THE MAGHREB REVIEW المغرب

VOLUME 23 • Nos, 1–4 • 1998

CONTENTS/SOMMAIRE

The Maghreb Review, Vol. 23 1–4, 1998
This publication is printed on long life paper

IS THE EUROMEDITERRANEAN FREE TRADE AREA STILL A CONVINCING INSTRUMENT FOR REGIONAL CO-OPERATION?

BY BRUNO VENDITTO*

INTRODUCTION

In the course of the last forty years the European co-operation policy has moved from a form of intervention that was based on the utilitarian and mercantilist approach to a new form of co-operation that tried to stimulate the partnership and the mutual co-operation between the European countries belonging to the European Union[1] (EU) and the non-European Mediterranean countries[2] (NEMCs).

The Euromediterranean Conference, held in Barcelona on 27/28 November 1995 can be seen as the final step of this long process of dialogue and co-operation. The final declaration clearly emphasizes, in fact, the central role that co-operation can have in order to ensure the development in the Mediterranean basin of an "area of dialogue, peace and economic growth"[3].

The main instrument which has been proposed to reach such objectives has been the Euromediterranean Free Trade Area (EMFTA) in which, by the year 2010, all the NEMCs should take part.

In this paper we will try to asses whether a FTA which has as members both developed and developing countries is a valid instrument to foster the growth of the less developed countries participating in the area. On such a basis we will try to address the problem as to whether the EMFTA is the right tool available to the NEMCs to foster economic growth.

The work is articulated as follows:

(i) an overview of the way in which the Euromediterranean relationships have developed in these last forty years, analysing the changes that have pushed the European policy from a bi-lateral form of co-operation to what we may call Euromediterraneanism;

(ii) a review of the theory which underlines the creation of a customs union/free trade area, to evaluate both from a static and a dynamic point of view the practicality of a FTA in a context in which the participants have very different levels of development;

(iii) a tentative application of the outcomes of the previous sections to the concrete case of the participation of Morocco and Tunisia is the EMFTA.[4] These two countries have been chosen not only because they have been the first NEMCs to sign the agreement, but also because of the type of commercial relationship they have with the EU. On the one hand the EU represents their main commercial partner: about 63 percent of Maghreb import originates from Europe, while 72 percent of Maghreb export is directed towards the European countries. On the other hand the opposite cannot be said, the share of the North African exports/imports in the EU import/export market is extremely small representing roughly 2.4 percent of the total EU exports and imports.[5]

(iv) an alternative proposal to implement the "Euromediterranean partnership".

* Research Institute on the Mediterranean Economy, (RIME) Naples.

I. FROM BI-LATERAL CO-OPERATION TO EUROMEDITERRANANISM

Euromediterranean has co-operation developed relatively late. Fifteen years after the creation of the EC, there was not yet a comprehensive set of politics with which to address the relationships with NEMCs nor, in fact, those with the other developing countries outside the Mediterranean basin.

Soon after the foundation of the European Economic Community (EC), Mediterranean countries begun to lobby to protect their market shares in Europe and to minimize the potential losses that the concession of preferential agreements with non-European countries would have caused to their trade. What emerged in the negotiation between the two groups of countries was, thus, only a patchwork of unrelated EC preferential trade accords rather then a common policy.[6] Gradually, however, bi-lateral agreements were signed with all the Mediterranean countries, agreements that on the one hand maintained, almost unaltered, the existing commercial pattern set out during colonial times and, on the other, were lacking any financial, technical or economic aid.

By the early 1970s it was clear that bi-lateralism, which implied trade accords between single EC member countries and the Mediterranean ones, was leading to clashes with the Rome Treaty. A more systematic and coherent policy was therefore required.[7]

This policy emerged at the 1972 Paris summit of the Community heads of State and Governments when a "comprehensive-balanced approach" to co-operation towards the NEMCs was launched. On this occasion, these countries were considered to belong to an area, the Mediterranean basin, which had to be regarded from a global point of view. Furthermore, for the first time, co-operation was seen as an additional, but very pivotal, instrument necessary to foster their economic growth.

Launched in 1972 the Global Mediterranean Policy (GMP) saw the signature of the first groups of agreements only in 1976, when the agreements with the Maghreb countries were signed, followed, one year later, by those with the Machrek countries[8] (Tab. 1). The key points of these global agreements were represented by their unlimited duration, by the introduction of commercial preferences, mainly for the industrial and manufactured products and by the economic, technical and financial assistance introduced to stimulate their economic and social development. In doing so the same approach as that employed in dealing with financial co-operation towards the African, Caribbean and Pacific countries was applied.

It is worth noticing however, that the reason for such a long delay between the launch of the GMP and the signature of the first agreements has to be found in the fact that it was extremely difficult to prepare an official agreement that encompassed free entry for both the industrial/manufactured products and the agricultural ones. While it was easy for the EC countries to grant free, or preferential, entry to the manufacture exports produced by the NEMCs, because they did not represent a real threat for the European domestic market, it was more difficult to allow the entrance of agricultural goods which were in direct competition with EC products.[9]

Such difficulties, in the attempt to reconcile European interests and those of southern Mediterranean agricultural producers was to become, as we shall see, a leitmotiv in future Euromediterranean relationships.

