Challenges of Deepening EU Free Trade Agreements with Southern Mediterranean Countries

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Abstract**[2]**: *Over the past decade the European Union concluded dozens of free trade agreements. These agreements are aimed at more than removing barriers to trade in goods; in a much broader context they also regulate other trade-related issues. Their purpose is to enhance the competitiveness of the Europe Union and to provide markets and investment opportunities for European companies. The EU offers so-called Deep and Comprehensive Free Trade Agreements (DCFTA) to neighbourhood regions, including the Southern Mediterranean area. The agreements would help the countries concerned to transform their legal system along European patterns so that they would essentially be integrated into the single market and become competitive growing economies. The EU would benefit from the resulting decrease in security risk from the concerned countries. Although in an optimal case DCFTAs indeed have a positive effect on the integration of Southern Mediterranean countries into the global economy, for the time being the risks seem to be greater than the benefits.*

Keywords: *European Union, Southern Mediterranean, free trade agreement, trade policy, DCFTA*

JEL: *F13, F15, F63*

Introduction

From the very beginning, trade policy has played a crucial role in the European integration. The European Economic Community created a customs union among the member states, which called for the unification of national trade policies with third countries. Getting into the single European market – a market constantly growing in importance – was a strong attraction for every country, and the European Union strove to provide its producers the best possible access to markets outside its borders. Consequently, trade policy has become one of the most crucial components of promoting EU's external interests.

The European Union (both the member states and the union) has been involved in multilateral trade negotiations from the outset, yet a wide array of special bilateral trade agreements have been applied in its external relations (Gstöhl – de Bièvre 2018: 177). They include closer bilateral association and free trade agreements signed with neighbouring countries, as well as sets of agreements providing preferential trade

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options to former colonies in Africa, the Caribbean and the Pacific region. Since the 2000s, when it became increasingly clear that trade liberalisation in the context of the WTO had come to a deadlock, the EU has gradually put a greater emphasis on bilateral free trade agreements as the way forward towards trade liberalisation. This form of bilateralism and regionalism gaining popularity is nothing new for the EU. However, these agreements have recently become central components of the EU's global presence. Not only do they serve for trading purposes but in a wider sense they are vehicles for the promotion of the EU's interests and values (Griller et al., 2017: 14).

For a long time, the EU's FTAs only pertained to industrial products and bypassed agricultural goods which enjoyed strong protectionism. However, fundamental changes started in the late 1990s also in this respect. As more and more areas related to trade were involved in international regulation within the WTO, so did FTAs, going beyond simple tariff elimination. Concluding comprehensive agreements with the EU's neighbouring countries has been on the agenda. As the agreements also involve significant (predominantly unilateral) regulatory approximation, they are termed 'deep' in addition to comprehensive.

In what follows, first we provide an overview of the system and functioning of the free trade agreements of the EU: how the number of countries that signed FTAs with the EU have been increased, and why and in what extent the scope of these agreements has been deepened. The next parts discusses the EU's relation with the Southern Mediterranean countries with a special focus on trade relations and on the impact of FTAs concluded in the late 1990s with the countries of the region. Finally, we will examine the opportunities the new DCFTA-type agreements offered to countries of the Southern Mediterranean region, and also the risks involved.

First generation free trade agreements

Many of the EU's so-called first generation preferential trade agreements were concluded before the turn of the millennium. They differ from the more recent agreements in both goals and content. FTAs are a form of bilateral or regional trade pacts regulating the tariffs and duties that countries impose on imports and exports in order to dismantle trade barriers. Unlike customs unions, which determine identical external tariffs with regard to trade with non-parties, an FTA only eliminates tariffs and duties in respect of trade between the signatories.

The first FTAs included those signed with the EFTA countries (Norway and Switzerland) in the 1970s, FTAs signed in the context of Euro-Mediterranean Association Agreements in the 1990s, and also the agreements signed with Mexico (2000) and Chile (2003), and with the Western Balkan countries (2001 and 2016). The customs union with Turkey (1995) is an agreement similar in terms of free movement of goods but is very different in several important respects.

