

# How Free Trade Can Help Convert the ‘Arab Spring’ into Permanent Peace and Democracy

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# How Free Trade Can Help Convert the ‘Arab Spring’ into Permanent Peace and Democracy

## Abstract

Since Jean Monnet conceived the Coal and Steel Community, free trade has successfully prevented serious conflicts in Europe between democratically governed States with market economies. After six countries established the European Community, this principle has been extended successfully to its immediate neighbours, successively enlarging the European Union to its current 27 Member States. The Union’s European Neighbourhood Policy (ENP) has through the Union for the Mediterranean and the Eastern Partnership attempted to further political stability and economic development by liberalising trade between the EU and its neighbours as well as among these neighbours themselves.

The ‘Arab Spring’ initially improved the prospects for establishing political democracy and human rights in key countries. In response, the EU increased the emphasis in the ENP on supporting the democratization process in the Barcelona countries and on negotiating deep and comprehensive free trade agreements among the countries of the region as well as between each such country and the EU. Using a panel gravity model of trade, this paper estimates the potential for increased intra-regional trade among ten countries of the Southern and Eastern Mediterranean coast of the EU. It attempts to answer the following questions. Between which groups of countries (e.g., Agadir countries, key actual/former belligerent countries in the Middle East) is this potential largest? Is it anywhere sufficiently large to provide an incentive for these countries to integrate much more closely with each other and with the EU? Can the prospect of such closer integration provide sufficient economic benefits to encourage progress in democratisation in key countries and resolution of conflicts between key participating countries? Or are stronger incentives needed?

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### 1. A changing neighbourhood

The widespread popular protests in Arab States that started in 2011 opened a rare window of opportunity for introducing major political and economic reforms. The EU had developed the Barcelona Process in 1995 to support such reforms in its neighbours on the Southern Mediterranean coast.<sup>5</sup> It adopted the European Neighbourhood Policy (ENP) in 2004 to further economic growth and political reforms in both its Southern and Eastern neighbours and to resolve conflicts in these regions.<sup>6</sup> An important premise of the ENP is that political reforms, economic integration and conflict resolution lend each other mutual support, thereby providing "circular causation with cumulative effects:"<sup>7</sup> successful political reforms facilitate economic reforms while successful economic reforms facilitate political reforms. Free trade by itself is not enough but must be part of a holistic approach.

In May 2011, the European Commission and the High Representative of the European Union for Foreign Affairs and Security Policy reviewed the ENP in the light of current events in North Africa. They proposed to intensify the ENP, especially with regard to the Southern Mediterranean partners.<sup>8</sup> Events quickly overtook their proposals, making additional reviews necessary in the future. Four regimes have either fallen or

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<sup>5</sup> The Barcelona Process was transformed into the Union for the Mediterranean in 2008. However, for simplicity, we shall refer to it as the Barcelona Process, occasionally also after 2008. The members on the Southern and Eastern Mediterranean coast are, from West to East, Morocco, Algeria, Tunisia, Libya, Egypt, Israel, occupied Palestinian territories, Jordan, Lebanon and Syria. For brevity, we shall refer to these countries as the Southern Mediterranean coastal states, omitting the word Eastern, or as the Middle East and North Africa (MENA) countries.

<sup>6</sup> Both the Union for the Mediterranean and the Eastern Partnership, adopted in 2009, aim at closer economic and political relations with the EU's neighbours.

<sup>7</sup> The expression was coined and frequently used by Gunnar Myrdal.

<sup>8</sup> COM (2011) 202. These proposals are summarised in Section 4.

are in a process of violent change and more regimes are under strong popular pressure to change. More than one year after the initial events in Tunisia, the outcome of the 'Arab Spring' is highly uncertain, both as concerns the nature and the scope of change. Half a century of entrenched dictatorship and nepotism in some countries makes systemic changes exceedingly difficult though necessary. The longer the outcome remains uncertain, the greater is the downside risk that genuine democratic reform will not take place. What, then, is necessary to support rapid change?

The fall of the Berlin Wall in 1989 and the collapse of the USSR led to a process of systemic change in East and Central Europe and democracy and market economy quickly replaced dictatorship and communism. Twelve countries with about 300 million people entered free trade agreements with the EU. By 2004 ten of them had acceded to the EU! How could such economic transformation and institutional anchoring in a democratic community occur so quickly? Can this pace and scope of change be repeated by key countries along the Southern Mediterranean Coast, involving about the same number of people?

The rapid transition in most Central and Eastern European countries was the result in part of implementing four basic principles.

1. A systemic change requires a change in the personnel managing the system.

To eliminate the corruption that follows from absolute power, it is necessary to change much government personnel.<sup>9</sup> When the Eastern European States replaced communism by market economy, the first measure many States took was to replace civil servants who had held power for decades by new people whose minds were undamaged by the old system.<sup>10</sup> By the nature of things, the new staff was very young.<sup>11</sup>

2. Systemic change requires implementing basic principles of a market economy.

Any new system must cleave to its basic principles, not compromise them. Deviation from these principles should be avoided especially at the outset since

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<sup>9</sup> Lord Acton stated that "Power corrupts; absolute power corrupts absolutely." When Estonia regained its independence after the collapse of the USSR, the new government considered that those who had held office during the old regime were contaminated by the old ideas and hence replaced them systematically.

<sup>10</sup> In East Germany, even university professors were replaced; one became the office administrator of the academic faculty he had directed under the old regime.

<sup>11</sup> One of the authors participated in the first EFTA Delegation that visited the Baltic States one month after the restoration of independence. At Tallinn airport the Delegation was met by an official representative of the Foreign Ministry who was perhaps 22 years old. The average age of the host country's delegations at the various meetings during the visit was about half the average age of the Delegation of the EFTA countries. This is a concrete example of one way to throw off the dead hand of the past.

initial compromises threaten successful systemic change. Some compromise with principles comes inevitably with time and may result in some form of a mixed economy. But it should be a finishing point and not a starting point of change.

3. Introduction of new systems is an investment requiring substantial foreign financial and technical assistance.

Many of the countries of East and Central Europe, and especially those which at times were annexed by the USSR, had to recreate national institutions, both to manage a market economy and to establish democratic processes. Such systemic change requires a crash course in modernization, an expensive long-term investment, which in turn requires extensive external support, both financial and technical. The EU and international financial organizations provided such support for future members 20 years ago. Will it do so for its neighbours today who are not potential candidates for membership of the EU?

4. Participation in common institutions requires sharing common values and adopting common principles and thus presupposes a strong sense of community solidarity.

A neighbourhood consists of neighbours; a good neighbourhood consists of good neighbours. Even 40 years after the construction of the Iron Curtain and relentless ideological indoctrination, a sufficiently strong sense of shared values and joint destiny existed in both East and West Europe to allow its two parts to unite in a common endeavour.

These four principles require the ENP Partner governments to answer the following questions affirmatively: Are they prepared to replace civil servants corrupted by years of absolute power by uncontaminated staff and, thereby, defeat long entrenched vested interests? Are they prepared to apply the principles of a *competitive* market economy, including measures to dismantle or regulate private and public monopolies? Are they prepared to transfer power from military commanders to the voters? Can they create the necessary national institutions and train staff to man new institutions effectively, provided they receive sufficient financial and technical assistance? Do the populations of the Southern Mediterranean coastal states share enough common values with the current EU to form a neighbourhood and not just a market place? Bluntly put, are they prepared for democracy?

Resolution of regional conflicts is necessary if the EU and others are to support the Eastern Partnership and the Union for the Mediterranean. Few donors will contribute to constructions which face probable destruction in civil or other wars. Here, the process of post-war reconstruction and reconciliation that took place after 1949 in

Europe and, albeit tentatively, after 2000 in the Balkans can provide some guidance to the partner States on the Southern Mediterranean coast.