By the late 1980s it was evident then, that the GMA had failed to reach its goals[10].

Several reasons can be adduced to explain the reason for such failure.

TABLE I:
The first Mediterranean agreements

	Date	Country	Type of Agreement
1970	5 December	Malta	tentative association agreement
1972	19 December	Cyprus	tentative association agreement
1975	11 May	Israel	co-operation agreement
1976	25 April	Tunisia	global agreement
	26 April	Algeria	global agreement
	27 April	Morocco	global agreement
1977	18 January	Egypt Jordan	global agreement
	3 May	Syria Lebanon	global agreement

Source: Venditto B. (1997).

In the mid 70s, with the recession coming, the European countries followed commercial and trade policies leading to the development of direct and indirect forms of protectionism, such as the Multi Fibre Agreements[11] or Voluntary Export Restraint.

The enlargement of the EC, first to Greece in 1982, then to Spain and Portugal in 1986, was a second blow to most NEMCs, which saw the Community becoming self-sufficient in the production of most agricultural commodities previously exported by the NEMCs.[12]

Last but not least, the existence of differences between Northern and Southern European countries with regard to co-operation with the NEMCs made the application of financial protocols more difficult. The former group of countries, with the exception of Great Britain, which still had strong relationships with the Machrek countries, were not so keen to increase financial assistance towards the NEMCs, being more interested in developing their relationships both with Baltic and central European countries.

On the other hand, southern European countries – France, Spain and Italy in particular – on the bases of old linkages, gave great importance to the strengthening of the relationship with former colonies.

As a result of the lack of unity of the Community as a whole, the financial assistance for the period 1978–88 represented only 3 percent of the total public funds destined for the NEMCs. Furthermore, the effective disbursement of the funds allocated was also lagging behind. If we look at the Maghreb countries we can see that, in the case of Algeria, in 1994 only 46 percent of the funds allocated for the period 1976–91 had been disbursed, while for Morocco and Tunisia the figure was 80 percent.[13]

At the end of 1989 a general consensus, among European policy makers as well as officials, was reached on the necessity of reviewing EC Mediterranean policy.

A birth rate still over 3 percent,[14] increasing social imbalances and the difficulty of reaching agricultural self-sufficiency transformed the Mediterranean basin into an area of high instability. It was evident in Europe that a more effective, co-operative form of intervention was needed[15] to prevent hidden instability in the NEMCs from spreading to both southern and northern European countries.

At the beginning of the 1990s a series of events, some foreseeable, such as the Algerian fundamentalist uprising, others more unexpected, like the Gulf war and the concrete possibility of a settlement of the Israeli-Palestinian question, happened to take place. The right environment for launching the New Mediterranean Policy was thus ready.

The Mediterranean policy of the EU was further formulated in the Corfù and Essen meetings (1994) when the EU stated that relationships with other countries had to be developed in a "spirit of partnership".[16] On such lines, in the Euromediterranean Conference of Barcelona, the Euromediterranean policy emerged, focusing on:

- political partnership to bring about security in the area;
- economic and financial partnership to ensure economic prosperity in the area;
- social, cultural and human partnership to encourage mutual understanding in the area.

We must now consider ways in which the second point of the declaration, *economic and financial partnership*, might be realized. This would be the first step towards the construction in the Mediterranean of an area of "peace, stability and prosperity".[17]

2. THE NEW FORM OF EUROMEDITERRANEAN CO-OPERATION: THE FREE TRADE AREA

The realization of a Euromediterranean free trade area is the instrument envisaged to speed up and encourage the process of co-operation and integration in the Mediterranean basin ameliorating the living conditions of its Southern inhabitants, reducing the rate of unemployment and consequently the economic gap between the EU and the NEMCs.

A free trade area being one of the typical forms in which regional integration can take place, it is necessary at this point to outline the way the theory of economic integration has been developed.

Integration is a process by which two or more countries decide gradually to eliminate the existing commercial barriers and tariffs as well as all other forms of financial or personal discrimination that prevent the free trade among them.

The speed by which such discrimination is abolished determines the different types of integration, as in the table below (Tab. 2).

The pioneering study made by Viner[18] in 1953 focused mainly on customs unions. These were initially given a high rating, since the starting point was that free trade was able to maximize welfare. Customs unions, representing a movement towards free trade, would also have increased the welfare of participating countries if not maximised it.

Viner showed that these conclusions were incorrect. With the introduction of the key concepts of trade creation and trade diversion, he demonstrated that it was not possible to determine the final outcome of a custom union, in terms of its trade and welfare effects, without knowing the dimensions of the trade creation and trade diversion effects.

To illustrate this we will refer to a figure developed by Klindleberger[19] (Fig. 1) in which both the trade creation and the trade diversion effects are represented.

