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EU trade policies towards neighboring countries

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Abstract

This paper reviews the complex EU trade policies towards neighbouring countries. It reveals that EU neighbouring countries do not form a homogenous group, neither in terms of geography nor in terms of income. Israel, for example, has a GDP per capita which in many cases is more than 10 times larger compared to the poorest EU neighbors (e.g. Armenia, Georgia, Egypt, Moldova, and Morocco). The EU has applied a varying degree of trade integration and trade strategies to her neighbors, ranging from shallow to deep integration and from bilateral to multilateral strategy. The effectiveness of such EU trade policies is critically discussed.

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1. Introduction

EU trade policy towards the neighboring countries is covered under the general framework of the EU regional trade agreements (RTAs) as well as the EU Free Trade Agreements (FTAs).[1] An effort by the EU in the 1990s to replace FTAs with multilateral trade negotiations under the umbrella of World Trade Organization (WTO), was not successful. Due to internal and external reasons, the EU started to re-direct the route toward FTAs with a Communication published in 2006, known as "Global Europe".[2]

According to "Global Europe", the EU adopted a more aggressive FTA policy by determining economic criteria such as economic size, growth, tariffs and non-tariff barriers as the basis for new FTAs in order to ensure the competitiveness of the European economy.[3] Therefore, FTAs which represent for the EU a subway to implement her deep trade agenda, known as Deep and Comprehensive Free Trade Areas (DCFTA), are seen as a bilateral means to the end of multilateral liberalization and rule making. Another important issue of the new generation FTAs is that, without WTO negotiations, the EU sees these FTAs as an opportunity to negotiate regulatory and beyond-the-border issues that are not included in the Doha Round, and also to deal with 'tough' issues like agriculture, which seems almost impossible to solve in the multilateral talks.

The European Union's trade policy instruments consist of both bilateral cooperation e.g. The European Neighbourhood Policy (ENP), Association Agreements (AA), Partnership and Cooperation Agreements (PCAs) and multilateral e.g. Eastern Partnership (launched in Prague in May 2009), the Union for the Mediterranean (the Euro-Mediterranean Partnership, formerly known as the Barcelona Process, re-launched in Paris in July 2008), and the Black Sea Synergy (launched in Kiev in February 2008).[4]

The ENP offers EU neighbors a privileged relationship which promotes common EU values such as democracy and human rights, rule of law, good governance, market economy principles and sustainable development.[5] The ENP extends existing relationships to offer political association and deeper economic integration, increased mobility and more people-to-people contacts. It remains a pale imitation of enlargement instruments without an accession perspective, although it does not prejudge, for European neighbors, how their relationship with the EU may develop in future, in accordance with Treaty provisions. The EU designed the ENP as a form on conditionality, a policy tool utilized by the EU in both its foreign and trade policy.[6]

The main instruments of ENP are the bilateral Action plans between the EU and each ENP partner. These set out an agenda of political and economic reforms with short and medium-term priorities of 3 to 5 years.

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[1] For an overview, see Acar and Tekçe (2008).

[2] For a general overview of EU trade policy, see http://ec.europa.eu/trade.

[3] See Liargovas (2011) p. 5.

[4] See Liargovas (2011) p.1.

[5] For an overview of ENP policy, see Wesselink and Boschma (2012).

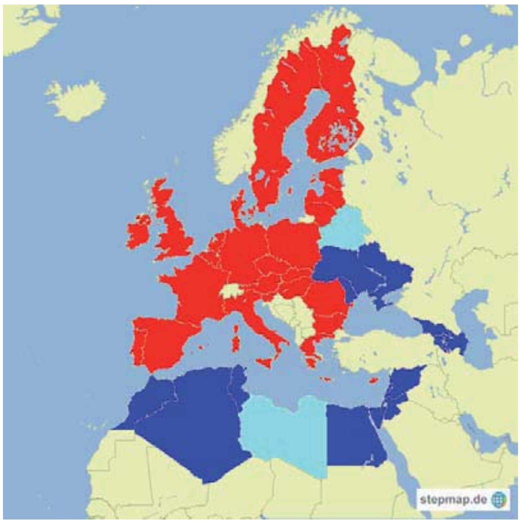
[6] See http://ec.europa.eu/world/enp/policy_en.htm for an extended analysis of EU ENP policy.

The ENP takes advantage of all previous agreements between the EU and the partner in question; It builds upon these agreements: Partnership and Cooperation Agreements (PCA) or Association Agreements (AA). Accession to the WTO is a prerequisite for EU membership and it is part of the EU's strategies toward its neighbors as the EU links political and economic considerations in implementing those strategies.[7]

The term 'neighborhood', that appeared in the EU's vocabulary for the first time in 1999, signaled "the intention to design a more coherent and strategic approach towards third countries in the EU's immediate geographical vicinity" and has been implemented through the ENP. It is only one policy framework approach among others and includes the approach of 'differentiation'.[8]

The ENP applies to 16 countries, of which only 14 can fully benefit from it so far.[9] Looking at a map (Figure 1) reveals that the ENP consists of three different, geographical entities that are not connected to each other, composed of different Eastern European, Southern Caucasian and the Mediterranean partners.

Figure 1: EU and the ENP Partner States



Source: Miltner (2010) p.8.

The ENP's trade policy impact is characterized by both achievements and failures. The positive aspects of ENP are due to its differentiated character. In contrast to the rigid Copenhagen Criteria that characterized

[7] See Mendoza (2009) p.8.

[8] See Miltner (2010) p. 7.

[9] It is composed of the EU's existing neighbors and those that have drawn closer to the EU as a result of enlargement. The ENP is open to the three Eastern European countries Belarus, Moldova and Ukraine, with Belarus having the possibility to fully participate under the condition of reforms having been implemented. Russia is left outside the ENP. Besides the three Eastern European countries, the three in the South Caucasus: Armenia, Azerbaijan and Georgia take part in the ENP, as do ten EU partners around the Mediterranean, Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Syria, Tunisia, as well as the Palestinian Authority. Out of these countries, Libya can only properly benefit from the ENP after once having fully accepted the Barcelona acquis. Some of the ENP countries, namely Armenia and Azerbaijan aren't direct neighbours of the EU by land or sea.

enlargement policy, the ENP involves tailor-made agreements and conditions. Furthermore, the ENP is a structural foreign policy that forces European neighbors to adopt EU norms and institutions.

Also, according to an EU Commission Report on Progress achieved on the Global Europe Strategy, 2006-2010, FTA negotiations launched under the economic criteria defined by "Global Europe" have made good progress.[10] Nonetheless, progress on some negotiating objectives beyond tariffs set out by "Global Europe" has been more mixed. These objectives, which were identified as crucial for securing real market access in the 21st century, included non-tariff barriers, access to resources and energy, services and investment, intellectual property (IPR), public procurement and competition policy. A major and visible aspect of "Global Europe" has been the renewed Market Access Strategy (MAS), a new cooperation initiative in Brussels and on the ground in key markets between the Commission, Member States and business to address the key barriers that hold back EU trade. The Market Access Strategy helps European companies, including SMEs, access third country markets by providing information on market access conditions (free online Market Access Database — MADB) and removing market access barriers. [11]

Section 2 of this paper discusses the main differences among EU neighbouring countries. Section 3 makes a discussion on shallow and deep trade integration while section 4 offers some conclusions and policy recommendations.

