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DIFFERENT ROADS TO LIBERALISATION

**SCENARIOS FOR A MOROCCAN CASE STUDY OF THE
EURO-MEDITERRANEAN ASSOCIATION AGREEMENTS**

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1. Aim and scope

After the Barcelona meeting in 1995, the EU and its Mediterranean partner countries (MPCs) engaged in an ambitious venture of increased economic, political and social cooperation, consisting of Euro-Mediterranean Association Agreements and financial collaboration. Ambitions in terms of economic cooperation were especially high, aiming at a free trade area (FTA) by 2010. This should create an area of shared prosperity, fostering peace and stability along the turbulent southern borders of the EU.

The attacks of 11 September generated an increased interest in promoting economic growth as a means of reducing the breeding ground for violent religious fundamentalism. In this spirit, the guidelines for a new, common European security strategy call for the promotion of a ring of well-governed countries around the EU, making explicit references to the Mediterranean countries (Solana, 2003, p. 8):

The European Union's interests require a continued engagement with Mediterranean partners, through more effective economic, security and cultural cooperation in the framework of the Barcelona process.

Following 11 September, not only Europe has increased its attention on the Mediterranean countries. The United States has also intensified its activities in the area, as part of a set of presidential initiatives to promote security interests through development.

Although the Euro-Mediterranean Partnership (EMP) in spirit aims at fostering economic growth and stability at the southern periphery of the EU, the contents of the trade agreements reflect the more narrow economic interests of specific EU member states (dell'Aquila & Kuiper, 2003). Key characteristics of the Euro-Mediterranean Association Agreements (EMAAs) are an asymmetric focus on liberalising trade in the manufactured goods of the MPCs, while maintaining trade barriers on agricultural products. Several studies have quantified the expected impact of the proposed Mediterranean free trade area. A review of recent studies indicated that several characteristic features of the MPCs and the EMAAs are missing in existing analyses (Kuiper, 2004). This paper therefore focuses on identifying scenarios for further research that reflect key policy and research issues identified in an earlier study (dell'Aquila and Kuiper, 2003), while accounting for the gaps in existing analyses as identified in Kuiper (2004).

The goal of this paper is to prepare the ground for a quantitative analysis in a subsequent study. Undertaking such an analysis in the face of limited data on the MPCs

results in a focus on Morocco as a case study for examining the EMAAs. The availability of models capable of analysing the policy issues relevant for an assessment of the EMAAs is very limited. Most studies use a single country model of an MPC. This approach allows a detailed analysis of the impact of the EU-MPC trade agreements on MPCs, but misses the impact on third countries.

A major reason for the asymmetric character of the current EMAAs is the economic interest of mainly southern EU member states in protecting their producers of Mediterranean agricultural products. Coupled with a limited interest of northern EU member states in gaining access to the agricultural markets of the MPCs, this has resulted in the virtual absence of specific steps to reduce barriers to Mediterranean agricultural trade. In order to assess the full impact of the EMAAs and the scope for steps towards an FTA, one therefore needs to account for the differential impact on various EU member states. This level of research calls for the use of a multi-regional general equilibrium model, capable of distinguishing the different interests of northern and southern EU states.

The GTAP model is readily available and capable of separating different EU member states, and will be employed in the subsequent quantitative analysis. While allowing us to distinguish the impact of the EMAAs on different EU member states, it also forces us to focus on Morocco as a case study on the impact of the EMAAs. Apart from Morocco, only an aggregate of MPCs denoted as the rest of North Africa (RNA, encompassing Algeria, Egypt, Libya and Tunisia) is distinguished as a separate region in the GTAP database. Since Libya has recently been invited to join the Barcelona process, the RNA aggregate will be taken as an aggregate of MPCs. The GTAP database also includes a Middle Eastern aggregate, but this aggregate includes a large number of countries not involved in the EMP, such as Iran and Saudi Arabia. We will thus not be able to assess the impact of the EMAAs on Middle-Eastern MPCs.