Although the figure refers mainly to the creation of a custom union, it is perfectly suitable for representing the free trade case as well.

TABLE 2:
Types of regional integration.

	Characteristics	**Examples of Regional Integration**
Free Trade Area	Common internal tariffs different external tariffs	North American FTA Latin American FTA
Custom Union	Common internal and external tariffs	Union Douanière et Economique Afrique Centrale Communauté economique de l'Afrique de l'Quest
Common Market	Elimination of restrictions on movement of persons and capital	European Economic Community
Economic Union	Fiscal and monetary common policy	European Union
Total Integration	Total loss of national sovereignty	

Source: Venditto B. (1995).

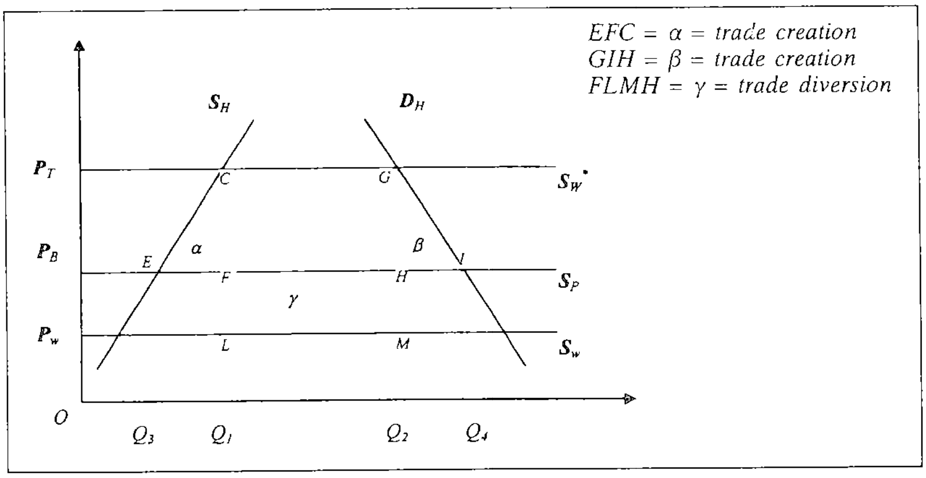

Figure 1: Trade creation and trade diversion

In figure 1 we have represented the case of two countries, A and B, that decide to form a FTA. It is easy to demonstrate that the trade creation effect is given by the two areas + ß, while the trade diversion effect is given by the area.

S_H and D_H represent the supply and demand schedule of country A, which we assume to be unable to influence the prices of its imports; S_P and S_W the supply schedules of the partner B and that of the rest of the world. Before the formation of a FTA between A and B, country A which has set a non discriminatory tariff equal to $P_W P_T$, the price in the domestic market is then OP_T, the world price plus the tariff; domestic production OQ_4 and domestic consumption OQ_3. The difference Q_3Q_44 is imported from the rest of the world (W) as the prices appear cheapest, this will provide tariff revenue equal to ABCD.

As result of the formation of the FTA, A will remove the tariff from B's imports while maintaining it on those of W. All imports are now imported from

B at a price OP_B, which is lower then the domestic price OP_T, but higher than the world price.

We then can identify both the trade creation and the trade diversion effects. The former comes from the two areas $\alpha+\beta$, which represent the difference between the gain in consumer surplus and the loss in producer surplus.

Trade diversion is thus equal to $P_T\ GIP_{B-}\ P_T\ CEP_{B\ -\ CFHG}$; $P_T\ GIP_B$ is the gain in consumer surplus, $P_T\ CEP_B$ is the loss in producer surplus and $CFHG$ is the loss of tax revenue due to the abolition of tariffs. Trade diversion is represented by the area γ, the loss of tax revenue which is not offset by the consumer surplus, *CLMG* – CFGH. The former represent the reduction of tax revenue as result of the elimination of tariffs for country B, the latter represent the reduction of fiscal revenue offset by consumer surplus.

If: $(\alpha+\beta)\ \gamma$*trade* creation effect would be higher than trade diversion effect and the FTA will increase the welfare level;
if: $(\alpha+\beta)\ \gamma$*trade* creation effect would be lower than trade diversion effect and the FTA will decrease the welfare level;
if: $(\alpha+\beta) = \gamma$*FTA* effect would be nil.

Looking at it from a different viewpoint, trade creation can be regarded as:

(a) the increase in the consumers' welfare due to the lower price of goods imported from partner country/ies;
(b) the chance that local producers have to allocate the available resources more efficiently. Production is then transferred from a high (the local producer) to a low cost (the partner) means of production.

Trade diversion can be regarded instead as:

(c) the loss in the consumers' welfare due to higher prices of goods imported from partner country/ies rather than from the low cost produced goods of the rest of the world;
(d) the impossibility of the local producers' allocating their means of production more efficiently. Production in such a case would be transferred from a low cost producer (the rest of the world) to a high cost one (partner country/ies).

