FIW Kompetenzzentrum "Forschungsschwerpunkt Internationale Wirtschaft"
Research Centre International Economics

Policy Brief No. 14, March 2012

# Regional Trade Integration in the Middle East and North Africa: Lessons from Central Europe

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**In this paper regional integration among the countries of the Middle East and North Africa (MENA) is addressed. There are a number of economic and integration blocs with one or more MENA countries' participation, but there is no one overarching agreement that would cover the whole MENA region. The results of various gravity model calculations suggest that intra-MENA trade is below its potential. Intra-MENA trade is a small fraction (5.9% in exports, 5.1% in imports) of the MENA countries' total trade. Exports to the EU are ten times, imports from the EU eight times more relevant than intra-MENA trade flows. The most recent goal of the EU-MENA cooperation has been the creation of a deep Euro-Mediterranean Free Trade Area, aimed at a substantial liberalization of trade between both the EU and Southern Mediterranean countries (North-South), and Southern Mediterranean countries themselves (South-South). Recent research result point out that a successful revival of intra-regional trade in Central Europe was conditional upon these countries' close integration with the EU. In the case of the Central European countries close integration meant full EU membership, what is for the MENA not available currently. Nevertheless a provision of some of the main attributes of deep integration with the EU, even without full membership, may facilitate intra-MENA trade to a similar way as it did for Central Europe.**

## 1. Intra-MENA trade below potential

Fostering trade has always been a key component of the Euro-Mediterranean partnership. It was part of the 1995 Barcelona declaration which set out the establishment of a common area of peace, stability and shared prosperity in the Euro-Mediterranean space. The next stage of partnership had been the integration of the Southern Mediterranean countries in the European Neighborhood Policy (ENP). The most recent goal of this cooperation has been the creation of a deep Euro-Mediterranean Free Trade Area, aimed at a substantial liberalization of trade between both the EU and Southern Mediterranean countries (North-South), and Southern Mediterranean countries themselves (South-South).[1]

In this paper regional integration among the countries of the Middle East and North Africa (MENA)[2] is addressed. Our focus is mutual trade of the MENA countries, but that will be supplemented by the analysis of intra-Maghreb[3] and intra-Mashreq[4] trade, as the respective members of these sub-groups have typically much closer geographical proximity and more common cultural features to one another than to members of the other sub-group. Egypt is located, and not only geographically, between the two groups, though sometimes it is placed into the group of the Mashreq countries.[5] It must be added that MENA also is part of a greater Arab region, which includes, besides MENA, member countries of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE) plus Iraq and Yemen

There are a number of economic and integration blocs with one or more MENA countries' participation, but there is no one overarching agreement that

[1] European Commission (2012a)