2. Do all EU neighbours matter equally?

A geographical approach when assessing EU trade policies towards neighboring countries is not very helpful. On the contrary, an approach based on income and comparative advantages offers more insights. Based on this approach, we distinguish among four different types of EU neighbors: (a) Developed countries: (b) Emerging upper middle income countries (c) Hydrocarbon countries and (d) Lower middle income countries.

2.1 Developed countries

This group includes countries which are wealthier than the EU average and the biggest Euro zone economies, such as Iceland, Norway, Switzerland and Israel. Israel has a GDP per capita which in many cases is more than 10 times larger compared to the poorest EU neighbors. Its average annual growth, however, is limited.

[10] See Liargovas (2011), p.5.

[11] See Commission Staff Working Document (2010).

Table 1: Economic Indicators of Developed neighboring countries

Country	**GDP per capita (current USD 2012)**	**Average annual GDP growth (per cent 2000-2012)**
Iceland	41,150.8	2.4
Israel	32,060.5	3.3
Norway	99,315.8	1.6
Switzerland	77,840.1	1.7

Source: International Monetary Fund, World Economic Outlook Database, October 2012.

The trade policy pattern of all these developed economies is similar to the EU's.[12] It consists of low tariffs for manufactured goods, relatively open services sectors and high levels of protection for agriculture. These countries export sophisticated manufactured products to the EU and quite easily agree to open their markets to each other.

Israel is a privileged partner of the EU.[13] The EU-Israel Association Agreement entered into force in June 2000 with the aim of providing an appropriate framework for political dialogue and economic cooperation between the parties. In the framework of the ENP, the EU-Israel Action Plan was adopted in April 2005 and established the following priorities: i) enhance political dialogue and co-operation, ii) increase economic integration particularly with the EU, inter alia, by developing trade and investment flows, by liberalising trade in services; iii) promote co-operation in transport, energy and telecom networks. The Action Plan expired in April 2008, and then has been prolonged several times, the last one until June 2010. The strategic framework for EU cooperation with Israel is established by the Country Strategy Paper (CSP) under the ENPI over the period 2007-2013.

According to WTO, Israel's average applied MFN tariff is 7% in 2012. Over half of the tariffs are duty-free lines, and less than 5% of tariff lines exceed the 20% rate. The average applied MFN tariff on non-agricultural products is relatively low (4.2%), while tariffs on agricultural goods (WTO definition), average 24.5%.[14]

[12] The EU is Israel's first trading partner with total trade amounting to approximately € 29.4 billion in 2011. The EU is Israel's major source of imports (€ 15.3 billion, 35% of country's total import). In 2011, EU imports from Israel amounted to € 12.6 billion, consisting mainly of chemicals (28.3%), machinery and mechanical appliances (17%), and precious and semi-precious stones (12.1%). EU exports to Israel in the same year amounted to € 14.4 billion, consisting mainly of machinery and transport equipment (37.7%), chemicals (18.3%), and other semi-manufactures (18.9%). The EU has a services trade surplus of around 1 billion EUR with Israel. See http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/israel/ .

[13] See EC (2000).

[14] See http://www.wto.org/english/tratop_e/tpr_e/tp372_e.htm.

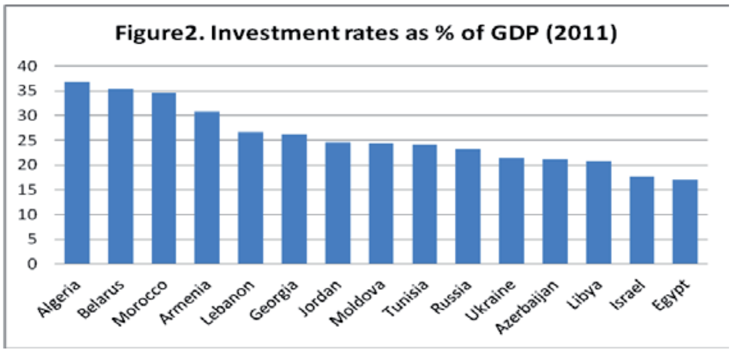
2.2 Emerging upper middle income neighbouring countries

GDP per capita in these countries ranges between 3,821.1 and 10,456.9 US dollar per capita. All these countries had a dynamic economic growth rates since the beginning of 2000. Investment to GDP ratios in most of these economies (Jordan, Tunisia, Ukraine) are below 25% (Figure 2). This means that their convergence with advanced economies will be delayed.

Table 2: Economic Indicators of Emerging Upper middle income countries

Country	GDP per capita (current USD 2012)	Average annual GDP growth (per cent 2000-2012)
Albania	3,821.1	4.9
Belarus	6,202.0	7.0
Bosnia and Herzegovina	4,261.6	3.2
Croatia	13,060.8	2.1
FYR Macedonia	4,935.2	2.5
Jordan	4,901.3	5.7
Lebanon	10,416,2	4.6
Montenegro	6,965.5	3.3
Serbia	4,916.7	3.2
Turkey	10,456.9	4.3
Tunisia	4,151,9	3.8
Ukraine	3,971.2	4.7

Source: International Monetary Fund, World Economic Outlook Database, October 2012.



Source: International Monetary Fund, World Economic Outlook Database, October 2012

These countries are characterized with relatively high average manufactured goods import tariffs as well as agricultural tariffs to the EU.[15] In addition, their services sector is less open than the EU's.

[15] Ukraine, however, represents an exception, which is due to the Ukraine's membership in WTO, in 2008. EU has negotiated a deep and comprehensive Free Trade Agreement (DCFTA) with Ukraine. The DCFTA will be part of a future Association Agreement, which will replace the present Partnership and Cooperation Agreement between the EU and Ukraine (which dates from 1998).

Table 3: Trade policy profile-Non Preferential (MFN)

Country	Average applied tariff 2011		Total number of services with GATS commitments in WTO
	Agriculture	*Manufacturing*	
Albania	7.9	4.5	115
Belarus	15.2	9.0	N/A
Bosnia & Herzegovina	11.1	5.9	N/A
Croatia	10.7	4	126
FYR Macedonia	13.5	6	N/A
Jordan	17.9	8.8	110
Lebanon	16.5	4.8	N/A
Serbia	14.2	6.3	N/A
Turkey	41.7	4.8	77
Tunisia	32.7	13.5	20
Ukraine	9.5	3.8	137
EU27	***13.9***	***4.0***	***115***

Source: WTO trade statistics database.