From this static analysis some general dynamic principles can be deduced in order to understand if a FTA as such will be beneficial for the NEMC:

1. the benefit to the partner countries is likely to be greater the higher the original level of tariff;
2. the higher the level of intra-trade between the partner countries the greater are the opportunities for trade creation;
3. losses due to trade diversion are likely to be lower the smaller the differences in the cost of production between the partner countries and third countries;
4. unions between countries that produce complementary products have less scope than that between countries that are competitive. Producing the same range of products, in other words being competitive, gives more scope for the low cost producers of country A/B to substitute the high cost goods of country B/A when tariffs among them are abolished. This point is well expresses in fig 2 were we have represented a case of two economies that have complementary and competitive production structures.[20] In the first case (a) the overlapping area is smaller than in the second case (b). This

A	B
1	1
2	4
3	5
4	6

Complementary Economies
Little scope for trade creation which can be originated only from production 1

A	B
1	1
2	2
3	4
5	5

Competitive Economies
More scope for trade creation which can be originated from production 1, 2, 5

Figure 2: Complementary and competitive economies.

TABLE 3:
Weighted average tariff.

	%
Morocco	20.3
Tunisia	31.7
NMEC*	23.26
High Income Countries	5.8

Source: Havrlylyshyn O. (1966)
Algeria, Jordan, Egypt, Lebanon, Syria, Morocco, Tunisia

TABLE 4:
Intra-trade (1995 % on total)

	To/from	**Morocco**	**Tunisia**	**EU**
Morocco	Export	–	1.1	62.1
	Import	–	0.4	56.1
Tunisia	Export	0.5	–	79.0
	Import	0.8	–	71.5

Source: United Nations (1997)

means that there are more similar productions and hence more hope of moving from a high cost to a low cost system.
5. integration will produce better results if the integrating countries have a similar level of economic development.

On such lines the unequal development between EU economies and the NMEC several questions arise on the form of integration proposed.[21] When asymmetries exist, the process of opening the markets could have, in fact, a perverse effect, increasing, among other things, the imports of the weaker partners without allowing them to expand their exports.

Looking at the production as well as at the trade structure of the NEMCs, we can underline some elements which seem to indicate that a traditional FTA does not fit into the Mediterranean context.

Given the existent level of tariffs (Tab. 3) and since the NEMCs have already preferential access for most of their manufactured goods in the EU markets, a generalized abolition of tariff in the area will benefit the EU production rather than that of the NMEC.

On the other one the intra-trade level between NMEC is very low; in table 1 we have the value for Morocco and Tunisia, while intra-regional trade barriers still remain high (Tab. 4). This being the case points 1 and 2 are not met.

Trade diversion effects, as indicated in point 3, should not be high, given the strong predominance of developed economies both among NEMCs' potential partners (the EU) and third countries. If this is the case, it is a clear denotation of the influence that still will be given to North-South rather than to the South-South trade.

A final observation can be made with regard to point 4, on the fact that NEMCs productions are certainly more complementary than competitive with those of the EU.[22] As shown in figure 2 this means that the probability of a move from a high cost producer to a low cost one is considerably lower. Furthermore, where competitive productions exist it is likely that EU will replace NEMCs local production.

The examination of the main elements of the Agreement, as signed by Morocco and Tunisia, further corroborate the scepticism expressed on the efficacy of the EMFTA as the right instrument to foster economic growth of the NEMCs.

The Euromediterranean Free Trade Agreement, signed in 1995 by Tunisia and followed in 1996 by Morocco, encompasses similar characteristic for both countries.

It ensures: free access, within 12 years,[23] to the EU for most of their manufactured goods; immediate elimination of tariff and non-tariff barriers to imports from the EU; limited improved access to the EU for agricultural goods; adaptation of the regulatory EU framework in the area of competition, government procurement, subsidies and technical standards; strengthening of co-operation on migration issues.

From a critical analysis of the Agreement, however, it is difficult to see how Tunisia and Morocco (as well as the other future non-European Mediterranean partners) may effectively gain better access to the EU market. As said above, industrial goods already have preferential status, while agricultural products are excluded from the agreement. The result is that while Morocco and Tunisia will practically eliminate their trade restriction on EU imports, the opposite does not occur, allowing a sort of "*one way*" free access to EU products. Furthermore, nothing is said about the elimination of intra-trade tariffs between participating NEMPs allowing the "*hub-spoke*"[24] effect to arise, tilting incentives towards investing in Europe rather than in Tunisia or Morocco.

Preliminary researches by both Tunisia and Morocco analysts seem to demonstrate that the industrial productive system of both Morocco and Tunisia will suffer high losses with the closure or restructuring of almost two/thirds of productive activities.[25] By this process a worsening of the NEMCs trade balance may arise.[26]

On the other hand, econometric exercises for Tunisia[27] and Morocco[28] reach the result that the overall effect in terms of growth are very small and are influenced by the macro-economic policies followed. In the first case, in fact, Tunisia should experience a 4.5 percent increase in annual GDP once the agreement is fully implemented. A further disaggregation shows, however, that more than half, 2.8 percent, is due to dynamic "benefit", and only 1.7 percent to the classical static efficiency gains. How dynamic benefits are constituted and how they come about is rather vague since the methods used to quantify them are inevitably arbitrary. On the same lines were the findings for the Morocco case, where static gains were estimated in a range of 1.5–2 percent.