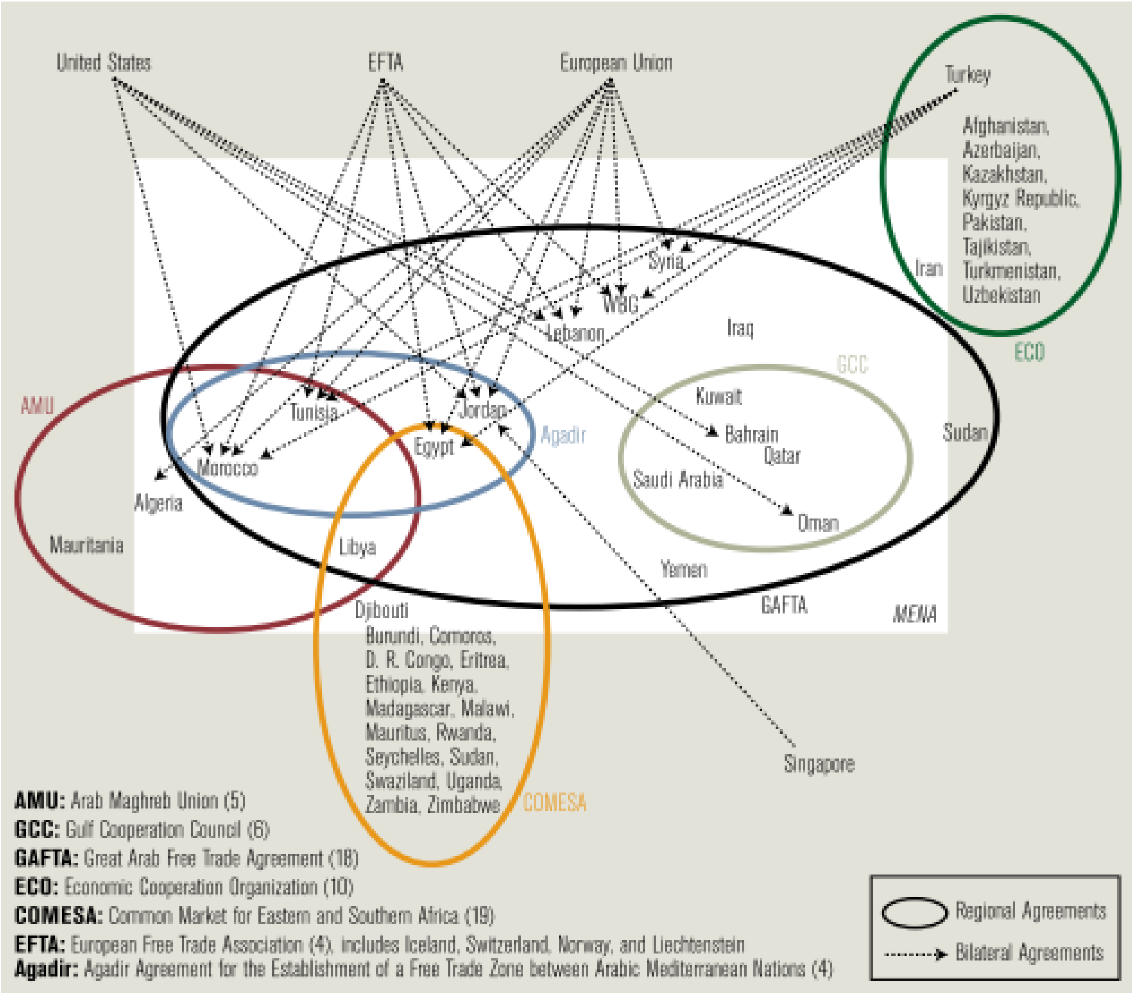
[2] Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, Palestine territories, Syria and Tunisia,

[3] Maghreb countries are Algeria, Morocco, Tunisia, Libya.

[4] Mashreq countries are Jordan, Lebanon, Syria and the Palestine territories.

5 Additionally, sometimes Iraq is seen as a Mashreq, Mauritania as a Maghreb country.

**Figure 1:** Maps of regional integration in MENA




Source: MENA Economic Developments and Prospects: Regional integration for Global Competitiveness, The World Bank, 2008.

would cover the whole MENA region (see Figure 1).[6] Additionally, there are several bilateral cooperation, trade, free trade and investment agreements in the MENA region in force (see Table 1). As illustrated by Figure 1 MENA members are typically partners in *several* agreements *simultaneously*. The high number of respective agreements is, however, no predictor about the intensity of actual trade relations across MENA.

Intra-MENA trade is a small fraction (5.9% in exports, 5.1% in imports) of the MENA countries' total trade (see Table 2).[7] Exports to the EU are ten times, imports from the EU eight times more relevant than intra-MENA trade flows. However, diversity is significant behind the group average. With more than 10% of total exports delivered to MENA, for Egypt, Jordan, Lebanon and Syria the MENA has been more relevant export destination than for the rest of the group. Nevertheless, in imports it is only Libya, whose purchases from the MENA have a higher than 10% share in the country's total imports. For individual MENA countries trade with the EU is clearly more significant than intra-MENA trade: in exports only Jordan, Lebanon and the Occupied Palestine Territories trade more with MENA than with the EU, in imports none of the MENA countries purchases more from the own region than from the EU. As mentioned above, the insufficient regional trade integration is often seen as one of the main obstacles to development, trade and FDI in MENA region.[8]

Intra-sub-region trade (intra-Maghreb and intra-Mashreq trade) displays diverging patterns. Intra-Maghreb export (2.5% of total Maghreb exports) is negligible, except for Tunisia. In the cases of Tunisia and Libya, the share of intra-Maghreb purchases in

6 For an overview of the history of regional integration in the Middle East and North Africa see Galal and Hoekmann (2003) and Shui and Walkenhorst (2010).

