



10

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10 PAPERS

FOR BARCELONA 2010

A Deeper Free Trade Area and Its Potential Economic Impact

by Alfred Tovas

With an introduction by Andreu Bassols

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This is the last of a series of ten papers jointly published by the European Institute of the Mediterranean (IEMed) and the European Union Institute for Security Studies (EUISS) which aim to address ten critical topics for Euro-Mediterranean relations. The papers have been commissioned with a view to formulating policy options on a set of issues which are central to achieving the objectives set out in the 1995 Barcelona Declaration and the 2008 Paris Declaration, as well as defining new targets for 2020 in the political, economic and social spheres.

This tenth paper focuses on one of the main objectives of Euro-Mediterranean policies: the creation of a Euro-Mediterranean Free Trade Area. The paper analyses the commercial reciprocity between the Euro-Mediterranean partners in agricultural products and trade in services. Professor Alfred Tovias goes further and proposes the creation of a genuine Euro-Mediterranean Free Trade Area and examines the potential effects of a future liberalisation of agricultural products and services, namely the consequences in the labour and migration field. Finally, the author highlights a series of policy recommendations regarding Euro-Mediterranean trade relations.

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European Institute of the Mediterranean
Girona 20
08010 Barcelona
Spain
phone: + 34 93 244 98 50
fax: + 34 93 247 01 65
e-mail: info@iemed.org
www.iemed.org

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EU Institute for Security Studies
43 avenue du Président Wilson
75775 Paris cedex 16 – France
phone: + 33 (0) 1 56 89 19 30
fax: + 33 (0) 1 56 89 19 31
e-mail: info@iss.europa.eu
www.iss.europa.eu



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The European Institute of the Mediterranean (IEMed)

is a think tank for the identification and interpretation of the challenges in the Euro-Mediterranean area and for the preparation of proposals to confront them. It offers spaces for reflection and debate as well as advice and assistance to cultural and cooperation projects in the Mediterranean. Moreover, it promotes the participation of civil society in the Euro-Mediterranean space through several networks and in collaboration with entities from the social, economic and cultural worlds.

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was created in January 2002 as a Paris-based autonomous agency of the European Union. Following an EU Council Joint Action of 20th July 2001, modified by the Joint Action of 21st December 2006, it is now an integral part of the new structures that will support the further development of the CFSP/ESDP. The Institute's core mission is to provide analyses and recommendations that can be of use and relevance to the formulation of EU policies. In carrying out that mission, it also acts as an interface between experts and decision-makers at all levels.

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Foreword: Ten Topics for 2010-2020

This is a series of ten papers addressing ten critical topics for Euro-Mediterranean relations published jointly by the European Institute of the Mediterranean (IEMed) and the European Union Institute for Security Studies (EUISS). Our purpose is to formulate policy options on a set of issues which we consider central to achieving the aims stated in the 1995 Barcelona Declaration: building a common Euro-Mediterranean area of peace and stability, of shared prosperity, of common understanding and exchanges between civil societies, founded on the rule of law and the democratic development of all its members' political systems.

The main step to achieve this, in line with the European model of economic integration with clear targets to be met by all over a 15-year time span, was setting up a free trade area by 2010, mindful of WTO obligations. This was to gradually cover most aspects of trade, starting with the elimination of tariff and non-tariff barriers in manufactured goods, followed by agricultural products and services, to be "liberalised in stages." This underlines the fact that 2010 was an important date in the view of the founders of the Barcelona Process, in terms of meeting commitments regarded as crucial to fulfilling the promise of "shared prosperity" and ensuring peace and harmony. This is reason enough, along with the soul-searching review of Euro-Mediterranean mechanisms undertaken in 2005 and 2008, to take a fresh look at the aims and goals defined for 2010 and, in the light of the intervening changes in the political landscape and in Euro-Mediterranean mechanisms proper, make suggestions for the course of action to be undertaken in the next ten years.

In the last few years the members of the Barcelona Process, including civil society actors, have produced a series of sobering assessments of its achievements. Resulting revisions of Euro-Mediterranean initiatives led to the launch of the Union for the Mediterranean in July 2008. It is important to note that the Paris Declaration establishing the Union for the Mediterranean has restated the very same goals reaffirmed in the Barcelona 1995 Declaration. However, the constant attempts at re-launching the EMP over the past few years have given rise to many doubts about what it is that we are trying to achieve together, and what ultimately is the common ambition behind the initiative. At the same time, there is the feeling that owing to

the difficulties at the multilateral level, all hopes are now placed in north-generated variable geometry. While this may allow some in the south to deepen their relations with the EU, it is unclear what the spillover effects for the crucial south-south dimension are likely to be.

It is necessary to reopen the debate yet again in order to clarify two basic things: is there a common destiny binding the EU and the Mediterranean countries together? How can the “natural” spread of democracy, prosperity and peace from Europe to the south be accelerated through a voluntary political association process? How is this being affected, lastly, by the kind of interplay between the bilateral association agreements and neighbourhood policy action plans, together with the newer trend-setting project-based approach, and the common multilateral drive?

Defining new targets for 2020, in the political, economic and social spheres, is therefore the purpose we seek to accomplish with this series entitled “10 Papers for Barcelona 2010”.

Senén Florensa and Álvaro de Vasconcelos

Introduction

Andreu Bassols

In 1995 the Barcelona Declaration contained a single date for the achievement of a specific objective: 2010 and the creation of a Free Trade Area in the Euro-Mediterranean space. The objective was and is ambitious and has not been fully achieved. There are two large fields that remain to be completed: one is the south dimension and the other is the sectoral dimension.

The south dimension is the agreements between the southern Mediterranean countries. Like the spokes of a wheel, the European Union, in the centre, has since 1995 concluded free trade agreements with all the Mediterranean partner countries except one. But the circumference, that is, the agreements between the Mediterranean partners, remains largely to be completed. The wheel of the Euro-Mediterranean Free Trade Area cannot turn until all the southern Mediterranean countries conclude agreements with each other. In 2004, four southern countries (Egypt, Jordan, Morocco and Tunisia) concluded a free trade agreement in Agadir. The agreement is an important step but it still has a long way to go: first to include other countries of the south; second, to be applied more fully and ambitiously.

The other dimension is the sectoral. Two thirds of the gross domestic product of the southern Mediterranean countries is made up by agriculture and services. However, the Euro-Mediterranean free trade agreements cover industrial products and only partially agricultural products while they do not yet affect the essential sector of services.

The work of Alfred Tovas mainly approaches the sectoral dimension and explains the challenge, difficulties and opportunities of broadening the current agreements to cover these two sectors of economic activity. If we believe in free trade, if we believe in economic integration as a factor of real convergence between countries, the Euro-Mediterranean Free Trade Area should be expanded to cover the sectors where there is more potential for employment and growth. It is what is called, in the terminology of the Neighbourhood Policy, the “deep and comprehensive free trade agreements”, that is, the free trade agreements that cover all sectors of economic activity including aspects such as technical regulations, public contracts or competition policy.

Concluding or expanding agreements of these characteristics is never an easy task. Doing so with countries of lower levels of economic development is even more difficult. The proof is that the north-south free trade agreements are very rare in the international trade geography, and none has the level of ambition or geographical scope of the Euro-Mediterranean Free Trade Area. Having only partially achieved the objective of 2010 is not a failure, but rather must serve as an incentive to persevere in the two frameworks of political relations between the European Union and the southern Mediterranean countries: the Neighbourhood Policy and the Union for the Mediterranean, inheritor and continuer of the Barcelona Process.

Free Trade in Agricultural Products and Services in the Context of the Barcelona Process

Alfred Tovias

Summary

Since 1976, the policies of the European Union (EU) towards the countries of the Euro-Mediterranean Partnership (EMP) evolved from giving unilateral trade preferences in favour of industrial exports of the Partnership countries to greater financial aid, greater commercial reciprocity and non-economic aspects (political dialogue, measures to foster mutual trust, horizontal cooperation between NGOs, and so on).

The paper focuses on the issue of commercial reciprocity and is in two broad sections. The first analyses the evolution of the EU export-import policy on agricultural products with its Mediterranean neighbours. One of the main objectives of Euro-Mediterranean policies has been the creation of a real Euro-Mediterranean Free Trade Area. But, at first, this was proposed exclusively for industrial products, relegating agricultural and fish products. The demands for liberalization of trade in agricultural products from the Commission and the Partnership countries were fruitless because of the opposition of some EU Member States. Even under the European Neighbourhood Policy (ENP) the EU did not give priority to the liberalization of either agricultural or fish products, but promoted an alignment of the Mediterranean neighbours to the Community standards in health and phytosanitary questions. It is ironic and even immoral that both the EMP and the ENP assume that the economic reforms for greater integration between the EU and its neighbours must be carried out by the Partnership countries. However, more recently there has been some notable progress in the domain of trade liberalization in agricultural products in the context of some of the bilateral agreements signed between the EU and its Mediterranean neighbours.

The second section of the paper focuses on analysing the service market in the Euro-Mediterranean context, identifying the effects of a future liberalization of the service market

and the comparative advantages between the EU and the different EMP countries under the Heckscher-Ohlin analytical model. The export-import service trade flows between the EU and the EMP countries are not very significant. These are mainly focused on transport, tourism, telecommunications and the new technologies. One of the most important aspects in the process of liberalization of the service market should be the development of policies for temporary transit of workers. The development of these temporary mobility policies in the framework of the liberalization of services can mean a substitution of temporary immigration.

The greater contribution to employment creation by the EU in Mediterranean countries will be the import of goods and services where they have a comparative advantage. In the same way, this will contribute to reducing their deficits and external debt. Other effects of the implementation of a free trade area will be the reduction of migratory flows between the southern and northern Mediterranean. However, to achieve a free trade area, the European foreign policy supporting economic reforms of neighbouring countries must be based on demonstrating rather than sermonising. In other words, not in saying what they have to do but saying to them "do what we do." The EU must offer its neighbours its market, not its advice or rules. It must carry out a reform of the Common Agricultural Policy, eliminate trade exceptions in agricultural and fishing issues, accept the delocalisation of agricultural production and ensure that there is full reciprocity between the two Mediterranean shores.

