

Prospects for European “Enlargement” Integration with the Middle East

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Thesis

- EU membership for the MED countries will not be offered in the near future. Much benefit however could be gained by moving from the present Association Agreements that focus on tariff reduction and voluntary easing of Non Tariff Measures (“**shallow integration**”) to membership in a Customs Union that requires the effective tackling of these Non Tariff Measures and trade logistics impediments (“**deep integration**”)
- The Turkey –EU Customs union may serve as an example to follow

1. Approach thus far

1995 :Barcelona Process and Association Agreements with 12 MED countries .

- First signed by Tunisia (1998) and last by Lebanon (2004), Interim agreements with Syria (2008) and Palestine (1997).
- Legally binding provisions:
 - FTA for industrial imports from the EU
 - Gradual liberalization of trade in agr. products
 - Intellectual property right protected as per WTO

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- Non legally binding
 - Right of establishment
 - Implement WTO GATS agreements
 - Enforce competition legislation including state aid
 - Improve interregional trade
 - Investment promotion and protection
 - Cooperation for standardization and conformity assessments
 - Simplify customs procedures

Results-Outcomes

- Tariff reduction phased in over 12 years. Some countries made more progress than others given when the Association Agreement became effective.
- Non tariff measures remained restrictive, more so than tariffs. Data for early 2000 (Kee, Nicita, Ollareaga) do not significantly differ from recent data (Ghoneim, Peridy)
- Trade developments do not suggest that the FTA lead to buoyant trade

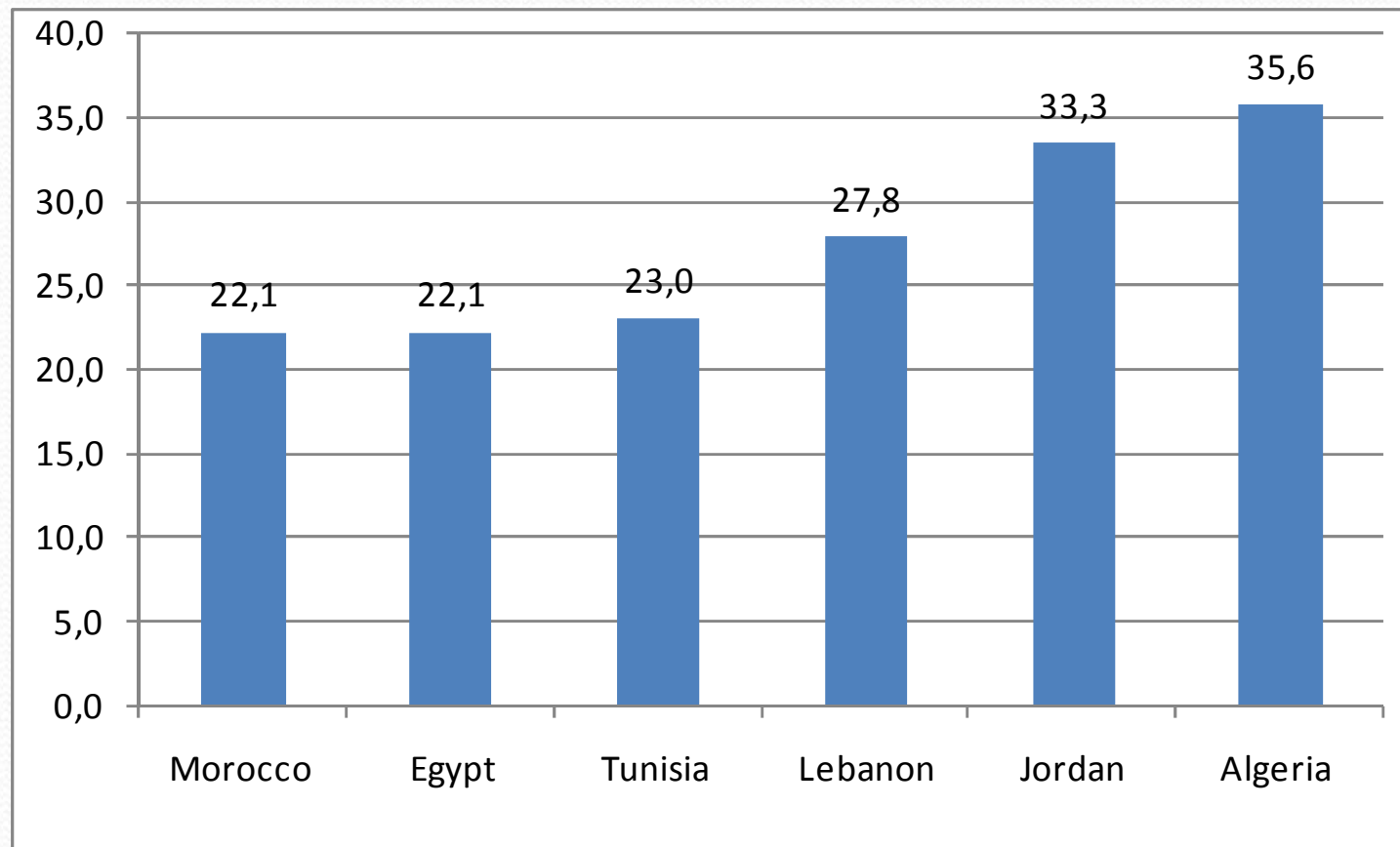
Average tariffs applied by MED countries on their imports (% unweighted average)