The free trade agreements with the EEC and the EFTA states were signed in 1977, after the accession of the United Kingdom and Denmark. It eliminated tariffs on industrial goods in trade. After the creation of the European Union in 1992, the European Economic Area was established, creating a free trade zone for the EU member states and non-EU member EFTA states (currently Norway, Iceland and

Liechtenstein) that enabled free movement of goods, services, labour and capital. According to the EEA Agreement, in order to have free access to the EU's single market non-EU states must unilaterally adopt and implement most EU legislation concerning the single market, and pay a financial contribution to strengthen social and economic cohesion. The EEA Agreement does not cover agriculture and fisheries. Although some agricultural products are subject to preferential trade arrangements and food hygiene legislations have been harmonised, these areas still fall outside the scope of the EEA[3].

The Euro-Mediterranean agreements of the 1990s replaced the unilateral preferential trade agreements concluded with the Southern Mediterranean countries in the 1970s. The FTAs signed as part of the association agreements also covered industrial goods and often extended unilateral preferences to Mediterranean states[4].

Countries of the African, Caribbean and Pacific (ACP) region have been the oldest preferential areas in the EU's trade policy. Under the Yaoundé and the Lomé Conventions the EEC extended unilateral preferences to ACP countries by asymmetrically eliminating tariffs on industrial goods. In 2000 the Cotonou Agreement created a new approach to cooperation, which meant the beginning of the economic partnership agreements (EPAs).

While the EPAs signed with the ACP countries are free trade agreements, they are essentially focused on development, containing numerous asymmetries to enable ACP countries to protect their markets in a variety of areas. The goal of the agreements is to promote the integration of the ACP countries into world economy by fostering regional and global trade relations. Although these agreements are also comprehensive, covering services and other areas related to trade, this aspect has only been realised with the Caribbean countries; its incorporation in the agreements is subject to further negotiations with the other countries. Complete liberalisation is envisioned after a period of transition of 15 to 25 years, so the full impact of the agreements will manifest gradually. Despite the long run-in period, some of the ACP countries are concerned about the expected drop in their governments' income (Murray-Evans 2019)[5].

The EU concluded stabilisation and association agreements (SAAs) with the Western Balkans in the context of the Stabilisation and Association Process. The SAAs include free trade agreements as well as an extensive set of terms for harmonisation and cooperation as each of the Western Balkan countries concerned is aspiring at the ultimate goal of full EU membership. Accession negotiations are in progress with Montenegro and Serbia and are expected to start soon with Albania and North Macedonia. Bosnia and Herzegovina and Kosovo are currently striving to stabilise their respective statehood.

Concluded in 1995, the EU-Turkey Customs Union Agreement differs from FTAs in that Turkey unilaterally applies the EU's tariffs in respect of third countries.

[3] Switzerland has not ratified the EEA Agreement but concluded a bilateral FTA with the EU with a similar content including agreements on the free movement of services, labour and capital.

[4] These agreements and their impacts will be discussed in greater detail in subsequent chapters of this paper.

[5] This may be considerable primarily in the case of West Africa. EPAs are concluded on a regional basis and the EU urges the countries of each region to sign similar agreements with each another. The seven regional blocs – five African, one Caribbean and one Pacific – comprise 51 countries. http://www.europarl.europa.eu/RegData/etudes/BRIE/2018/625102/EPRS_BRI(2018)625102_EN.pdf

In addition, Turkey aligned its domestic legislation with the acquis communautaire in several essential trade-related areas (such as, for instance, the regulation of competition). The customs union covers industrial goods; agriculture and services are excluded. While the EU-Turkey customs union gave an impetus to the liberalisation of the Turkish economy and enhanced its competitiveness, only the hope of ultimate EU membership made the costs and curtailing of trade policy sovereignty bearable. With the chances of accession on the wane, Turkey is less and less interested in maintaining the customs union agreement in its current form (Szigetvári, 2014). Re-negotiation of the agreement was on the agenda, mainly with a view to expand its scope, but the EU suspended the procedure in the wake of the political processes in Turkey.

Mexico was the first Latin American country to sign an FTA with the EU. The agreement entered into effect in 2000 and covered the free trade of services as well as goods. Chile signed an association agreement with the EU in 2002 with a similar content. Although they belong to the first generation of free trade agreements, they contain some of the components that would appear in subsequent FTAs (e.g. services and investment protection).