EU Policies Regarding Agricultural and Service Trade with Mediterranean Partner Countries until 2003

The Global Mediterranean Policy (GMP) of the EC, launched in 1972, consisted of a series of cooperation agreements with the Maghreb (Morocco, Algeria and Tunisia) and Mashreq (Egypt, Lebanon, Syria and Jordan) countries, together with a free trade agreement for industrial products with Israel. It was therefore not a multilateral agreement like the Lome Convention. With regard to industrial trade, the agreement with Israel (1975) was based on full reciprocity, while the other agreements (signed in 1976-1977) provided only for free access of the industrial exports of the Mediterranean partner into the European Community and partial tariff reductions for agricultural imports. The latter were generally speaking inversely proportional to the self-sufficiency ratios prevailing in the EC as a result of applying the Common Agricultural Policy (CAP) and limited to off-season imports. This was in line with the regime contemplated for agriculture in the decisions taken by the Council of Ministers in November 1972, which would give birth to the so-called Global Mediterranean Policy (well before the Barcelona Process and the 1995 Euro-Mediterranean Partnership (EMP). Services were not mentioned at all. Financial aid was included in all the GMP agreements in the form of Protocols, something allowing the EC Commission to present its policy as going beyond the sheer concession of trade preferences. Development assistance offered by the EC in the form of grants or in the form of loans from the European Investment Bank (EIB) or from the EC's own budgetary resources (with some sort of interest rebate) was and remained small until

the 1990s if compared either to the bilateral efforts made by the Member States themselves or to the assistance given to some of the Mediterranean countries by the US or Gulf countries.

23 years later (!), in November 1995, the EMP was launched. As is well known, it was based on three baskets (following the structure of the "Helsinki" OSCE model): a political and security one; an economic one; and a socio-cultural one. In the economic basket, which was the most complex and developed, the only one pertinent to this paper, the main elements of the new Programme were: 1) the creation of a Euro-Mediterranean Free Trade Area to be completed by about 2010; 2) a doubling of the financial assistance drawn on the Community's own budgetary resources for the period 1995-1999 (i.e., about 5.5 billion ECU); 3) increasing technical cooperation (based on the experience drawn from the PHARE programme in favour of Eastern Europe).

For experts of the external economic relations of the EU it seemed to augur well, since the slogan used was (see above) of establishing a Euro-Mediterranean Free Trade Area, although obviously that was excluded from scratch services, since FTAs according to the GATT 1947 refer only to the elimination of tariffs or equivalent measures on trade in goods. FTAs do not refer to non-tariff distortions affecting service trade and there was no reference made in any declaration whatsoever in the Barcelona Summit of November 1995 about the new GATS, emerging from the 1994 Marrakech Agreement giving birth to the new WTO. Some documents circulating in Barcelona were quick to specify that Free Trade did relate only to industrial products. Thus, in practice and in relation to the old GMP of 1972, the idea was to have all Mediterranean Partner Countries (MPCs) give tariff - and quota - free access to manufactured products originating both in the EU and in other MPCs. This is good, except for the small detail that the adjustment effort was to be done mainly by the MPCs themselves. On the EC's side, the Commission proposed the cumulation of origin rules and, what is more relevant for this paper, it said it would ask from the EU Member States a supplementary effort in the agricultural domain. Thus, for instance, even now in November 2009, 14 years later, the website of the Delegation of the EU Commission in Israel contains a summary of the text of the 1995 Association Agreement between Israel and the EU, ratified only in 2000 and the one currently being applied, stating literally that it "calls for progressive and reciprocal liberalization of trade for agricultural products," a declaration of good intentions, but no more. In fact, the main supplementary effort made by the EU in the context of the EMP's economic basket was to be financial (e.g., later materialised with the establishment of MEDA and FEMIP), not in the trade domain.¹

Therefore, the European Union policies towards MPCs evolved rapidly in the 1990s from being based on unilateral trade preferences in favour of MPCs industrial exports to focusing on financial aid, reciprocity in trade concessions and non-economic items (political dialogue, confidence-building measures, horizontal cooperation between NGOs, and so on). Bilateral FTA agreements for industrial products establishing an association between the EU and MPCs have been signed by now with all the MPCs (but the association agreement with Syria has not yet been ratified).

1. Some minor agricultural concessions were exchanged in June 2003 between several MPCs and the EU to pay lip service to what had been said in Barcelona in 1995. It is only now in November 2009 that the first comprehensive agricultural agreement has been concluded between Israel and the EU (see later in this paper).

How Have the EMP and the ENP Dealt with Agricultural Trade Liberalization?

The efforts to be made by the EU's Commission in the agricultural domain came to nil with the expected stubborn but quite discreet and behind-the-scenes opposition of different MS to contemplate Free Trade for agricultural products. Then, at the end of 2003, the Prodi Commission came forward with the new ENP (European Neighbourhood Policy), as an outcome of the decisions taken before regarding the Enlargement of the EU to 10 new MS. This ENP reflected the EU's unofficial conviction that any EU Enlargement tends to have destabilising consequences for excluded countries via trade, investment and aid diversion (Tovias, 2005). Countries particularly concerned are those with similar patterns of exports to the EU to new members. It so happens that generally the concerned countries are almost always in the (new) neighbourhood. Therefore, the ENP can also be taken as reflecting the intention of the EU to reverse the unwanted effects of the 2004 Enlargement. It is important to recall here that the Enlargement of the EU to the South in the 1980s with real effects coming on stream only in the mid-1990s (because of long transitory periods) had totally destabilised agricultural exports to EU markets of fruit, vegetables, flowers, wine, cotton, dry fruit and olive oil of MPCs in favour of Spain, Portugal and Greece (Tovias, 1990).²

Among the cited benefits of the ENP, the following ones will deserve particular attention in this paper, because of their economic content:

- “A stake in the Internal Market” (see later for the meaning of this expression).
- Progressive and/or partial integration (at least as observers) of the neighbours into certain EU policies, programmes, agencies and networks that promote cultural, transport, educational, environmental, technical and scientific links (e.g., the European Environmental Agency or standardisation bodies such as CEN or CENELEC).
- New forms of assistance to help partners to meet EU norms and standards, i.e., technical support to revamp the regulatory framework and institution-building as well as sharing best practices to be made available such as the TAIEX mechanism, very successful in the context of the EU accession process.
- “Cross-border Cooperation”, a new form of cooperation with neighbours taking place in clearly defined sub-regional regions located along the EU borders; that includes regions placed along land borders and on sea crossings of significant importance or around common sea basins. The programme is normally to be managed by a region in a Member State; the Commission monitors the implementation of the programmes in all aspects.

2. In fact, whether one likes it or not, if one thinks for a moment, the previous Enlargement of the EC (namely the Southern one) implied that the stabilisation of three new Northern Mediterranean democracies (namely, Spain, Greece and Portugal) was obtained partly at the expense of the economic stability of Southern and Eastern Mediterranean non-members (e.g., through trade diversion, in the case of Morocco's citrus and tomato exports to the EU). This destabilising effect has reproduced itself for other fruit (e.g., berries), as we have been witnessing since the second half of the 1990s. In recognising this fact, the EU should re-think its current EMP and ENP strategies, which clearly have not been able to counteract investment and trade diversion in favour of past and also future Member States (such as Croatia, Macedonia and maybe Turkey).

All this is called “deep integration”. But where are agriculture and fisheries products in all this?

To begin with, one should ask whether or not “deep integration” with the EU is an appropriate tool to stimulate growth and development in the EU's Southern neighbourhood. On that readers must reach their own conclusions. In any case, the European Commission has been insisting since its inception that the ENP was its newest foreign policy tool and would be the main external relations priority of the EU, putting economic reform in its neighbourhood in the centre. At the same time, in the case of Mediterranean neighbours, the ENP was to be taken as a supplement to the EMP, not a substitute, as it would simply add new incentives to be given to them framed in a context of positive conditionality and reflecting a more active engagement of the EU instead of a more passive one (this is apparently a reference to the EMP). In sum, whether appropriate or not, the ENP is here to stay, alive and kicking, and therefore this reality begs the question whether “a stake in the Internal Market” also concerns agricultural and fisheries products.

The Commission has stated that a “stake in the Internal Market” is meant to be a “significant measure of integration”. In the eyes of the Commission it is a step-by-step approach, a little crowded out of the ENP package since 2003 (popularised then apparently by the President of the Commission at the time, Mr. Romano Prodi), in favour of other items (e.g., people-to-people contacts). One of the reasons for this was, in the words of an EC Commission official, the difficulty in persuading the relevant Commissioners and Directorates (excluding those dealing with External Relations) that opening the IM to MPCs was desirable for the EU (!). Another official said to this author that “a stake in the Internal Market” is a long-term objective which begs the question of how long the long term is. What is clear from these thoughts is that agriculture and fisheries, being precisely considered sensitive sectors in the EU, are not part for now of the “stake in the Internal Market” the Commission frequently speaks about.

On the other hand, if the main objective of policy-makers of Arab countries bordering the Mediterranean is to achieve a rapid improvement in the economic situation of their countries, they have an interest to focus precisely on deepening their institutional trade relations with the EU so as to facilitate access to markets over 100 to 120 times larger than the largest market in North Africa and the Eastern Mediterranean (i.e., Israel). Imagine for the sake of illustrating our argument that the EU-27 offered one apparently minor agricultural concession within the framework of a future EU-Egypt Neighbourhood Agreement, such as higher quotas on onions or acceptance of Egyptian phytosanitary certificates. This may create per se more jobs in Egypt than across-the-board preferential tariff reductions on industrial imports by Jordan, Tunisia and Morocco resulting from the much-publicised 2004 Agadir Free Trade Agreement. In economic terms, all is a matter of relative size.

As indicated above, the EMP agreements postulating the creation of Free Trade Areas between the EU and MPCs excluded agriculture from the free trade rule completely. This at a time when a) most of the MPCs had and continue to have a significant revealed comparative advantage in fruit, vegetables and other typical Mediterranean products, something that does not need to be further documented; b) average EU agricultural tariffs are still reaching 30% and c) tariff quotas still dominate in trade relations between the EU and the MPCs.

