



# The Political Economy of Governance in the Euro-Mediterranean Partnership

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## **Trade and Regional Integration Between Mediterranean Partner Countries**

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## **1. Introduction**

Regional integration among MPCs, and particularly the development of intra-MPC trade, is key to the success of the Barcelona Process. As recognised in the Barcelona Declaration, such integration is a “key factor” in promoting the creation of a Mediterranean-European Free Trade Area and building an area of shared prosperity.

In particular, increased integration between MPCs could minimise the so-called “hub-and-spoke” effect (Escribano, 2000; Escribano & Jordan, 1999; Radwan & Reiffers, 2005; Wippel, 2005) whereby the EU is the “hub” for trade with the MED-10 “spokes” which do not trade substantially with each other. In the words of Wippel, increased South-South integration can act “to weave a multi-oriented network of economic exchanges in order to loosen dependency on European markets and [create] a sort of (secondary) hub of North-South and South-South exchange” (Wippel, 2005: 18).

This paper will examine the nature of intra-MPC trade and the obstacles to increased trade flows between these countries. To put this issue in context, a brief overview of the literature on intra-MENA trade will first be provided. This paper will then go on to explore the current state of intra-regional trade and analyse the trade patterns between MPCs with a view to analysing the potential for increased integration. Finally, the third part of this paper will look more closely at the obstacles to realising the potential for intra-regional trade.

## **2. Literature review**

Much of the literature addressing the nature of trade between South Mediterranean countries has been oriented towards analysing trade between the Arab countries of the MENA region. Accordingly, much of the literature reviewed here does not directly deal with trade between the MPCs insofar as Turkey and Israel are often excluded from regional analyses while the Arab countries of the Gulf are often included. However, several observations made by authors writing on the Arab MENA region are relevant to this study and worth discussing.

The fact that the MENA region has historically had low levels of intra-regional merchandise trade in comparison to other regions is often cited in the literature on intra-Arab trade. Nassar and Ghoneim (2002), for example, compare the scale of MENA intra-regional merchandise trade in the late 1990s (7-8%) unfavourably to that of the EU (over 60%), Asia (over 30%) and the Western Hemisphere (around 20%). This consistently low proportion of intra-regional trade has perpetuated the idea that there is a lack of intra-regional trade among Arab countries. However, several authors have challenged the widespread notion that there is a lack

of intra-regional trade. For example, Dervis et al (1998) found that when oil is excluded from the trade figures the level of intra-regional trade rose from about 5% to 19% - a percentage comparable to intra-regional exports in Mercosur and ASEAN.

Moreover, it has been argued that the structural features of Middle Eastern economies preclude the high levels of regional integration achieved in other regions. These features include: the negligible absorption capacity of Southern Mediterranean markets; similar factor endowments resulting in a concurrent (rather than complementary) supply structure among these countries; and the Maghreb's proximity to the EU (Escribano & Jordan, 1999). Fischer (1993) argues that because Arab countries have similar endowments in terms of natural resources and factors of production, they share the same comparative advantages. According to traditional trade theory, this limits the potential for inter-industry trade. Moreover, because these countries lack a diversified export base of manufactured goods, there is also limited scope for intra-industry trade.

Others have been more optimistic about the future prospects for increased intra-regional trade. Several authors point out that previous attempts at trade liberalisation in the region (ongoing since the 1960s) were bound to fail given the dominance of import-substitution industrialisation (ISI) strategies until the late 1980s and early 1990s (Dervis et al, 1998; Zarrouk, 1998). Zarrouk (1998) argues that industrial strategies founded on import-substitution, a large public sector and major investment in state-owned industrial enterprises led to a high level of protectionism and non-transparent pursuit of trade policies. Thus, previous initiatives to increase intra-regional trade through preferential trade agreements were characterised by highly limited coverage of products and a lack of political commitment to implementation (Dervis et al, 1998; Zarrouk and Zallio, 2000). Since the late 1980s/early 1990s, however, the economic policy context has changed considerably. Some authors are optimistic that the region's increasing adherence to a market and export-oriented growth model is promising for regional trade expansion and integration (Dervis et al, 1998; Zarrouk, 1998). Indeed, since implementation of the Greater Arab Free Trade Agreement (GAFTA) began in 1998 there has been a gradual lowering of intra-regional tariffs. This process culminated in the establishment of the Arab Free Trade Zone in January 2005 whereby all Arab products moving among member states have been awarded the status of national goods. This FTA encompasses all 8 of the Arab MPCs.