	Tariffs with all countries	Tariffs with EU	Share of Duty free EU lines
Algeria (2009)	14,1	12,9	n.a.
Morocco (2009)	8,2	3,9	51,0
Tunisia (2006)	22,2	18,0	39,2
Egypt (2008)	9,4	10,1	6,2
Lebanon (2007)	5,1	5,4	n.a.
Israel (2008)	2,1	0,1	95,0
Jordan (2007)	10,1	11,0	38,3
Syria (2002)	12,8	14,1	n.a.
Turkey (2009)	1,2	0,1	n.a.

Source: TRAINS; De Wulf and Maliszewska (eds.) (2009); n.a. non available

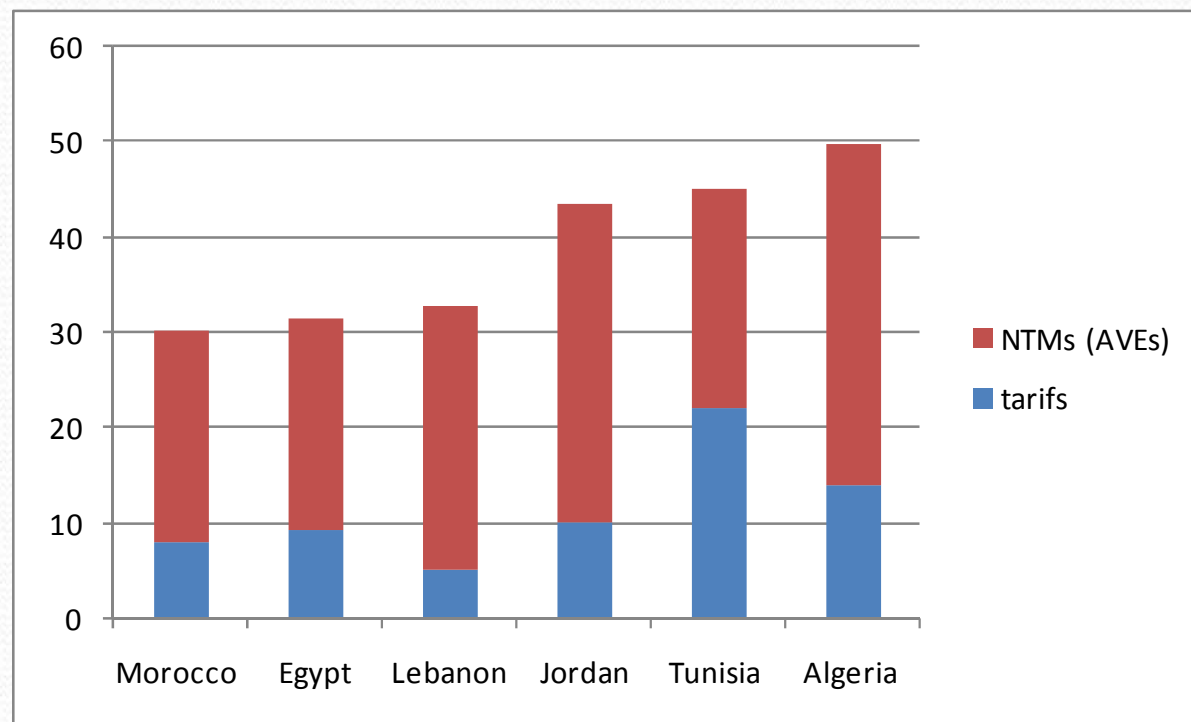
5.a Stylized facts about trade costs in Mediterranean countries