The bilateral trade and economic relations between EU and **Belarus** are suspended until political and civil conditions improve in Belarus.[16] This is the reason why the EU has not yet ratified the bilateral Partnership and Cooperation Agreement concluded with Belarus in 1995. Furthermore, in June 2007 the EU withdrew its trade preferences to Belarus under the Generalised System of Preferences, in response to Belarus' violations of the core principles of the International Labour Organisation. Since 2010 the EU imposes unilateral import quotas for Belarus covering trade in textile and clothing products. The unilateral quotas replaced the EU-Belarus textile agreement that Belarus no longer wanted to renew after joining the Customs Union with Russia and Kazakhstan.[17]

The EU is **Ukraine**'s most important commercial partner and accounts for about one third of Ukraine's external trade. Ukraine's primary exports to the EU are iron, steel, mining products, agricultural products, and machinery.EU exports to Ukraine are dominated by machinery, transport equipment, chemicals, and agricultural products. Ukrainian exports to the EU are to a very large extent liberalised thanks to the

[16] See Council of the EU (2012).

[17] Besides these problems, the EU is Belarus' second main trade partner with almost a one third share in the country's overall trade. Russia is Belarus most important trading partner and absorbs almost half of Belarus' international trade. Belarus' exports to the EU are dominated by mineral fuels. Other product categories - such as chemicals, agricultural products, machinery and textiles - all form a much lower share. The EU exports mainly machinery, transport equipment and chemicals to Belarus. See http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/belarus/

Generalised System of Preferences (LINK) granted by the EU to Ukraine since 1993.In 2010, Ukraine's use of the Generalised System of Preferences reached a high level of 72.2% of the eligible products.[18]

The EU's Association Agreement with **Jordan** entered into force on May 1, 2002.[19] The Association Agreement progressively establishes a Free Trade Area between the EU and **Jordan** over 12 years. In addition, negotiations on liberalisation of agricultural products were concluded in 2005. The protocol on Dispute Settlement Mechanisms for trade between the EU and Jordan entered into force on 1 July 2011. Jordan is one of the partners of the Euro-Mediterranean Partnership (Euromed). [20] Since March 2012, Jordan started negotiations with the EU to establish Deep and comprehensive Free Trade Areas (DCFTAs). An Agreement on Conformity Assessment and Acceptance of industrial products (ACAA) would enable Jordanian products of selected sectors to enter the EU market without additional technical controls. Jordan has made good progress in the preparations for this agreement and has chosen electrical products, toys, gas appliances and pressure equipment as priority sectors. In February 2004, Jordan signed the Agadir Agreement with Egypt, Morocco and Tunisia.

Lebanon is one of the partners of the Euro-Mediterranean Partnership (Euromed). Lebanon has not yet signed the Regional Convention on pan-Euro-Mediterranean preferential rules of origin but participates in the revision of the existing rules. The Regional Convention will replace the current network of bilateral protocols, facilitate the revision of existing rules of origin, and thus enhance regional trade and economic integration.[21] As a result of the EU-Lebanon Association Agreement, Lebanese industrial as well as most

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[18] Ukraine ranks 12th, among the most effective users of the EU's Generalized System of Preferences.

[19] See ECSC 2002/357/EC, Council and Commission Decision of 26 March 2002 on the conclusion of the Euro-Mediterranean Agreement establishing an Association between the European Communities and their Member States, of the one part, and the Kingdom of Jordan, of the other.

[20] After Saudi Arabia, the EU is Jordan's second trade partner – with a total trade amounting to approximately € 3.5 billion in 2011. The Jordanian economy is dominated by services (65% of its GDP) and by industry (30%), whereas the agricultural sector represents only a small part of the economy (4.5 %) of Jordan. EU imports of goods from Jordan are dominated by chemicals and mineral products. EU exports to Jordan consist mainly of mechanical appliances, chemicals and agricultural products. The two largest exporting industries in Jordan are the pharmaceutical industry and the phosphate and potash extraction industries. 75% of Jordan's pharmaceutical production is exported. Jordan's phosphate and potash extraction industry is among the largest in the world. See http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/jordan/.

[21] Bilateral trade between the EU and Lebanon has been increasing steadily over the past years, with an average annual growth of 12.0% since 2007. In 2011 the EU ranked as the first trading partner for Lebanon, covering almost 30% of Lebanese trade. EU imports from Lebanon consist mainly of semi-manufactured, agricultural products, fuel and mining products, chemicals and machinery and transport equipment. EU exports to Lebanon consist mainly of machinery and transport equipment, energy products, agricultural products and chemicals. The Lebanese economy is based primarily on the service sector. The service sector accounts for more than 70% of the country's GDP. Construction, tourism, and financial services are the most prominent sectors among Lebanon's exports and imports of commercial services. Lebanon's economy is characterized by a high level of imports and by substantial trade deficits. The deficits are largely offset by foreign income earnings, including capital inflows, remittances from the Lebanese diaspora as well as the tourism, banking and insurance sectors. See http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/lebanon/.

agricultural products benefit from free access to the EU market. Lebanon is in the process of accession to the WTO. Negotiations started in 1999.

Tunisia was the first Mediterranean country to sign an Association Agreement with the EU, in July 1995. Tunisia finalized the dismantling of tariffs for industrial products in 2008, thus making Tunisia the first Mediterranean country to enter in a free trade area with EU.[22] In February 2004 Tunisia signed the Agadir Agreement with Jordan, Morocco and Egypt. Tunisia has started to implement the new Pan-Euro-Mediterranean system of cumulation of origin. As it is applied, the system of cumulation of origin will allow Tunisia to export goods made with components imported from elsewhere without losing preferential access to the EU market. In December 2009, the EU signed a bilateral protocol with Tunisia on the establishment of a dispute settlement mechanism.

2.3 Hydrocarbon exporters

This group consists of countries which are hydrocarbon producers and exporters. Exports of fuels and mining products of Algeria, for example account for 98.5 of its total exports. For Azerbaijan, Libya, Russia and Syria the corresponding figures are 96.2%, 67.2%, 71.8% and 52.5% respectively[23].

Russia, Algeria, Libya, Azerbaijan and Syria together account for about half of the EU's imports and almost half of the EU's oil imports. According to Europe's energy portal Factsheet, 42% of the EU's final energy consumption is made of petroleum products.

Table 4: Top 5 sources of EU Gas imports

Russia	35%
Norway	*27%*
Algeria	*14%*
Qatar	*8%*
Libya	*3%*

Source: EU Energy in Figures, Statistical pocketbook, 2012.

[22] Tunisia's exports to the EU are dominated by manufactured products (of which clothing and machinery and transport equipment are the most important exports), energy and agricultural products. Tunisia's imports from the EU are dominated by machinery and transport equipment, energy and chemicals. Flows of Foreign Direct Investment to Tunisia are concentrated on the development of the infrastructure network as well as of the textiles and clothing sectors. For more information, see http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/tunisia/

[23] Source: WTO trade database.

Table 5: Top 5 sources of EU oil imports

Russia	*34%*
Norway	*14%*
Kazakhstan	*6%*
Iran	*6%*
Azerbaijan	*4%*

Source: EU Energy in Figures, Statistical pocketbook, 2012.

Hydrocarbon exporters have relatively high per capita income levels (with the exception of Syria) but this is the result of the hydrocarbon rent rather than proper economic development.