### **3. Non-Tariff Barriers and behind-the-border policies**

Optimism about the potential for increased intra-regional trade arising from the shift towards a more liberal economic policy context proved short-lived. While work on intra-regional MENA trade published in the late 1990s often expressed optimism about the prospects for increased intra-regional trade, the more recent literature on intra-regional trade has often noted that economic liberalisation has failed to produce a major increase in intra-regional trade. Besides pointing to the structural economic obstacles to intra-regional trade, this literature has often focused on the persistence of non-tariff barriers (NTBs) and restrictive behind-the-border policies which act as obstacles to intra-regional trade.

Over the past ten to fifteen years, the focus of trade reform among MPCs has been the dismantling of tariffs. Yet despite the significant lowering of tariff barriers, many of these countries continue to exhibit considerable import restrictiveness and have retained a variety of NTBs and restrictive behind-the-border policies. Thus, the fact that Arab MPCs enjoy preferential terms of trade with each other through GAFTA and Agadir does not necessarily mean ease in the movement of goods between them.

Beneath the prevalent government rhetoric about the commitment to liberalisation, there is often reluctance to implement real trade openness. This reluctance can be found both in the high levels of decision making in government as well as at the level of obstructive junior government bureaucrats. Looking at these two groups of actors one can distinguish between formal and informal non-tariff barriers to trade respectively. This section will give a few illustrative examples of the types of non-tariff barriers in place in the region focusing on the well-documented Tunisian example. This does not by any means constitute an exhaustive account of this issue.

#### **3.1 Formal non-tariff barriers**

Formal non-tariff barriers are pervasive in the region and take a number of forms. For example, formal non-tariff barriers in Tunisia cover some 33% of all tariff lines - among the highest coverage ratios in the world (Chemingui & Marouani, 2006). These types of barriers include import licenses or quotas for some goods, public sector monopolization of imports for several products through state trading boards or public enterprises, and a cumbersome process of technical control and customs clearance. While quantitative restrictions have been relaxed, there remain some goods which are subject to import licenses or quotas (particularly consumer goods that compete with locally produced manufactured equivalents, such as

textiles). For these products, an importer must obtain a license from the Ministry of Commerce specifying the product, the quantity and the amount of foreign exchange needed (Anos Casero et al, 2004).

According to Chemingui & Marouani (2006) technical control is among the main obstacles to importing to Tunisia. The purpose of technical control is typically to verify the conformity of imported products with sanitary and security norms. Prior to WTO accession, the tariff equivalent of technical control accounted for about one quarter (25.9%) of the value of imports (1994). By 2001, it reached 30.5% for goods subject to such control. This increase is mostly attributable to the certification of consumer goods. Systematic control (performed on samples through tests and investigations) also remains very important, accounting for about 14% of the value of imports in terms of tariff equivalents. In the case of Jordan, prior approval to import is applied to over 48 products. Amongst these are: rice, sugar, potatoes, onions, maize, fruits and vegetables, live animals, dry milk, fresh and frozen meat and chicken (Saif & Neaime, 2006).

Finally, it is worth noting that the program of GAFTA calls for a schedule to suppress non-tariff barriers (Article 3 of the Executive Programme) but they have not yet been subject to negotiation. However, a committee on non-tariff barriers has been set up to determine the goods whose NTBs should be negotiated (Achy & Sekkat, 2006).

### **3.2 Informal non-tariff barriers**

Informal non-tariff barriers are also pervasive in the region and result from abusive practices at the level of (often rent-seeking) junior government bureaucrats. Indeed, the Arab League undertook a field survey in 2004 on the major impediments facing the Arab business community and found that problems with importing are perceived to be concentrated in three main areas: abuse of technical barriers to trade; abuse of sanitary and phytosanitary measures; and vague rules and regulations especially when it comes to authentication of origin of goods, and customs procedures (cited in Radwan & Reiffers, 2005). Customs valuations procedures in Jordan, for example, have come under severe criticism (Kheir-El-Din & Ghoneim, 2006). Radwan & Reiffers (2005) argue that such issues result from the absence of clear institutional standards and can be addressed through institutional reform.