A NEW FORM OF REGIONAL CO-OPERATION

From these arguments it seems that the EMFTA, in the way it has been proposed, reveals a certain degree of asymmetry. In particular, while the costs are indisputable, and they have to be paid *on the spot*, the benefits are unpredictable and, if any, they will be *cashed in* in the long run[29]. Moreover, the EMFTA remains a form of Eurocentric co-operation, which does not modify substantially the existing relationship of dependency that the NEMCs have towards the EU.

If the limit of a strategy of complete openness has become increasingly accepted,[30], the problem remains of understanding what is the optimal degree of openness and, at the same time, of identifying those adjusting measures able to reduce costs and increase the benefit. The model that can be used could be that of *strategic integration*[31] which recognizes the importance and the advantage of the process of liberalization but at the same time underlines the importance of the national interests,[32] reassessing in such a way the role of the State.

On the macro-economic side, one of the main problem arising from the process of openness is that of the policies that may be used by the NEMCs to offset the loss of tax revenue.[33] A further reduction of public expenditure and at the same time an increase in both direct and indirect taxation will produce a recessive environment which will have as a final result the lessening of just that productive investment needed to make the whole system competitive.

On the micro-economic side, the mere process of production and the effect of trade liberalization on labour specialization may not be sufficient to bring real comparative advantages to the Mediterranean partner countries. On the one hand it is worthwhile to stress that to make a productive sector competitive, infrastructural intervention as well as structural intervention in the education/formation sector is strongly necessary. On the other hand State intervention is useful in order to identify first and sustain later those sectors where new comparative advantages can be developed.[34] All these being given, a step towards building a real area of co-development in the Mediterranean basin and avoiding, at the same time, potential trade clashes among the partners of the EMFTA, could be the development in particular sectors of an extended production network to compete, with *ad hoc* products, in the international markets rather than in the EMFTA.

In the case of the participation of Morocco and Tunisia in the EMFTA, a good case study could be that of the agriculture sector. Although the competitive advantages that the two countries have in the agricultural sector have not been fully encompassed in the Agreements, the production of a typical Mediterranean product could be the key element is solving the apparent dilemma between the defence of the European agriculture sector and the necessity of accelerating economic development in the Mediterranean Partner countries (MPCs). If agricultural products in the MPCs (Maghreb) and in the EU (Southern shores) are in competition, it is difficult to propose, in fact, a "fair" division of the Euromediterranean market amongst themselves. What can be suggested instead is the broadening of the market horizon with the joint production, of a Mediterranean product of quality to export mainly in the world market. Co-operation activities should go in this direction, aiming at the creation of a sort of "*Integrated Agricultural Mediterranean System*," (IAMS)[35] with the direct involvement of economic actors, as well as local communities, is

TABLE 5:
SMEs and employment in selected non-European Mediterranean countries (%).

Countries	SME share of national workforce	SME share of industrial sector workforce
Jordan	60.7	60.0
Lebanon	–	73.3
Morocco	48.0	60.0
Turkey	56.3	

Source: Institute for Prospective Technological Studies

the formation of a network for the creation of a typical Mediterranean agro-product.

The IAMS would be built focusing on the existing complementarities between the small and medium enterprises in the two areas, which would form a sort of integrated industrial district[36] (IID). This type of approach is able to overcome the traditional view of developmental aid still alive, in some ways, in the Euromediterranean Free Trade Area. Four years after the Barcelona Conference it seems, in fact, that the concept of co-operation with the NEMCs has still to be improved, the proposed model of development is "imposed" from a western standpoint and remains one in which the dominant theory is that of free markets and competition. Last but not least, the delay in launching the new programmes and proposals that emerged from Agenda 2000, where more attention is given to the European enlargement to the transitional countries, may raise fears that interest in the Mediterranean basin has diminished. For these reasons it is necessary to reassess the concept of co-operation, identifying innovative proposals which may take into account the productive and working needs of both the European countries with growth delays and the NEMCs. The IID proposal goes straight in the direction of a strong economic, social and cultural integration, to be reached through new policies – agrarian, industrial, regional and sectoral – thought jointly between the EU and the NEMCs.