Table 6: Economic Indicators of Hydrocarbon exporters

Country	**GDP per capita (current USD 2011)**	**Average annual GDP growth (per cent 2000-2012)**
Algeria	5,659.7	3.6
Azerbaijan	7,226.6	12.5
Libya	12,878.8	8.9
Russia	13,764.8	4.8
Syria	2,802.6	N/A

Source: International Monetary Fund, World Economic Outlook Database, October 2012.

In the last ten years, trade between the EU and these economies has risen substantially as the result of income improvements. Russia has become the biggest export destination.

The pattern of trade between EU and these countries includes exports of oil and gas to the EU, and imports of manufactured goods plus some services and agricultural products from the EU. The trade pattern is shaped by strong dependence on hydrocarbon exports. This raises a number of political and trade problems. One such problems relates to the security of supplies as highlighted by the gas supply disruptions of 2006 and 2009 by the Russian export monopoly Gazprom and the supply disruptions of the 2011 descent of Libya into civil war. None of these countries are members of WTO (except Russia) so there is no reach of the least common denominator as regards international trade laws.

Trade policies of these countries are relatively protectionist. They have high rate of average import tariffs on manufactured goods and high levels of protectionism in the services sector.

Table 7: Trade policy profile-Non Preferential (MFN)

Country	Average applied tariff 2011		Total number of services with GATS commitments in WTO
	Agriculture	*Manufacturing*	
Algeria	23.3	17.8	N/A
Azerbaijan	14.1	8.2	
Libya			N/A
Russia	14.3	8.7	122
Syria	22.7	12.9	N/A

Source: WTO trade statistics database.

Their business climate is also negative. All these countries suffer from corruption. According to Transparency international Russia and Azerbaijan ranks 168 as regards the Corruption Perceptions Index, Algeria 112, Libya 168 and Syria, 129.[24]

The European Union is **Algeria**'s largest trading partner, absorbing almost half of Algerian International trade.[25] Following the conclusion of negotiations in December 2001, Algeria and the EU signed an Association Agreement in the framework of the Euromed partnership in April 2002. With 98 % of EU imports from Algeria in 2011 being energy, Algeria ranked as EU's third largest energy provider (4.7 % of total EU energy imports), for a value of € 26.8 billion in the same year. Chemicals represented, with only 1.1 % of total, the second most important Product Group in EU's imports from the country.

As regards **Azerbaijan** 99.5% of total exports to the EU consist of mineral products (essentially fuels – oil and gas).[26] EU exports to Azerbaijan consist of machinery and transport equipment (47.6%), miscellaneous manufactured articles (20.1%) and manufactured goods (14%). All three South Caucasus countries (Armenia, Azerbaijan, Georgia) benefit from the EU's Generalised System of Preferences (GSP). Under the current GSP Regulation, applying from 1 January 2009, all of them qualify for the special incentive arrangement for sustainable development and good governance (GSP+), offering them a particularly advantageous access to the EU market. Armenia, Azerbaijan and Georgia each have an Action Plan under the ENP, designed to help, inter alia, their closer trade and economic integration with the EU, in particular through gradual regulatory alignment. Of particular concern is the poor level of intellectual property protection in all three countries. Oil and gas from the Caspian Sea is shipped to the EU in particular through pipelines crossing Georgia and Turkey (Baku-Tbilisi-Ceyhan, Baku-Supsa and Baku-Tbilisi-Erzurum). Caspian oil is also transported from Azerbaijan to the Georgia port of Poti and Batumi by rail. In the future, energy

[24] See http://cpi.transparency.org/cpi2011/results/.

[25] For more information, see: http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/algeria/.

[26] For more information, see: http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/south-caucasus/.

supplies should be shipped via a completed 'southern corridor' that should include, inter alia , the Nabucco gas pipeline. All three countries participate in the Baku energy initiative. Negotiations on a Deep and Comprehensive Free Trade Area (DCFTA) could not start as Azerbaijan is not a member of the World Trade Organisation (WTO) which is a pre-condition for the start of DCFTA negotiations.

The negotiations for a Framework Agreement between the EU and **Libya** started in November 2008. The aim was to include a Free Trade Agreement covering trade in goods, services and investment. This would provide new export opportunities and higher legal predictability for EU exporters, mainly in areas such as services and establishment, public procurement and gas and oil markets. However, following the events in early 2011 in Libya, negotiations were suspended in February 2011. Therefore, Libya is the only Mediterranean country - with the exception of Syria – that has not yet concluded a Free Trade Agreement with the EU.[27] Libya has an observer status in the Euromed partnership.

Bilateral EU-**Syria** relations are governed by the Cooperation Agreement signed in 1977. Syria and the EU have negotiated an Association Agreement. However, the signature of the Association Agreement between the EU and Syria has been put on hold by the EU due to the internal situation in Syria. The ongoing internal repression in Syria has also led to restrictive measures by the EU and has a significant impact on bilateral trade.[28] Restrictive measures implemented by the EU also concern the financial and transport sector as well as the financing of certain enterprises and infrastructure projects in Syria. In addition to this, funds and economic resources of persons and entities supporting and/or benefiting from the Syrian regime have also been frozen.

The Partnership and Cooperation Agreement between the EU and **Russia** has been the framework of the EU-Russia relations since 1997 and regulates the political and economic relations between the two parties. Russia joined the World Trade Organisation (WTO) on 22 August 2012. The recent WTO accession of Russia will prevent Russia from adopting unilateral tariff hikes as has been the case in the past Russia is the third trading partner of the EU and the EU the first trading partner of Russia. Trade between the two economies showed steep growth rates until mid-2008 when the trend was interrupted by the economic crisis and

[27] In 2010, before the Arab Spring and the popular uprising in Libya, the EU was an important trading partner for Libya accounting for 70% of the country's total trade, which amounted to approximately €35.5 billion in 2010. Despite the decrease in trade during 2011, the EU-Libya trade relationship is confirmed by 2011 statistics. Libya continues to be a fundamental energy exporter to the EU. For more information, see http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/libya/.

[28] The EU was the first trading partner for Syria with total trade amounting to approximately €6.1 billion in 2011. Trade with the EU covered about 20% of Syrian trade. Prior to the EU's restrictive measures against Syria most of Syria's export to the EU consisted of energy goods (fuels and mining products) along with some agricultural and textile products. EU exports to Syria consist mainly of machinery and transport equipment and chemical products. As a result of restrictive measures imposed by the EU since 2011, bilateral trade volumes are contracting significantly and trade structure is changing. For more information, see: http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/syria/.

unilateral measures adopted by Russia that affected EU-Russia trade. Since 2010 mutual trade has resumed its growth reaching record levels in 2011.[29]

3.4 EU's poorest Neighbors

Moldova, Georgia, Armenia, Egypt and Morocco are the EU's poorest neighbors. They have income levels less than half of the EU's poorest member state, Bulgaria (in 2012 per capita income is 14,234.572 USD, according to the latest IMF World Economic Outlook Statistics).

Table 8: Economic Indicators of EUs poorest neighbours

Country	GDP per capita (current USD 2011)	Average annual GDP growth (per cent 200-2010)
Armenia	3,135.0	7.80
Georgia	3,513.6	6.40
Egypt	3,109.5	4.40
Moldova	2,135.9	5.10
Morocco	2,987.9	4.8

Source: International Monetary Fund, World Economic Outlook Database, October 2012.