In another vein, Kheir-El-Din (2006) argues that there is evidence to suggest that customs clearance procedures are being used as a means to restrict imports. She cites figures that as of January 2005, importing to Egypt required an average of 29 days, to Jordan 28 days, to

Morocco and Tunisia 33 days. This is compared to only a few days in better performing countries such as Korea (12 days) and the UAE (18 days).

### **3.3 Customs reform**

Customs reforms in Morocco have been described as “comparable to international best practices” by the World Bank (Anos Casero & Seshan, 2006: 37) and lessons from the Moroccan experience could be useful for other MPCs.

Morocco’s customs reforms were based World Customs Organisation procedures and addressed four main areas: customs procedures, use of information technology by the customs department, management of special import regimes and transparency/relations with the private sector (De Wulf & Finateau, 2002).

With regard to the first area, customs procedures were simplified and computerised. Burdensome paperwork was replaced by a simplified declaration form and a summary declaration was designed for goods falling under several tariff headings. The Customs Administration decongested ports and airports by establishing clearing centres in approved companies as well as clearing areas and warehouses outside the customs perimeter, thus smoothing the flow of commercial operations. A national clearing credit system was introduced for traders dealing with more than one customs bureau and local customs offices were empowered to clear goods at approved importers premises (De Wulf & Finateau, 2002).

Increased use of information technology was also adopted. The Customs Administration’s computer system performed all routine functions in customs departments by the end of 2000 and selective services were extended to approved companies and those with which Customs had agreements. The computer system in place allows information to be exchanged with users so traders can obtain free estimates of duties and taxes payable. Traders can also find out the progress of their customs operations and the status of their imports under special import regimes in real time. A telephone hotline is provided to assist traders in using this system. Moreover, the Customs Administration, Port Operations Office, Association of Shipping Agents and a service company have agreed to share data on imports arriving at the port of Casablanca, through which the vast majority of Moroccan imports pass (De Wulf & Finateau, 2002).

Thirdly, more flexible, secure and transparent procedures have been established for special import regimes and particularly for goods admitted on a temporary basis. A computer-assisted facility was put in place to ensure better monitoring of the temporary admission system.

Simplification of the process for providing customs guarantees has cut down on both clearance time as well as financial charges for importers. A free system of bonded warehouses is now available for companies that export at least 85% of their sales and combine storage, transformation and utilisation functions. This system, which operates under the Customs Administration's supervision, suspends duties and taxes on materials, equipment and goods intended for export (De Wulf & Finateau, 2002).

Finally, the Customs Administration has become more responsive to the needs of the private sector. Consultative committees with the private sector have been set up as well as streamlined customs procedures for certified companies. Customs information and documents have also been made more widely available to the private sector. Moreover, companies that fulfil certain criteria related to their structure, size of investment, annual sales and number of employees can receive personalized customs guarantees (De Wulf & Finateau, 2002).

It is important to note that the customs reform program in Morocco has been designed to deal with both formal and informal NTBs to trade. A small but effective reform unit was put in place and worked not only to reform formal customs procedures but also to motivate staff to implement these reforms. For example, the introduction of performance bonuses for customs officers based on objective evaluations seem to have helped reduce corruption (De Wulf & Flinteau, 2002).

#### **4. Trends and prospects for intra-regional trade**

This section aims to examine the trends in, and prospects for, intra-MPC trade by comparing levels of intra-MPC trade from 2000 to 2006. Because this paper is concerned with the integration of South Mediterranean economies, it will focus on the proportion of total trade which is conducted intra-regionally and examine how this has changed over the period 2000-2006. Although the literature shows that the inclusion of fuel exports can lead one to draw misleading conclusions about the nature of intra-regional trade in the MENA, import and export figures presented here include fuels as the major fuel-exporting countries of the Arabian Gulf are not included in this analysis.<sup>1</sup> Moreover, the analyses presented below do not include trade figures for the Occupied Palestinian Territories as these are not available from the IMF.

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1. <sup>1</sup> Algeria is the only MPC which exports significant amounts of fuel.

Importantly, while the below analyses will address the phenomenon of intra-regional trade in the South Mediterranean as a whole, it will also analyse the Arab MPCs as a separate bloc. This is not only because the Arab countries are part of an FTA but also because Turkey and Israel are anomalous in several respects and skew intra-regional trade figures quite considerably. Israel is isolated from the regional economy for obvious political reasons but also because it has enjoyed preferential trade access to EC, and latterly EU, markets since the 1970s. Similarly, Turkey has enjoyed preferential access to EC/EU markets since the 1960s and has a deep trade relationship with the EU which greatly skews the figures on intra-MPC trade. Indeed, around 40% of trade between the EU and the MPCs is between the EU and Turkey.