New generation of free trade agreements

Changes in global trade have called for reshaping trade-related regulations. At WTO level, international trade liberalisation had been expanded to a number of new areas, but multilateral processes slowed down because of new contentions (arising primarily between blocs of developed and developing countries). Responding to these trends, the EU has moved to a new generation of bilateral FTAs in accordance with its 'Global Strategy' and privileged the interests of European companies (Siles-Brügge 2014: 9). The new agreements provided for many other areas besides trading in goods, such as services, intellectual property, investments, public procurement, the energy sector, raw materials, as well as competition law, public companies, and regulatory cooperation. In addition, many of the agreements contain principles to foster sustainable development and human rights, and more recently, anti-corruption and priority treatment of SMEs. By investment contracts – for the sake of enforceability - interstate settlement of disputes has been preferred to the old investor vs. State dispute settlement system. Most FTAs signed after 2006 fall in the category of new generation agreements. They include the agreements with South Korea, Colombia, Peru, Central America and Canada. While the content of the agreements is different, they cover most of the important new areas mentioned above.

Besides their mercantile focus, the agreements are meant to expand EU interests on a global scale. According to the EU's trade strategy, trade policy is aimed at enhancing the EU's competitiveness and growth, creating jobs and investments, and boosting innovation. At the same time, it must be in harmony with the EU's external policy principles and goals (e.g. development policy and neighbourhood policy), as well as with the social model and values of the Union (Meissner 2018). Supporting development, ensuring employees' rights, human rights protection, sustainability, climate protection, and, as the case may be, the requirement of a democratic political system also feature in these agreements. It is conspicuous that the EU uses its strongest 'weapon', trade policy agreements, to globally enforce the values to which it subscribes. Of course the question is to what extent often contradictory economic interests and European values can be reconciled through these agreements. Simultaneous achievement of these goals is by no means easy and in many respects, impossible.

The so-called Deep and Comprehensive Free Trade Agreement (DCFTA) is similar to comprehensive free trade agreements but creates deeper relations. DCFTAs cover industry, agriculture and services, and also include extensive convergence towards EU standards in areas related to trade. Offered to neighbouring countries, DCFTAs practically make the countries concerned part of the single European market, as the neighbouring state is required to enshrine the EU's market regulations (regulation of competition, standards, trade regulations, etc.) in its own legislation.

DCFTAs have been concluded with the three Eastern Partnership states, Ukraine, Georgia and Moldova. Armenia was also involved in similar negotiations but eventually opted for the Russian-led Eurasian Economic Union[6]. In December 2011 the Council offered to negotiate DCFTAs with the four Southern Mediterranean countries most advanced along to road to strengthening trade relations: Jordan, Egypt, Morocco and Tunisia.

Although the DCFTA model of relations is relatively new, some impact studies have already analysed the benefits and costs of these agreements (e.g. Adarov-Havlik 2016, Hoekman 2016). On the whole, the impact of DCFTAs is positive but there are significant differences between countries (Georgia, Moldova and Ukraine). The strongest positive effect is the expansion of exports; conversely, up until now there has been not much change in FDI.

Trading with these countries has changed noticeably and the EU's share in trade has increased – albeit currently this share is large only in Moldova (approximately 70% thanks mainly to Romania and Italy), and still relatively low in Georgia and Ukraine (30-35%)[7]. It is also evident, that political factors (notably, deteriorating relations with Russia) are in the background of engagement with the EU, and the actual economic rationale is sometimes weaker. At the same time, constraints (i.e. the shrinking Russian market) also generated positive incentives to modernise the economic structure and strengthen the competitiveness of exports. Structural changes are conspicuous in some areas: the beverages (wine) sector in Moldova that contributed 30% to exports in the early 2000s slumped below 10% and the share of the machine industry (auto parts) grew from less than 1% to over 10% (Adarov – Havlik, 2016). After 2008 Russia's boycott led to falling wine exports also in Georgia after 2008, but by now the sector recaptured its earlier share. In Ukraine, where the ramifications of political factors are most keenly felt, the transformation gained momentum after 2014. Finding new markets is exacerbated by the fact that the bulk of machine and heavy industry is concentrated in East Ukraine where Russian markets are still preferred over the EU.