Moldova, Georgia and Armenia are very small countries with limited commercial potential for the EU. Exports of these countries to the EU are dominated by agricultural products. The EU exports both industrial goods and agricultural products.

Table 9: Trade policy profile-Non Preferential (MFN)

Country	Average applied tariff 2010		Total number of services sectors with GATS commitments in WTO
	Agriculture	*Manufacturing*	
Armenia	6.8	2.2	106
Georgia	7.2	0.7	125
Moldova	10.5	3.7	147
Egypt	66,3	9.3	
Morocco	41,2	10,2	45
EU27	13.5	4	115

Source: WTO trade statistics database.

[29] EU exports to Russia are dominated by cars, medicines, car parts, telephones and parts and tractors.EU imports from Russia are dominated by raw materials, in particular, oil (crude and refined) and gas. For these products, as well as for other important raw materials, Russia has committed to freeze or reduce its export duties. The EU is the most important investor in the Russia. It is estimated that up to 75% of Foreign Direct Investment stocks in Russia come from EU Member States. For more information, see: http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/russia/ .

Armenia, Georgia and Moldova due to their size are not major trade targets. They have trade policy regimes that are significantly more open than the EU. They have low tariffs and have services trade regime that is as open as the EU's.[30] The EU offers these countries trade preferences under the GSP.

The EU is negotiating a new Association Agreement with **Moldova** since January 2010. The negotiations on the trade part of this agreement (Deep and Comprehensive Free Trade Area - DCFTA) started in February 2012.[31] Moldova's exports to the EU are already liberalised to a large extent under the EU Autonomous Trade Preferences. This preferential regime (together with Generalised System of Preferences Plus regime) offers the most favourable access to the EU market for Moldova. It grants Moldova unlimited and duty free access to the EU market for all products originating in Moldova, except for certain agricultural products (for which tariff rate quotas are defined). Moldova is also a member of the Commonwealth of Independent States (CIS).In October 2011 a free trade agreement was signed among 8 CIS member states. Moldova is a member of the World Trade Organisation since 26 July 2001.

EU-**Armenia** bilateral trade relations are currently regulated by a Partnership and Cooperation Agreement in force since 1999. But negotiations were launched in July 2010 to update this agreement by a future Association Agreements. The EU has also started negotiations with Armenia for a Deep and Comprehensive Free Trade Agreement that will be part of the Association Agreement.[32] The current Partnership and Cooperation Agreement – in force since July 1999 – does not include tariff preferences, but prohibits quantitative restrictions in bilateral trade and also envisages progressive regulatory approximation of Armenia's legislation and procedures to the most important EU and international trade related laws and standards which aims at facilitating practical access of Armenian products to the EU market. Under the EU Generalised System of Preferences Armenia has been benefiting from the special incentive arrangement for sustainable development and good governance, the so-called Generalised System of Preferences Plus

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[30] According to Messerlin et al. (2012), Georgia is fully open to FDI and recognizes the technical standards of the EU and of other trading partners.

[31] The EU is Moldova's first trading partner with more than 40% of Moldova's total trade - followed by Russia and Ukraine. Overall trade with Moldova accounts for only 0.1% of EU's overall trade. EU exports to Moldova are dominated by machinery, transport equipment, chemicals, fuels, mining products and agricultural products. EU imports from Moldova to the EU (€842 million in 2011) are mainly agricultural products, clothing, textiles and machinery. Over half of Foreign Direct Investment came from the EU Member States and more than 10% of the Commonwealth of Independent States member countries. For more information, see http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/moldova/.

[32] The EU is Armenia's main trading partner, accounting for around 30% of Armenia's total trade.EU imports from Armenia chiefly consist of manufactured goods; crude materials ; miscellaneous manufactured articles and machinery and transport equipment.EU exports to Armenia are dominated by machinery and transport equipment ; miscellaneous manufactured articles; chemicals; and foodstuffs. The total value of preferential Generalised System of Preferences (GSP) imports from Armenia into the EU is steadily increasing, from EUR €61 million in 2009 to €109 million in 2011. Armenia's GSP utilisation rate is high: around 90%. The main EU imports Armenia under GSP preferences are: base metals (80%), textiles (15%) and foodstuffs (2%). For more information, see: http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/armenia/.

(GSP+), since July 2005. This arrangement offers Armenian exports advantageous access to the EU market since it provides for a zero duty rate for 6 400 tariff lines. The Republic of Armenia has been a member of WTO since 5 February 2003.

Egypt is a big economy of 81 million inhabitants, with one third of its working population employed in agriculture. Egypt practices high levels of trade protectionism, particularly in agriculture. The EU-Egypt Association Agreement, in force since 2004, established a free-trade area with the elimination of tariffs on industrial products and significant concessions on agricultural products. In addition, an ambitious agreement on agricultural, processed agricultural and fisheries products entered into force on 1 June 2010. Since 2004, EU-Egypt bilateral trade has more than doubled and reached its highest level ever in 2011 (from €11.5 billion in 2004 to €23.3 billion in 2011).The EU is traditionally Egypt's main trading partner, covering more than 30% of Egypt's trade volume and ranking first both as Egypt's import and export partner.[33] In February 2004, Egypt signed the Agadir Agreement with Jordan, Morocco and Tunisia. This committed all parties to removing all tariffs on trade between them and to harmonizing their legislation with regard to standards and customs procedures. The Agadir Agreement entered into force in July 2006 and the implementation is ensured by the Agadir Technical Unit in Amman. The Agadir Agreement foresees the pan-Euro-Mediterranean cumulation of origin. Egypt has not yet signed the Regional Convention on pan-Euro-Mediterranean preferential rules of origin but participates in the revision of the existing rules.

Morocco has a significant growth potential due to lower external tariffs in the WTO, deeper domestic economic reforms. An Association Agreement between the EU and Morocco entered into force 1st March 2000, and provided for a Free Trade Area. In addition, an EU-Morocco Agreement on agricultural, processed agricultural and fisheries products entered into force 1st October 2012. A protocol on Dispute Settlement Mechanism was signed and is awaiting ratification. Negotiations with Morocco on a Protocol on Services and Investments are on-going. The EU is Morocco's first trading partner.[34] Morocco is one of the partners of the Euro-Mediterranean Partnership (Euromed). Morocco is part of the Agadir Agreement with Egypt, Jordan and Tunisia. Morocco is the first Mediterranean country to have adopted the new Pan-Euro-Mediterranean system of cumulation of origin, in December 2005. The system – which makes it simpler to import products manufactured in more than one country throughout the Mediterranean basin – is

[33] EU imports of goods from Egypt are dominated by energy, followed by chemicals and textiles and clothes. EU exports to Egypt consist mainly of machinery and chemicals. EU exports of services to Egypt are dominated by business services, while the EU imports from Egypt consist mainly of travel services and transport. For more information, see: http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/egypt/.