This paper considers whether the Barcelona Process (BP), intensified as foreseen in COM (2011) 202, can foster a competitive market economy, democratic governance and conflict resolution in the coastal States of the Southern Mediterranean. Does the BP provide sufficient means and incentives to result in closer integration of partners of the European Neighbourhood with each other and with the EU? The paper concludes that the answer is No. The EU will have to provide stronger political leadership and financial support than it has in the past if the Barcelona Process is to achieve its goals.

## **2. Successes and failures of the Barcelona Process**

The Barcelona Process set up as a target that each Southern Mediterranean coastal country was to conclude a bilateral free trade agreement with the EU as well as similar agreements with each other before the end of 2010. The idea was that a vast free trade area around the Mediterranean (the Euro-Mediterranean Partnership) would foster prosperity and stabilise democratic governance. The BP has made progress toward this goal. However, this progress has been more apparent than real. Key steps remain to be taken.

The successes include the following. Before the 'Arab Spring', the EU had concluded bilateral agreements with all Mediterranean coastal countries except Qaddafi's Libya and Assad's Syria, where the agreement concluded in 2004 was put on hold several times for political reasons. However, most of these agreements are 'shallow' ones, eliminating tariffs but leaving many non-tariff barriers in place. Furthermore, the commodity coverage varies among countries, excluding in particular agricultural goods (see below).

Regional free trade has also been achieved between all countries on the Southern Mediterranean coast - but one.<sup>12</sup> This was achieved through the agreement on the Pan-Arab Free Trade Area (PAFTA) established in 1997 at the initiative of the Economic and Social Committee of the Arab League.<sup>13</sup> PAFTA claims to have realized regional free trade in industrial and agricultural goods by 2005.

The failures include incomplete commodity coverage and incomplete country coverage. It is unclear what obligations the individual Partner State has to eliminate tariffs (and non-tariff barriers) on agricultural goods in PAFTA. According to the

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<sup>12</sup> They are Morocco, Algeria, Tunisia, Libya, Egypt, Jordan, Occupied Palestinian territories, Lebanon and Syria. The missing country is Israel.

<sup>13</sup> It thus includes eight Arab League countries which are *not* members of the Barcelona Process (Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, Sudan, United Arab Emirates and Yemen) but does not include Israel which is a member of the BP. It is also called Greater Arab Free Trade Area (GAFTA). In this text we refer to it as PAFTA.

agreement only industrial products are fully covered, whereas with respect to agricultural products: "Arab States shall determine the agricultural goods that shall not enjoy reduction in customs duties, and (the list) shall be submitted to the Economic and Social Council for review."<sup>15</sup> Coverage of agricultural products is limited<sup>16</sup> also in the free trade agreements of the EU with the PAFTA States.

Country coverage is limited since the PAFTA free trade area does not include Israel. Israel has no free trade agreements with any Southern Mediterranean coastal state. If including Israel in PAFTA requires a unanimous decision by the Arab League, such inclusion appears unlikely today. This incomplete country coverage means that the Euro-Mediterranean region is not a single free trade area contrary to the clearly announced goal of the BP.

This leads to a key issue concerning institutional responsibility. The Economic and Social Committee of the Arab League is responsible for monitoring trade liberalisation in the PAFTA. This explains why Israel is not included, in contradiction to the declared objective of the Barcelona Process. It would appear that an important function of the BP has been effectively 'farmed out' to the Arab League. This raises the possibility of insufficient coordination in a number of other issues as well, such as implementation of free trade agreements between PAFTA countries and dispute settlement in that connection. We shall return to this need to strengthen the surveillance role of the EU and its Barcelona Partners in a later section.

## 2.1 Shallow versus deep agreements

The shallow and non-comprehensive nature of PAFTA may be due to the very low level of existing intraregional trade (about 5 percent in 2005) among the coastal States of the Southern Mediterranean.<sup>17</sup> This share is lower than in the Eastern Partnership countries and the Balkan countries, where intra-regional trade was disrupted by the Balkan wars and the creation of independent states 15-20 years earlier. War-time disruptions can explain the low intraregional trade between the countries in the Eastern Mediterranean, but other factors must explain the strikingly low trade between the other Southern Mediterranean coastal states (Figure 1).

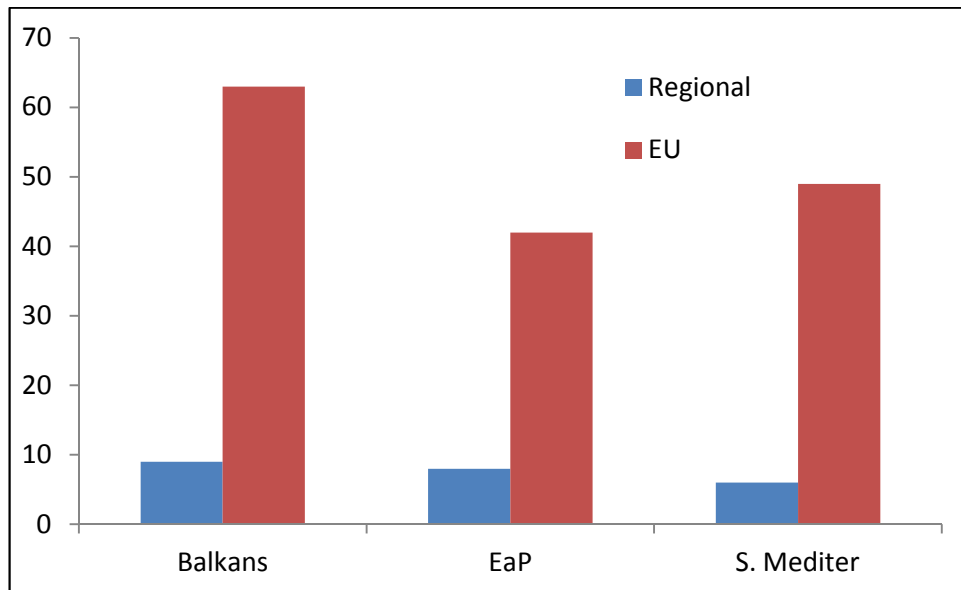
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<sup>15</sup> Source: Declaration Pan-Arab Free Trade Area Economic and Social Council's Resolution No. 1317-O.S. 59, February 19, 1997. See <http://www.bilaterals.org/spip.php?article2309>. *Second: Liberalization of Trade among Party-States. 2. "Production season (Farmer's Almanac) in which a number of agricultural goods shall not enjoy exemptions and reductions of customs duties and other charges and taxes of a similar effect shall be specified. This specification shall come to an end no later than the deadline for implementation of this Program"*.

<sup>16</sup> See Hoekman and Sekkat (2010, p. 24). Some agricultural products were excluded from PAFTA during much of the transition period (1998-2005).

<sup>17</sup> The reverse is also possible. For an extensive, though pessimistic, overview, see Hufbauer and Brunel (2008).

**Figure 1. Shares of intra-regional trade and trade with the EU in total trade 2005 (%)**



Source: Gylfason and Wijkman (2012).

This situation was described bluntly by EU Trade Commissioner Peter Mandelson in 2008.<sup>18</sup>

“... creating a regional market place along the southern shore of the Mediterranean ... has turned out to be ... a political challenge of the first order. You don’t need me to tell you how far away you are from ... [your] ... goals. ...regional integration in the Southern Mediterranean is lower than anywhere else in the world. ... You do not trade with your neighbours. It makes you almost unique in the world.”