- NTMs (AVEs, %)

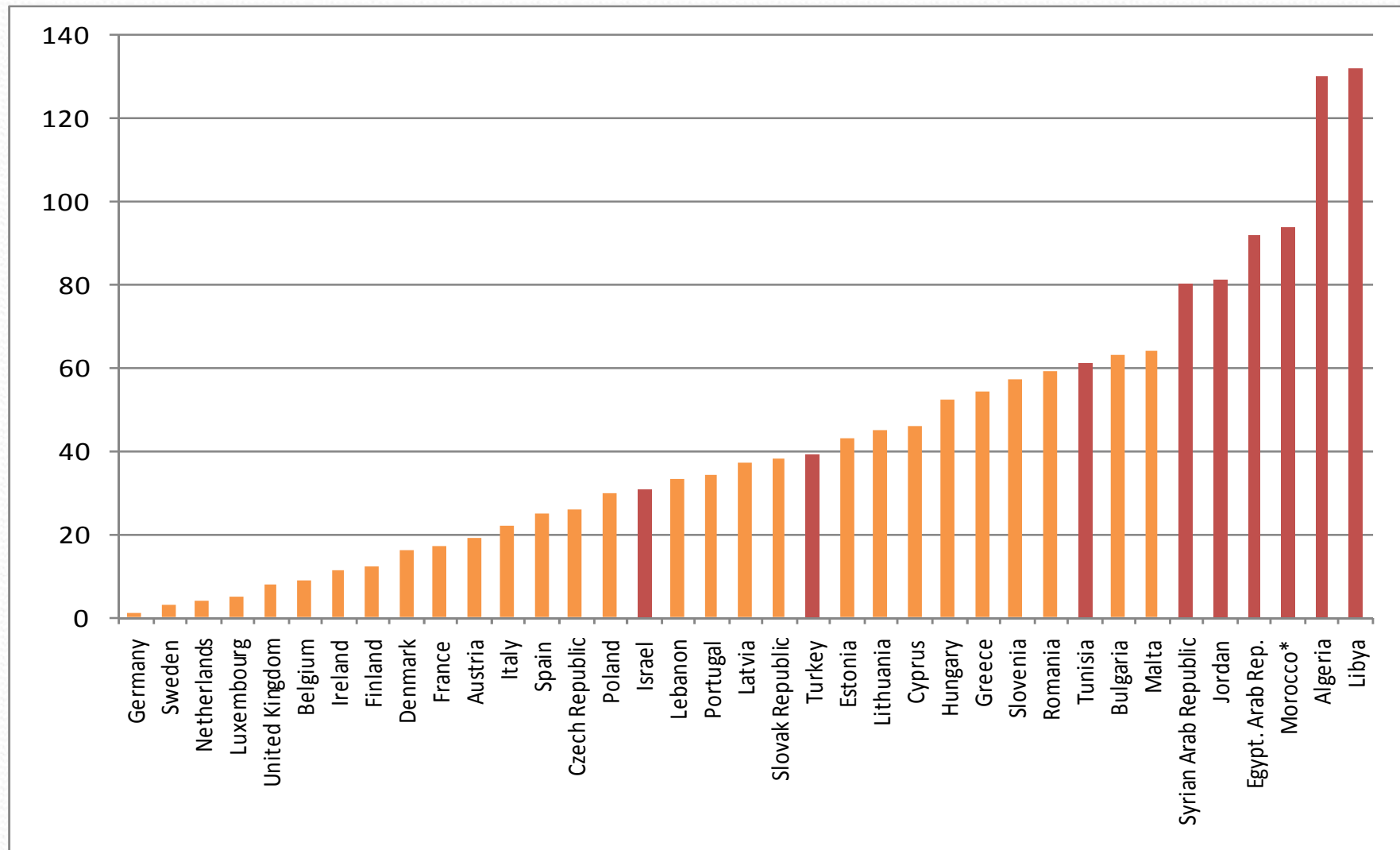


5.b Stylized facts about trade costs in Mediterranean countries

- Tariffs and NTMs



5.d Stylized facts (country ranking in LPI)