In what follows we provide an overview of Euro-Mediterranean trade relations. We review their history and attempt to forecast the future impacts of the DCFTAs

[6] With its significant military and economic influence in the country, Russia pressed Armenia to join.

[7] Data based on Eurostat trade statistics, from https://ec.europa.eu/eurostat/web/international-trade-in-goods/data/database

contemplated by the EU.

The EU and the Southern Mediterranean region

The new regionalism gaining ground in Europe from the 1990s forced many developing countries to seek free trade agreements with the developing countries that were their main trading partners. Many thought these trade integrations could lay the foundations for economic growth in the developing countries: better access to export markets would stimulate domestic competition, which in turn would drive economic modernisation. Moreover, as these economies become increasingly attractive targets for investment, the influx of FDI would promote their integration into the global economy. This position has been shared by EU policymakers: according to the dominant rhetoric free trade facilitates economic development in the region, which is good for the EU's security (Langan 2015). But even the official rhetoric reflects a dual approach nurtured by realism and idealism: the EU supports the development of neighbouring regions and their integration into the globalised economy (idealism), but the main motivation of this effort is ensuring the EU' own security (realism).

Created in 1995, the Euro-Mediterranean Partnership (EMP) provides a framework for the EU to conclude Association Agreements (AAs) with the Southern Mediterranean countries[8]. The EMP was built upon three pillars: political, economic and cultural cooperation. The economic pillar of the association agreements gave rise to FTAs with the individual countries rather than the region, so the originally envisioned Euro-Mediterranean Free Trade Area has never actually been created.

A closer look at the trade relations of the Southern Mediterranean countries and the EU over the past period reveals that the high expectations of FTAs' positive impacts have not been fulfilled. (Table 1)

Table 1. EU28 trade with Med11[9] (2007-2018)

	Imports		Exports		Balance
	million euro	% of extra-EU	million euro	% of extra-EU	million euro
2007	134,784	9.3	124,221	10.1	–10,563
2008	151,654	9.6	137,495	10.5	–14,157
2009	107,265	8.7	121,239	11.1	13,974
2010	133,333	8.7	150,714	11.1	17,381
2011	132,237	7.6	161,916	10.4	29,680
2012	155,499	8.6	175,207	10.4	19,707

8 AAs are in force with Tunisia (1998), Morocco (2000), Israel (2000), Jordan (2002), Egypt (2004), Algeria (2005), Lebanon (2006) and Palestinian National Authority (1997, interim agreement). The AA with Syria has yet to be signed and ratified, and no AA has been concluded with Libya.

9 Eurostat statistics use the aggregate Med11 for Southern Mediterranean countries, including also Turkey

2013	146,480	8.7	179,427	10.3	32,947
2014	139,396	8.2	177,494	10.4	38,098
2015	133,608	7.7	184,987	10.3	51,378
2016	131,942	7.7	186,244	10.7	54,302
2017	148,318	8.0	194,194	10.3	45,876
2018	163,113	8.2	187,260	9.6	24,147

Source: Eurostat

The region's position in bilateral trade has markedly deteriorated: after a positive trade balance achieved by the Southern Mediterranean region up to 2008, from 2009 bilateral trade was characterised by increasing EU dominance, a trend that only stopped in the last two years. A reason for the negative trend was the EU's significantly declining import demand, which also hit the Mediterranean EU countries. In addition, the Arab Spring and subsequent political events slashed exports in Tunisia, Egypt, Libya and Syria. Declining oil prices on the world market also had a detrimental effect on the region's earnings from exports. Nevertheless, while oil exports to the EU fell from 66 billion to 28 billion euros between 2013 and 2016, total EU exports dropped only by 15 billion euros, which means export of some other products achieved growth. There was a rise in the amount of foodstuffs exported (from 9.1 billion to 11.3 billion euros), and in the processing industry (from 70 billion to 88 billion) machine and transport industries became pull branches (growing from 28 billion to 40 billion). The main driver of the Mediterranean export growth that started after 2016 was skyrocketing Libyan oil export[10].