#### 4.1 Growth of intra-regional trade

As Tables 1 & 2 show, over the past six years intra-MPC trade has been increasing at a much faster rate than MPC trade with the EU, or MPC trade with the world as a whole. This means that intra-MPCs trade is growing as a proportion of MPCs total trade and suggests there has been a trend towards increased regional trade integration. Moreover, the increase in intra-regional trade over the past six years becomes far more dramatic when Israel and Turkey are excluded. However, it is important to note that these very high levels of growth partly reflect the fact that trade between these countries started from a low base. This is especially true when Turkey is removed from the picture. Thus, it is likely that these high rates of intra-regional trade growth will slow down considerably in coming years.

**Table 1- MPC Exports (billions of USD)**

	<b>2000</b>	<b>2006</b>	<b>% change</b>
<b>MPCs to world</b>	108.3	252.66	133
<b>MPCs to EU</b>	54.6	118.80	118
<b>Intra-MPC</b>	6.2	16.67	169

Author's calculations based on IMF Direction of Trade Statistics

**Table 2- Arab MPC Exports (billions of USD)**

	<b>2000</b>	<b>2006</b>	<b>% change</b>
<b>Arab MPCs to world</b>	48.7	120.69	148
<b>Arab MPCs to EU</b>	30.38	57.92	91
<b>Intra-Arab MPCs</b>	1.34	7.53	462

Author's calculations based on IMF Direction of Trade Statistics

One can conclude from these figures that the past six years have witnessed increasing regional trade integration. Moreover, this trend is particularly pronounced among Arab MPCs. This is probably due both to the effects of GAFTA as well as the low initial level of trade between them.

**Trade intensities indices:**

The trade intensity index (TII) can also be used to check for the extent of trade connections between MPCs. It is defined as:

$$TII = (T_{ij}/T_j) / (T_i/T_w)$$

Where  $T_{ij}$  is the value of country  $i$ 's exports to country  $j$ ;  $T_j$  is the total value of country  $j$ 's exports;  $T_i$  is country  $i$ 's total imports; and  $T_w$  is total world imports. This determines whether the value of trade is greater or smaller than would be expected on the basis of countries' weight in world trade. An index of one indicates that a trade flow that is proportional to countries' weight in world trade. An index of greater than one indicates that trade is higher than would be expected in relation to countries' weight in world trade.

**Table 3: Intra-regional TIIs**

	<b>2000</b>	<b>2006</b>
<b>MPCs</b>	2.25	2.29
<b>Arab MPCs</b>	4.18	4.87

Author's calculations based on IMF Direction of Trade Statistics

As can be seen from Table 3 above, MPCs do trade more with each other than would be expected on the basis of their weight in world trade. Importantly, the TII for the region is significantly higher when Turkey and Israel are excluded from the calculations for the reasons discussed above. It is worth noting that the TII for the Arab MPCs is comparable to that of ASEAN, which was 4.0 in 2000 (Table 4). This supports the argument that levels of trade integration in the region are not unusually low.

In comparing the MPCs trade intensity to that of other RTAs, it is worth noting that TIIs vary considerably across different regional agreements. As Table 4 shows, bigger RTAs (EU, NAFTA) have indices close to one while smaller RTAs generally have larger indices. While the degree of regional integration among Arab MPCs is comparable to that among ASEAN

countries, it is worth noting that it is much lower than that among Mercosur or Andean Pact countries.

**Table 4: TIIs for selected RTAs- Five year averages, 1980-2000**

	<b>1980-1984</b>	<b>1985-1989</b>	<b>1990-1994</b>	<b>1995-1999</b>	<b>2000</b>
<b>Andean Pact</b>	3.6	5.4	10.9	15.7	16.6
<b>ASEAN</b>	4.2	4.8	3.8	3.7	4.0
<b>EU</b>	1.5	1.5	1.6	1.7	1.7
<b>Mercosur</b>	5.6	7.5	11.7	13.2	14.3
<b>NAFTA</b>	1.8	1.8	2.0	2.2	2.2

Source: Asian Development Outlook 2002

While the regional (and subregional) TII gives a good indication of the overall regional trend, it also masks some important nuances in intra-regional trade patterns. In their study on intra-regional trade in the South Mediterranean, Escribano & Jordan (1998) found two distinct trading blocs among Arab MPCs corresponding to the Maghreb and Eastern Mediterranean regions. Data from the mid-1990s suggested that trade within each bloc was high and that import intensity from the Eastern Mediterranean to Tunisia and Algeria (but not Morocco) was also quite high. However, they also found that the Maghreb countries have a low intensity of exports towards the Mashreq.