The EMP agreements signed after 1995 with the different MPCs (e.g., with Morocco in 1995) maintained, at an initial stage, the concessions previously granted by the EU to the MPCs (setting quotas reflecting “traditional exports” that benefit from tariff exemption and reduction of the minimum entry price), while planning their future revision targeted at a higher liberalization of agricultural exchanges. As stated above, the EU engaged in timid discussions towards trade liberalization in agricultural products around 2002 and 2003 (something that actually had to be started sooner according to the EMP agreements which mentioned the year 2000). However, for sensitive products (such as tomatoes and citrus fruits, for example) the new trade concessions to MPCs included in those agreements on agricultural products signed around 2003 included limitations not only in the form of tariffs but also in the form of reference quantities. Therefore, a constant request of the MPCs has been to repeatedly claim the increase of zero-rated tariff quota and reference quantities for their fruit and vegetable exports to the EU, and this has been an object of negotiation at each of the planned revisions of each Euro-Mediterranean Partnership Agreement, with considerable resistance coming, not surprisingly, from European fruit and vegetable farmers.

The result of the EU’s stinginess in trade concessions has resulted, of course, in a continuation over the last 25 years of the traditional trade flows from the MPCs to the EU (García Álvarez-Coque and Jordán, 2006).

The EU has not proven to be more generous in the domain of agriculture and fisheries in the context of the ENP either. What the EU has privileged under the ENP is simply proposing alignment of Mediterranean neighbours to EU sanitary and phytosanitary standards. In the Action Plan of Morocco, agriculture is only mentioned as part of environmental policy; in the one for Tunisia agriculture has been totally excluded; only the ones for Jordan and the Palestinian Authority mention it explicitly. It seems therefore that the more importance ENP documents give to agriculture the less the partner concerned has a comparative advantage in it. Finally, the European Commission has been asking in the context of ENP-related negotiations for protection of geographic indications and meeting quality of all the MPCs interested in drawing up an Action Plan.

What about an Action Plan for the EU?

Horticultural products, wine, olive oil and cotton represent an average of 40% of the final agricultural production in four of the six Mediterranean MS of the EU (Greece, Italy, Spain and Portugal), while the average share accounted for in the rest of the MS is below half of this. Fruits, vegetables and wine enjoy, in general, considerably lower levels of support under the CAP than the more northerly “continental” agricultural products. This is one of the main reasons why European fruit and vegetable growers, in particular from the Mediterranean MS, have been since their accession to the EU opposed to trade liberalization between the EU and MPCs (Tovias, 1990). They simply claim that it would be “unjust”. As indicated by a document published by the UPV (Polytechnic University of Valencia) in 2002, there are 35 EU regions in which fruits and vegetables (in addition to olives) represent more than 45% of the gross

added value of the regional agricultural sector. Spain, Greece and Italy each contain eight of these regions, while there are five in the Netherlands, four in Belgium, and one apiece in both Portugal and France.

It is ironic that not only the old EMP but also the “new” ENP assume that the ones that must carry out economic reforms to benefit from an Internal Market extended to its neighbours are the neighbours themselves. The EU only offers incentives and is to monitor the implementation of the Action Plans, i.e., of the economic reforms to be operated by the neighbours. This is a totally different approach to that of the European Economic Area (EEA), where everybody is supposed to adjust equally. It is also different to the OECD system of peer review, where every Member State can apply peer pressure on all the others. This is pretty odd and frankly speaking quite immoral, in open contradiction to the moral dimension that many Europeans would wish the EU’s foreign policies to stand for nowadays. “Anchoring economic reform in neighbouring countries” is an activity which consists of “demonstrating” and not “sermonising”. What is called for is a “demonstration effect” whereby the EU gives the example, not by telling Mediterranean neighbours “to do what we ourselves already did,” but rather “to do what we do,” namely adjusting. This could be called the “we-are-in-the-same-boat” effect, thus better reflecting that the EU and MPCs are indeed involved in a “real Partnership”, something frequently questioned by Arab countries, particularly after 9/11. Let us call a spade a spade: the unwillingness of the EU to consider Free Trade in horticultural products, wine, olive oil, fish and related processed products clearly reflects an unwillingness to adjust.

On the ENP Incentives

In fact, insisting on the need for economic reforms in Mediterranean neighbours is a way of shifting the spotlight from the EU’s lack of new preferential market access concessions to them since the mid-1970s. There is a sense of urgency here because with time there has been preference erosion by change in the relative positioning of MPCs in the hierarchy of preference. This is patently clear when comparing their relative position in 1976-1977, in 2002 and in 2005. To all this, the liberalization of MFN trade through MTNs (Tokyo Round, Uruguay Round) must be factored in.

Why has trade liberalization in agricultural and fisheries products once again been left behind in the ENP? This is difficult to understand. Agricultural lobbies in Southern Europe are much weaker than 20 years ago when Spain and Portugal entered the EU and even since the EMP was adopted. The Commission’s apprehensions seem unwarranted. If “delocalisation” is accepted for textiles, why not for olive oil, cotton, flowers, fruit and vegetables? Is it also not easier to convince European governments that it is better to “delocalise” to the neighbourhood than to China? There are also profound political economy reasons to strengthen agriculture in the Arab world. As G. Luciani says in a paper, “just as a majority of the labour force is employed in agriculture in the Arab Mediterranean Partner Countries, much of private wealth remains invested in the land and the modernisation of agriculture including its closer integration with industry and services, notably tourism, is a key avenue for the accumulation of capital and the

encouragement of entrepreneurship. Protectionism in the EU precludes strengthening of the national bourgeoisies in Arab countries.”

Embarrassed by the constant harking by MPCs regarding the need to discuss agricultural access for their exporters into the huge EU market, the Commission has stressed that negotiations with MENA countries on further agricultural trade liberalization were made dependent on progress of negotiations at the multilateral level in the context of the Doha Round. But the Round has been on and off and seems to last forever. The Commission has no excuse anymore in practising delaying tactics. An important point here must be made in relation to the IM in agricultural products: for relocation of Mediterranean agriculture to Northern Africa to succeed. Arab countries must eliminate restrictions on buying land there (as this now applies to new Member States, to the dismay of some political parties in Poland).

Some MENA experts tend to dismiss the ENP: for several countries among the MPCs, because for them it looks like “putting the cart before the horse.” Why start speaking about “having a stake in the European Single Market” when the simple exercise of eliminating tariffs both by the EU (on agriculture) and by the MPCs (on everything) has not been implemented yet? By way of example, the Egypt-EU Association Agreement entered into force (only) in 2004 and must last between 12-15 years, which means industrial tariffs are to go only more or less by 2020. It is quite surprising, to say the least, that the EU is proposing elimination of NTBs when customs duties on agricultural goods have not yet been agreed upon, to say nothing of the fact that there are no calendars for their elimination.

Clearly, the 1995 EMP dealt only with reciprocal tariff elimination in industrial products, while the vocation of the ENP is to go beyond that stage and tackle NTBs. Therefore, the ENP comes logically well after the EMP has been duly implemented, as Single Markets come after FTAs and/or Customs Unions.

The Voice of Reason Starts to Be Heard as from 2007

There have been some reasons if not room for optimism since 2007. Why? The so-called Fischler reforms of 2003 of the CAP, based on decoupling, and which were mentioned above, were not applied to horticultural products, retarding even more the control of surplus production of these products by Southern European MS of the Mediterranean. The reform was only extended to these products four years later in 2007 with extreme resistance by Spain and France among other MS.

Some elaboration is needed here. Since 1996, producer organisations have been the preferred means of channelling support to fruit and vegetable producers in the EU. They are seen by EU authorities as the “proper tool for grouping supply.” Aid was supporting producer organisations carrying out operational programmes which were financed on a parity basis by the producer organisations and by the EU. Until the 2007 reform the operational programmes coexisted with market-intervention schemes, including processing aids to tomato farmers, processing aids to citrus producers (e.g., aids per volume of fresh oranges processed into orange juice),

subsidies to dried grapes and fig producers, processing aids to apple, pear and prune producers, direct payments to nut growers, market withdrawals, and export subsidies.

As happened for other agricultural sectors with the Fischler CAP reform of 2003, the 2007 reform decoupled the aid from fruit and vegetables given to processing. It should help support the small farmers’ incomes, but that is all. In other words, the new reform will hit large fruit and vegetable producers of Valencia and Almería, who will not be able to swamp EU markets and non-EU markets alike with cheap products.

This has opened the door to the EU starting to contemplate external trade liberalization in horticultural products both in the context of the Doha Round (and here it is Brazil which is concerned) and in the context of the association agreements with MPCs, dealt with in this paper.

At the time this paper is being drawn up by this author, the Israeli press of 4th November 2009 indicates that a very important Agreement has been reached between the EU and Israel, which ultimately should lead to Free Trade in agricultural products. No transition periods are provided for and the concessions contemplated should enter into force on 1st January 2010 provided the agreement is ratified by the two parties. It covers 95% of food trade between the two countries, which is very significant for Israel as the EU-27 represented in 2008 a market absorbing more than 44% of total Israeli exports of food. Remaining variable levies and import quotas are to be phased out. In fact, agricultural products are now incorporated under the normal free trade regime applied to industrial products since 1989, but for specific lists appearing in several protocols excluding a series of goods from the free trade regime (thus proceeding with a negative list of exceptions to the rule rather than a positive list of goods benefiting from free trade as before). Goods listed in the protocols are considered to be still sensitive and therefore tariff reductions or elimination are confined to a quota, as in the past, reflecting “traditional trade flows”. This is mainly the case for Israeli exports to the EU. In the reverse direction, from the EU to Israel, only tariffs are maintained in most cases, but which can still be huge. For instance, Israel can apply ad valorem tariff rates on EU-originating imports of eggs (110 to 150%), chicken (50 to 110 %), tomatoes (75%) and onions (75%); the same goes for many fruits (e.g., grapes: 150%). The agreement is to be reviewed on 4th November 2012.

In fact, we should not forget that MPCs themselves can be highly protectionist for agricultural products, regarding which they do not have comparative advantage. This is the case of the extensive and rain-fed agricultural system, which in many regions in MPCs cannot compete with EU exports. In fact, the primary production of dry farming extensive systems in the MPCs can hardly compete with the imports of continental products from the EU, given the existing differences between farming structures and production methods. In addition, the fear of commercial openness in these countries is increased by direct subsidies granted under the CAP to European farmers, which encourages exports of cereals from the EU to MPCs.

The trump card used by those in the EU reluctant to proceed with free trade in agricultural products, contrary to what the Commission has been willing to do with Israel, is precisely the fact that an FTA is based on reciprocity and many Arab countries have difficulty in contemplating the opening of their continental rain-fed product markets.

An FTA in Services between the EU and MPCs: Succeeding in Mission Impossible?