Table 2. The trade of Mediterranean countries with the EU28 (2007 and 2018)

	Imports from the EU-28 million euro		Exports to the EU-28 million euro	
	2007	2018	2007	2018
Algeria	11,270	18,911	20,585	20,990
Egypt	10,343	19,210	7,039	8,502
Israel	14,299	20,785	11,343	13,609
Jordania	2,654	3,573	221	300
Lebanon	3,376	7,216	309	513
Libya	4,228	4,521	27,401	16,785
Marocco	12,380	23,250	8,115	16,071
Palestine	46	243	14	18
Syria	3,273	655	3,387	107

[10] The value of Libyan oil exports is still well under the 2007 level, see https://www.ceicdata.com/en/indicator/libya/crude-oil-exports

Tunisia	9,552	11,634	8,991	10,139
Turkey	52,830	77,262	47,378	76,079

Source: Eurostat

It is to be noted that the designation EuroMed 11 used in EU statistics includes Turkey, a country that stands out within the region in terms of bilateral trade, and also Israel, another country with a totally different export structure including mainly processing industrial, often high-tech, products.

Trading in services generates a positive balance for the Southern Mediterranean countries primarily thanks to tourism, but the surplus is way below the deficit in the trading of goods and does little to offset the deficit in overall trade with the EU. In addition, in recent years the Mediterranean surplus in the trade of services has shrunk as tourism has been declining as a result of the political instability in the region.

Table 3. Main trade partners of Mediterranean countries[11]

Partner	Imports, bn Euro	Share percent	Partner	Exports, bn Euro	Share percent	Partner	Trade bn Euro	Share percent
World	417.2	100.0	World	247.5	100.0	World	664.6	100.0
1. EU-28	173.4	41.6	1. EU-28	120.2	48.6	1. EU-28	293.6	44.2
2. China	60.0	13.2	2. USA	28.4	11.5	2. China	61.4	9.2
3. USA	27.2	6.5	3. UAE	8.1	3.3	3. USA	55.6	8.4
4. Russia	22.2	5.3	4. Iraq	7.8	3.2	4. Russia	24.7	3.7
5. S-Korea	12.6	3.0	5. China	6.4	2.6	5. India	16.6	2.5

Source: Eurostat

The most important trading partner of the Med 11 countries is the European Union: 41.6% of imports come from the EU 28, and 48.6% of exports are directed to the EU 28 member states. Considering the entire volume of trade, the EU is by far the most important trading partner of the region (44.2%), way ahead of China (9.2%) and the United States (8.4%). However, there are major differences within the region: while the EU contributes 60-80% to trade in Morocco and Tunisia, Egypt realises only 40%, and Jordan less than 20% of its trade with the EU.

It seems evident that trading with the European Union is vital for the Mediterranean states, primarily the North African countries. It is also beyond doubt that these countries would be unable to develop without strengthening their relations with the EU. Whether the EU also has a true economic interest in the Southern Mediterranean economic development is less evident. On one hand, as we have seen, the Southern Mediterranean region makes only a minor contribution to the EU's external trade; on the other hand, based on the current rate of economic growth, the region does not seem to offer particularly inviting prospects. The European Union is already the primary trading partner of the Mediterranean and mainly the Maghreb

[11] Based on 2015 data.

countries. The EU could only increase its already high export to the region if these countries achieved economic growth.

Impacts of the Euro-Mediterranean free trade agreements

In what follows we give an overview of the effects of the FTAs concluded in the framework of Euro-Mediterranean Association Agreements on the Southern Mediterranean economies, exploring whether they have contributed to economic growth; and if not, why the extent of positive developments fell short of expectations.

One of the limitations is that free trade only concerns industrial goods, while agriculture – a sector crucial for the Southern Mediterranean countries – has been left out of the agreements. Admittedly, it was not only the EU that wanted to promote the interests of its southern member states (i.e. making sure that it is the agricultural products of the member states that have access to the internal market whilst external countries only play an ancillary role), the Southern Mediterranean countries also shied away from liberalising their heavily subsidised agricultural markets (López et al 2013: 17). Although the EU signed agreements with most countries to facilitate the access of certain agricultural products to the internal market, the impact of these agreements were limited (and their scope could be easily modified).