[34] The two most important sectors are textiles and agricultural goods. Morocco's export to the EU is dominated by three main areas: clothing, agricultural products, and machinery and transport equipment. Morocco's imports from the EU are dominated by machinery and transport equipment, manufacture goods, chemicals and fuels. EU exports of services to Morocco consist mainly of communications and business services and transportation, while the EU mainly imports travel services, transportation and communications services from Morocco. For more information, see: http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/morocco/.

generating new opportunities for economic operators in Morocco, notably in the textile sector. It is also an important spur for further regional economic integration in the whole Mediterranean area.

3. From Shallow to Deep trade integration

The previous section revealed that the degree of trade integration between the EU and her trading partners varies considerably. According to Dreyer (2012), four types of arrangements appear to have crystallized between the EU and its partners over the last decades:[35]

1. Participation in the Single Market including labour mobility, but exclusion from the Common Agricultural Policy (CAP);
2. Customs union excluding Agriculture and Movement of Labour;
3. "Shallow" bilateral free trade agreements (FTAs);
4. No formalised bilateral agreements.

In the first category, one finds countries which belong to the European Economic Area (EEA), i.e. Iceland, Norway and Liechtenstein. These partners are obliged to apply EU rules and the acquis communautaire built up since 1957 but are not part of EU political institutions and decision-making. They keep their sovereignty in trade policy and are not part of the Common Agricultural Policy. A variant on the arrangement with Iceland, Norway and Liechtenstein is the one with Switzerland with whom a set of bilateral agreements has been in place since 1999.

The second category includes Turkey. Since 1996 there has been duty-free trade between both parties and Turkey applies the same external tariffs as the EU. The trade arrangements with Turkey cover technical standards, intellectual property and other trade-related rules. Agricultural goods are largely left out of the customs union.

The third category includes the weakest trade policy agreements which are currently in force in the neighborhood. These are the free trade agreements with the Middle Eastern and Northern African economies that emerged from the 1990s Barcelona Process, called the "Euromed" Association Agreements.[36] Euromed was organized into three main dimensions, which remain today as the broad working areas of the partnership:[37] (a) Political and Security Dialogue, aimed at creating a common area of peace and stability underpinned by sustainable development, rule of law, democracy and human rights. (b) Economic and Financial Partnership, including the gradual establishment of a free-trade area aimed at promoting shared economic opportunity through sustainable and balanced socio-economic development. (c) Social, Cultural and Human Partnership, aimed at promoting understanding and intercultural dialogue between cultures, religions and people, and facilitating exchanges between civil society and ordinary citizens, particularly women and young people. Since 2004, the Euro-Mediterranean relations have been

[35] See Dreyer (2102) p.16.

[36] See also Pinna (2012), p. 4-5.

[37] For an overview, see http://www.eeas.europa.eu/euromed/barcelona_en.htm.

falling within the European Neighborhood Policy (ENP). Within the framework of bilateral relations, the EU aimed at creating a network of "closed friendship" with which the EU can enjoy peaceful and co-operative relations. By working closely with each of its Mediterranean partners the EU established support programmes for economic transition and reform which took into account each country's specific needs and characteristics.[38] Finally, in 2008 cooperation agreements were re-launched as the Union for the Mediterranean (UfM). It is a multilateral partnership with a view to increasing the potential for regional integration and cohesion among Euro-Med partners and linked to the goal of the Barcelona Declaration.[39] Projects address areas such as economy, environment, energy, health, migration and culture. As of September 2010, the UfM has a functional secretariat, based in Barcelona, a Secretary General and six deputy secretary generals.[40] This functional organization represents a major innovation, compared to the past.

The last category, includes hydrocarbon exporters, Russia and some of the EU's poorest neighbors in the Black Sea and in the Caucasus. There is no formal arrangement with most of these countries. The EU offers unilateral trade preferences to its poorest neighbors, under the GSP scheme and has recently launched free trade negotiations with them.

3.1. Has shallow integration worked so far? The Euromed case

As discussed above, Euromed is one example of shallow trade integration between the EU and the neighbouring countries. Many studies have tried to make an assessment of this trade strategy. Most of them are critical, but there are also studies which focus on the positive (long-term) trade effects. Below, we summarize the main arguments against and in favour of Euromed:

- The agreements signed so far cannot reach their trade targets because these agreements do not significantly liberalize trade beyond the benchmark set by the WTO's body of rules and treaties on goods trade, services trade, trade-related intellectual property rights, government procurement, investment, technical standards, sanitary standards, and antidumping rules.[41] In this sense, they can be considered "WTO minus".
- The agreements are concentrated almost exclusively on manufacturing goods. The EU allows its partners long transition periods to apply duty-free treatment to its manufactured exports. But agriculture, due to the current CAP, is not essentially liberalized, in either direction. There have been

[38] Since 1995, the European Commission has supported the Barcelona Process with the provision of €16 billion from the Community budget [20 KB]. Loans from the European Investment Bank amount to approximately €2 billion per year (see http://www.eeas.europa.eu/euromed/barcelona_en.htm).

[39] See Tino (2012), p.3.

[40] Along with the 27 EU member states, 16 Southern Mediterranean, African and Middle Eastern countries are members of the UfM: Albania, Algeria, Bosnia and Herzegovina, Croatia, Egypt, Israel, Jordan, Lebanon, Mauritania, Monaco, Montenegro, Morocco, the Palestinian Authority, Syria, Tunisia and Turkey.

[41] See Dreyer (2012) p. 18.

some reductions of tariffs in some fruit and vegetables, as well as an expansion – but not elimination – of quotas. In addition, trade rules relating to technical barriers to trade, sanitary regulations,[42] intellectual property, and public procurement of investment in current agreements, when it exists, is not legally binding. On services, future negotiations on liberalization are called for but have never seen progress.

- For CAP products, four types of EU regulations stand up as having an impact on the partners' trade policies. Regulations on Genetically Modified (GM) products for corn, soybeans and rapeseed, favoring imports into the EU from GM-free countries. Secondly, regulations on Geographical Indication (GI) (PGIs -Protected Geographical Indication- and as standards for those who wish to trade with it: many of the bilateral trade agreements that the EU is negotiating contain clauses that oblige trade partners to adopt the EU GI. Similarly, regulations on production methods (organics, animal welfare) are having an impact in other countries, as they gear up to meet the exacting "production and processing method" requirements for the EU market. And finally regulations on the environmental impacts of farming (including carbon emissions, eco-labeling) are causing some concern among partners that may not have the capacity to monitor such matters. All these regulations are considered to be too restrictive or too costly for the EU neighboring trade partners.[43]
- Rules of Origin are too restrictive on imports of goods to the EU. In its FTAs, as a general rule, the EU requires countries to produce 50-70% of a product locally for it to apply for duty free status.
- The agreements contribute to a closer integration between the economies of South Mediterranean countries and the EU, but they do not foster inter-Mediterranean economic integration.[44] While EU-Arab countries trade relations strengthen, the lack of free trade among Arab States still exists. This is due to the absence of "one single" regionalism in the North Africa/Middle East area as the European one. The Agadir Agreement, which is the most important commercial initiative among Arab States has not contributed to the creation of a deep and comprehensive free trade area with their current members.[45]

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[42] Many partners consider EU Sanitary standards a mean for to protectionist abuses. This is due to the facts that the EU has a philosophical approach to sanitary and phytosanitary standards (SPS) that differs from most of its trading partners in the world. It abides by the "precautionary principle" which, in trade policy, allows it to take preventive import measures on health, safety and environmental grounds even if the harm of their consumption is not necessarily supported by science. See Dreyer (2012) p. 34-35.