By launching the European Mediterranean Partnership (EMP) in 1995, the EU set the ambitious aim of integrating Northern, wealthy, industrialised countries with Southern Mediterranean countries of low-middle income. The main economic target of the Barcelona Declaration was the creation by 2010 of a European-Mediterranean (EuroMed) free trade area (FTA), by means of a set of bilateral Association Agreements signed between the EU and Mediterranean Partner Countries (MPCs) (European Commission, 2008). As we soon reach the deadline, we know by now that there is still a long way towards the establishment of such a comprehensive agreement.

The liberalization process envisaged by the EMP consisted of the total removal of tariff barriers on industrial goods. Later, the ENP spoke of a gradual liberalization of trade in services and investments (Balfour, 2005; Baracani, 2005; Tovas, 2002). The aim was to consolidate the existing access on a preferential basis, with provisions for review at some time after the agreement has come into force (Gstöhl, 2008).

In addition to the bilateral Association Agreements, the Barcelona Process has fostered a process of “South-South” integration among the Mediterranean countries (Mueller-Jentsch, 2003; Attinà and Rossi, 2004). The Arab-Mediterranean FTA, known as the Agadir Agreement, foresees the creation of an integrated market between Egypt, Jordan, Morocco and Tunisia. Besides the Agadir Agreement, Israel and Jordan have signed an FTA, and Morocco, Tunisia, Egypt and Syria, have signed bilateral agreements with Turkey.

The initiative of the ENP aimed to complement the EMP in order to consolidate and not substitute it. The ENP introduced an additional objective for MPCs and that was the prospect of “a stake in the Internal Market” (Del Sarto and Schumacher, 2005; Moses, 2004; Tovas, 2005). The new policy aimed to achieve a “deep integration” with the EU’s neighbours, by moving from “negative integration” (i.e., total removal of trade obstacles) towards a process of “positive integration” (the creation of new instruments and institutions to further economic relations) (Tovas, 2008).

The liberalization process contemplated in the ENP regarding the services sector and investments has so far hardly been significant. Bilateral negotiations on the liberalization of services and the right of establishment had been launched with Egypt, Israel, Morocco and Tunisia but they are scheduled to take longer than expected. Israel and Morocco are marked as potential pioneers to sign such an agreement in the future.

This paper will now examine some aspects regarding the establishment of an FTA in services within the framework of the ENP. Negotiating an FTA in services is acknowledged to be one of the most difficult economic ventures to conclude, and therefore deserves a thorough examination of various perspectives this short paper cannot cover to its full extent. What is done here is to examine two particular aspects. The first is to reflect on what an FTA in services actually means within the context of the EuroMed process and what kind of important aspects

should be taken into consideration. The second is to identify comparative advantages the MPCs may have in the service sector, and which should be taken into account when negotiating an FTA. Based on a Heckscher-Ohlin model of international trade, the author will evaluate the potential comparative advantage of the various MPCs in a potential FTA with the EU.

First, the author discusses the effects of future liberalization in services on both the EU and MPCs. Then he specifically presents the service supply by temporary movement of labour – mode 4 in GATS terminology – and its importance to MPCs and the EU alike. Finally, he examines the comparative advantages that the MPCs have in service trade by implementing the Heckscher-Ohlin model in the region. The last section sums up the main findings.

The Effects of Future Liberalization in Services under a Genuine EuroMed FTA in Services

As a matter of fact, the current extent of trade in services between the EU and the MPCs is not that significant. Taking all countries together, EU service exports to MPCs accounted for less than 2% of the overall EU service export volume as of 2007 (see Table 1). The EU exports a larger share to ACP countries, Latin America, and even to Gulf States than to the MED region. The share of EU imports from MPCs is not much higher either – less than 3% of the overall EU imports in 2007. The US represents the most important partner for the EU in trade in services – accounting for more than 10% of overall trade flows.

The EU is a net buyer of transport services, which mainly reflects bad infrastructure in the ENP partners and restricted market access (see Table 2). As for travel, development of tourism makes MPCs net sellers. Telecommunications services also make MPCs net sellers. The EU positions itself rather well in selling ICT-intensive services like financial and computer services, as well as capital intensive services such as construction services. The EU is also a net seller of most of the professional and technical services to MPCs.

The current worldwide financial and economic crisis has halted international investment in 2008, which affected the MED region as well. According to the latest statistics, FDI flows to the region declined in 2008 by 22% from a historical record of 1.8 trillion US\$ in 2007 (European Commission, 2009a). The fall in global FDI has been attributed to a reduced capability of firms to invest due to limited access to financial resources, and a reduced propensity to invest in developed countries that have been hit hard by economic recession.

TABLE 1: EU-27 EXTERNAL TRADE IN SERVICES (IN MILLIONS OF EUROS)

	2004		2005		2006		2007	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
World	880,510	805,154	964,511	876,240	1,067,559	952,537	1,178,112	1,036,986
Selected countries/regions								
African, Caribbean and Pacific countries, signatories of the Partnership Agreement (Cotonou Agreement) (77 countries)	16,252	17,265	18,047	18,143	21,103	18,872	22,458	20,835
Africa	21,718	24,775	24,298	27,399	26,328	29,340	28,706	31,946
Latin America	14,667	12,967	17,800	14,575	19,890	15,962	23,255	17,355
Association of South-East Asian Nations – 10 countries (BN, ID, KH, LA, MM, MY, PH, SG, TH, VN)	13,942	12,789	15,436	13,897	17,889	16,012	20,006	17,452
Gulf Arabian countries (AE, BH, IQ, KW, OM, QA, SA, YE)	10,841	7,381	12,906	7,552	17,114	9,297	22,646	10,716
Mediterranean countries in the Euro-Mediterranean Partnership (CY, DZ, EG, IL, JO, LB, MA, MT, PS, SY, TN, TR)	14,751	24,601	16,383	27,961	17,727	28,262	19,270	31,189
Israel	3,105	2,024	3,189	2,287	3,241	2,430	3,518	2,853
United States	117,368	108,355	122,880	116,980	133,753	122,029	139,135	127,718

Source: Eurostat.

TABLE 2: TRADE IN SERVICES BETWEEN THE EU-27 AND MPCs (NET, IN MILLIONS OF EUROS)

Selected Service Sectors	2004	2005	2006	2007
	-9850.2	-11578.2	-10535.9	-11918.9
Transportation	-2184.9	-2576.6	-3039.7	-3029.5
Sea transport	-694.8	-1146.6	-1584.6	-1231.8
Air transport	-1350.4	-1217.4	-1126.1	-1378.3
Rail transport	-6.4	13.7	7.4	-3.1
Road transport	-68.7	-116.8	-206.2	-262.5
Travel	-10402.8	-11614.8	-10855	-11828.5
Postal and courier services	-35.6	-17.5	-13.6	6
Telecommunications services	-284	-334.1	-388.1	-449.9
Construction services	313.7	268.6	509.8	396.4
Insurance services	121.9	-29.2	200.6	254.4
Financial services	310.6	379.5	425.5	499.9
Computer and information services, computer services	190.3	262.8	438.1	738.6
Computer and information services, information services	17	25.7	33.6	34.1
Royalties and licence fees	80.6	226.1	228.8	186.7
Other business services	2000.4	1917.9	2066.5	1338.3
Merchandising and other trade-related services	1385.1	1066.2	1469.9	1278.6
Operational leasing services	31.2	66.1	104.1	56.9
Legal, accounting, management and public relations services	-9.1	-6.8	49.4	51.3
Advertising, market research and public opinion polling	-71	-77.7	-93.6	-146.7
Research and development services	-20.6	-10.2	-26.8	-91.1
Architectural, engineering and other technical consultancy	128.7	270.3	226.6	326
Agricultural, mining, and on-site processing	37.8	90.3	60.7	74.4
Cultural and recreational services	25.2	14	8.8	1

Source: Eurostat.

Services can be supplied in four different ways (“modes” in GATS terminology): cross-order supply, consumption abroad, commercial presence, and presence of natural persons. In the negotiations on the FTA in services that the EU has concluded so far (Mexico, Chile, and Caribbean countries), modes 1 and 3 were the primary objectives of services liberalization negotiations. This is of no surprise as those modes are particularly important for the EU service providers (see below).

Depending on the type of service, trade barriers may be of a different character. For example, if commercial presence abroad is not required, and the sale of services abroad is executed by phone

or internet, the most likely obstacles to trade in services are business regulations in a provider's country. Similarly, if the presence of natural persons is required abroad in order to provide a specific type of service, the most likely barriers may arise from employment regulations in host countries. When commercial presence abroad is needed, then host country regulations regarding the establishment of a business will play an important role.

In the case of cross-border supply, a liberalized market allows firms to reap economies of scale. Given the nature of many services, the marginal cost of serving an additional customer in an extended market is low. For example, if a European financial services firm is allowed to offer financial advising in the MPCs, then the marginal investment that is needed to supply the services is negligible.

If market entry necessitates "commercial presence", that is, FDI, then a service will create "sunk" investments, which often call for considerable sales to be profitable. The bigger the initial investment, the greater the economies of scale (Aliboni, 2005). Examples of this kind of industry are telecommunications, transport, or financial services – in all of which the EU has comparative advantage.

Because of massive economies of scale, there are so-called "first-mover advantages". If the EU is the first to conclude an FTA with the MPCs, European firms may enter an MPC market and acquire communication networks, power plants or distribution networks. In retail markets that require large numbers of branches, first entrants can achieve economies of scale in marketing and back office operations. Competitors that try to establish a presence later find themselves excluded because all attractive domestic companies have been acquired. In this case, it may not matter much if liberalization is legally non-discriminatory, since new barriers to entry have already been created.

For these reasons, if an MPC liberalizes its investment regime under an FTA, EU multinational companies (MNCs) will generally overcome the advantages of domestic incumbents, since they can offer more attractive products at lower prices. If, however, the incumbent is already a European multinational, the sunk costs may be sufficient to deter later entrants from other developed countries. Consequently, the European incumbent firm will try to set its prices high enough to earn rents, but low enough to deter competitors from entering.

In addition to market structures, regulatory frameworks shape the environment in which firms compete after liberalization. In services, standards often influence costs. If MPCs adopt the *acquis communautaire*, then European firms have an advantage in providing their services that are already in compliance with these requirements. More immediately, MPC regulators may restrict the number of service providers by giving out a limited number of licences, or require non-EU firms to incorporate into their jurisdiction in order to provide services. Such regulatory requirements may again penalise non-EU entrants, who may be excluded from competing in the market altogether.

