

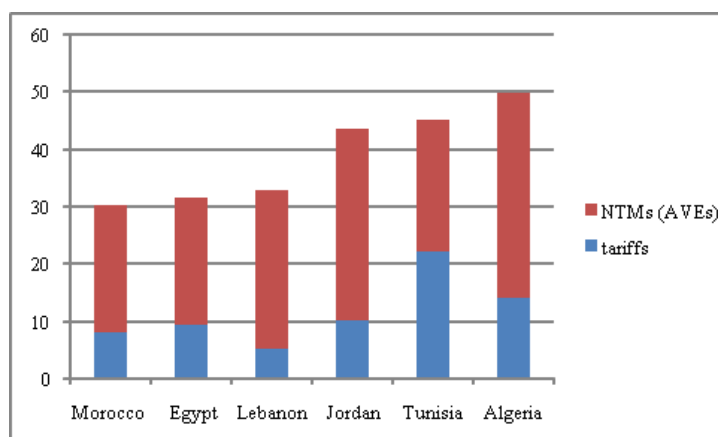
How can Trade Help to Rebuild and Enhance the Economies of the Southern Mediterranean Countries?

by Ahmed Farouk Ghoneim

Arab countries are experiencing major changes in their governance systems. The Tunisian and Egyptian revolutions, and the state of flux in Yemen, Libya, and Syria, indicate that several of the Southern Mediterranean Countries (SMCs) are entering into a new stage of their history. While the features of the new era are still unclear, what is certain is that a new development paradigm will be adopted and significant efforts will be made to rebuild the economies of these countries, which have been seriously disrupted due to the revolutions and their aftermath. This article seeks to answer the question of how trade can play a significant positive role in rebuilding and enhancing the economies of these SMCs as well as other countries which did not experience a revolution, such as Jordan, Algeria, Morocco, and Lebanon.

The trade costs of SMCs are affected by three main variables, namely logistics, tariffs, and non-tariff measures (NTMs) (see figure 1 which shows the tariffs and the ad valorem equivalent of non-tariff measures). In many cases, and especially in the case of trade relations between SMCs and the European Union (EU) and among SMCs themselves, the focus has been on reducing tariffs. Though this is important, tariffs no longer play a significant role in impeding trade and adding to the cost of trading within the region and between SMCs and the EU. The reason for this is that most of these countries are either members of the World Trade Organization (WTO) or are in the process of joining this organization. Hence tariffs have already been reduced due to multilateral commitments within the WTO, engagement in several regional trading agreements, as well as unilateral initiatives. As a result, tariffs are no longer a major obstacle to trade in the majority of SMCs, especially since marginal reductions from already low tariffs are unlikely to bring major effects.

Figure 1: Overall protection in Mediterranean countries: tariffs and NTMs (%)

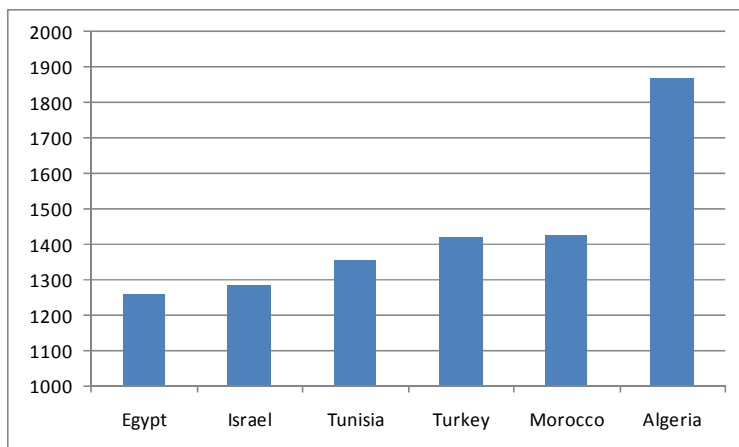


Source: Ghoneim, Ahmed F., Javier Lopez Gonzalez, Maximiliano Mendez Parra, and Nicolas Peridy (2011), "Shallow versus Deep Integration between Mediterranean Countries and the EU and within the Mediterranean Region", CASE Network Reports No. 96/2011, Warsaw: CASE.