MED 11 trade with EU and South South 1996-2006

(annual growth rates)

MED 12	Non Oil	Non Oil
	Exports	Imports
EU	9.9	6.9
Rest of the World	14.9	12.3
De Wulf, Maliszewska (2009), et al., Economic Integration in the Euro-Mediterranean region, CASE, p. 44 ,		

Direction of exports MENA Oil importers

	1998	2008
EU	65	50
MENA	12	14
Asia	8	13
USA	6	6
Rest of the World	9	17

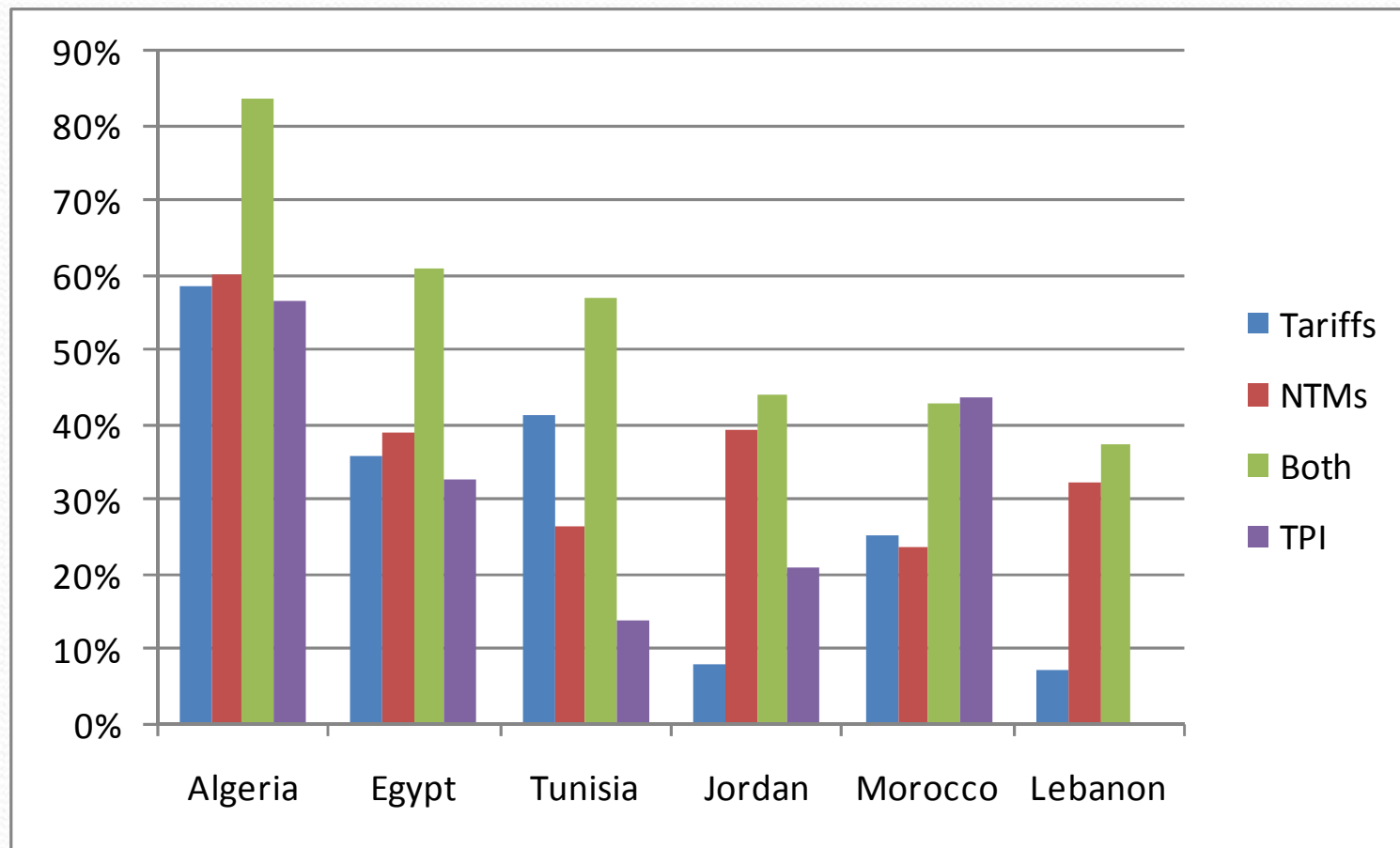
Source : IMF (2010) MENA, Sustaining The Recovery and looking beyond, p. 48.