In the particular industries of energy and telecommunications, the challenge for any government is to adequately regulate its service markets to solve problems of market failures. Regulation generally takes the forms of restrictions on monopolies or direct market share limitations.

Choosing the right regulatory instrument that would enhance competition is demanding for any government agency, even if it possesses the resources of the European Commission. For MPCs, the challenge is even greater, since administrative resources are often stretched and limited in comparison to those of EU members.

MPCs have to deal with two challenges when trying to attract services. First, they need to reassure foreign investors that their property rights will be respected by future governments that may have different policy preferences. Second, they need to distinguish themselves from other potential services hosts that also try to attract investments. This may explain the incentive of MPCs to sign investment agreements alongside an FTA with the EU.

An investment agreement, which relates directly to the service supply of establishment of commercial presence (mode 3), helps solve the problem that foreign investors may be wary about of host countries with a history of political instability. As soon as European firms have "sunk" investments in an MPC, bargaining power shifts away from the European multinational and to the host country government. In bargains between MPC regulators and EU MNCs, the European firm will have more leverage prior to investing than afterwards.

Since important service sectors, such as telecommunications and financial services, are consumed widely, the political temptation to limit profits of European firms in order to please the general population is great. On the other hand, if the government limits the profitability of an investment too much, the European firm may find itself "trapped" in the market and refuse to commit further capital, and the MPC government may have difficulties finding alternative investors. This is why any future EMP FTA in services must incorporate some kind of dispute settlement procedures with investor-state provisions. In those types of agreements foreign firms obtain not only most-favoured-nation treatment, but usually also national treatment and the right to invest in any industry, except for those specifically excluded by the host government.

FTA bargaining, therefore, has both domestic and international aspects. MPC governments try to balance the desires of consumers (low prices and adequate supply), those of European firms (stable and sufficient profits), and the need to attract FDI in general. Unfortunately, constraints on regulatory freedom can have adverse consequences because many service industries tend toward imperfect competition (Milcher and Slay, 2005; Meloni and Cremona, 2007). MPCs may not only be prevented from expropriating European investors, but also from establishing competitive and contestable markets with lower prices for consumers.

Irrespective of estimated likely gains from free trade in services, even the EU has not yet managed to establish a fully functioning internal service market. There are still large barriers to trade among the EU members in the form of monopolies restricting the entry of foreign providers (e.g., in postal services and energy utilities), quantitative restrictions, territorial and residency restrictions, professional regulations, and so on.

Barriers in services trade between the old and new EU members are even greater (Tocci, 2005). Therefore, the possibility of significant liberalization of trade in services between the EU and the ENP economies during the coming years are not very realistic, but limited progress in

certain services is possible and should be sought (Jones and Emerson, 2005; Jeandesboz, 2007). For the majority of the ENP countries, the likely threshold possible to attain within the coming years are the provisions negotiated under the GATS. For MPCs that are not yet WTO members (e.g., Algeria [Darbouche, 2008]) even binding future commitments will be an important step forward in liberalizing trade in services.

There are numerous positive effects of liberalization of trade in services. It is estimated that welfare gains within the EU from creating a fully functioning Internal Market for services contribute significantly to GDP and employment growth (European Commission, 2008). While the effects of a partial liberalization of trade in services with the ENP countries, with some restrictions especially regarding employment of workers from the ENP, would be positive, they are likely to be marginal for the EU. Given the relative technological and managerial gap of MPCs vis-à-vis the EU, it is expected that welfare gains from the liberalization of trade in services would be important for MPCs.

The Importance of Temporary Movement of Natural Persons (Mode 4) for MPCs and for the EU

One should expect that more “liberal” policies towards temporary movement of natural persons (mode 4 of GATS) will result in higher inflows of MPC service providers to the EU. Another assumption is that liberalizing mode 4 encourages inflows of highly skilled specialists.

All else being equal, the larger the gap in the attainable standard of living between home and host countries, the larger the welfare gain would be for the EU to receive the service from an MPC provider. Indeed, the situation of the European labour market is particularly important. Better employment prospects in the EU members might induce more liberalization prospects to free mode 4.

The issue of mode 4 relates directly and indirectly to migration. The EU has historically been an attractive place for migrants and has attracted high migration inflows over the recent decades (European Commission, 2009b; Zaiotti, 2007). In particular, while the early 1990s were characterised by large immigration related to the dissolution of the Soviet Union, more recent years saw particularly strong increases in immigration from MPCs to Southern European countries (Smith, 2005; Mahncke and Gstöhl 2008; Meloni, 2007). The distribution of total immigrants from specific ENP countries among EU Member States is fairly stable, as the costs of migration to particular countries tend to decline when larger diasporas are present in these countries.

There is a known concern in some European social circles that migrants not only “take the jobs” of the locals but also may jeopardise the cultural fabric of the nation (Trauner and Kruse, 2008; European Commission, 2009b). To those who are concerned, one may answer that the proposal of liberalizing mode 4 can act as a substitution for permanent migration. Instead of relocating for long periods of time, potential MPC service providers may supply their services and return to their country of origin.

In this regard, political developments in the EU will play a crucial role in determining the willingness of the Union to open its markets. EU policies towards ENP countries should take into account the long term development impact on the latter group (Comelli et al., 2007; Cremona and Meloni, 2007). Under the GATS framework, most of the countries have shown willingness to open their markets to the movement of intra-firm managers, and to a lesser degree, specialists. However, when we consider a genuine FTA in services, mode 4 must be included and that means enabling for a significant portion of MPCs independent professionals and contractual services suppliers to come and offer their services freely in the EU.

In addition, one needs to also consider the impact of some kind of “brain drain” (exporting high-skills service providers) in ENP countries, which may slow their development and thus contribute to slowing down the convergence process (Hall, 2006; European Commission, 2009b). Still, entry of highly skilled labour from MPCs to the EU could mitigate potential negative externalities for ENP countries. In particular, “mode 4” kind of migration might be promoted with some support plan for highly skilled nationals of ENP countries willing to return home.

Financial integration between the EU and MPCs can also play a role in encouraging mode 4 service supply (Canciani, 2007). The ability of the MPC service provider to transfer his income and savings freely from Europe back to his home country provides an incentive not to stay in Europe. Thus, closer financial integration between the EU and MPCs encourages more temporary movement of labour relative to permanent migration.

A HO/FEA Model and Its Implementation in the Southern Mediterranean Area³

The Hecksher-Ohlin model of international trade has some power to predict future patterns of trade (in particular its commodity composition) when the starting point is one of restricted or no trade, whether because there are natural or artificial barriers to trade. This is precisely the situation with most services. The idea of the section is to ask how export patterns of MPCs would look if trade in services were freed, either due to a reduction of formal barriers (e.g., in the context of the ENP or the GATS) or of natural barriers (e.g., construction of a fixed link between Europe and Africa through Gibraltar; construction of new airports; establishment of new air links; increased coverage of existing telecommunications grids and so on).

In order to assess the patterns of trade in the MPCs the following is suggested:

1. List and classify the existing supply of production factors in Arab Mediterranean Countries (Morocco, Algeria, Tunisia, Egypt, Jordan, the Palestinian Authority, Syria and Lebanon) in terms of relative abundance in comparison both to other developing countries and to

3. This section draws from research done previously by the author for the FEMISE project FEM22-34, “Les perspectives de changement sectoriel dans les pays méditerranéens : quels secteurs de croissance après l’industrie légère ?”.

developed countries.⁴ Labour is disaggregated by skill levels and age profile. Sociological and anthropological characteristics of the populations in the different Arab Mediterranean countries under focus (Morocco, Algeria, Tunisia, Egypt, Syria, Jordan, the Palestinian Authority and Lebanon) are also listed. Different types of natural resources and physical capital are specified as much as possible. The same goes for types of infrastructure. Location and geographic factors conferring comparative advantage are also listed as well as relative physical and cultural distance to OECD intermediate and final consumers. Finally, the legal and political framework is listed as favourable when it is business-friendly for the development of any type of service activities (including, for example, financial services).

2. List and classify services by their intensity in the relative use of production factors (i.e., factor content).⁵

Once this is done, I look into the amount of overlap between both classifications (1 and 2), and classify the different overlaps in terms of geographic and cultural proximity to the different consumers (in the EU, in the Arab world, in Israel, in Turkey, in central Asia and in Russia). This should allow me to identify service activities where the export potential seems highest on an aprioristic basis.

Relatively Abundant Factors of Production Currently Present in the Arab Countries under Focus

I distinguish between 12 types of production factors which help me to define a profile of 12 characteristics needed to develop a given service activity: raw materials (A), location (B), capital equipment (C), infrastructure (D), weather (E), space and land (F), unskilled labour (G1), semi-skilled (G2) and skilled (G3), physical distance from the consumer (H), cultural distance from the consumer (I) and business-friendly legal and political framework (J).