Although limited to analysing the specific case of Morocco, the scenarios defined in this paper refer to issues that are relevant for all MPCs. Moreover, by including the RNA aggregate as a separate region in the quantitative analysis, we can assess whether the findings for Morocco can be generalised to the other MPCs. Given the focus on MPC country studies, we feel that highlighting the differential impact of the EMAAs on EU member states will contribute to the policy debate on the future steps to be taken in the Barcelona process.

The identification of scenarios is based on a combination of key policy issues for MPCs and a review of existing models of the EMAAs. Before defining different scenarios, we have to specify the reference point that will be used to measure the impact of alternative policy scenarios (section 2). After establishing our benchmark, or baseline, we define a first scenario consisting of the implementation of the current EMAA between Morocco and the EU (section 3). We dub this scenario 'regional interests', since the current absence of agricultural concessions reflects the regional interests of mainly southern EU member states. The second scenario focuses on an alternative interpretation of the EMAA in line with the long-term political interests of the EU in promoting stability and prosperity along its southern borders (section 3). We dub this scenario 'political interests'. This scenario aims at identifying a sequence of reforms that are in line with

the socio-economic circumstances in the MPCs, focusing on maintaining and preferably even increasing employment during reforms.

Since the quantitative analysis will focus on Morocco, scenarios will be defined accordingly. The focus on Morocco, however, will be preceded by a more general discussion of issues relevant for all MPCs. The purpose of this discussion is to underline that the analysis of Morocco serves as an illustration of overall concerns regarding the EMAAs.

2. Baseline scenario

Apart from engaging in bilateral trade agreements with the EU, MPCs also engage in trade agreements with another main player in the region (the US) as well as a limited number of trade agreements among themselves. When analysing the impact of the EMAAs, these other trade agreements need to be accounted for since they will affect the trade flows with the EU, as well as the dispersion of benefits among MPCs.

As indicated in Table 1, Morocco is a member of the WTO and participates in two regional trade arrangements. Furthermore, a trade agreement with the US has recently been signed. In order to construct the baseline scenario that will serve as reference point for the analysis of the impact of the EMAA, the implications of the trade agreements in which Morocco engages need to be taken into account. In addition to the trade agreements, macroeconomic policies that are implemented by Morocco, but not accounted for in the GTAP database, also need to be included in the baseline as well.

Table 1. EMAAs, WTO membership and GAFTA

	<i>EMAA</i>		<i>WTO member</i>	<i>GAFTA</i>	<i>Agadir</i>
	<i>Signed</i>	<i>Effective</i>			
Cyprus	1960-70	1960-70	1995	-	-
Malta	1960-70	1960-70	1995	-	-
Turkey	1960-70	1960-70	1995	-	-
Tunisia	1995	1998	1995	1998	1998
Israel	1995	2000	1995	-	-
Morocco	1996	2000	1995	1998	1998
Palestinian Territories	1997	1997	-	-	-
Jordan	1997	2002	2000	1998	1998
Egypt	2001	2004	1995	1998	1998
Algeria	2002	-	observer	1998	1998
Lebanon	2002	-	observer	1998	1998
Syria	-	-	-	1998	1998
Libya	-	-	-	-	-

Source: The WTO website (<http://www.WTO.org>) and EU website on the EuroMed agreements (http://europa.eu.int/comm/external_relations/euromed/index.htm).

Note: Libya is an observer until UN sanctions are lifted.

3. Regional-interests scenario

The first scenario is an analysis of the EMAAs as they stand now, which reflect the current regional interests of southern EU member states.

Based on the structure of the EMAAs, the main points of this scenario are:

- asymmetric liberalisation of manufacturing, by
- reciprocal agricultural liberalisation after manufacturing, and
- full employment or unemployment.