2. Deep integration promises substantial trade expansion

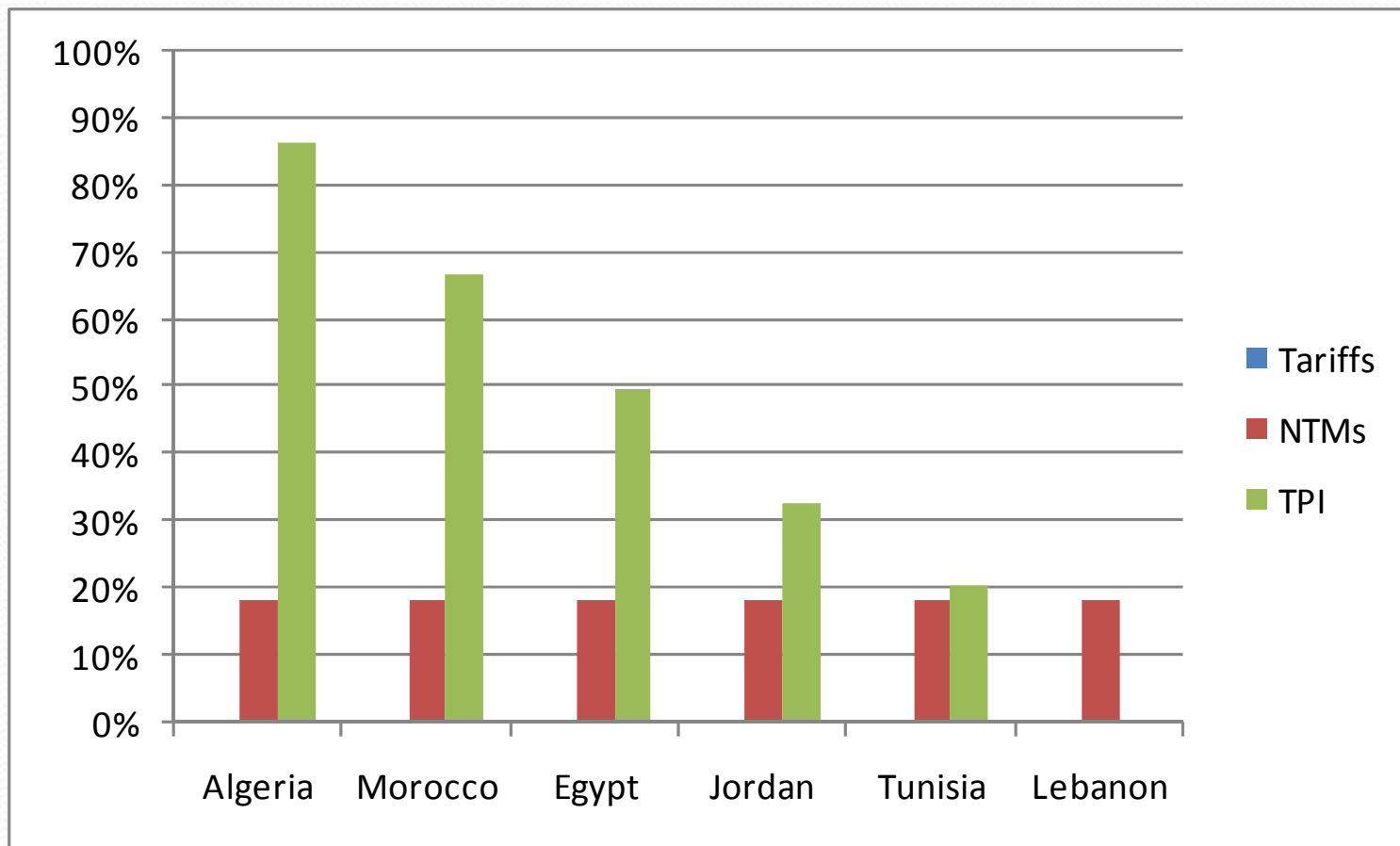
7.a Results for the Optimistic Scenario

- % increase in Mediterranean countries' imports from the EU



7.b Results for the Optimistic Scenario

- % increase in Mediterranean countries' exports to the EU



3. From Association Agreement to Customs Union

- Association Agreements focus on tariff reduction with non binding commitments to reduce NTM. Moderate success was achieved with the latter .
- Possible EU membership set the stage for the CU with Turkey .
- The EU-Turkey Customs Union enhanced the competitiveness of the Turkish economy by going beyond tariff reduction. It granted Turkey access to the European market, opened the Turkish market to European competitors. In the process Turkey adopted much of the EU “acquis communautaire”.

EU-Turkey Customs Union History

After pursuing inward oriented development strategies for fifty years Turkey switched over to outward oriented policies in 1980.

The aim included integration into the world economy through close association with the European Union (EU).

1995 a customs union (CU) was decided between Turkey and the EU; operational start January 1, 1996.

Objectives of the CU

- All goods except some (e.g., coal and steel) products circulate duty free between the parties.
- Turkey received duty free treatment for “excepted” goods since 1999 . Agricultural goods have preferential regime since 1998.
- Turkey is implementing the EC’s Common Customs Tariff on imports of industrial goods from third countries, and adopted all of the preferential trade agreements the EU has concluded with third countries.
- **IMPORTANT** : the CU goes beyond tariff reduction and extends adopt the EU rules and regulations related to rules and disciplines on various regulatory border and behind-the-border policies covering customs reform, technical barriers to trade (TBTs), competition policy, market surveillance, intellectual property rights, and administrative procedures.

Main achievements-1

- **Tariffs** on industrial goods from 5.9% >> 0%; similar goods imported from third countries from 10.8% >>6%
- **Technical barriers to trade**: Turkey had to incorporate 300 legal instruments in its legal framework. Some delay beyond agreed upon data of 2000; so far 236 done
 - **Conformity markings**; Conform to EU legislation
 - **Quality infrastructure**; since 2006 signed all accreditation bodies have signed o to the relevant Multilateral Agreements . Metrology standards: 90% conform