A. Raw Materials

Morocco: Phosphates
Algeria: Crude oil, gas, uranium, phosphates
Tunisia: Phosphates
Egypt: Crude oil, gas, cotton
Palestinian Authority: ---
Jordan: Phosphates, potassium, salt
Syria: Crude oil, potassium
Lebanon: ---

B. Locations/Sites/Landscapes with Recreational Value

Morocco: Beaches, historical sites
Algeria: Beaches, Sahara desert
Tunisia: Beaches
Egypt: Beaches, historical sites
Palestinian Authority: Historical sites
Jordan: Historical sites, Dead Sea
Syria: Beaches, historical sites
Lebanon: Beaches, historical sites

C. Capital Equipment

Morocco: ---
Algeria: Pipelines
Tunisia: ---
Egypt: Pipelines, textile machinery
Palestinian Authority: ---
Jordan: ---
Syria: ---
Lebanon: ---

D. Infrastructure

Morocco: Hotels, Tangier harbour
Algeria: ---
Tunisia: Hotels
Egypt: Suez Canal, Alexandria (Damiette) harbour, Cairo airport
Palestinian Authority: ---
Jordan: ---
Syria: ---
Lebanon: Beirut harbour, hotels

E. Weather

Morocco: Dry (Mediterranean at the coast)
Algeria: Dry (Mediterranean at the coast)
Tunisia: Dry (Mediterranean at the coast)
Egypt: Dry (Mediterranean at the coast)
Jordan: Dry
Palestinian Authority: Mediterranean in Gaza; mildly continental in the West Bank
Syria: Mediterranean but some dry weather in desert areas
Lebanon: Mediterranean

F. Space and Land

Morocco: Yes, semi-arid
Algeria: Yes, semi-arid
Tunisia: Yes, semi-arid
Egypt: Yes, semi-arid
Jordan: Yes, arid
Palestinian Authority: No, semi-arid
Syria: Yes, semi-arid
Lebanon: No, Mediterranean

G. Labour Force: Unskilled (G1), Semi-skilled (G2), Skilled (G3)

Morocco: Unskilled; semi-skilled; abundance of artisans; young
Algeria: Unskilled; semi-skilled; French-educated administrative personnel; good sportsmen; very young

Tunisia: Unskilled and semi-skilled; French-educated administrative/management personnel; medical doctors (partly trained in France)
Egypt: Unskilled, abundance in media/artistic/musical skills; expertise in culinary arts; young
Jordan: Unskilled; a lot of high-tech personnel; young
Palestinian Authority: Unskilled and semi-skilled; some highly-skilled with good knowledge of classical Arabic; very young
Syria: Unskilled; skilled for commercial activities; very young
Lebanon: Mostly skilled for commercial and financial activities; expertise in culinary arts; young

H. Physical Distance from OECD Countries' Consumers (e.g., Europe)

Morocco: Very close (reachable by land and sea transport)
Algeria: Close
Tunisia: Close
Egypt: Quite close
Jordan: Quite close
Palestinian Authority: Quite close
Syria: Quite close
Lebanon: Quite close

I. Cultural Distance from OECD Countries of Intermediate or Final Consumers, in Terms of Language Overlap (e.g., with Europe)

Morocco: Very close (francophone)
Algeria: Very close (francophone)
Tunisia: Very close (francophone)
Egypt: Quite close (English, some Italian)
Jordan: Close (English)
Palestinian Authority: Quite close (English)
Syria: ---
Lebanon: Very close (multilingual)

J. Business-Friendly Legal and Political Framework

Morocco: Quite favourable
Algeria: ---
Tunisia: Quite favourable
Egypt: ---
Jordan: Quite favourable
Palestinian Authority: ---
Syria: ---
Lebanon: Favourable

4. The author has opted not to deal in this paper with the special case of Israel, which deserves an entirely different approach to the issue at stake.

5. I do not pretend to be either an expert or a services engineer. I have been collecting some information interviewing professionals working in different service sectors.

Some Other Idiosyncratic Characteristics of the Countries Selected

The idea here is to add other characteristics so as to refine the qualitative description of a country’s profile.

Morocco: Widespread knowledge of Islam, its scriptures; its folklore; its calligraphy; hospitality; a large diaspora in OECD countries (France, Canada, Belgium, Spain).

Algeria: A large migrant community in France.

Tunisia: A large migrant community in France; hospitality.

Egypt: Widespread knowledge of Classical Arabic language; same for Islam, its scriptures; a large migrant community in Gulf countries; some in Europe (Italy).

Palestinian Authority: A large diaspora in the Arab world and Latin America.

Syria: A long tradition of being engaged in commercial activities; a large diaspora in Latin America.

Lebanon: A long tradition dating back to Phoenician times of acting as intermediaries (in trade and finance); a large diaspora in France, Western Africa, Canada and Latin America.

Rough Classification of Services According to Factor Use (Relevant to This Section of the Paper)⁶

I use the Extended Balance of Payments Service Classification (EBOPS) used by the IMF (United Nations, Manual of Statistics...)

	A	B	C	D	E	F	G1	G2	G3	H	I	J
1. Transportation												
1.1 Sea transport	-	-	x	x	-	-	x	x	-	-	-	-
1.2 Air transport	-	-	x	x	-	-	-	-	x	-	x	-
1.5 Rail transport	-	-	x	x	-	x	-	x	-	-	-	-
1.6 Road transport	-	-	x	x	-	-	x	-	-	x	-	-
1.7 Inland waterway transport	-	x	x	x	-	-	x	x	-	-	x	-
1.8 Pipeline transport/electricity transmission	-	x	x	x	-	x	-	x	-	-	x	-
1.9 Other supporting/auxiliary transport services	-	-	-	-	-	-	x	-	-	x	-	-
2. Travel	-	x	-	x	x	x	x	x	-	x	x	-
3. Communication services												
3.1 Postal and courier	-	x	-	-	-	-	x	-	-	x	x	-
3.2 Telecommunication services	-	-	x	x	-	-	x	x	-	-	x	-
4. Construction services	-	-	x	-	-	-	-	x	x	-	-	-
5. Insurance services	-	x	-	-	-	-	-	-	x	-	x	x

6. E.g., government services are excluded.

	A	B	C	D	E	F	G1	G2	G3	H	I	J
6. Financial services	-	-	-	-	-	-	-	x	x	-	x	x
7. Computer and information services	-	-	x	x	-	-	-	x	x	-	x	x
8. Royalties and license fees	-	-	x	x	-	-	-	-	x	-	x	-
9. Other business services												
9.1 Merchandising and other trade related services	-	x	-	-	-	x	x	x	-	x	x	-
9.2 Operational leasing services	-	x	x	-	-	-	-	x	-	x	x	x
9.3 Miscellaneous business, professional and technical services	-	-	-	-	-	-	x	x	x	x	x	-
10. Personal, cultural and recreational services												
10.1 Audiovisual and related services	-	-	x	x	-	-	-	x	-	-	x	-
10.2 Other personal/cultural/recreational services	-	x	-	-	x	-	-	x	-	x	x	-
10.2.1 Education services	-	x	-	-	-	-	-	x	x	x	x	-
10.2.2 Health services	-	x	x	x	x	-	-	x	x	x	x	-
10.2.3 Other services (catering, archive, library, veterinary, day-care, rehabilitation, religious, sports, amusement parks, dry-cleaning, cosmetic, gambling)	-	x	-	(x)	(x)	(x)	x	x	-	x	x	-

Overlap

For each Arab country, I operate in steps. I select first the service activities of EBOPS which fall in two distinct categories, namely when there is Perfect Overlap (PO) between the country’s relative factor endowment and the service factor content; and when there is “only” Almost Perfect Overlap (APO), i.e., only one of the 12 characteristics needed in terms of factor content to develop a service for export does not match the country’s factor endowment.⁷ One example will suffice. To develop tourism, which falls under Travel, Morocco seems perfectly suited, since it has a relative abundance of beaches, historical sites, hotels, dry and Mediterranean weather, unskilled and semi-skilled labour, is very close to Europe and very close culturally to the francophone world. Abundance of raw materials, capital equipment, highly-skilled personnel and a sophisticated legal framework are not needed for that type of activity. So we have all the required characteristics in Morocco to develop tourism. The overlap is perfect, namely PO.

In a second step, I distinguish for each country those service activities involving entire branches in view of the large size and relative proximity of the potential market (not only in terms of

7. It is very important to note that we are only interested in eliminating from the positive list activities in which the country does not have an endowment which is needed in the development of a given service activity. In other words, we are not concerned about the lack of a given characteristic in an MPC if it is not needed for the development of the relevant service activity. Note that we have counted as one half any country characteristic which is partially fulfilled by the country in question, e.g., Morocco’s quite favourable legal and political framework has been considered as one half of the characteristic (which, for example, in the case of Lebanon has been considered as one).

population but also in terms of income per capita) involved in what could be called niche service activities (indicated by using a smaller font).

Morocco

PO: Travel services, other personal/cultural and recreational services, other supporting auxiliary transport services, postal and courier services, merchandising and other trade related services.

APO: Sea transport, rail and road transport, inland waterway transport, pipeline transport, telecommunications services, miscellaneous business, professional and technical services, audiovisual and related services, education services, other services (catering, archive, library, veterinary, day-care, rehabilitation, religious, sports, amusement parks, dry-cleaning, cosmetic, gambling).

Algeria

PO: Postal and courier services, other supporting/auxiliary transport services, merchandising and other trade related services, other personal/cultural/recreational services.

APO: Pipeline transport, travel, construction services, miscellaneous business, professional and technical services, audiovisual and related services, education services, other services (catering, archive, library, veterinary, day-care, rehabilitation, religious, sports, amusement parks, dry-cleaning, cosmetic, gambling).

Tunisia

PO: Travel, other supporting auxiliary transport services, postal and courier services, merchandising, other personal/cultural and recreational services.

APO: Sea transport, rail and road transport, inland waterway transport, pipeline transport, telecommunications services, insurance and financial services, operational leasing services, miscellaneous business, professional, technical services, audiovisual and related services, education services, other services (catering, archive, library, veterinary, day-care, rehabilitation, religious, sports, amusement parks, dry-cleaning, cosmetic, gambling).

Egypt

PO: Rail and road transport, other supporting/auxiliary transport services, travel.

APO: Inland waterway transport, pipeline transport, postal and courier services, construction services, royalties and licence fees, audiovisual and related services.

Jordan

PO: Postal and courier services, insurance services.

APO: Financial services, merchandising and other trade related services, miscellaneous business, professional and technical services.

Palestinian Authority

PO: ---

APO: Other services (catering, archive, library, veterinary, day-care, rehabilitation, religious, sports, amusement parks, dry-cleaning, cosmetic, gambling), other personal/cultural/recreational services (construction services).

Syria

PO: ---

APO: Other supporting/auxiliary transport services, postal and courier services.

Lebanon

PO: Insurance services, financial services, other personal/cultural, recreational services.

APO: Air transport, pipeline transport, postal and courier services, construction services, royalties and licence fees, operational leasing services, education services, other services (catering, archive, library, veterinary, day-care, rehabilitation, religious, sports, amusement parks, dry-cleaning, cosmetic, gambling).

The reader should observe that the second step makes it possible to distinguish between Arab countries which should concentrate on niche service activities (Algeria, Jordan, Syria) from those which should concentrate on branch service activities (Egypt, the Palestinian Authority, Lebanon) and from those which in fact can specialise in both types of activities (Morocco and Tunisia).⁸ The results are interesting. There is great room for optimism for instance regarding the Palestinian Authority's potential in exporting services, simply because of its proximity to the huge high-income Israeli market (in relation to the Palestinian Authority's productive capacities). On the other hand, the relative remoteness of Syria, Jordan and Algeria from large and high-income EU or Israeli markets bodes badly for the future of service exports from these three countries.