Tables 5 & 6 below present TIIs from 2000 and 2006 on a country-by-country basis. These TIIs help us to draw a clearer picture of intra-regional trade patterns and identify where there are prospects for increased trade.

**Table 5: Intra-MPC trade intensity indices- 2000**

	<b>Algeria</b>	<b>Egypt</b>	<b>Israel</b>	<b>Jordan</b>	<b>Lebanon</b>	<b>Morocco</b>	<b>Syria</b>	<b>Tunisia</b>	<b>Turkey</b>
<b>Algeria</b>	X	0.24	0	0	0.27	4.14	0.052	2.43	6.91
<b>Egypt</b>	2.26	X	0.50	8.47	12.19	3.29	8.65	4.07	2.29
<b>Israel</b>	0	0.51	X	1.64	0	0.13	0	0	1.54
<b>Jordan</b>	10.19	5.21	10.20	X	26.31	0.94	20.80	2.92	1.25
<b>Lebanon</b>	3.61	9.21	0	58.78	X	1.78	41.31	1.65	3.69
<b>Morocco</b>	0.65	0.49	0	1.09	0.54	X	1.70	5.62	0.80
<b>Syria</b>	3.39	2.36	0	11.53	53.75	1.06	X	1.11	11.82
<b>Tunisia</b>	7.00	1.60	0	2.28	0.60	2.28	0.87	X	1.03
<b>Turkey</b>	9.45	4.72	3.54	4.26	5.79	1.35	9.57	4.20	X

Author's calculations based on IMF Direction of Trade Statistics

**Table 6: Intra-MPC trade intensity indices- 2006**

	<b>Algeria</b>	<b>Egypt</b>	<b>Israel</b>	<b>Jordan</b>	<b>Lebanon</b>	<b>Morocco</b>	<b>Syria</b>	<b>Tunisia</b>	<b>Turkey</b>
<b>Algeria</b>	X	2.30	0	0.41	0.54	3.36	0.16	2.00	2.58
<b>Egypt</b>	2.74	X	0.80	17.48	6.99	4.09	31.69	2.67	1.46
<b>Israel</b>	0	0.80	X	2.55	0	0.11	0	0	1.57
<b>Jordan</b>	9.18	3.10	1.52	X	16.64	0.57	28.59	1.63	0.13
<b>Lebanon</b>	9.87	6.22	0	28.16	X	2.81	161.0	3.27	3.74
<b>Morocco</b>	2.19	0.62	0.03	1.24	1.76	X	2.44	3.05	1.01
<b>Syria</b>	10.68	15.52	0	18.03	100.13	0.69	X	2.00	1.18
<b>Tunisia</b>	8.91	1.33	0	0.94	0.51	5.30	0.53	X	0.97
<b>Turkey</b>	5.59	2.45	4.18	3.26	2.99	3.00	4.36	2.70	X

Author's calculations based on IMF Direction of Trade Statistics

These figures show that there are still two distinct trading blocs in the region which roughly correspond to the Maghreb and Eastern Mediterranean regions. As was the case in the mid-1990s, the Maghreb continues to under-export to the Eastern Mediterranean countries although Algerian and Moroccan export-intensity to Eastern Mediterranean has improved significantly over the past six years. But it is worth noting that Morocco still under-exports to Egypt while Algeria still under-exports to Jordan, Lebanon and Syria.<sup>2</sup> Interestingly, Tunisia is exporting less intensely to the Eastern Mediterranean than it had been in 2000.

Perhaps the most promising prospect for increased trade between the Maghreb and Eastern Mediterranean countries is the fact that implementation of the Agadir Declaration is finally underway. The Agadir Declaration, signed by Egypt, Jordan, Morocco and Tunisia in 2004, aims to establish a free trade area between these countries which will allow them to benefit from the bundling of regional rules of origin stipulated in their respective agreements with the EU. Initiated in 2001, the Agadir declaration was finally ratified by all partner countries in 2006 and its Secretariat has recently been set up in Amman to guide implementation. Syria, Lebanon and Algeria are also expected to join the Agadir agreement once they have met the necessary conditions and requirements. But although the potential for regional bundling of origin should provide an impetus to increased regional integration, the complex and costly process involved in establishing the regional origin of a product is proving to be a major obstacle to implementation of this agreement.