 - **Market Surveillance**; work in progress
 - **Border control for technical standards**: greatly reduced

Main Achievements -2

- **Customs modernization.** New Customs Code, modernized procedures, renovated infrastructure, time release reduced and special regimes in place
- **Competition policy:** new competition legislation and Authority. Recent WTO and EU reports complement achievements. A 2010 law on state aid and subsidies aligns Turkish with EU legislation
- **Intellectual property** rights: Turkey is the party of all relevant international IPR agreements; enforcement remains a challenge and reform program ongoing; due to shortage of trained staff in private and public sector, including judiciary

Results

The EU-Turkey CU has been a major instrument of integration into the EU and global markets, offering powerful tools to reform the Turkish economy.

- Credibly locked Turkey into a liberal foreign trade regime for industrial goods and holds a promise of Turkey's participation in the EU internal market for industrial products.
- Major reform on Customs procedures reducing release time and trade transaction costs
- Turkish industrial producers of industrial goods are exposed to full competition from imports from the EU ;
- Turkish industrial producers operate are protected by tariffs from non EU imports to the same extent as EU producers.
- Industrial producers have duty-free market access to the EU market , unrestrained by the rules of origins and tariffs.

Results

- Much improved access to the EU market as Turkey has fulfilled most of the requirements of the CU regarding competition policy, intellectual property rights, and contingency trade remedies.
- Process was challenging in particular in the areas of **eliminating TBTs in trade** with the EU, **adopting and implementing EU's competition policy provisions on state aid**, and **insuring adequate and effective protection of intellectual property rights**.
- The administrative costs of implementing the requirements of the CU were substantial, but were overcome as there was political will in Turkey to introduce the policy reforms.
- Turkey's ambition was partly driven by the hope of becoming a full member of the EU, and there was little resistance to the integration process on the part of Turkish public.

Conclusion

- MED countries could greatly benefit from proceeding towards a CU with the EU and other MED countries rather than pursuing a multiplicity of bilateral access to the EU-Turkey CU and with each other.