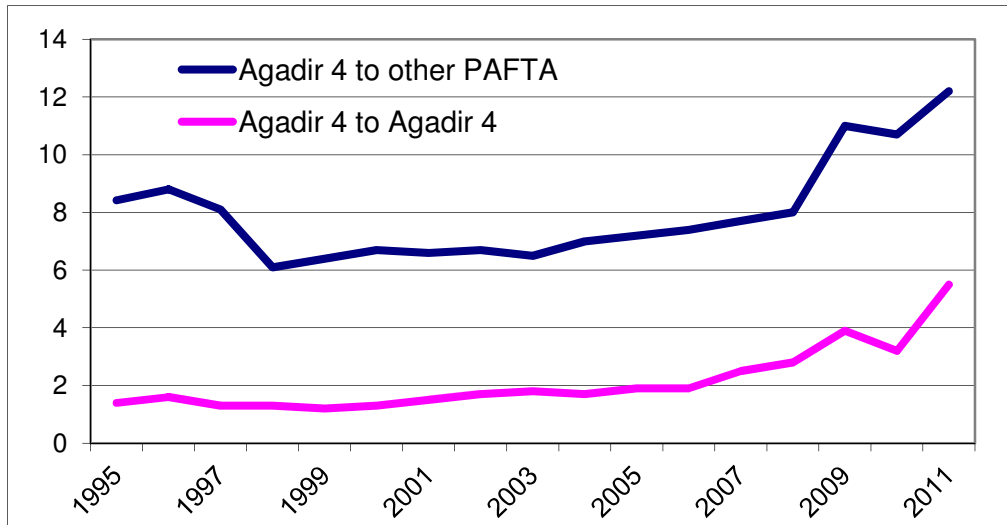
Why have four members of PAFTA - Egypt, Jordan, Morocco and Tunisia - chosen to negotiate deeper agreements with each other? These countries signed the Agadir Declaration in 2002 and thereafter negotiated the Agadir Agreement which entered into force in 2004. This Agreement is deeper than PAFTA and established free trade between the four countries in 2005, five years ahead of the Barcelona schedule. It provides *inter alia* for adoption of the Euro-Med protocol on preferential rules of origin.<sup>19</sup> Did the four Agadir signatories choose to negotiate a deeper FTA because they already had significant trade with each other or did they believe that a significant unrealised trade potential existed?

<sup>18</sup> Mandelson (2008).

<sup>19</sup> This allows for diagonal cumulation of origin for participating countries in their trade of products with the EU containing components from several Agadir countries. It can stimulate foreign direct investment based on assembly of components from Southern Mediterranean coastal countries into a final product exported to the EU.



**Figure 2. Share of total exports from Agadir 4 countries to each other and to the other Southern Mediterranean Coastal States 1995-2011 (%)**



Source: Data from WITS.

Figure 2 shows that before the Agadir agreement a surprisingly small share of total exports (less than 2 percent) from the four Agadir countries went to each other. This share is significantly lower than (about one third of) the share of total exports that the four Agadir countries sent to the other five PAFTA countries (with which they had shallow free trade agreements) plus Israel (with which they had no free trade agreement at all). The surprisingly high level of trade of Agadir 4 with shallow PAFTA countries (plus Israel) appears to be due to large trade with oil-rich Algeria and Libya which, like Syria in addition, are geographically close to one or more Agadir States.

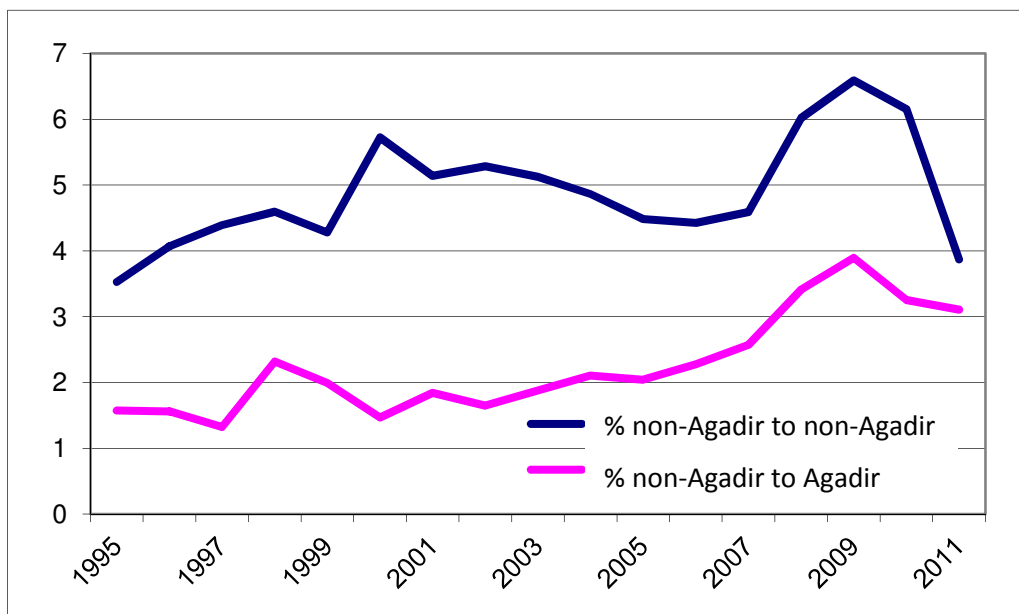
As expected, the share of the Agadir 4's exports that went to other Agadir countries doubled after deep free trade had been realised in 2005. But, surprisingly, the share of the Agadir 4's exports that went to the other Southern Mediterranean States after 2005 where trade liberalisation was shallow, also increased significantly. This increase cannot be ascribed to the deepness of the Agadir Agreement.

A similar pattern is apparent in the exports of the non-Agadir countries to each other (plus Israel) as well as to the Agadir countries. The share of their exports to the Agadir 4 is about two percent until 2005 after which the share almost doubles. The other PAFTA countries' trade with each other (including Israel) is, however, more than double their trade with the Agadir 4, and appropriately shows only modest increase since their trade agreements remained shallow throughout. How can this unexpected pattern be explained?

The driving forces appear to be economic size and proximity, which in some cases are constrained by political factors and in other cases reinforced by them. Thus oil-rich

countries such as Algeria and Libya (both non-Agadir countries) are large importers: Algeria from Morocco and Egypt and Libya from neighbouring Egypt and Tunisia. Significant trade occurs between neighbours such as Morocco with Algeria, Algeria with Tunisia, Syria with Jordan and Lebanon. Political constraints appear, however, to prevent realisation of economic realities. The Arab Maghreb Union of 1989 broke down because of the conflict over Western Sahara, which resulted in a closed land border between Morocco and Algeria.<sup>20</sup> Free trade between Israel and its contiguous neighbours Egypt and Jordan could generate large trade flows due to large GDP, geographic contiguity and existing peace agreements between these three countries. Bilateral trade flows between Egypt and Jordan in 2005 are about twice the bilateral flows between Israel and Jordan and about three times those between Israel and Egypt. Thus, political factors have prevented deep free trade agreements where they could have generated significant trade flows: first, between Morocco and Algeria (due to the conflict over West Sahara) and, second, between Israel, Egypt and Jordan. A deep and comprehensive free trade agreement with these two groups of three countries as their initial core could, we shall argue, have a big economic effect.

**Figure 3. Share of total exports from non-Agadir Southern Mediterranean countries to each other and to Agadir countries 1995-2011 (%)**



Source: Data from WITS.

<sup>20</sup> AMU consisted of Mauritania, Morocco, Algeria, Tunisia and Libya.