7 2008 trade data. No more recent trade data were available including all (but Libya) MENA countries. As the latest trade data of Libya are from 2003, we used mirror statistics to create 2008 data for Libya.

8 IMF (2011); Eurochambres (2011).

**Table 1:** Bilateral treaties within MENA

| | Algeria | Egypt | Jordan | Lebanon | Libya | Morocco | Occ.Pal.Terr. | Syria | Tunisia |
|---|---|---|---|---|---|---|---|---|---|
| **Algeria** | | | | | | | | | |
| **Egypt** | BIT, TA | | | | | | | | |
| **Jordan** | BIT, TA | BIT, FTA | | | | | | | |
| **Lebanon** | TA | TA,BIT | TA, BIT, FTA | | | | | | |
| **Libya** | none | BIT, TA | BIT, FTA | none | | | | | |
| **Morocco** | TA | BIT, FTA | BIT, FTA | FA,BIT | BIT, TA | | | | |
| **Occ.Pal.Terr.** | none | BIT, TA | TA | none | None | none | | | |
| **Syria** | BIT(a), TA | BIT, TA | BIT, FTA | BIT, TA | BIT, TA | BIT, FA | none | | |
| **Tunisia** | BIT(a), TA | BIT, FTA | BIT(a), TA | BIT | BIT(a), TA | BIT(a), TA | none | TA | |

*Note:* FA=Framework Agreements (call for cooperation and exchange of information and expertise. FTA=Free Trade Agreements (involve broad tariff reductions on a preferential basis. TA= Trade Agreements (are less demanding than FTA but more concrete than Fas, e.g. TA may include tariff reductions, special exemptions, or the creation of a free tarde zone). BIT (Bilateral Investment Treaties) provide investor protection. (a) = not enforced.
*Source:* Shui and Walkenhorst (2010).

total is somewhat above the low average intra-Maghreb share in imports (3.7%). Intra-Mashreq exports are more intense than intra-Maghreb exports, they amount to 10.4% of total Mashreq exports. In imports the share of intra-group trade is very low (2.3%).

The results of various gravity model calculations suggest that *intra-MENA* trade is below its potential.[9] It is important to add, however, that these and other gravity model results also indicate that the MENA's participation in the *world trade* is as well below the potential. In the global economy the number of regional integration agreements and of the countries involved in these agreements have been rising after World War 2, and this growth has been accelerating in the last twenty years. Growing number and importance of integration blocks where MENA countries are *not involved* and the subsequent deterioration in 'outsider' MENA exporters' global competitive position, coupled with insufficient intra-MENA integration, raised a *double constraint* to successful export led growth in the MENA economies. The stagnation of the region's share in global non-oil exports, on the one hand, and the steadily low (about 7%) ratio of the region's non-oil exports relative to its GDP[10] on the other hand, are unambiguous indications for missed diversification and growth. Model simulations show that completed trade liberalization would bring substantial benefits to both MENA and their key trading partners in the EU.[11]

Although there has been some increase in intra-MENA trade integration, it lags behind the level achieved in middle and high income regional blocks.[12] There are various explanations offered in the literature for the low intensity of intra-MENA integration.

## 2. Explanations for the low level of intra-MENA trade

Import protection via tariffs is uneven in the region. Eliminating tariffs between partners with highly different tariff level on external imports will have different consequences for the sectors exposed to changed conditions of import competition in the individual countries. Opening up toward regional partners may divert trade flows from more efficient third country exporters to less efficient trading bloc partner exporter. Though the most favoured nation (MFN) tariffs in MENA have been reduced and they are converging to the global level, they are still high and the spread of average tariffs remained considerable.[13] Furthermore, certain industries in individual countries may be politically important and thus the readiness to expose them to increased competition from regional firms may be limited.