[43] Josling and Anderson (2007), p. 6.

[44] Tino (2012) p. 4.

[45] The Agadir Agreement is a free trade agreement between Egypt, Jordan, Morocco and Tunisia. Named after the Moroccan city of Agadir, where the process to set up the pact was launched in May 2001, it was signed in Rabat in February 2004 and came into force in March 2007. The Agadir agreement is open to further membership by all Arab countries that are members of the Arab League and the Greater Arab Free Trade Area, and linked to the EU through an Association Agreement or an FTA. Its purpose is to facilitate integration between Arab states and the EU under the broader EU-Mediterranean process, but it has other ramifications as well. One important feature of the Agadir Agreement is that it uses the EU's rules of origin.

- The agreements signed so far cannot overcome domestic resistance to liberalization, especially in services, manufacturing and agriculture. This resistance comes from both sides: EU member states with a more conservative attitude towards agriculture and Mediterranean countries which struggle with industrial competitiveness.[46]
- According to a recent survey conducted in the four sea basins, including the Mediterranean,[47] EU enlargement did not have a positive impact on the Mediterranean region because the preoccupations of the countries of northern Europe are totally different from those of the southern European countries. The enlargement has driven the preoccupations of Europe eastwards. At the same time, the new EU members are not very interested in establishing relations with the countries of the southern Mediterranean, above all for cultural reasons. Also in economic terms the companies belonging to these countries do not enjoy the same facilitations of those belonging to the southern European countries when they make business in the southern shore of the Mediterranean.
- Based on the same survey, the ENP in 2004 was considered as a dramatic shift for the region; it was designed for eastern European countries, and was very much based on differentiated bilateralism rather than multilateralism; the idea was to *Europeanise* without enlarging, so it was not good in fostering sub-regionalism in the Southern Mediterranean.
- As a response to the Arab Spring the EU issued firstly two European Commission's Communications - *Partnership for Democracy and Shared Prosperity with the Southern Mediterranean*[48] and *New Strategy for a changing European Neighbourhood*[49] - and then launched a New ENP[50]. The policy is based on new features, including a "more for more" approach,[51] the importance of mutual accountability between the EU and its partners, the need for partnerships not only with governments but also with

[46] See Dreyer (2012) p. 19.

[47] The field research of the EU4Seas project was designed to provide empirical evidence which is comparable amongst topics, within sub-regions and across the four covered areas. For more details see http://www.eu4seas.eu/.

[48] European Commission, Joint Communication to the European Council, the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions: a Partnership for democracy and shared prosperity with the Southern Mediterranean, COM(2011) 200 final, Brussels, 8.3.2011.

[49] European Commission , Joint Communication to the European Council, the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions: New strategy for a changing European Neighbourhood, COM(2011) 303, Brussels, 25.5.2011.

[50] European Commission, Joint Communication to the European Council, the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions: delivering on a new European Neighbourhood Policy, JOIN(2012) 14 final, Brussels, 15.5.2012.

[51] Only those partners willing to embark on political reforms and to respect the shared universal values of human rights, democracy and the rule of law have been offered the most rewarding aspects of the EU policy, notably economic integration (based on the establishment of Deep and Comprehensive Free Trade Areas - DCFTAs), mobility of people (mobility partnerships), as well as greater EU financial assistance. Equally, the EU has reacted to violations of human rights and democracy standards by curtailing its engagement.

civil society (e.g. NGOs, businesses, academia, media, unions, and religious groups) and a recognition of the special role of women in reshaping both politics and society. The new ENP approach also recognized the importance of differentiation and tailors relations to the level of ambitions of partners. It is therefore based on the respect for every partners' specificities and their own reform path. The new policy has enshrined greater flexibility and set out a framework for tailored responses, matching the specific requirements of the countries, their progress in undertaking reforms, and the nature of the partnership they seek with the EU. But how much "renewed" is the new ENP in the case of South-Mediterranean countries? If we exclude the principle of "more for more" as well as the shift towards greater differentiation, the new ENP continues to be based on the democratic clause of political conditionality, which has been characterizing the Euro-Mediterranean relations since the Barcelona Process, and to use still pre-existing legal instruments and approaches.[52]

- Saif and Hujer (2009) argue that improving trade and investment relations between the EU and the Mediterranean region have not contributed to better governance, human rights, the rule of law or increased democracy in the respective Mediterranean partner countries. On the contrary, the present evidence suggests that while trade and investment have achieved sustained growth, governance and the human rights situation in most of the EMP countries have deteriorated. According to them, whether this situation has arisen due to carelessness on the EU side, or as a result of soft and cynical polices adopted to stabilize and perpetuate friendly regimes is open to question.
- Studies that use gravity models, have tried to assess the long-term impact of ENP on EU neighbouring countries bilateral trade.[53] Montalbano and Nenci (2012) showed a likely strong and robust impact on EU-MED trade integration of the new "deep integration" efforts made by the EU. This was confirmed by both the applied dummy strategy and the non-parametric matching technique. Their result seemed to be linked to other factors than simply trade preferences alone. Their empirical evidence is relevant both to policymaking, since it provides an "ex ante" assessment of the efficacy of deep integration under the EU-MED regional cooperation framework, and to the methodological point of view, since it contributes to improvements in empirical estimates of the "policy impact" of EU preferential agreements.
- Finally, Ghoneim et al (2012), with the use of a gravity model showed that further steps toward deep integration would lead to much more significant gains. In this regard, the elimination of non-tariff barriers is expected to increase EU exports to MPs up to 60%. In addition, MPs' imports and exports to

[52] See Tino (2012), p.11.

[53] For EU-MED trade flows, see, for example Abediny and Péridy (2008); Ruiz and Villarubia (2007); Pastore et al., (2009); CASE/CEPS, 2009; Hagemejer and Ciselik (2009); Bensassi et al. (2009); Jarreau,
(2011).

the EU could also considerably increase due to an improvement of logistics performance in these countries.[54]

3.2. Deep and Comprehensive Free Trade Agreements

The main trade policy component of the ENP is the Deep and Comprehensive Free Trade Agreement (DCFTA). The idea of Deep and Comprehensive Free Trade Agreement goes beyond traditional concept of trade liberalization. Besides the full elimination of tariffs in trade of goods, it also includes reduction/removal of non-tariff barriers, liberalization of investment regime, liberalization of trade in services, and far-going harmonization/ mutual recognition of various trade and investment related regulations and institutions. The main goal is to promote mutual trade and investments and achieve welfare and employment effects. In late 2008, under the Eastern Partnership, the EU opened negotiations towards a DCFTA with Ukraine, Moldova and the Caucasus economies. In December 2011, the European Member States issued the European Commission with four mandates to prepare negotiations for Deep and Comprehensive Free Trade Agreements (DCFTAs) with the four signatories to the Agadir Agreement (2007): Egypt, Tunisia, Morocco and Jordan.