What remains of paramount importance is the role of NTMs and inefficient logistics (as shown in figure 2) in impeding trade and adding to its costs. Because such variables are difficult to identify, quantify, and measure as ad valorem equivalents, policymakers have been reluctant to address them and various stakeholders have found it difficult to either lobby to remove them (if they are negatively affected from their imposition) or keep them (if they are benefiting from them). The entanglement of several NTMs with legitimate sanitary and phytosanitary measures, product standards, and technical measures has made the situation obscure and difficult to tackle. Yet, such variables surely impede the flow of trade and add to its costs, especially if they are imposed without objective reasons, which is currently the case in many SMCs. The problem with NTMs is that tackling them cannot be marginal as in the case of tariffs. In other words, it is impossible to reduce NTMs in the same way in which tariffs are reduced, or to lessen the negative impact of inefficient logistics by

marginal improvements. To lessen the impact of NTMs and/or inefficient logistics, drastic measures need to be taken to eliminate them completely. Piecemeal reforms will not yield any significant results when dealing with NTMs or logistics. Hence, reducing the negative impact of NTMs by, for example, upgrading the standards but not harmonizing them with international ones, or by adopting mutual recognition agreements without upgrading the level of standards to international norms, will not necessarily enhance trade and reduce associated costs. The same is true for logistics, where many aspects are highly related. For example, if port services are cheap and efficient, but complemented by an inefficient port infrastructure, then the positive impact of cheap and efficient services on enhancing trade is minimal, and the costs of trading will continue to be high. Second best options, in terms of gradual or marginal reductions in NTMs and logistics are unlikely to bring positive results. This is not the case for tariffs, where gradual reductions used to have a positive impact, but this is not the case anymore for the majority of SMCs due to the already low level of such tariffs.

Figure 2: Average freight costs to EU markets (US dollars, unweighted average)



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Hence, shallow integration among SMCs and between them and the EU (where the focus is only on tariff removal) is unlikely to bring much in terms of enhancing trade and lowering its costs. This implies that trade will not be able to transfer its potential positive effects in terms of job creation, an issue that is increasingly attracting the attention of policy makers in SMCs in the aftermath of the revolutions. Deep integration (where the focus is on eliminating NTMs and improving the efficiency of logistics) is a must if trade is to yield positive results for improving the welfare of societies by reducing the costs of

trade.

Hence, the focus should be on enhancing deep and not shallow integration. But as mentioned above, dealing with deep integration in the case of NTMs and logistics cannot be considered the same as for tariffs. A holistic approach is needed in which specific NTMs are abolished, not simply reduced, and the efficiency of logistics is improved in a comprehensive manner. The EU should focus its assistance and support on building capacity (human and technical) in addressing NTMs and logistics. This is of great importance, especially in the context of the current historical phase, in which SMCs are reluctant to accept assistance from the West for enhancing democracy and strengthening their governance systems. Enhancing access to finance-related projects (e.g. well-equipped accredited laboratories, building efficient port terminals) should be a priority for EU assistance to SMCs, whether in the form of loans or grants. The EU should also play a role in addressing its own NTMs which negatively affect market access for SMC exports. Although such NTMs are certainly less in number when compared to those in the SMCs, specific SMC exports are affected by such NTMs. The stringency and application of these NTMs by the EU certainly affects SMCs in a negative manner with several negative welfare implications.

SMCs should also start tackling the NTMs they impose and the inefficiency of their logistics in a new way. First, they should recognize that the negative impact of such NTMs and inefficient logistics on increasing trade costs is much higher than the impact of tariffs. Second, the handling of such NTMs and logistics inefficiency should be more drastic, as marginal reductions in NTMs or modest improvements in logistics are unlikely to bring significant gains. Hence, focusing on specific NTMs that affect a certain sector and eliminating them completely would be better than tackling a large number of NTMs in marginal terms. The same applies for logistics, which can certainly reduce trading costs if dealt with in a comprehensive manner.

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