**Table 1. Elements in the trade relations of Mediterranean Coastal States with the EU**

<b>Country</b>	<b>Cooperation Agreement with EU</b>	<b>Association Agreement with EU<sup>21</sup></b>	<b>ENP Action Plan approved</b>	<b>Ad hoc group created to enhance bilateral relations</b>	<b>Agreement on agricultural, processed agricultural and fish and fishery products</b>	<b>Agreement on conformity assessment and accreditation</b>	<b>Others, SPS, Agreement on conformity assessment and accreditation, dispute settlement</b>
<b>Egypt</b>	1976	2004	March 2007	April 2009	Negotiations finalised 2009?	Negotiations accelerated	Progress accelerated on ACAA
<b>Israel</b>	1975	2000	April 2005		Entered into force January 2010	Agreement initialled June 2009	ACAA initialled June 2009
<b>Jordan</b>	1977	2002	January 2005		Preparing for negotiation	Preparing new food law	
<b>Lebanon</b>	1977	2006	January 2007			Slow progress	Slow progress
<b>Morocco</b>		2000	2005	2008	Negotiations concluded 2009		
<b>Occupied Palestinian Territory</b>		Interim Agreement 1997	May 2005				
<b>Tunisia</b>		1998	2005				Agreement on dispute settlement
<b>Algeria</b>	1976	2005	None				
<b>Libya</b>	Contractual	Relations	suspended	February 2011			
<b>Syria</b>	1977	Initialled 2004, put on hold, revised agreement initialled 2008, pending signatures					

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<sup>21</sup> Date of entry into force.

## 2.2 Estimation of the trade effects: A gravity approach

In this section we use a gravity model of trade to estimate the effects of the different types of agreements – shallow versus deep – in the Mediterranean region. The gravity equation is based on Newton’s law of universal gravitation, and it has become popular due to its success in explaining bilateral trade flows among countries. The basic idea is that trade between two countries is proportional to the product of their economic sizes, which can be measured using their GDPs, and inversely proportional to the distance between them:

$$T_{ijt} = \alpha_0 Y_{it} Y_{jt} \text{Dist}_{ij} \quad (1)$$

This basic equation has been augmented with variables that affect trade between countries and it is common to include these variables in the model specification. For example, common language, colonial ties, shared border and trade agreements are used as proxies for familiarity, information and artificial trade barriers. Typically, the gravity equation is specified in log-linear form and it is estimated using cross-sectional or panel data. In recent literature, the use of panel data is highly recommended to control for unobserved heterogeneity from various sources, for FTA endogeneity and for multilateral resistance.

Anderson and van Wincoop (2003) recommend accounting for “multilateral trade resistance” in the estimation of gravity equations. This can be done by adding time-varying, directional, country-specific dummies, because bilateral trade flows depend on bilateral trade costs relative to multilateral resistance. In addition, Feenstra (2004) recommends including country fixed effects to model unobserved price indices.

Another important issue is that trade policy is not strictly exogenous and that analyses of the effects of free trade agreements with the gravity equation can suffer from endogeneity bias, as pointed out by Baier and Bergstrand (2007, 2011). They favor the use of panel data regression techniques and the inclusion of bilateral fixed effects (dyadic fixed effects) to capture unobservable time-invariant bilateral factors that can affect trade flows. They also include exporter-and-time and importer-and-time fixed effects to capture unobservable time-varying “multilateral price/resistance” terms of the exporter and importer countries. The model that corrects for endogeneity bias and controls for multilateral resistance is given by

$$\ln X_{ijt} = \beta_0 + \beta_1 \text{FTA}_{ijt} + \eta_{ij} + \delta_{it} + \psi_{jt} + \varepsilon_{ijt} \quad (2)$$

where  $\eta_{ij}$  denotes dyadic fixed effects, specified as dummy variables for each bilateral relation and  $\delta_{it}, \psi_{jt}$  are exporter-and-time and importer-and-time fixed effects. The inclusion of these fixed effects implies that we are not able to identify income and distance effects, but the target variable,  $\text{FTA}_{ijt}$ , which denotes free trade agreements

and varies by origin, destination and over time, will be correctly identified. Our analysis is closely related to previous research (Peridy, 2005a, 2005b; Abedini and Peridy, 2008), but with three important improvements. First, we include more recent years in the analysis and consider new FTAs which have come into force recently. Second, we differentiate between trade in industrial and agricultural products and estimate the effect of the agreements separately, which is reasonable given the remarkable differences in terms of trade liberalisation for these two types of products. Finally, another important departure from the previous literature is the use of up-to-date panel-data estimation techniques that allow us to isolate the impact of the agreements on bilateral trade and to establish causality in a more accurate way. In particular, we control for both the endogeneity of the trade agreement variable and the multilateral resistance terms, as suggested by Baier and Bergstrand (2011).

Model (2) is estimated for exports and imports from ten south Mediterranean countries<sup>22</sup> to 64 destinations. The variables used in the analysis and the corresponding descriptions and sources are listed in Table A.1. Table A.2 lists the FTAs considered and the dates of entry into force and Table A.3 provides a list of destination countries.

The main results for total exports and imports are reported in Table 2. As expected, the results suggest that the Euromed FTA has a positive and significant impact on exports from *inter alia* the EU to MENA partner countries but not the other way round. Specifically, the presence of an FTA between the EU and Euromed partners increases total imports to MENA countries by 27.5 percent ( $e^{0.243} - 1 = 0.275$ ), other factors remaining constant. The agreement has been especially beneficial for industrial exports from the EU, which implies that the FTA between the EU and Euromed partners increases EU total industrial exports to MENA countries by 31.4 percent (not shown in table).

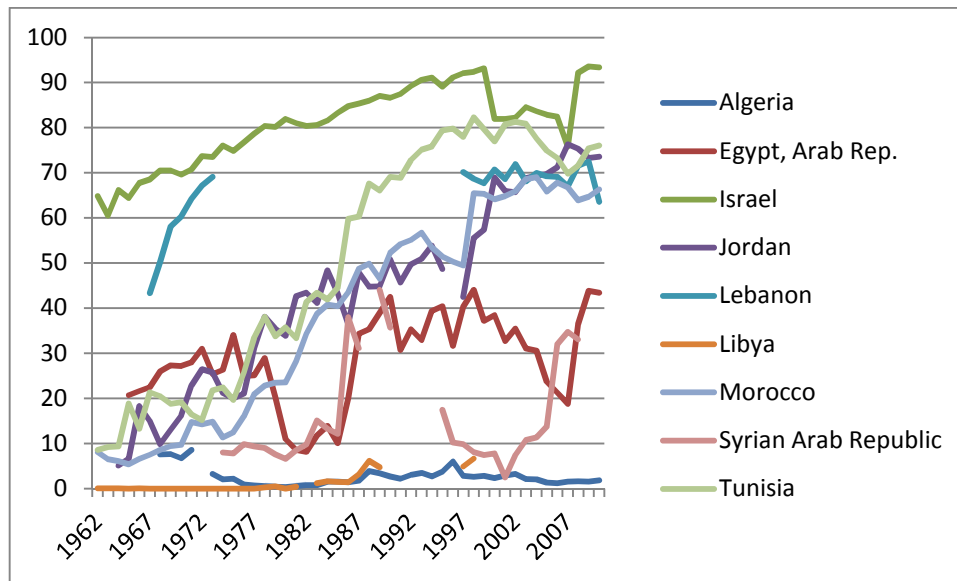
The FTA between MENA countries and Turkey also has a positive and significant impact on Turkish exports and a positive but not significant effect on MENA exports. USA's FTAs with Morocco and Jordan have a positive impact on industrial MENA exports, but this is due mainly to Jordan's exports, especially of textile and apparel products. The only agreement that has a positive and significant impact for both imports and exports is the customs union between the EU and Turkey. This positive effect has also been reported in a number of empirical studies.<sup>23</sup>

Countries with a high level of manufactures in merchandise exports stand to gain more from trade liberalisation as conducted so far (Figure 4).

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<sup>22</sup> The south Mediterranean countries considered are: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Syria, Tunisia and Turkey.

<sup>23</sup> See, e.g., Nowak-Lehmann *et al.* (2007).

**Figure 4. Share of manufactures in merchandise exports 1961-2009 (%)**

Source: World Bank, *World Development Indicators* 2011.