The Importance of Diasporas in Trade in Services

They seem to be relatively more important than in developing trade in goods:

- Services are many times activities of intermediation between consumers and producers (of goods or of services). Migrant populations facilitate the service provider activity in the countries where the migrants live.

8. The focus is only on those service activities perfectly overlapping the country's factors endowments (e.g., PO activities), except for the Palestinian Authority and Syria where no PO activities have been found, in which case APO activities have been selected.

- Services are activities which are very dependent on reputation of the provider of the service. While the OECD consumer might not have any idea of how reputable the service provider in a far-away country is, he might have an idea of the average reputation of the fellow citizens residing as migrants in his own country for that service.
- The migrating populations have their own needs for services, part of which can only be provided by residents of the home country (e.g., religious and education services).

Some Common Characteristics of North African and Near East Countries Which Are Idiosyncratic to All of Them Compared to Other Sub-Regions in the World

1. They have all (but for the exception of the Palestinian Authority and Lebanon) abundant desert/arid lands characterised by very dry air. This implies:

- A large capacity for storage and parking.
- A wide margin for absorbing noise-related polluting activities.
- A wide margin for absorbing smell-intensive activities.
- Lack of humidity prevents corrosion.

Examples of service activities linked to these characteristics are:

- Rental of space for petroleum storage and servicing of the installation.
- Rental of space for parking of used planes and servicing them.
- Rental of space for parking of used road vehicles and servicing them.
- Rental of space for parking of used railroad vehicles and servicing them.
- Rental of space for the cinema industry, provision of basic services (electricity, water, etc.).
- Rental of space for military bases (e.g., for training of pilots), provision of basic services, catering, accommodation.
- Rental of space for airspace bases, provision of basic services, catering, accommodation.
- Rental of space for vehicle and horse racing.
- Rental of space for orchestras, provision of basic services, catering, accommodation.
- Rental of space for archives.
- Rental of space for golf clubs.
- Rental of space for steel industries, provision of basic services.
- Rental of space for cement factories, provision of basic services.
- Rental of space for chemical industries, provision of basic services.
- Rental of space for leather tanning activities, provision of basic services.
- Waste and scrap recycling services, tank emptying and cleaning services.

2. Almost all of the countries under focus have an abundant young population (with the exception of Tunisia).

Examples of service activities linked to the youth of the populations are:

- Acting as support cast in movies and opera.
- Professional sport activities.
- Paid volunteering for medical trials.
- Military/security/defence activities.
- Professional fashion activities.
- Professional sailing.
- Nursing and care services.
- Donating blood.

3. A large share of citizens of the countries selected are Arabic-speakers and Arabic writers, including those residing in the European and American diasporas with their own demand for services linked to knowledge of spoken and written Arabic. The latter is known to require a relative amount of graphic training in displaying correctly written symbols (which could be characterised as a large calligraphic content in education).

Examples of service activities closely linked to having a good command of a particular language are:

- Performing acts.
- Some health services: psychiatry/nursing/some old age caring activities.
- Communications and the media/publicity/information/press.
- Financial services.
- Legal services.
- Auditing services.
- Education services.

Examples of service activities closely linked to calligraphy are:

- Decorative/adorning activities.
- Graphic services.
- Animated pictures.
- Ceramic/pottery design.
- Wood and metal joinery and carpentry services.
- Plastering services.
- Masonry services.
- Gardening and landscaping.

4. Geographical proximity to the EU-27. This is an advantage of all the 8 countries under focus, but even more so for Maghreb countries for the distance-sensitive provision of particular services; customers and service providers live in the same time zone and season; no jet lag (e.g., transfer time to the service provider or of the latter to the customer plus knowledge of French is critical for the successful provision of the service):

- Health services.
- Health tourism services.
- Tourism services.
- Veterinary services.
- Repair services of any sort.

5. Geographical proximity to Gulf countries. This is an advantage of all the 8 countries under focus, but even more so for Mashreq countries for the distance-sensitive provision of particular services (e.g., transfer time to the service provider or of the latter to the customer plus knowledge of the Arabic language is critical for the successful provision of the service):

- Health services.
- Health tourism services.
- Tourism services.
- Veterinary services.
- Construction services.
- Land transport services.
- Air transport (Cairo airport hub).
- Repair services of any sort.

6. Geographical proximity to Israel. This is important for two reasons: Israel possesses two important, high-tech-equipped container harbours (Haifa and Ashdod) and an important airport (Ben Gurion) fully equipped for handling large amounts of cargo. Second, more than 20% of Israel's population is Arabic-speaking (e.g., Arab Israelis). This is an advantage for all the 8 countries under focus, but even more so for the Palestinian Authority, Jordan and Egypt (and in times of peace Syria and Lebanon) for the distance-sensitive provision of particular services (e.g., transfer time to the service provider or of the latter to the customer plus knowledge of the Arabic language is critical for the successful provision of the service):

- Health services.
- Health tourism services.
- Tourism services.
- Veterinary services.
- Land transport services.
- Air transport services (airport hub).
- Construction services.
- Repair services of any sort.

Special Case Study: Tunisia

In this section, we present a case study based on in-depth interviews about the social and economic structure of Tunisia and the aprioristic methodology developed in this part of the paper to draw some conclusions about Tunisia's revealed and potential comparative advantage in the development of services.

Tunisia's population is the most educated one among the three Maghreb countries, particularly when we consider females. The level of literacy is as high as in Europe regarding the young, less so regarding older people. School is obligatory until the age of nine today (while for those whose age is currently over 30 it was six or seven). The rate of success at the secondary school final exams has been constantly rising over recent years. Language-wise, knowledge of Classical Arabic, French⁹ and Italian is widespread.

In terms of professional background, there is a relative abundance of manager-level employees having acquired an MBA. High tech medium-level personnel (e.g., experts in data processing) is relatively abundant, with many having emigrated to France but some having returned to Tunisia. There is a brain drain regarding the engineering profession. In the health sector, there is relative abundance of well-educated general practitioners, with many currently unemployed.¹⁰

In terms of expertise and quality of the service, Tunisians have a good reputation (including in France) of being good small-shop traders (60% of small food shops in France are managed by Tunisian migrants); restaurant servers; home constructors; masons; performers of Arab music for Arab audiences. Two professions of the film industry have flourished since the 1970s: decorating and sound recording. There is relative abundance of Arabic-language journalists, particularly in the area of sports.¹¹ Tunisian pilots are working for air companies in Gulf countries. Scientific research in genetics is relatively developed.

It goes without saying that the oldest and until now most widely exported service from Tunisia to Europe has been "travel" (i.e., commonly known as tourism). For instance, more than 5.3 million tourists entered Tunisia in 2001, 87% of them from the EU. Tourism receipts represented 17% of total exports that year.

The abundance of medically-trained personnel has facilitated the emergence of off-shore clinics specialising in minor old-age problems, cosmetic surgery and other small-scale treatments not covered by the social security systems of OECD countries. Cosmetic surgery services cost, *caeteris paribus*, between 30% to 40% less than in France. The French-based client has to wait less time between the first interview with the surgeon and the surgical intervention than in France.¹²

9. The knowledge of French is not as good as in Morocco and Algeria, and therefore not suitable for French-intensive services such as call centres, where the other two countries have a comparative advantage.

10. On the other hand, I was told nurses are scarce.

11. Tunisian personnel are well represented in the TV station Al Jazeera.

12. The price of the hotel accommodation before and after the operation is half as expensive as in France. Note however that in case of complications, the second visit to Tunisia and/or the extra medical expenditure will have to be covered by the customer and will not be reimbursed by French Social Security.

Tunisia has been able to conclude a social security agreement with the UK for the handling and later reimbursement of expenditure involved in small surgical interventions. More generally, Tunisian clinics have been massively exporting health services from Sfax, where they are based, to Libyan citizens. The presence of appropriate personnel combined with the benign Tunisian weather have resulted in the establishment of old peoples' homes accommodating mainly French, Italian and French Canadian customers (because of the language), but also Nordic and German citizens (in which case physicians are English-speaking).

The abundance of appropriate landscapes and unskilled personnel has resulted in the establishment of film sites since the 1970s, in particular, but not only¹³ with a historical theme (e.g., set in Roman times).

Apart from the above and given what was discovered in previous paragraphs there seems to be an unexploited comparative advantage and therefore potential for the development of international service trade in the following areas:

- Trade related services (wholesale).
- Supply of education services to Arab migrants.
- Rental of space for petroleum storage and maintenance of the installation.
- Rental of space for parking of used planes and maintenance.
- Rental of space for parking of used road vehicles and maintenance.
- Rental of space for parking of used railway vehicles and maintenance.
- Rental of space for military bases (e.g., for training of pilots), provision of basic services, catering, accommodation.
- Rental of space for airspace bases, provision of basic services, catering, accommodation.
- Rental of space for vehicle and horse-racing.
- Rental of space for orchestras, provision of basic services, catering, accommodation.
- Rental of space for archives.
- Performing acts.
- Psychiatry (for Arab-speaking customers).
- Auditing services (for Arab-speaking customers).
- Veterinary services.
- Back-office services for Arab customers, particularly from the Gulf (call centre accounting, billing, and database management).
- IT services for Arab consumers, particularly from the Gulf.

Concluding Remarks on Service Trade Liberalization

Liberalization of trade in services means fewer restrictions on movement of people and capital as well as freedom of establishment. Although supposed to bring beneficial effects to both EU and MPCs alike, it has proved to be difficult to achieve FT even within the EU. Current patterns of trade in services between the EU and MPCs are typical for trade with developing regions. The EU is a net buyer of services to which market access in ENP economies is restricted, and sells to them high-tech and capital intensive services.

Because of massive economies of scale, there are colossal first-mover advantages. If the EU is the first to conclude an FTA with the MPCs, European firms may enter an MPC market and acquire, for example, communication networks or power plants. EU multinational companies (MNCs) will generally overcome the advantages of domestic incumbents, since they can offer more attractive products at lower prices. If, however, the incumbent is already a European multinational, the sunk costs may be sufficient to deter later entrants from other developed countries. Non-EU competitors that try to establish a presence later find themselves excluded because all attractive domestic companies have been acquired.

Still, we have to remember that adequately regulating the various service markets, especially to enhance competition, is very demanding for the MPC governments, and to a lesser extent, the EU. In bargains between an MPC regulator and EU MNCs, the European firm will have more leverage prior to investing than afterward; a point MPC regulators should take into consideration. On the other hand, EU MNCs should be careful not to find themselves “trapped” in an MPC market without the option to exit in times of crisis. This is why any future EMP FTA in services must incorporate some kind of dispute settlement procedures with investor-state provisions.