In addition, the EU market had already been open for the industrial products of most Southern Mediterranean countries as earlier bilateral agreements had ensured unilateral access to markets for many products (in accordance with the GATT GSP). It is true that the so-called sensitive industries, for instance textile and apparel, were subject to special regulations. Mediterranean textile manufacturers could export to the EU up to the quotas granted earlier, but the system was gradually phased out because of the new regulations adopted at the GATT Uruguay Round (Kheir-El-Din – Abdel-Fattah 2000). The quota-based previous Multifibre Agreement (MFA) was beneficial for small textile producers such as Tunisia and Egypt, providing them specific quotas, which meant these countries were not pushed out of the market by more competitive textile exporters (China, India, Pakistan and Bangladesh).

As it can be seen, the Euro-Mediterranean agreements have not bought a major positive change for the southern states. FTAs generated no breakthrough in the main export areas where the Southern Mediterranean countries would be competitive; in fact, changes in the multilateral regulation actually made their opportunities worse (De Ville – Reynaert 2010: 5). Also, protected earlier by high safeguard duties, the domestic industry of the southern countries must face stronger European competition. In order to give a chance for domestic economic actors to become stronger and prepare for keener competition, under the Euro-Mediterranean agreements protective duties were dismantled very gradually in the most affected industries, mainly those producing consumer goods (as slowly as over 15 years). The intended goal was for Mediterranean producers to achieve greater efficiency through rationalisation and modernisation so that as a result they would be able to compete with European products. However, despite their favourable geographic location, the Southern Mediterranean businesses have not managed to become integrated into the global value chains of multinational companies, and are hardly successful on their own. Still, there are a few positive examples in Tunisia, Morocco or even Egypt, but they are exceptions rather than the general rule (Del Prete et al. 2016: 265).

The above factor shows that free trade and closer economic integration with the EU has not really made the Southern Mediterranean region more attractive to foreign direct investment. The impact that propelled the Central and East European countries towards modernisation built upon FDI from the 1990s until the early 2000s never materialised in the Southern Mediterranean region.

The influx of capital was hindered, inter alia, by the bilateral nature of the agreements – in other words, the comprehensive Southern Mediterranean free trade area has not really been created. Missing agreements between the southern countries hampered real free trade, and the result of the so-called hub-and-spoke effect is that the EU remains a much more attractive investment target than the partner countries (Ülgen 2011: 19). After the 2004 Agadir Agreement Morocco, Tunisia, Egypt and Jordan started to remove barriers in bilateral trade and made progress towards free trade, but the process is slow, and the complicated rules of origin used under the Agreement exacerbates it. Intraregional trade has been rather low to date, contributing a mere 2.2% to the total trade of the region and there is even less trade between Maghreb and Mashreq countries. Current relations are primarily at subregional levels.

Besides (or rather instead of) private capital the EU tried to promote the economic development of its Southern Mediterranean partners through development aids. Between 1979 and 2013 a total of 16 billion euros were deployed in development aids to the region, in the context of various institutional financial schemes as well as bilateral support mechanisms (Ayadi and Gadi 2013). After 1995, the rate of funds allocated to the region has decidedly risen showing the EU's increasing interest; however, there are conspicuous differences between the countries in this respect, too. The differing priorities of the EU member states were also clear. Southern member states (Spain, Italy, and partly France, Greece and Portugal) basically pushed for a 'protectionism + more support' type solution as an influx of competitive Southern Mediterranean agricultural produce and products was contrary to their interests, and their exports to these countries were not high; at the same time, themselves being beneficiaries, the EU's support to (infrastructure and environmental) investments was important for them. Northern member states have traditionally supported free trade because of their industrial (and agricultural) exports, but they are less interested in pouring in massive financial support. Thus, interests within the EU are contradictory in respect of the two main areas (open trade and size of support) (Kourtelis 2015).