In essence, the concept of Deep and Comprehensive Free Trade Agreement is relatively new in EU external trade policy and has been offered to EU neighbors as the major economic integration instrument within the framework of European Neighborhood Policy and Eastern Partnership. It is based on experience of the Single European Market, the EEA and trade agreements between the EU and the prospective EU candidates.

The DCFTA will imply actions such as regulatory convergence giving priority in competition policy, public procurement, and investment protection, sanitary and phytosanitary measures. Obviously the European decision to promote the realization of DCFTAs is really significant because it contributes to foster a closer integration between the economies of neighboring countries and the EU single market.

For the most advanced partners this could lead to a progressive economic integration with the EU internal market under the slogan "full partnership without membership" (EC, 2011), but will it work?[55] The DCFTA even if “deep” and “comprehensive” enough does not include the automatic guarantee of success. Very much depends on political will and administrative capacity to implement all its provisions in a timely and accurate manner.

But even if there is a political will, a problematic issue is related to the demanding nature of DCFTAs which makes it quite difficult for new association agreements to be signed. For many neighbouring countries it is all looking like a delaying tactic: make the conditions so severe that they will not agree, and so leave them in indefinite uncertainty. Unless there is some sharp rethinking and policy movement in the EU institutions,

[54] See Ghoneim et al (2012), p. 1.

[55] See Peridy (2012).

requiring also movement in the mandates they receive from the member states, there will be no further progress in bilateral trade.[56]

Another critique is that the DCFTAs strengthen economic relations in EU-neighboring countries direction e.g. EU-South Mediterranean countries. So, even if the DCFTAs are instrumental to the realization of a deeper integration, they don't contribute directly to enhance inter-regional trade.

In addition, Europe as a powerful global player has much more bargaining power than its low-income negotiating partners e.g. Mediterranean countries. This is compounded by the fact that the EU will not negotiate with Egypt, Tunisia, Morocco and Jordan as a group to establish a region-to-region agreement, which might have increased their bargaining power and helped to promote their efforts towards enhanced regional integration under the Agadir Agreement in force since 2007. Promotion of regional integration is in fact a professed goal of the Euro-Mediterranean trade partnership. Instead, the EU has opted to negotiate reciprocal trade agreements with each country individually. Hence, any outcome of the negotiations will almost as a matter of course be biased in favor of European big business.

3.3. Bilateralism vs Multilaterism as an EU trade policy approach towards its neighbours

Another important issue in the EU trade towards neighbouring countries is related to the issue of bilateralism vs multilateralism as an EU trade policy approach. The EU's recent emphasis on bilateral agreements rather than multilateral can be explained by various reasons. First, they seem easier to conclude. Politicians and businessmen find this very attractive because they are looking for quick results. Second, they can cover more areas. Bilateral trade agreements can deal with issues such as investment, competition, technical standards, labour standards or environment provisions, where there is no consensus among WTO Members. Thirdly, because of political or geopolitical considerations. For developing countries, negotiating with the EU, there is usually the expectation of exclusive preferential benefits, as well as expectations of development assistance and other non-trade rewards. Finally, they are often used as instruments for domestic reform in areas where the multilateral system offers a weaker leverage.

But bilateral agreements have limitations as well. First, bilateral agreements create discrimination. Countries outside an agreement will try to conclude agreements with one of those that are inside to avoid exclusion. In other words, the consequence is that the preferences obtained through forming a preferential agreement against competitors tend to be short-lived. Secondly, bilateral agreements cannot solve systemic issues such as rules of origin, antidumping, agricultural and fisheries subsidies. Thirdly, the proliferation of regional trade agreements can greatly complicate the trading environment, creating a web of incoherent rules. For example, rules of origin complicate the production processes of businesses who may be obliged to tailor their products for different preferential markets in order to satisfy them. Finally, to

[56] See Liargovas (2011) p.6.

many small and weak developing countries, entering into a bilateral agreement with the EU means less leverage and a weaker negotiating position as compared to multilateral talks.[57]

4. Conclusions and Policy Recommendations

The present analysis leads us to some conclusions and policy recommendation as regards EU trade policies towards its neighbours:

1. Both EU and the neighboring countries should eliminate tariffs. Countries wishing to export must agree to import first to source cheaper inputs and to test their competitiveness on global markets;
2. A close interface between Single Market policies for services on the one hand and agreement on specific conditions to be met on a case-by-case basis on the other, is a necessary condition for extending services trade liberalization (including regulatory aspects). Foreign direct investment in manufacturing and in key services sectors must be liberalised; Rules of origin (ROOs) of the free trade zone must be liberal and user- friendly so that the production chains operate smoothly and more actors are allowed to be involved. In order to facilitate the development of regional industrial supply chains, the EU's current ROO system would need to be rethought. It is too restrictive on imports of goods to the EU and among its neighbours.
3. Non-tariff barriers to imports such as overly trade-restrictive accreditation procedures for technical standards should be kept to a minimum.
4. The complicated EU bureaucracy is another aspect which does not facilitate the relations between the neighbouring countries and the EU. Europe's cacophony in external policy suggests it has abdicated any pretence of having a long term vision for the region. It has developed a habit of articulating a discourse, issuing documents, allocating money, creating bureaucracies that seem to lead a life of their own, beneath or above which the real issues of immediate concern are discussed: migration controls, restrictions on free trade and counter terrorism and coordinated responses (military, intelligence, information sharing, police cooperation). What is articulated in EU documents and discourse does not necessarily reflect the challenges the region confronts.
5. Political problems often create barriers to any effort. The key issue is to learn to cooperate ignoring the political controversies. Instead of isolating a country, it is preferable that the country concerned receives funds, regardless of the political scenario (example of Tunisia), so you can revert to the population and influence economic development. While the EU was previously prompted to give support to dictatorial regimes in various governments in the Mediterranean Sea, the EU should now establish clear conditions and a multilateral basis.
6. To be effective on democracy issues, especially in the case of Arab countries, EU must adopt unified and coordinated policies not only on trade, but also on related issues and especially on aid programmes. The way to do it is through positive conditionality which could gradually be introduced to

[57] See Liargovas, p. 7.

make incremental progress in the right direction. Issues such as the environment and labour standards should form part of trade packages if trade is to be used effectively in this way.

7. According to Emerson (2010), the concept of 'Deep and Comprehensive Free Trade' should be reconsidered and adapted to the circumstances of the Eastern partners, bearing in mind also that the Mediterranean partners were granted free trade without this Deep and Comprehensive addition. Emerson suggests as an optional template a Basic Free Trade Agreement (BFTA) for the time being, starting soon. The degree of mandatory EU acquis compliance would be limited to that strictly required for trade; to go further would be an option that would receive EU encouragement and assistance, but not an obligation or pre-condition. Otherwise no policy movement will mean no free trade deliverables.[58]

[58] See Emerson (2010) for more details.

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