Finally, one of the noticeable changes in regional TIIs between 2000 and 2006 is the noticeable decline in Jordan's export intensity to the region. This reflects the fact that Jordan's exports to the US have increased more than 20 fold during this period as a result of the Jordan-US Free Trade Agreement signed in late 2000. Importantly, the decrease in export

2. <sup>2</sup> Algeria's low export intensity to these countries reflects its high level of extra-regional gas exports.

intensities with other MPCs does not reflect trade diversion away from South Mediterranean partners, as suggested by the fact that Jordan's exports to other MPCs almost tripled between 2000 and 2006. Rather, the decrease in Jordan's regional export intensities reflects the huge volume of trade *creation* between Jordan and the US. This is significant because it indicates the potential of extra-regional markets for export-growth among MPCs. Indeed, Escribano and Jordan (1998) have noted what they describe as an "obsession" with regional integration among MPCs which distracts from the potential importance of extra-regional export markets to these countries.

The US looks set to become an increasingly important trading partner for a number of MPCs. The Morocco-US Free Trade Agreement entered into force in the beginning of 2006, a year which registered an 18% increase in exports to the US compared to 2005. The growth of Moroccan exports to the US is likely to further increase as tariffs are progressively lowered over the coming years. In particular, tariffs on textiles (a sector in which Morocco enjoys a high level of comparative advantage) are due to be completely eliminated by the beginning of 2011. The impending Egyptian free trade agreement with the US is also likely to increase Egypt's extra-regional export intensity in coming years.

The importance of extra-regional trade to MPCs was alluded to earlier in this paper when it was noted that MPCs have less propensity to trade with each other because of the fact that their markets have a small absorption capacity and that they have similar factor endowments. These factors often make extra-regional markets more appealing trading partners than MPCs, especially for Turkey and Maghreb countries such as Tunisia and Morocco which are geographically closer to many Southern and Western European countries than they are to some MPCs. For example, it is worth noting that both Casablanca and Tunis are much closer to Paris than they are to either Cairo or Istanbul.

## **5. Conclusions**

Increasing trade between MPCs over the past six years bodes well for the Barcelona Declaration's stated goal of increasing South-South regional integration in the Mediterranean region. Whereas initiatives to increase intra-regional trade previously foundered in the face of protectionist economic policies and a lack of political commitment, it seems that the increasing commitment to economic liberalisation among MPCs has provided an impetus for intra-regional trade. However, it also seems that non-tariff barriers and behind-the-border policies continue to obstruct the free movement of goods between MPCs. The successful

experience of customs reform in Morocco provides important lessons for other MPCs seeking to dismantle both formal and informal non-tariff barriers to trade. Indeed some MPCs, such as Jordan, are already attempting to emulate the Moroccan experience.

Figures analysed in this study show that intra-regional trade between Arab MPCs has increased by 462% over the past six years while trade among MPCs as a whole has increased by 169%. Although such figures are impressive, it is important to note they are partially an artefact of the fact that trade between these countries started from a low base. Thus, it is likely that these high rates of intra-regional trade growth will slow down considerably in coming years.

Perhaps most importantly, MPCs are enjoying increasing access to extra-regional markets, particularly the US and Europe. Such markets have a much higher absorption capacity than South Mediterranean markets and it is likely that trade creation with such markets will weaken trade integration among MPCs, as has proven to be the case in Jordan. Geographical factors, such as the fact that Turkey and Morocco are closer to Europe than to most MPCs also contribute to making Europe their preferred trade partner.

In conclusion, it does seem that there is potential for increased trade between MPCs. However, it is also clear that trade can only play a limited role in fostering intra-regional integration. This is because of the aforementioned structural constraints to intra-regional trade, particularly the small absorption capacity of Southern Mediterranean markets compared to extra-regional markets. Thus, in seeking to foster integration between MPCs, it is important to look beyond trade and towards other avenues for integration. To this end, the following two papers in this working package will examine the potential for factor movements and energy sector cooperation respectively to promote intra-MPC integration.

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