Among the Mediterranean countries Tunisia's economy was best prepared for the FTA. Yet even in Tunisia the impact was not entirely positive, as manifested in the demonstrations at the end of 2010 that triggered the Arab Spring. The lack of success can partly be imputed to defects in the Tunisian economic policy, although admittedly the international organisations and the EU endorsed the enforcement of strict fiscal and exchange rate policy instead of strengthening competitiveness and the potential for economic growth. Other reasons include poor tax collection on income from both capital and wages, neglecting public procurement project that would facilitate external and domestic capital investment, ignoring the need to develop a transparent competition policy, and excessively complicated administration of foreign trade transactions (Chemingui - Bchir 2012: 113).

The lack of success of the European model of economic cooperation built on free trade in the Southern Mediterranean countries also has other reasons. They include the political instability of the Mediterranean region, the EU's weaker commitment due to the internal crises, absence of the liberalisation of services, and non-harmonisation of regulations (Borrell-Porta 2012: 15). These factors gave rise to the idea that renewing and deepening the agreements could enhance the positive impacts of free trade.

DCFTA and the Southern Mediterranean countries

The events of the Arab Spring strengthened the European Commission's resolve to revamp the European Neighbourhood Policy (ENP). One of the possible solutions for intensifying economic relations was the DCFTAs – deeper and more comprehensive free trade agreements than the existing ones. DCFTAs go far beyond the standard free trading in industrial goods; they cover agriculture as well as services, and involve extensive regulatory approximation, meaning the partner countries are expected to align their practices and norms with the relevant elements of the EU's common market regulations (provisions relating to competition and trade, standards, etc.). As a result, the partner countries' integration into the European Economic Area is expected to be much closer than under the earlier FTAs. In 2014 the EU concluded DCFTAs with three countries of the Eastern Partnership: Ukraine, Georgia and Moldova.

As mentioned above, due to the limited information available on the already concluded agreements it is difficult to assess the DCFTAs' effectiveness as yet. Different conditions and environments would in any case make comparability difficult. DCFTAs can certainly be forward-looking in that they prescribe a much stronger requirement of modernisation to the partner countries, and regulatory harmonisation would strengthen the partners' attraction of capital, and would enable them to be integrated into international production networks. On the other hand, it is questionable whether there is a legitimate need for unilateral approximation which involves partial relinquishing of sovereignty. The EU concludes new type agreements with non-neighbour countries (e.g. Canada), and they cover services without, however, the requirement of alignment with the acquis (Hoekman 2016: 13). Furthermore, the DCFTAs greatly increase differentiation. While this has recently become a definite endeavour of the ENP, its effects are dubious. Will the other countries perceive differentiation as a pull factor? Also, while the Eastern Partnership countries, being European, have the hope of full EU membership at the end of the difficult and costly obligation of harmonisation necessitated by the DCFTA, this will not be the case with the Southern Mediterranean countries.

This fact notwithstanding, in December 2011 the Council offered to open DCFTA negotiations with the four best prepared Southern Mediterranean countries that had made the biggest progress in strengthening trade relations: Morocco, Tunisia, Egypt and Jordan. The offer can, to a large extent, be seen as a reaction to the 'shock' of the Arab Spring (van der Loo 2015: 1): while Tunisia and Egypt were directly concerned by the political changes rocking the region, the 'revolution' spared Morocco and Jordan, two constitutional monarchies with more stable political legitimacy.

The preliminary sustainability impact assessments (SIA) prepared for the European commission in 2013 and 2014 (Ecorys 2013a, Ecorys 2013b, Ecorys 2014a, Ecorys 2014b) analysed in detail the expectable economic, social, and environmental impacts of a DCFTA in the countries concerned. For example, the scenario developed for the DCFTA assumes that tariffs reduction on agricultural products between the EU and Tunisia will be 95% for Tunisian products entering the EU market and 80% for EU products entering the Tunisian market. As regards non-tariff measures, the potential impacts are assessed on a sectoral basis, and spill-over effects are also taken into account. The SIA concluded that a DCFTA could be successfully implemented with each of the four countries while also mentioned existing risks.