The Agadir agreement has a positive effect on exports and imports, but only the latter is statistically significant, which could be due to measurement error when the exporter is the reporting country. Indeed, the goodness of fit ( $R^2$ ) of the model is better for column 1 (around 30 percent of the variability in imports is explained) than for column 2 (only 12 percent of export variability is explained by the model).

**Table 2. Effects of the agreements on total exports and imports**

	<b>Imports</b> (MENA total imports from the 64 economies that represent 90% of their total imports)	<b>Exports</b> (MENA total exports to the 64 economies that represent 90% of their total exports)
<b>EUMED</b>	0.243*** (0.083)	-0.128 (0.139)
<b>EFTAMED</b>	0.081 (0.183)	0.000 (0.205)
<b>USAMED</b>	-0.223 (0.502)	1.363 (0.975)
<b>TURMED</b>	0.593*** (0.206)	0.407 (0.394)
<b>PAFTA</b>	0.551 (0.357)	-0.062 (0.327)

<b>AGADIR</b>	0.376* (0.216)	0.208 (0.225)
<b>TUREU</b>	0.412** (0.173)	0.610*** (0.232)
NOBS	11006	10405
R <sup>2</sup> -Adjusted	0.293	0.117
RMSE	1.129	0.688
LL	-16254.2	-10180.34

Note: Robust standard errors in brackets, \*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1.

Although the Agadir 4 (Morocco, Jordan, Egypt and Tunisia) have very low levels of intra-regional trade (Figure 2), gravity estimates suggest that intra-Agadir trade is around 46 percent higher after the entry into force of the agreement ( $e^{0.376} - 1 = 0.456$ ). This means that their intra-trade has increased due to the deepness of the agreement and due to the new rules of origin. With respect to the PAFTA agreement, intra-PAFTA exports and imports are not significantly higher after the entry into force of the agreement and since it is less comprehensive than the Agadir Agreement, these countries could still realize more of their trade potential by negotiating a deeper agreement.

Furthermore, the Agadir 4 and Israel now have deeper agreements with the EU than the other PAFTA countries have, although none is as deep as the Stability and Association Agreements (SAA) that the EU has negotiated with the countries of the Western Balkans or the DCFTAs that the EU is now negotiating with three EaP countries. These deeper agreements appear to include agricultural goods, Sanitary and Phytosanitary Standards (SPS) and Agreements on Conformity Assessment and Accreditation (Table 1).

But the trade agreements of the Agadir 4 with the EU and of Israel with the EU did not bring any significant progress in the field of trade liberalization in agricultural goods. The MENA countries have a comparative advantage in these products and a large unexploited trade potential exists here. The EU continues to subsidize its agricultural production through the costly, unfair and inefficient CAP which prevents full exploitation of the gains from trade and hurts both the Member States' and other countries' economic development. Therefore, if the new Association Agreements are to exert a symmetric impact on bilateral trade flows between the EU and the MENA countries, the EU should open their markets to agricultural imports from the MENA countries and allow them compete on a level playing field in the spirit of the Everything-But-Arms Initiative (EBA) that covers all least developed countries and all goods except for arms (with additional exceptions for bananas, rice and sugar) and has been in force since 2001. Only in February 2012 did the European Parliament agree to

liberalise Morocco-EU trade in farm and fisheries products. The agreement provides for the immediate reduction or elimination of 55 percent of tariffs on Morocco agricultural and fisheries products (up from 33 percent) and 70 percent of tariffs by the EU on agricultural and fisheries products imported from Morocco. Both parties are to accomplish this elimination within 10 years. Fruits and vegetables currently account for 80 percent of total EU imports from this North African country, suggesting the powerful impact that liberalisation of trade in farm products can have.

Trade in agricultural products among Agadir countries has not been affected by the entry into force of the Agadir agreement, as can be seen in Table 3 showing the results of the gravity model estimated for trade in food products. Only intra-PAFTA exports have increased significantly, by around 67 percent ( $e^{0.511} - 1 = 0.667$ ), and EU exports to Turkey by around the same amount after the entry into force of the corresponding agreements.

**Table 3. Effect of the agreements on trade in food products**

	<b>Imports</b> (MENA food imports from the 64 economies that represent 90% of their total imports)	<b>Exports</b> (MENA food exports to the 64 economies that represent 90% of their total exports)
<b>EUMED</b>	-0.178 (0.123)	-0.196 (0.140)
<b>EFTAMED</b>	0.156 (0.364)	-0.075 (0.312)
<b>USAMED</b>	0.193 (0.393)	0.456 (0.549)
<b>TURMED</b>	0.007 (0.159)	0.781 (0.608)
<b>PAFTA</b>	0.560 (0.483)	0.511* (0.287)
<b>AGADIR</b>	0.216 (0.321)	0.458 (0.393)
<b>TUREU</b>	0.528** (0.223)	-0.076 (0.177)
NOBS	10036	9325
R <sup>2</sup> _Adjusted	0.354	0.277
RMSE	1.060	1.099
LL	-14135.27	-13407.84

Note: Robust standard errors in brackets, \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$



Trade facilitation measures can make an important contribution to increased trade between the Southern Mediterranean countries. Bourdet and Persson (2011) present a strong argument for systematically introducing such measures in the Euro-Mediterranean Partnership.

### **2.3 Summary**

Limited commodity coverage has meant that industrial products have benefited most from trade liberalisation in the Barcelona Process. Thus, countries where manufacturing is important have benefited more than countries where it is limited. The EU has benefited more from increased exports to MENA countries than have the MENA countries by exporting either to the EU or to each other. Significant benefits for the MENA countries will require greater liberalisation of agricultural trade, both among the PAFTA countries, and especially between the EU and the PAFTA countries. Limited country coverage (i.e., the exclusion of Israel from regional free trade with the MENA countries) has prevented realisation of significant potential trade flows between the MENA countries. Shallow rather than deep liberalisation in the MENA countries limited realisation of potential trade, primarily among the MENA countries.

### **3. Some proposals for conflict resolution**

Considered as an exercise in regional economic integration and conflict resolution, the ENP has so far produced few results in the Southern Mediterranean. The Barcelona Process has made no progress in conflict resolution since it has avoided the issue of economic integration between countries in conflict. No Arab countries have free trade agreements with Israel, not even Egypt and Jordan, the only two Arab countries with peace agreements and trade agreements with Israel. This is in spite of the fact that Israel has the largest and the fastest growing economy in the region and the trade potential between Israel and its neighbours can be assumed to be large. Countries with high current levels of domestic income per capita and a track record of rapid growth (such as Israel, Algeria and Tunisia) can benefit from deep trade liberalisation. Stagnant, low income countries (Egypt, Jordan, Morocco and Syria) are likely to benefit less from deep and comprehensive free trade agreements (Figure 5).