With it, it is intended to eradicate the dependency legacy so dominant in the co-operative relationship among partners with different levels of development, focusing on complementarities rather then on competition. To reach such an objective, more comprehensive economic policies both at macro and at micro level have to be developed. Small and Medium Enterprises[37] (SMEs) may play a strategic role in this. In Europe the share of SMEs (up to 500 employees) national workforce is equal, in fact, to 68 percent. A further disaggregation shows that for enterprise size class, up to 99 employees, the share of national workforce is equal to 53.7 percent.[38] A similar pattern can be seen in the case of the NEMCs, at least for those where data are available, Tab. 5.[39]

More to the point IID goes further on the track set with the industrial district (ID) theory in which the SMEs are the backbone elements. Consensus has now been reached on the fact that innovation is a key element in the competitive struggle among firms. Cost reduction has been coupled with the production of goods with new characteristics and new technical capabilities. This is what is called *strong competition*, amid firms that engage in both product and process innovation. The ID, here delimited as a socio-territorial entity, well defined in terms of its natural, historical and economic tradition, where a local community as well as of a set of firms/enterprises interact,[40] is, in the first instance, the best incubator of such type of innovation. It creates, in fact, what has been defined as a *learning economy*.[41] The IID enlarge the boundaries that keep the district inside a nation to encompass areas that belong to different nations. It uses the networking model, first developed in biological science and in sociology and only recently by the economists; an approach which focuses on the role of information and organization rather than only on production. Through the IID the national physical contiguity gives room to economic proximity or, putting it in other words, to the possibility of working on the economic complementarities. These are present in both European and non-European Mediterranean depressed countries, giving ground for innovative co-operation practices among themselves.

Given the economic structure of countries of both southern Europe and the two north African countries, the agricultural sector – as well as the clothing sector – seems to be the area where there is more room for complementarities. What is relevant in such point of view is not the production of a single firm belonging to the IID but the activities of the whole set of firms belonging to the network; firms that are at the same time both consumers and producers. Such perspective use the constellation values theory,[42] which shares common ground with Porter's value system.[43] It is, however, more flexible since the firms are not considered inside their own universe and hence in competition with the external world, but inside an integrated area of which it is necessary to identify the co-production relationships through which the different partners, jointly making goods produce value.

CONCLUSION

In an effort to summarize the main points addressed in this paper, it is possible to say that in the analysis of the movement from bi-lateral co-operation to Euromediterraneanism, it has been evident that the proposed EFTA will not change, substantially,[44] the existing relationships of dependency between NEMCs (the Maghreb in particular) and ECs. In order to overcome such constraints the Integrated Industrial District as an alternative form of integration has been proposed. It focuses on the direct involvement of local communities and Small and Medium Enterprises of both sides of the Mediterranean basin. For this reason the proposed IID[45] gives room to move away from bi-lateral co-operation to de-centralized co-operation which is, in the end, the major instrument to reach the objective of a shared and sustainable development[46] as stated at the Barcelona conference. This allows a return to the original *spirit of partnership* as suggested in the 1st Forum of Civil Society,[47] which is something substantially different and innovative from the idea of partnership which has been developed through the Euromediterranean Free Trade agreement. Co-development in such a spirit depends upon the fact that all those who are part of the integrated area (or of the area that will be integrated) share a common objective, and to obtain it they introduce regulations, make institutions and share the necessary resources.[48] All that has still to come.

Notes

1. Italy, France, Spain, Germany, Belgium, Luxembourg, Great Britain, Ireland, Greece, Portugal, Denmark, Holland, Finland, Sweden, Austria.
2. Algeria, Morocco, Tunisia – which are part of the Maghreb – Egypt, Jordan, Lebanon, Syria – which are part of the Machrek – Israel, Palestine Authority, Turkey, Cyprus and Malta.

3. MED News (1995).
4. Israel and Jordan will also participate, having signed the Euromediterranean co-operation agreement in 1996 and 1997; negotiations are advanced with Egypt and Lebanon and are on course with Algeria and Syria.
5. IMF values for the whole Middle East and North African area show a sharp decline in the last decade and half, from 24 percent of total EU imports in 1980 to 8 percent in 1994, cf. Alonso-Gamo P., Fennel S. and Sakr K., (1997).
6. Ginsberg R.H. (1989).
7. Duchene F. (1995).
8. Agreements with Cyprus, Malta and Israel were already signed in 1972 and 1975. They differed, however from those signed with the Maghreb and Machrek countries because they aimed at an association agreement. Cf. Venditto B. (1995).
9. Waites N.H. (1988).
10. If we consider only the level of GNP per capita we can see that the gap has increased reaching in the nineties the level of 1 to 20 with an average value of $19,000 for the EU countries and $993 for the NEMCs, excluding Israel, Malta and Cyprus, cf. Kader B. (1996).
11. This was directed mainly at protecting the sensitive manufacture from the competition originated by the cheap textiles produced in the developing countries, most of all from the Far East. The NEMCs were not the prime "beneficiary" of such a policy, but, although they maintained their preferential access for the textiles and manufacture produce domestically, in comparison with those of the Far East, they still saw the volume of their export to the EC countries reduced.
12. Olive oil coverage moved from 86 percent to 106 percent, citrus fruit from 46 percent to 86 percent while fresh vegetables moved to 100 percent cf. COM (84) 107.
13. COM (94) 384.
14. With a forecast that for the year 2035 brings the total population of the NEMCs to 400 million, cf. Livi-Bacci M. and Bertocchi A. (1995).
15. Migration from NEMCs was a burden to European countries, which in the same period had to deal with the huge migration from Eastern European countries as results of the collapse of their economic system.
16. Europe (1995).
17. MED News (1995).
18. Viner J. (1953).
19. Klindleberger C.P., (1973), The explanation of fig. 1 builds on Moore L (1994).
20. Södersten B. (1985).
21. Sachs J. and Warner A. (1995).
22. The only sector where there is a certain degree of competition is the agricultural one. It has not been included in the agreement.
23. The FTA should be completed by the year 2010.
24. Constituting a FTA with the EU while maintaining high intra-regional trade barriers may give foreign investors the incentive to invest in the *hub*, EU, which offers access to all NEMPs, rather than in the *spoke* NEMPs.
25. Data presented by the Director of the Tunisian Ministry for Scientific and Technological Research indicate that only 1/3 of the production activities will survive EU competition, while 1/3 will have to face a process of restructuring and 1/3 will have to disappear.
26. If, instead, the agreements were to allow substantially increased access to European markets for both agricultural and manufactured products (i.e. textile and clothing) in which Tunisia and Morocco have comparative advantages, benefits would be tangibly higher and the risks, above mentioned, could be lower.
27. Kébadjian G. (1995), Rutherford T. F., Rustrom E. E. and Tarr D. (1995).
28. Rutherford T. F., Rustrom E. E. and Tarr D., (1993).
29. Even IMF economists agree on this point although in their advice they are not able to go far away from proposing the standard and often unsuccessful IMF liberalization and privatization packages, cf. Nsouli S. M., Bisat A. and Kanaan O. (1996).
30. Chakravarty S. and Singh A. (1998).