Migration from ENP countries to the EU is likely to continue at the same levels as in recent years, but the outlook might change depending on the FTA negotiation results. One should expect that more “liberal” policies towards temporary movement of natural persons (mode 4) would result in higher inflows of MPC service providers to the EU. Moreover, there is scope for implementing policies that will encourage inflows of people with specific characteristics, such as highly skilled specialists. The EU should consider liberalizing mode 4 not only for the sake of the MPCs, but for its own welfare. Temporary movement of service providers could act as a substitute for the kind of migration flows that have characterised EU-MPC relations up to now. In particular, “mode 4” sort of migration might be promoted together with some accompanying plan to support resettlement of highly skilled permanent migrants from ENP countries who are considering returning home.

13. It is well known that part of the first George Lucas film *Star Wars* was filmed in Tunisia.

Seven Policy Recommendations Regarding Both Trade in Agricultural Products and Services

In terms of policy, it seems obvious that the best contribution of the EU to promote job creation in Mediterranean Arab countries would be to import more from the latter goods and services regarding which they have a comparative advantage. In turn this would induce a reduction in the trade deficit of these countries and thus in their external debt as well. Given the relative factor endowments of Southern Mediterranean economies compared to their industrialised neighbours (the EU) and the short distance to the latter, the former have a clear comparative advantage in the production of sun-, space- and labour-intensive goods and services. They should therefore specialise in those products and export them to their developed neighbours (the EU but also Israel).

Not only this. In the medium term, the elimination of tariffs on manufactured products in MPCs as a result of the implementation of the industrial Free Trade Areas contemplated in the EMP association agreements and the ensuing adjustment pressures will increase, not decrease, migration flows from the Southern Mediterranean to the North. This is what is scheduled to happen in less than a decade in all Mediterranean Arab countries, and in the case of Tunisia this has already taken place. The answer will have to come from those in Europe (and Israel) which will realise sooner or later that only by importing more primary, labour-intensive goods and labour- and space- intensive services from MPCs can the flow of MPCs be stopped by peaceful means. There is also a moral dimension, something so important to many Europeans nowadays. “Anchoring” is an activity which consists of “demonstrating” and not in “sermonising”. So, here comes the first policy recommendation for the EU:

- What is called for is a “demonstration effect” whereby the EU gives the example, not by telling MPCs “to do what we ourselves already did,” but rather “to do what we do,” namely adjusting. This could be called the “we-are-in-the-same-boat” effect, thus reflecting better that the EU and MPCs are indeed involved in a “real Partnership”, something frequently questioned by Arab countries, particularly after 9/11. Let us first concentrate on the connection between comparative advantage and job creation. It is undisputable that MPCs have a comparative advantage in Mediterranean agriculture, fishing and tourism services. Tourism is certainly very much job-creating; but as Spain and Italy have well been aware for a long time, it is highly seasonal. People working in tourism must find complementary jobs for that time of the year when tourism is in the doldrums. This is where agriculture and fishing enter. It so happens that there is only partial overlap in time between agricultural and fishing activities, on the one hand, and tourism activities, on the other. This is why agriculture or fishing (and not industry, which requires the regular presence of the worker at his/her production line) are well suited to complement tourism in terms of employment. Moreover Mediterranean agriculture is, compared to other types of agriculture, very much labour-intensive, because fruit, flower, vegetable and wine production require, as Dutch, Spaniards and Italians know, a lot of attention and even affection; it is almost like gardening; this is what traditionally horticulture is about, which by the way was developed to an extreme sophistication by the Arab people themselves in Southern Spain. And for the

moment, machines cannot in many instances replace humans yet in separating the good fruit from the bad. Much of the same applies to fishing.

- The second policy recommendation concerns the CAP. Any specialisation and job-creation through specialisation does not work without trade. The full realisation of the agricultural and fishing potential of Southern Mediterranean countries requires as a necessary condition easier, if not total free tariff- and quota-ridden access to EU markets, which is not possible without some changes in the EU’s Common Agricultural Policy (e.g., full elimination of export subsidies, tariff quotas, remaining variable levies) and in the Common Fisheries Policy (the so-called “Blue Europe”). What is called for is therefore a Free Trade Area covering agricultural and fisheries products and this is no longer a far-fetched proposal. Actually, the North American Free Trade Agreement, NAFTA or the proposals made by former President George W. Bush shortly after the Iraqi war contemplating the establishment of bilateral FTAs between the US and MENA countries include a provision for free trade in those products.¹⁴ Indeed, both the fairly recently implemented Morocco-US FTA Agreement and the 1985 Israel-US FTA agreement provide for free trade in agricultural products. But clearly such a job-creating economic strategy for the Southern Mediterranean countries requires certain adjustments on the part of Northern Mediterranean states, such as France, Italy, Spain and Portugal, ultimately leading to entirely different patterns of division of labour around the Mediterranean.
- A third policy recommendation concerns outsourcing. With appropriate technology transfer, much of current food processing activities operated in the Northern shores of the Mediterranean could be transferred to the Southern shores. In order to soften the impact on Dutch and Northern Mediterranean farmers, fishermen and food processing manual workers, part of ENPI funds could be devoted to help the latter to adjust to the new situation. It is patently absurd to maintain European markets almost exclusively open to Dutch, Spanish and Italian food producers and then offer adjustment aid to Maghreb countries to cope with their adjustment problems derived from the opening of their industrial markets to the EU. In any case the principle of adjustment by EU farmers due to new pressures coming from the Mediterranean has been more or less accepted when the Mediterranean country is Israel since, as was explained above, a new Israel-EU agreement on agricultural products leading, practically speaking, to free trade was signed on 4th November 2009. It has not yet been accepted when the MPC will take the form of Morocco, Tunisia and Egypt.¹⁵ In other words, there should no longer be an “agricultural exception” in the free trade agreements between Europe and Arab countries signed under the EMP, given the income levels attained by the former. What is called *délocalisation* in French should be accepted now also for Mediterranean agriculture, fishing and food processing, not only for textiles and travel goods, as is the case already at present. MPC technocrats, particularly those of Morocco and Tunisia, have been

14. See David Karemera et al. (2009) for a summary of the record of free trade in nine vegetable products inside NAFTA which is indeed impressive, as far as the southeast states of the US are concerned.

15. According to unofficial information, an obscure agreement also leading to free trade in agricultural products signed between Egypt and the EU more than two years ago has not been implemented yet. Other sources indicate that negotiations between the EU and Egypt and the EU and Jordan have been completed but no date of implementation has been fixed, as in the case of Israel. Negotiations between Morocco and Tunisia with the EU on trade liberalization on agricultural products are ongoing and blocked for the moment.

throughout recent years insistent in asking for more agricultural concessions from the EU, to no avail. And as is well known, one of the main reasons for delaying the signing of the Egypt-EU association agreement contemplated under the EMP until 2001, six years after the Barcelona Process was launched, was precisely this.

- To cope with the problem of the EU's agricultural subsidies vitiating any FT agreement on agricultural products between the EU and Mediterranean countries it would be suitable to have asymmetrical time schedules dealing with trade liberalization. This is a fourth policy recommendation. Reciprocity should be linked to previous results in multilateral WTO negotiations on agricultural subsidies.
- What the EU should offer to its neighbours is its market, not its advice and norms. In that respect the new offer made by the EU ("offering a stake in the Internal Market") is a priori not to be dismissed and should be thoroughly explored. However, for the economically less advanced neighbours (Morocco, Egypt, Syria) the new offer appears to be a way of deviating the attention from more essential obligations to be taken on by the EU in the present Association Agreements: 1) a wide-scale preferential tariff dismantling and/or elimination on agricultural imports and 2) phasing out antidumping provisions applicable to imports from EU neighbours. All this should be based on reciprocity but with more lenient time schedules in the application of the liberalization measures to be requested from the Mediterranean neighbours than from the EU.
- MPCs have an interest in opening as quickly as possible their telecommunications and financial services markets as well as business services regarding which the EU-27 have a comparative advantage at the world level, not only at the EuroMed level. This will improve their productivity as these services are inputs in the production process. Moreover, the quicker they accept the liberalization of these sophisticated services, the likelier it will be that the EU-27 on its side will be prepared to liberalize horticultural product markets. According to some EU Commission officials this quid pro quo has been accepted informally by both partners, the EU and MPCs.
- The EU in turn has an interest in reciprocating partially to MPC concessions in the domain of sophisticated services by offering some concessions in the domain of temporary professional services regarding which MPCs have a comparative advantage (both in the form of mode 2 and mode 4 of GATS).

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About the authors

Alfred Tovias is Walter Rathenau Professor in European Economics at the Department of International Relations of the Hebrew University in Jerusalem. He is currently the Chairman of the Department of International Relations and has been for the last 5 years the Director of the Leonard Davis Institute for International Relations at the same University. He also holds the EU-sponsored Jean Monnet Chair on External Economic Relations of the EU. Born in Barcelona, he did his PhD in Economics at the University of Geneva, where he taught for several years at this University. He moved later in 1979 to the Hebrew University, where he has been since then. He has been a Visiting Lecturer and Research Fellow at the London School of Economics and Political Science in 1999-2000 and at the Institut Barcelona d'Estudis Internacionals in 2009. Before this, he worked for several years as Chairman of the Israeli Association for the Study of European Integration, as well as Deputy Director of the Institute for European Studies at the Hebrew University. He has also been a consultant to the OECD, UNCTAD and to the World Bank and a research fellow of the Centre for European Policy Studies in Brussels.

Andreu Bassols received his Bachelor's Degree in Law from the University of Barcelona in 1983 and a Master's Degree in International Trade from the Free University of Brussels. From 1987 to 1997 he held several positions for the DG RELEX and the DG for Industry. He has been Counsellor and Deputy Head in the Commission Delegation in Tunisia, responsible for political and trade matters, economic affairs and cooperation. From 2001 to 2005, he was Principle Administrator responsible for Euro-Mediterranean Relations and for the Economic and Financial Chapter of the Euro-Mediterranean Partnership. In 2006, he was appointed Deputy Head of Euro-Mediterranean Relations and Regional Issues Unit for the External Relations Directorate General. Nowadays, he is the European Commission Advisor for the Union for the Mediterranean.