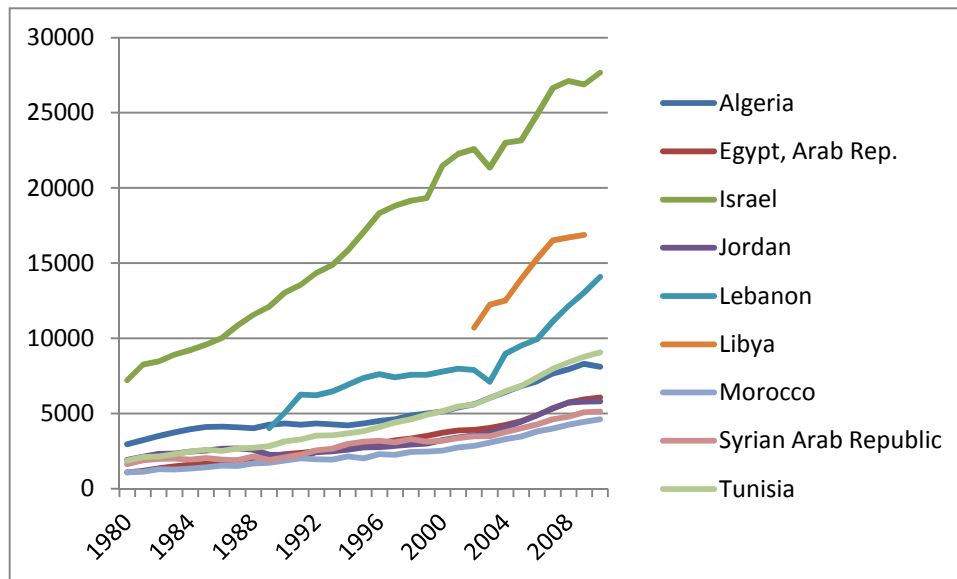
Nor has the Barcelona process made progress toward resolving the conflict over Western Sahara (between Morocco and Polisario supported by Algeria). The failure to realise the goal of free trade between all Mediterranean partners by the end of 2010 as well as the general shallowness of the free trade agreements that have been concluded is all the more striking.<sup>24</sup>

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<sup>24</sup> When it started in 1995, the Barcelona Process was fuelled by optimism generated by the Madrid Conference of 1991, the Oslo Accords of 1993 between Israel and the PLO and the Israel-Jordan Peace Treaty of 1994. However, Israel and the Palestinian Authority failed to reach a final settlement at the Camp David Summit in 2000.

It is too easy to blame these failures (shallowness and incomplete country and commodity coverage) of the Barcelona Process on political factors (such as deep-rooted foreign policy considerations and the deeply entrenched Common Agricultural Policy). One objective of closer economic integration is precisely to create a political and economic dynamics that gives all parties a stake in conflict resolution. This did not occur.

**Figure 5. GNI per capita 1980-2009 (PPP-adjusted USD at current prices)**



Source: World Bank, *World Development Indicators* 2011.

### 3.1 Making the economically sensible also politically feasible

A helpful step toward normalisation of political and economic relations in the Eastern Mediterranean would be for Egypt and Jordan to negotiate and sign deep and comprehensive free trade agreements with Israel within the framework of the Barcelona Process. These two countries signed peace treaties with Israel in 1979 and 1994, respectively. They are the only PAFTA countries to have trade agreements with Israel, albeit not free trade agreements. Thus, a deep free trade agreement would appear to be a natural next step. It could be done in such a manner as to be consistent with a future broadening of the Agadir Agreement to include the Occupied Palestinian Territories (OPT) and Israel. Morocco and Tunisia have informal political relations with Israel making a *de facto* expansion of Agadir 4 politically feasible. The result would be a deep free trade area consisting of the four signatories of the Agadir Declaration, and the customs territory of Israel with the occupied Palestinian territories. This “Agadir Plus” could hold out the prospect of including other contiguous and advanced economies prepared for deep integration, such as Lebanon. The economic benefits are likely to be significant.

Israel has signed free trade agreements with Turkey and Canada (1997) and with the EU and Mexico (2000). Assuming *ceteris paribus* (controlling for other trade determinants: distance, incomes, common border, colonial relationships and so on), the implications for Egypt, Jordan, Lebanon and Agadir would be similar to those estimated for the existing agreements, especially for the one with Turkey (which is the most similar country); if so, the trade potential will be substantial. The effect of the Turkey-Israel agreement has been to triple Israel's imports from Turkey and to increase Israel's exports to Turkey by 80 percent, as can be seen in Table 4 below (columns 2 and 7, respectively) for total trade.

**Table 4. FTA effects on imports from and exports to specific countries**

	Egypt	Israel	Lebanon	Jordan	Syria	Egypt	Israel	Lebanon	Jordan	Syria
	Imports					Exports				
<b>EUMED</b>	-0.282 (0.184)	0.155 (0.199)	-0.196 (0.170)	-0.086 (0.179)		-0.393 (0.239)	-0.189 (0.131)	0.003 (0.223)	0.047 (0.306)	
<b>EFTAMED</b>	0.305 (0.582)		0.369 (0.639)	-0.604 (0.436)		0.050 (0.325)		-0.305 (0.423)	0.999** (0.458)	
<b>USAMED</b>				-0.374*** (0.108)					2.707*** (0.268)	
<b>TURMED</b>	0.348** (0.153)	1.388*** (0.154)			0.269* (0.138)	-0.114 (0.172)	0.610*** (0.120)			0.069 (0.171)
<b>PAFTA*</b>	1.397*** (0.436)		1.109** (0.507)	0.372 (0.429)	0.895 (0.549)	0.048 (0.284)		-0.201 (0.251)	0.484 (0.351)	-0.001 (0.384)
<b>AGADIR</b>	-0.228 (0.284)			0.195 (0.510)		0.323 (0.279)			0.134 (0.227)	
<b>R<sup>2</sup></b>	0.015	0.041	0.010	0.044	0.041	0.092	0.055	0.029	0.060	0.009
<b>N</b>	1162	1006	1154	1135	1112	1169	1002	1134	1112	1137
<b>Fixed Effects</b>										
$\delta_{it}$	No	No	No	No	No	No	No	No	No	No
$\psi_{jt}$	No	No	No	No	No	No	No	No	No	No
$\gamma_t$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
$\eta_{ij}$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: Robust standard errors in brackets, \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ .

\* PAFTA (Pan Arab Free Trade Area), also known as GAFTA (Greater Arab Free Trade Area).

An additional piece of evidence is provided by Baier and Bergstrand (2004), Egger and Larch (2008) and Marquez-Ramos *et al.* (2010). The authors provide predicted probabilities of the likelihoods of joining a regional integration agreement based upon economic, geographic and political considerations. According to Egger and Larch (2008), the predicted probability of an FTA between Israel and Egypt is 0.821. This high

value, mainly driven by their proximity, their joint economic size, the similarity of their GDPs, and their differing factor endowments, indicates that the two countries would surely benefit from an FTA. However, their results concerning Israel and Jordan are dramatically different. The predicted probability of an FTA is only 0.28, mainly due to Jordan's economic size being very small compared with Israel. Similar considerations could also apply to Lebanon. Open borders would, in particular, benefit the occupied Palestinian territories by providing unfettered access to contiguous Egypt, Jordan and Lebanon.

The economic benefits of deep and comprehensive free trade between these core contiguous countries are likely to be significant. However they are unlikely to be realised without greater incentives for conflict resolution. Deeper economic integration with the EU could be made dependent on a partner country negotiating DCFTAs with other neighbourhood states which have a DCFTA with the EU. In the negotiations with the Balkan States, the EU made an SAA with a Balkan country conditional on that country having a free trade agreement with any other Balkan country that had a SAA with the EU. Such regional integration was not the Balkan countries' prime objective; but the EU made it clear that it was the price they had to pay for closer economic integration with the EU. Here, too, conflict resolution is necessary to avoid conflict contagion.

More than regional free trade is necessary to resolve this particular conflict. Greater incentives (both carrots and sticks) must be provided to the partners so that they find it worthwhile to resolve conflicts. These rewards can take the form of assistance to refugees displaced by past conflicts and financial assistance aimed at specific projects of common interest. The EU started with the Coal and Steel Community, which placed strategic resources under common control. Water is a strategic resource in the Middle East. A Jordan River Valley Authority to increase the water resources shared by the four states could play a similar key role. Economic integration in this broad sense as part of the Barcelona Process can be an important part of conflict resolution.