31. Singh A. (1994).
32. Akyuz Y., Chang H. and Kozoul-Wright R. (1994).
33. The loss of tax revenue from import duties in the Tunisian case is estimated to reach 3.5 percent of GDP at the end of the 12 year period, and would be even greater if tariffs on imports from non-European countries were also dismantled, cf Jblili A. and Enders K. (1996)
34. Contrary to the IMF/World Bank explanation of the past successes of the newly industrialized countries, a certain degree of State intervention is needed.
35. Venditto B. and Caruso I. (1998).
36. The notion of the industrial district is that first developed by Marshall (Marshall A., 1920) and recently developed by Becattini (Becattini G., 1989).
37. The definition used with regard to the SMEs is initially that applied by the EU Commission. A firm with less than 250 employees and a turnover equal to or less than 40 MECU, with an independent ownership, is considered to be *medium*; a firm with less than 50 employees and a turnover equal to or less than 7 MECU, with an independent ownership, is considered to be *small*. Such definitions encompass the majority of all European firms. Mediterranean Partner Countries, however, as well as European depressed areas, have a predominance of small and micro enterprises (see Tabs. 2 and 3).
38. Paganetto L. (1997)
39. Looking more specifically to the size class, it is possible to observe that in Europe, Tab. 6, especially in the depressed areas, as well as in the NEMCs, (Tab. 7) there is a net prevalence of micro enterprises.

TABLE 6
Distribution of European enterprises by size class 1995 (percent of total)

Countries	0–9 employees	10–49 employees
Number of enterprises	92.4	6.38
Employment	32.2	19.0

Source: Institute for Prospective Technological Studies

TABLE 7
Small scale enterprises in selected non-European Mediterranean countries (%)

Countries	Firms with less then 10 employees
Egypt	94.7
Jordan	93.2
Lebanon	88.0
Gaza Strip (Palestinian Territory)	56.0
Tunisia	42.3

Source: Institute for Prospective Technological Studies

40. Becattini G. (1989).
41. Asheim B. (1995).
42. Normann R. and Ramirez R. (1994).
43. Porter M. (1990).
44. The model we have in mind to make the IID effective is a three dimensional scheme, with a macro, a micro and a meso level. In the proposed scheme although the three levels inter-act with one another, the second (micro) and third level (meso) are more relevant. Cf. Venditto B. and Caruso I. (1998).
45. The direct involvement of local, as well as economic communities, consenting to the diffusion, in an economically depressed area, of an entrepreneurial atmosphere should be able to lead to the diffusion of innovation and to technological transfer.
46. Forum Civile EuroMed (1997).
47. Cf. Petrella R. and Saussay P. (1993).

