⁹ European Commission (2010), p. 3; Lannon & Marin (2009), p. 33.

MPCs. Also, extensive state intervention, administrative inefficiencies, red tape, corruption and lack of adequate infrastructure and transportation systems are all factors that make Euro-Med trade agreements appear to limited in scope and substance for them to have any significant trade enhancing effect. Table 16 and 17 summarises the principal problems.

Table 16. Trade characteristics of the Mediterranean Partner Countries

	Association Agreement with the EU (signed/entry into force)	WTO accession	GPA	Enabling Trade Index 2010 Rank/ total average score (1-7)	Bilateral FTAs
Albania	In force 2009 (Stabilisation and Association Agreement)	2000	Observer (2001)	59 / 4.13	Bosnia Herzegovina, Macedonia (FYROM), Moldova, Serbia and Montenegro, UNMIK (Kosovo), Croatia, EU, Turkey, CEFTA
Algeria	2002/2005	-	-	119/3.14	EU
Bosnia Herzegovina	In force 2007 (SAA)	Observer	-	80/3.85	Albania, CEFTA, Croatia, EU, Macedonia (FYROM), Moldova, Turkey,
Croatia	In force 2005 (SAA)	2000	Observer (1999)	45/4.5	Albania, CEFTA, Bosnia Herzegovina, Macedonia (FYROM), Serbia and Montenegro, EU, EFTA, Moldova, Turkey
Egypt	2001/2004	1995	-	76/3.88	EFTA, Turkey, EU,
Israel	1995/2000	1995	Accession 1996	26/4.76	EFTA, EU, Mexico, Turkey, USA, Canada,
Jordan	1997/2002	2000	Observer (1995) negotiating accession	39/4.55	EU, EFTA, Singapore, USA
Lebanon	2002/2003	Observer	-		EU, EFTA
Mauritania		1995	-	117/3.30	
Monaco	Full customs integration with France (EU)	-	-	(data for France) 20/5.02	Full customs integration with France (EU)
Montenegro	In force 2010 (SAA)	Observer	-	43/4.47	Albania, CEFTA, Croatia, EU, Moldova,
Morocco	1996/2000	1995	-	75/3.90	EU, EFTA, Turkey, USA,
Palestinian Authority	1997/1997	-	-		EFTA, EU, Turkey
Syria	Initialled 2008	Observer	-	104/3.50	EU, Turkey,
Tunisia	1995/1998	1995	-	38/4.57	EU, EFTA, Turkey
Turkey	Customs Union 1996	1995	1996	62/4.07	Albania, Bosnia Herzegovina, Croatia, Macedonia (FYROM), Morocco, Tunisia, PLO, ECOTA, EFTA, EU, Egypt, Israel, Syria,

Table. 17 Summary of barriers to trade in the Mediterranean Partner Countries

Sector	Barriers to trade
Market access	<ul style="list-style-type: none"> ▪ High tariffs initially, significant differences between bound and applied tariff rates ▪ Long transition periods for tariff elimination ▪ Agricultural goods mostly excluded from FTAs ▪ Insufficient regional trade integration
Customs procedures	<ul style="list-style-type: none"> ▪ Time consuming customs clearance ▪ Quantitative restrictions (agriculture) ▪ Costs of imports, large number of documents to be signed ▪ Inefficient cooperation between customs authorities

	<ul style="list-style-type: none"> ▪ Corruption/irregular payments
Technical barriers to trade	<ul style="list-style-type: none"> ▪ Product standards ▪ Certificates of conformity ▪ Complicated and time consuming testing procedures for product approval ▪ Lack of trained staff
Services	<ul style="list-style-type: none"> ▪ No GATS-commitments in many sectors ▪ Restrictions on consumption abroad (mode 2); employment of nationals in the tourist sector ▪ Restrictions on commercial presence and FDI (mode 3); visa restrictions, limitations on shareholding, employment of nationals, sectors with restricted access for foreign companies i.e. financial services, insurances, IT and telecom, transport, electricity, acquisition of land
Intellectual property rights	<ul style="list-style-type: none"> ▪ Inefficient enforcement of IPR legislation ▪ Infringements of trademarks, copyrights and patents ▪ Pharmaceutical industry, music, films, computer software, textiles: counterfeiting and piracy
Government procurement	<ul style="list-style-type: none"> ▪ Many countries have not signed the GPA ▪ Price preferences to national companies ▪ Lack of transparency ▪ Restrictions on employment of foreigners
Rules of origin	<ul style="list-style-type: none"> ▪ Complex overlapping systems of ROO. ▪ Pan-euro-med system of cumulation under implementation/negotiation
Business climate	<ul style="list-style-type: none"> ▪ Weak legal systems and enforcement of contractual obligations ▪ Lack of transparency within governmental and judicial administration ▪ Corruption ▪ Complex tax systems ▪ Underdeveloped infrastructure and transportation systems ▪ Insufficient IT availability
State intervention	<ul style="list-style-type: none"> ▪ State monopolies and state owned companies ▪ Price controls ▪ Public aid
Competition	<ul style="list-style-type: none"> ▪ Weak enforcement of competition regulations ▪ Lack of legal and institutional frameworks ▪ Anti-competitive behaviour

It is clear, however, that there is a good potential for all Euro-Med countries to benefit from a comprehensive trade agreement. The European Union will remain the largest market for all MPCs for the foreseeable future, and greater integration with that market – proving for export, import and FDI – would be a central vehicle for growth. European firms would gain access to potentially growing markets, and could also partner with new countries with proximity benefits in sourcing and fragmentation of supply chains. For these benefits to become real, a new approach will have to be launched.

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