The first two points are identical to scenarios analysed in existing studies of the EMAAs. In contrast to existing studies, however, we will analyse the regional impact within the EU, i.e. the differential impact on northern and southern EU member states. The second contribution of this scenario will be in analysing the impact of the employment assumption on model results. Unemployment is an important feature of the MPCs, but generally not accounted for in existing studies.

4. Political-interests scenario

Because of the limited size of the MPC economies, the EU's interests are mainly political. In the context of the EU's security strategy, the EMAAs could be used to promote economic development and stability at its southern periphery. This would require pursuit of a general EU objective, possibly at the expense of regional interests of mainly southern EU member states. The focus on this scenario would be on finding a sequence of liberalisation that would promote MPC employment and support a restructuring of MPC economies.

The sequence of liberalisation, and possibly the identification of additional domestic policies to restructure the economy, will depend on an assessment of the sectors in which Morocco has a comparative advantage and those sectors that use large amounts of (unskilled) labour.

This scenario is thus not predefined in terms of the shocks that will be applied to the model. Instead, it will consist of an iterative search for the sequence of liberalisation that will promote economic development and will be informed in a large part by the outcomes of the regional-interests scenario.

Comparing this scenario with the current EMAAs (analysed in the regional-interests scenario) yields an insight on the extent to which regional economic interests need to be sacrificed when pursuing the political interests of the EU as a whole.

5. Conclusion

Based on an earlier study of existing analyses of the EMAAs, we defined two scenarios suited for a quantitative analysis of the EMAAs. Because of the need to rely on existing models, the focus is on analysing the impact of the EMAA on Morocco in detail. In a subsequent study we will use an aggregated representation of other North African MPCs as a reference point to assess whether the conclusions derived for Morocco may be extended to the MPCs as a whole.

The two scenarios reflect the current focus on the economic interests of the EU and the political objectives served by the EMAAs. Comparison of these scenarios will provide an idea as to what extent the security concerns of the EU are in conflict with the economic interests of the different EU member states.

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Appendix: Implications for GTAP modelling

This appendix provides a summary of the requirements of the GTAP model to be used in the subsequent quantitative assessment of the impact of the Moroccan-EU EMAA. The focus of the analysis has implications for the GTAP modelling exercise:

1. The **regions** to be assessed are Morocco, the rest of North Africa, southern and northern EU member states. Given the interests of LEI and INEA, the Netherlands and Italy will be assessed separately. We could use the analysis of major trade flows (WP 1) to identify the major EU trading partners and keep these as individual countries, aggregating the rest of the current EU member states and keeping the upcoming members as a separate group (to allow analysis of EU expansion). As far as the rest of the world is concerned, the US can be kept separate as well as the aggregate Middle East. The rest of the world can be grouped in the usual trade blocks.
2. Concerning **sectors**, agriculture should be kept as disaggregated as possible; the EMAA of Morocco should be checked to determine the need for disaggregating industrial sectors (possibly group industry in labour- and capital-intensive sectors for the sake of analysing employment issues).
3. **Economies of scale** will provide the main source of impact assessment of the EMAAs and need to be taken into account.

Along with the GTAP data, details are needed of the trade agreements in which Morocco is involved, especially the EU-Moroccan agreement.

ABOUT ENARPRI

ENARPRI is a network of European agricultural and rural policy research institutes formed for the purpose of assessing the impact of regional, bilateral and multilateral trade agreements concluded by the European Union or currently under negotiation, including agreements under the WTO, EU accession, Everything But Arms (EBA), EuroMed and Mercosur. It also addresses the wider issues of the multifunctional model of European agriculture and sustainable development of rural areas. Participants in the project include leading national institutes and research teams from 13 countries (11 EU member states and 2 accession countries).

AIMS

- Creation of an institutional structure linking key research institutes with major benefits for improved exchange of information and policy analysis both in the short and long run,
- Development of improved tools for impact assessment,
- More effective impact assessment of trade agreements on a variety of important social, economic, and environmental indicators and an assessment of multifunctionality, and
- Clearer analysis of the need for EU policy adjustments.

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