References

Akyuz Y., Chang H. and Kozoul-Wright R. (1994), New perspectives on East Asia Development, UNCTAD discussion paper
Alonso-Gamo P., Fennel S., Sakr K. (1997), *Adjusting to New Realities: MENA, the Uruguay Round and the Euro-Mediterranean Initiative*, IMF Working Paper WP/97/5
Asheim B. (1995), "Industrial District as learning regions". A condition for prosperity? STEP Report, Oslo
Becattini G. (1989), "Riflessioni sul distretto industriale marshalliano come concetto socio-economico" in *Stato e Mercato* n° 25
Cappelin R., Antonelli C., Capitani G., Ciciotti E., e Lassini A. (1994), *Le grandi imprese e il cambiamento tecnologico nel Mezzogiorno, Economia e Politica industriale*, n° 81
Chakravarty S. and Singh A. (1998), The desirable forms of economic openness in the south. Mimeo, Helsinki, UNU/WIDER
Chevallier A. and Kébabdijan G. (1997), 'L'Euro-Méditerranée entre mondialisation et régionalisation', *Monde Arabe, Maghreb-Machrek*, Numéro hors-série, decémbre
COM (84) 107, (def) Brussels
COM (94) 384, (def) Brussels
Duchene F. (1995), European Community and the Mediterranean, Luxembourg
Europe, (1995), Documents No. 1930/31
Eurostat, (1997), Euro-Mediterranean Bulletin on Short Term Indicators, European Communities, Brussels
Forum Civile EuroMed (1997), Barcellona 1995, Verso un nuovo scenario di partenariato euromediterraneo, Istitut Català de la Mediterranea/Fondazione Laboratorio Mediterraneo, Edizioni Magma
Ginsberg R.H. (1989), Foreign Policy Actions of the Community, London
Havrlylyshyn O. (1996 a), Progress in Stabilisation and Structural Reform in Mediterranean Countries: An Analysis Using Quantitative Readiness Indicators, IMF, Washington
Institute for Prospective Technological Studies, Small and Medium Sized Enterprises and Industrial Models in the Euro-Mediterranean Zone, Seville, 1997
Jblili A. and Enders K. (1996), The Association Agreement Between Tunisia and the European Union, *Finance & Development*, Vol. 33 No. 33, Washington, DC
Kader B. (1996), Il partenariato euromediterraneo, *Rive, Rivista dell'Università del Mediterraneo*, February
Kébadjian G. (1995), Le libre-èchange Euro-maghrebin: une évaluation macro-économique, *Revue Tiers Monde*, n° 144
Klindleberger C.P. (1973), *International Economics*, 5th ed. Homewood, Ill: Richard D. Irwin
Livi-Bacci M. and Bertocchi A. (1995), La popolazione nel Mediterraneo, in Mediterraneo, Città, territorio, economie alle soglie del XXI secolo, CRESME, Roma
Marshall A. (1920), *Principles of Economics*. Macmillan, London
MED News, No. 6 (1995)
Merlino M. (1995), Le nuove strategie CEE per la piccola e media imprese, Rassegna Economica Banco di Napoli, Naples
Moore L. (1994), *The economic analysis of preferential trading area* in Artis M.J and Lee N. (1994), *The Economics of the European Union*, Oxford University Press, Oxford
Normann R., Ramirez R. (1994), *Designing Interactive Strategy: From Value Chain to Value Constellation*, John Wiley and Son, Chichester.
Nsouli S., M., Bisat A. and Kanaan O. (1996), The European Union's New Mediterranean Strategy, *Finance & Development*, Vol. 33 No. 33, Washington, DC
Onida F. (1992), Introduzione in Onida F. e Viesti G., I distretti industriali: crisi o evoluzione? EGEA, Turin

Paganetto L. (1997), Mezzogiorno e Mezzogiorni d'Europa: un'introduzione, in Paganetto L. (edited by) Mezzogiorno e Mezzogiorni d'Europa, il Mulino, Bologna

Petrella R. and Saussay P. (1993), Living together. Reshaping science and technolgy priorities to serve the basic needs and aspirations of 8 billion people, FAST – DGXII European Community Brussels: 39

Porter M. (1990), *The competitive advantage of nations*, Macmillan, London

Rutherford T. F., Rustrom E. E. and Tarr D. (1993), Morocco's Free Trade Agreement with the European Community: A Quantitative Assessment, World Bank Working Papers, Washington D.C.

Rutherford T. F., Rustrom E. E. and Tarr D. (1995), The Free Trade Agreement between Tunisia and the European Union, unpublished mimeo, Washington DC

Sachs J. and Warner A. (1995), Economic reforms and the process of global integration, Brookings Papers on Economic Activity, Brookings Institution, Washington

Singh A. (1994), Openness and the market friendly approach to Development, *World Development*, Vol. 22, No 12

Södersten B. (1985), *International Economics*, Macmillan, Hong Kong

United Nations (1997), *World Trade Statistics Yearbook 1995*

Venditto B. and Caruso I. (1998), *Co-operation in the Mediterranean Agricultural Sector, Central Maghreb and Southern Italy: A Working Hypothesis*, paper presented at the XIV International Sociological Congress, Montreal, 26 July-1 August

Venditto B. (1995), *L'integrazione Maghrebina, Politica Internazionale*, No.3

Venditto B. (1997), *La cooperazione Euromediterranea: Il caso del Maghreb*, in Caruso I. and Petroncelli E., (1997), Maghreb: Algeria, Marocco, Tunisia, verso uno sviluppo sostenibile, ESI, Napoli

Viner J. (1953), The Custom Union Issue, Carnegie Endowment for International Peace, New York

Waites N.H. (1988), European Community Mediterranean Policy and Agricultural Problems of the Maghreb: A view from Northern Europe, University of Reading