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DEEPENING THE EURO-ARAB TRADE AND SUSTAINABLE DEVELOPMENT GOALS

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Introduction

The European Union (EU)-Arab economic integration started more than two decades ago. Despite an increase in trade between the two shores of the Mediterranean, this integration had a limited effect on the development of South-Mediterranean countries. Moreover, the economic integration process has not been as deep as it had been

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announced 20 years ago in the Barcelona declaration. The objective of this policy brief is to show what are the main policy tools that could help deepen the EU-Arab economic integration from a sustainable development goal lens. This can take place through linking trade policies to industrial policies, addressing non-tariff measures (NTMs) and boosting global-value chains (GVCs).

Background

Trade liberalisation is necessary but not sufficient to reach inclusive development, especially between countries that have not achieved a similar level of development. It is important first to distinguish between the concepts of shallow vs. deep integration. While the former reduces tariff only, the latter tackles NTMs, harmonisation of production standards and creation of a production integration (by developing regional or global value chains). Until now, the EU-Arab integration was rather shallow for three reasons. First, NTMs are widely used by both the Arab countries and the EU which negatively affects their bilateral trade (Ramzy and Zaki, 2019). For instance, El-Enbaby et al. (2016) have argued that Sanitary and Phyto-Sanitary (SPS) measures imposed on Egypt chiefly imposed by the EU, increased exponentially from 18 in 2006 to 888 in 2012. Similarly, Ramzy and Zaki (2018) have also argued that several Middle East and North Africa (MENA) agricultural exports are subject to NTMs imposed by the EU. Second, since most of the Foreign Direct Investment (FDI) coming from the EU is concentrated in the oil sector, the likelihood of developing clusters in the manufacturing sector is extremely weak because this sector is capital intensive and has a very limited value added (Zaki, 2019). Finally, Aboushady et al. (2018), on the basis of interviews conducted in Lebanon, Morocco and Tunisia, have shown that different stakeholders confirmed that, historically, trade policies are completely disconnected from the design and implementation of industrial policies. In other words, the Euro-Arab integration was not sensitive to the development needs of Southern Mediterranean countries.



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Recommendations

Against this background, the Table 1 highlights the main policy objectives that both shores could reach, the main policy tools that can be mobilized and the link to Sustainable Development Goals (SDGs).

Table 1: Policy Recommendations

Objective	Tools	Link to SDGs
On linking trade and industrial policies	<p>1) More coherent policies: linking them will help improve industrial policies and make trade integration and industrial policy more interrelated.</p> <p>2) More inclusive negotiations: most of the trade negotiations take place with the government without any consultation with the business community, federation of industries, chambers of commerce, civil society, etc. Including different stakeholders is a must to take into consideration their needs and priorities in order to link trade policy with industrial policies.</p>	<p>Objective 9 of industry, innovation and infrastructure: because more inclusive and more coherent policies will align trade negotiations to the industrial priorities and national strategies of the South-Mediterranean countries.</p>
Regarding non-tariff measures	<p>1) Transparency and information availability on NTMs: It is important to improve the availability of comprehensive information on standards and norms, applicable fees and charges on the customs website in a transparent and simple way. Both duties rate, rules of origin and preferences must be made available to reduce the time required for customs clearance. National governments can also set up a portal or a trade observatory of market access database where firms can report where they are finding problems in accessing markets and what those issues are.</p> <p>2) Improving products standards: the EU can help SMEs from the southern shore of the Mediterranean comply with EU standards to facilitate the access of their products into the EU. This can take place by increasing the number of accredited and recognized laboratories or certification bodies and providing technical assistance from both the government and international donors to different firms, especially Small and medium-sized enterprises (SMEs).</p> <p>3) Concluding deeper agreements: such agreements will help harmonize standards and rules between the two</p>	<p>Objective 9 of industry, innovation and infrastructure: since more transparent NTMs and more harmonized rules and standards will improve the state of industries in Southern Mediterranean countries.</p> <p>Objective 17 of partnerships for the goals: as a deeper agreement will help achieve some SDGs.</p>



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shores of the Mediterranean. Indeed, one of the effective frameworks to facilitate the elimination of non-tariff measures is the Agreement for Conformity Assessment and Acceptance. The latter is a type of a Mutual Recognition Agreement (MRAs) based on the alignment of the legislative system and infrastructure of the country concerned with those of the European Union in specific products.

Developing Global Value Chains

1) **Developing clusters:** one of the important instruments that should be promoted is clusters. Indeed, using clusters to link SMEs to manufacturing-sector FDI from the EU countries will help SMEs be part of a value-chain leading to more sustainable and internationalized activities. More SMEs will generate more jobs, especially for women who mainly work in this sector (particularly in ready-made garments and processed food). This will consequently increase women labor demand and reduce gender inequality.

2) **Improving workers skills:** developing new clusters will require more skilled labor force endowed with higher qualifications, especially for blue collars that are abundant in the Southern Mediterranean countries and that are used intensively in the production of several manufactured goods.

Objective 9 of industry, innovation and infrastructure: since clusters will lead a transfer of technology and hence improve the state of industries in South-Med.

Objective 5 of gender equality: helping SMEs that generate jobs, especially for women will reduce gender inequalities.

Objective 10 of reduced inequalities: improving blue-collars skills will reduce income inequalities since they will experience an investment in their human capital (by improving the technical and vocational training, developing joint programs and internships with the EU).

Implications

At the EU-League of Arab States summit in Sharm El-Sheikh in February 2019, leaders reaffirmed *"the importance to strengthen economic cooperation between the two sides, establishing a strong partnership based on investment and sustainable development" and their commitment to "developing a positive cooperation agenda especially in the fields of trade..."*. In line with this commitment, this paper argues that if both sides progress towards deeper integration, they will also make breakthrough towards achieving developmental goals such as higher employment, more involvement of SMEs and consequently more inclusive growth. In particular, focusing on clusters will help SMEs expand and can generate jobs, especially for women (objective 5 of gender equality). Second, addressing non-tariff measures and linking trade to industries will lead to more efficient trade negotiations and will improve products that are exported from Southern Mediterranean countries (objective 9 of industry, innovation and infrastructure). Third, a deeper integration will be associated to more positive outcomes and hence a more inclusive growth with less inequality especially for blue-collar workers that will be endowed with the required skills (objective 10 of reduced inequalities).



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El-Hiwar is a project that supports dialogue, cooperation, and collaboration between the League of Arab States (LAS) and the European Union (EU). It does so through the design and organisation of:

- Training Courses on EU and LAS functioning and priorities
- Policy dialogues
- Sectoral training courses
- Briefing sessions and working breakfasts
- Summer Schools on Euro Arab relations

The project was launched in June 2018 and will last 36 months. It is funded by the EU and implemented by the College of Europe. For more information: elhiwarii@coleurope.eu ; www.coleurope.eu/elhiwarii