Comparing the four countries, it appears that Tunisia can realise the greatest economic benefit, with a long-term GDP growth of over 7%. Interestingly, the expected economic benefit of Morocco, the other economy with close ties to the EU, is far below the envisioned Tunisian figure. The SIAs also conducted sector-specific analyses and highlighted which sectors would benefit and which would lose out as a result of the DCFTA. Although the impacts are different in the individual countries, it food industry generally appears to be a loser. Conversely, the vegetables and the fruits sector as well as vegetable oils would be high-flying winners of the DCFTA in both Tunisia and Morocco. The textile and leather industries would generally fare poorly, but the Agreement would have highly positive impacts on machine industry and some other manufacturing and processing industries.

As regards the social pillar, the impacts are expected to be multifarious. In general, the beneficial effect on the GDP and national income would entail wage increases. In Egypt the SIA prognosticates increase for only the higher and medium income groups, and the effect of the DCFTA on the lower income population would be rather negative.

The EU offered the DCFTA to all four countries. Understandably, only Morocco and Tunisia showed interest as the economy and trade of these two countries have far closer ties with the EU, and for them, the prospect of greater integration and the single market are attractive propositions.

The DCFTA negotiations with Morocco were launched in 2013 but came to a halt after a few rounds due to trade-related political disagreements[12] which led to a serious deterioration of bilateral relations (van der Loo 2018). By 2019 the situation was resolved and currently the EU is working on the relaunch of negotiations. The DCFTA negotiations started with Tunisia in 2016, but there is a strong opposition on both sides. The EU's southern agricultural producers are against the free import of competitive Tunisian products, and Tunisia has serious concerns about the negative economic and social impacts of the agreement (Rudolf – Werenfels 2018).

The costs of regulatory approximation required by the DCFTAs are extremely high and could only be offset by surplus income of an economy that has become competitive and is able to fully exploit the benefit of access to the single European

[12] In its judgment entered in December 2015 the European Court of Justice ruled that bilateral trade agreements do not apply to goods imported from Western Sahara, a territory occupied by Morocco. In other words, the ECJ does not recognise Western Sahara as part of Morocco.

market. Based on past experience, the dynamic driver effect of free trade is highly questionable in regard of the Southern Mediterranean countries. This casts doubts as to whether the new model of deepening free trade is the best way to further develop relations between the EU and the Southern Mediterranean countries.

Conclusions

Changes in the global economic environment and international trade policies have boosted the popularity of bilateral trade agreements and enhanced their importance. As multilateral consultations in the framework of the WTO are flagging, the European Union concluded dozens of free trade agreements over the past decade. The growing protectionism of the United States has also reinforced this trend, and in addition to the agreements already in force (with South Korea, Canada and Japan) the EU has been negotiating free trade agreements (FTAs) with a number of countries and integrations (Australia, New Zealand and Mercosur), or contemplating it with other countries (India). Besides covering trading in goods, these agreements regulate and partly harmonise other trade-related areas. However, agreements concluded with neighbouring regions go even further. By imposing strong unilateral regulatory approximation, the DCFTA model strives to involve the countries concerned in the single market without actual accession, and to help them create competitive growth economies by transforming their legal systems along European patterns.

The European model of economic cooperation relying on free trade, applied by the EU vis-à-vis the Southern Mediterranean countries since the 1990s, did not prove to be a unanimous success. Although there are several other factors in the background, this is rooted in the limited nature of the Euro-Mediterranean agreements, the absence of liberalisation of trading in agricultural goods and in services, and the region's excessively bureaucratic environment hampering trade. Consequently, the EU now contemplates deepening free trade as the way to forwarding relations with other countries. Although in an optimal case DCFTAs can indeed facilitate the integration of the Southern Mediterranean countries into the global economy, for the time being risks seem to outweigh benefits. In the short term, the agreements involve massive costs which the EU could only partially shoulder. In the absence of ultimate EU accession the unilateral approximation of laws and regulations would lead to disproportionate burdens and unnecessary costs for the Southern Mediterranean countries.

Considering all these factors, there is a real danger that pushing through the DCFTAs with the Southern Mediterranean countries would result in counterproductive outcomes, deteriorating rather than enhancing the situation of the countries concerned. In an increasingly security conscious European Union, this may adversely affect security.

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