### **3.2 Turkey's pivotal role**

Turkey, because of its geographically central location in the European Neighbourhood, can play a key role in conflict resolution in the region. A Mediterranean coastal state, it shares borders with the EU in the North and with Syria in the South and with Armenia, Azerbaijan and Georgia to the east. For historical reasons, it has special economic and political relations with States in both the Balkans and the Middle East. Consequently, it has the potential to act as a facilitator of compromise. As a candidate for EU accession Turkey, furthermore, has a strong self-interest in solving conflicts with its own neighbours since it cannot become an EU member with unresolved internal or external conflicts (as witnessed by the Balkan States).

Specifically, Turkey will need to normalize its relations with Armenia, including issues dating back to the Ottoman Empire. Armenia, in turn, has an unresolved conflict with Azerbaijan (Nagorno Karabakh), which Turkey supports. In addition, Turkey, in preparation for EU accession, can be expected to replicate any DCFTAs that the EU negotiates in the framework of the Eastern Partnership as well as of the Union for the Mediterranean.

Turkey has a great trading potential with its southern neighbours. Indeed, according to the estimates in Table 2, the effects on trade of the signed agreement with the EU are positive and significant and indicate that exports from Turkey to the EU have increased by 50 percent on average after the entry into force of the FTA (1996). Also the effects of the trade agreements signed with Mediterranean countries (Israel, Tunisia, Morocco, Egypt and Syria) are positive in terms of Turkey's exports. In particular, according to the estimates, Turkish exports to these Mediterranean countries increased on average by 80 percent<sup>25</sup> after the entry into force of the bilateral agreements (see Table A.2 for the specific dates).

Table 5 shows the specific effects for Turkish exports to each Southern Mediterranean country. In particular, Israel's imports from Turkey have quadrupled after 1997 ( $e^{1.388} - 1 = 3.01$ ), controlling for distance, common border, incomes and incomes per capita.

Turkey plays a key role for conflict resolution in the European Neighbourhood. How well it plays this role will influence its prospects for accession to the EU. Because of its complexity, due in part to Turkey's central role, accession will be a long process in which it will take time for all the pieces of the puzzle to fall into place.<sup>26</sup>

**Table 5. FTA effects on exports from Turkey to Southern Mediterranean countries**

IMPORTS	Morocco	Tunisia	Egypt	Israel	Syria
	Imports	Imports	Imports	Imports	Imports
<b>TURMED</b>	0.933*** (0.145)	0.533*** (0.169)	0.348** (0.153)	1.388*** (0.154)	0.269* (0.138)
<b>N of observations</b>	1144	1115	1162	1006	1112
<b>Year of Agreement</b>	2006	2005	2007	1997	2007

Note: Robust standard errors in brackets, \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ .

### 3.3 Summary

Both the existence of the Agadir Agreement and the lack of such an agreement between the core contiguous countries in the Middle East reflect the triumph of

<sup>25</sup> As before, the percentage is calculated from estimates in column 1 of Table 2 ( $e^{0.593} - 1 = 0.80$ ).

<sup>26</sup> A brief indication of these complexities is given in Gylfason and Wijkman (2010) and Böhler, Pelkmans and Selcuki (2012).

politics over economic rationality. Such a deep agreement should have started with contiguous States, including, e.g., Algeria and Morocco, Syria and Jordan, rather than Morocco and Jordan. The results reported by Egger and Larch (2007) suggest that significant benefits would emerge from an FTA between Egypt and Israel. The afore-cited studies illustrate the large gains from the FTA between Turkey and Israel.

Turkey can play a pivotal role in resolving conflicts in the European Neighbourhood. As an EU candidate country, Turkey has much stronger incentives to participate in conflict resolution than the non-candidates in the Southern Mediterranean. Can the EU provide sufficient incentives for this later group of countries?

#### **4. The EU's proposal to intensify the ENP is insufficient**

The dramatic events in the Mediterranean basin in 2011 caused the European Commission and the High Representative of the European Union for Foreign Affairs and Security Policy to present a document aimed at increasing the effectiveness of the European Neighbourhood Policy (ENP). In this document, COM (2011) 202, the main instruments of the ENP remain basically unchanged but some key instruments are added or strengthened with regard to the Mediterranean's southern coastal States: as before, closer economic integration is stressed as a means to raise living standards and resolve regional conflicts. Increased emphasis is placed on democratic governance and human rights in the Mediterranean. Economic and political reforms properly implemented are assumed to be mutually reinforcing and, therefore, to create a virtuous circle of cumulative causation.

Noting the "limited success" of the ENP to date, COM (2011) 202 proposes more ambitious goals for the Mediterranean partners, stronger incentives to reach these goals and more effective support for implementing reform. Important goals are to:

- Build deep and sustainable democracy.
- Strengthen civil societies (NGOs, political parties, trade unions) to ensure freedom of expression, association and assembly.
- Advance respect for minorities, women's rights and social justice by establishing a European Endowment for Democracy and a Civil Society Facility.
- Enhance EU involvement in solving protracted conflicts (Israel-Palestine, Morocco-Polisario over Western Sahara), including developing post-conflict reconstruction scenarios.
- Negotiate Deep and Comprehensive Free Trade Areas with willing and able parties. The BP States can integrate progressively with the EU's internal market by abolishing tariffs and non-tariff barriers and harmonizing regulations affecting trade in goods and services. The EU will "step up efforts to enhance the trade provisions" of the Association Agreements and give "select

neighbours the opportunity to enter into preparations for future DCFTA negotiations.” For this they must be WTO members and adopt far-reaching ‘key recommendations’ presented by the EC.

- Build effective regional partnerships to strengthen the regional dimension in the ENP.

These objectives are familiar from the Eastern Partnership, where their implementation met with initial difficulties. They have been used significantly less vis-à-vis the Mediterranean partners in the past. Until now this difference in degree has been so large as to constitute a difference in kind between the EaP and the Barcelona Process, especially now that several countries in the EaP have overcome initial problems and are negotiating DCFTAs with the EU as of mid-2012. This EU proposal to place greater importance in the future vis-à-vis the Southern Partners will make the two ‘partnerships’ more balanced. But it will also have important financial consequences for the European Union, significantly raising the costs of the ENP.

The means to achieve more ambitious goals for the Mediterranean countries are correspondingly more ambitious. They include the following:

- Extending the Comprehensive Institution-Building programme to the Mediterranean partners. This is a major and costly initiative by the EU. It is essential if the goals of deep democracy and deep economic integration are to be achieved in reasonable time. This will require major financial and technical assistance over a prolonged period of time.
- Revitalising the Union for the Mediterranean (UfM). A key requirement for success, this ‘revitalisation’ involves allowing the High Representative and the Commission to give greater political guidance to the UfM and applying a more country-specific and results-oriented approach.

The UfM Secretariat must act as a catalyst and bring the different actors together “in concrete economic projects of strategic importance.” Examples of suggested projects are School Cooperation, University Partnerships and University Modernisation, SME assistance, rural and agricultural development, solar energy exports, and sub-regional cooperation. Budget constraints will require clear focus on a limited number of projects. For the Secretariat to be a driving force for change, it would appear necessary to staff it with temporary professional experts rather than with seconded civil servants whose loyalty lies with their national governments. It would also appear necessary to reconsider the current structure with two co-chairpersons of the UfM secretariat. Co-ownership can also be achieved with a rotating single chairperson.

In short, one year after its presentation, COM (2011) 202 has been overtaken by events. As the pace of change quickens and windows of opportunity open and shut, it

provides too little, too late. Significantly increased resources for institution building and effective reform of the UfM secretariat are necessary to assist the Southern Mediterranean States to go through a democratic transition in the same short period as did the East and Central European countries after 1989. Without the political and popular determination of the Southern Mediterranean partners to implement systemic change, EU support will be to no avail. More carrots and sticks in managing the ENP are necessary. This will involve:

- Stronger political steering of the Action Plans.
- Fewer and clearer priorities in the ENP Action Plans with better sequencing of the priorities.
- More precise benchmarks for fulfilment of priorities in order to assess progress.
- Greater rewards for fulfilment of priorities; the principle of “More for more”.
- Continued support conditional upon success, especially in transition to democracy and shared values.
- Additional and effective financial support from EU and multisource funds (mobilization of resources from Member States and international financial institutions).

## 5. Conclusions

This paper has focused on one particular incentive: whether potential trade between countries in the Union for the Mediterranean is sufficiently large to predispose countries to normalise relations and settle regional conflicts. We have noted that incomplete commodity coverage and incomplete country coverage together with a widespread preference for shallow rather than deep trade liberalisation have limited realisation of the full economic potential of freer trade until now. In particular, major unrealised economic gains appear to lie in deep economic integration between contiguous core countries of the Middle East and much freer trade in farm products between countries north and south of the Mediterranean. Realising these gains requires systemic changes in countries south of the Mediterranean. These changes are so far-reaching that they will require major technical and financial assistance from countries north of the Mediterranean. We have also noted the key role that Turkey as a candidate country can play as a bridge between the EU and both Eastern Partnership and Barcelona Process countries.

Ultimately only emancipated voters in the Southern Mediterranean countries can bring about the systemic change that is necessary for closer integration of the Southern Mediterranean coastal states with each other and with the EU. However, the EU can provide strong incentives for their governments to do so. One such *economic* incentive is truly deep and comprehensive free trade agreements with the EU for those



neighbourhood partners that have deep and comprehensive agreements with each other. One such *political* incentive is the prospect of a European Neighbourhood Community, as vaguely proposed by the EU, encompassing the EU and those Southern Mediterranean countries that choose to participate.<sup>28</sup> The EU needs to formulate precisely what that institutional framework implies for increased economic and political integration of the Southern Mediterranean States both with each other and with the EU. Such institutional anchoring could be a strong incentive to encourage resolution of long festering conflicts.

We conclude that the ENP is in need of greater efficiency, stronger leadership and larger resources in the future to play a catalytic role. The ideas presented in the EU document need to be further developed to ensure this. However, it is easier to formulate new policies than to implement them. The proof of the pudding will be in the eating.

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<sup>28</sup> The institutional framework for the European Neighbourhood Community bears a similarity to the European Economic Area negotiated with the EFTA States.

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## Appendix

**Table A.1. Data Description**

Variables	Description	Measure	Data Source
<b>Dependent Variable</b>			
Total Imports (M)	MENA total imports from the 64 economies that represent 90% of their total imports	In thousand dollars SITC.rev3	COMTRADE (United Nations Commodity Trade Statistics Database)
Total Exports (X)	MENA total exports to the 64 economies that represent 90% of their total exports	In thousand dollars SITC.rev3	COMTRADE
Food Imports (M)	MENA food imports from the 64 economies that represent 90% of their total imports	In thousand dollars SITC. rev3 (Product codes: 0, 1, 22 and 4)	COMTRADE
Food Exports (X)	MENA food exports to the 64 economies that represent 90% of their total exports	In thousand dollars SITC. rev3 (Product codes: 0, 1, 22 and 4)	COMTRADE
Industrial Imports (M)	MENA industrial exports to the 64 economies that represent 90% of their total exports	In thousand dollars SITC. rev3 (TOTAL-FOOD-FUEL (Code 3 SITC. rev3))	COMTRADE
Industrial Exports (X)	MENA industrial exports to the 64 economies that represent 90% of their total exports	In thousand dollars SITC. rev3 (TOTAL-FOOD-FUEL (Code 3 SITC. rev3))	COMTRADE
<b>Independent Variable</b>			
Y	GDP	PPP current thousand US dollars	World Development Indicators
Y/P	GDP per capita	PPP current thousand US dollars	World Development Indicators
DIST	Distance between country <i>i</i> and country <i>j</i>	In kilometres	CEPII Database
BOR	Dummy variable which equals 1 if country <i>i</i> and country <i>j</i> have a shared border	Dummy	CEPII Database
LAN	Dummy variable which equals 1 if country <i>i</i> and country <i>j</i> have the same official language	Dummy	CEPII Database
COLONY	Dummy variable which equals 1 if country <i>i</i> and country <i>j</i> have ever had colonial ties	Dummy	CEPII Database
FTA	See Table A.2. List of FTA Agreements and country members		

**Table A.2. List of FTA Agreements and country members**

<b>FTA</b>	<b>Country (i)</b>	<b>Year (t)</b>	<b>Country (j)</b>
<b>EUmed</b>	Tunisia Israel Morocco Jordan Egypt Algeria Lebanon	1998 2000 2000 2002 2004 2005 2006	Since 1995: Belgium, Germany, France, Luxemburg, Italy, Netherlands, United Kingdom, Ireland, Denmark, Greece, Spain, Portugal, Austria, Sweden and Finland. (UE15)  Since 2004: Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovak Republic and Slovenia. (UE25)  Since 2007: Rumania and Bulgaria. (UE27).
<b>EFTAmcd</b>	Turkey Israel Morocco Jordan Tunisia Lebanon Egypt	1992 1993 1999 2002 2005 2007 2007	Iceland, Liechtenstein, Norway and Switzerland
<b>USAmcd</b>	Israel Jordan Morocco	1985 2001 2006	United States
<b>TURmed</b>	Israel Tunisia Morocco Egypt Syria	1997 2005 2006 2007 2007	Turkey
<b>PAFTA (GAFTA)</b>	Egypt Tunisia Morocco Jordan Libya Lebanon Algeria Syria	1998 1998 1998 1998 1998 1998 1998	Arabia Saudi, Algeria, Egypt, Arab Emirates, Iraq, Libya, Jordan, Kuwait, Lebanon, Morocco, Syria and Tunisia.
<b>ISR</b>	Israel	1997 2000	Canada Mexico
<b>JORSGP</b>	Jordan	2005	Singapore
<b>AGADIR</b>	Morocco Jordan Egypt Tunisia	2006 2006 2006 2006	Morocco, Jordan, Egypt and Tunisia.

**Table A.3. Country list**

ARE	1	United Arab Emirates	JOR	34	Jordan
ARG	2	Argentina	JPN	35	Japan
AUS	3	Australia	KOR	36	Korea, Republic of
AUT	4	Austria	KWT	37	Kuwait
BEL	5	Belgium	LBN	38	Lebanon
BGR	6	Bulgaria	LBY	39	Libya
BRA	7	Brazil	LTU	40	Lithuania
CAN	8	Canada	LUX	41	Luxembourg
CHE	9	Switzerland	LVA	42	Latvia
CHL	10	Chile	MAC	43	Macao
CHN	11	China	MAR	44	Morocco
CYP	12	Cyprus	MEX	45	Mexico
CZE	13	Czech Republic	MLT	46	Malta
DEU	14	Germany	NLD	47	Netherlands
DNK	15	Denmark	NOR	48	Norway
DZA	16	Algeria	NZL	49	New Zealand
EGY	17	Egypt	POL	50	Poland
ESP	18	Spain	PRT	51	Portugal
EST	19	Estonia	ROU	52	Romania
FIN	20	Finland	RUS	53	Russian Federation
FRA	21	France	SAU	54	Saudi Arabia
GBR	22	United Kingdom	SGP	55	Singapore
GRC	23	Greece	SVK	56	Slovakia
HKG	24	Hong Kong	SVN	57	Slovenia
HUN	25	Hungary	SWE	58	Sweden
IDN	26	Indonesia	SYR	59	Syrian Arab Republic
IND	27	India	THA	60	Thailand
IRL	28	Ireland	TUN	61	Tunisia
IRN	29	Iran	TUR	62	Turkey
IRQ	30	Iraq	UKR	63	Ukraine
ISL	31	Iceland	USA	64	United States
ISR	32	Israel			
ITA	33	Italy			