[9] Péridy (2005); Bolbol and Fatheldin, (2005)

10 Iqbal and Nabli (2010), Ahmed (2010).

11 Eurochambres (2011).

[12] Akhtar and Rouis (2010); World Bank (2010)

[13] Shui and Walkenhorst (2010).

Table 2a

**TOTAL exports, 2008, USD mn**

| | Reporter | World | MENA | of which: MAGHREB | of which: MASHREQ | of which: Egypt | EU27 | USA | China | Turkey | Rest of the World |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Egypt | 25,966.8 | 3,263.2 | 1,507.3 | 1,755.9 | 0.0 | 9,211.4 | 1,255.0 | 341.5 | 770.3 | 11,125.4 |
| 2 | Algeria | 79,297.6 | 2,284.6 | 1,623.6 | 54.1 | 606.9 | 41,245.4 | 18,952.5 | 503.3 | 2,919.7 | 13,392.0 |
| 3 | Libya | 62,817.8 | 1,584.2 | 1,163.7 | 159.8 | 260.7 | 47,526.4 | 4,350.0 | 1,584.2 | 336.3 | 7,436.7 |
| 4 | Morocco | 20,305.7 | 432.3 | 268.9 | 114.9 | 48.5 | 12,032.7 | 793.7 | 162.8 | 295.6 | 6,588.5 |
| 5 | Tunisia | 19,320.0 | 1,678.2 | 1,513.5 | 35.9 | 128.9 | 13,920.2 | 323.1 | 59.1 | 309.4 | 3,030.0 |
| 6 | **MAGHREB (2+3+4+5)** | 181,741.1 | 5,979.4 | 4,569.6 | 364.8 | 1,045.0 | 114,724.7 | 24,419.2 | 2,309.5 | 3,861.1 | 30,447.2 |
| 7 | Jordan | 6,177.0 | 683.0 | 203.6 | 375.4 | 103.9 | 258.6 | 1,037.2 | 110.2 | 27.9 | 4,060.0 |
| 8 | Lebanon | 3,478.3 | 538.1 | 68.3 | 342.7 | 127.1 | 533.5 | 49.5 | 55.6 | 206.9 | 2,094.8 |
| 9 | Palestina (Gaza+Jericho) | 389.9 | 34.1 | 0.8 | 32.4 | 1.0 | 8.1 | 3.6 | 0.0 | 0.5 | 343.5 |
| 10 | Syria | 14,380.0 | 3,250.0 | 738.3 | 1,781.3 | 730.4 | 5,114.3 | 380.2 | 20.8 | 635.4 | 4,979.3 |
| 11 | **MASHREQ (7+8+9+10)** | 24,425.2 | 4,505.2 | 1,011.0 | 2,531.8 | 962.3 | 5,914.5 | 1,470.5 | 186.6 | 870.8 | 11,477.7 |
| 12 | **MENA (1+6+11)** | 232,133.1 | 13,747.8 | 7,088.0 | 4,652.5 | 2,007.3 | 129,850.6 | 27,144.7 | 2,837.6 | 5,502.2 | 53,050.2 |

**SHARES in total exports in %**

| | Reporter | World | MENA | of which: MAGHREB | of which: MASHREQ | of which: Egypt | EU27 | USA | China | Turkey | Rest of the World |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Egypt | 100.0 | 12.6 | 5.8 | 6.8 | 0.0 | 35.5 | 4.8 | 1.3 | 3.0 | 42.8 |
| 2 | Algeria | 100.0 | 2.9 | 2.0 | 0.1 | 0.8 | 52.0 | 23.9 | 0.6 | 3.7 | 16.9 |
| 3 | Libya | 100.0 | 2.5 | 1.9 | 0.3 | 0.4 | 75.7 | 6.9 | 2.5 | 0.5 | 11.8 |
| 4 | Morocco | 100.0 | 2.1 | 1.3 | 0.6 | 0.2 | 59.3 | 3.9 | 0.8 | 1.5 | 32.4 |
| 5 | Tunisia | 100.0 | 8.7 | 7.8 | 0.2 | 0.7 | 72.1 | 1.7 | 0.3 | 1.6 | 15.7 |
| 6 | **MAGHREB (2+3+4+5)** | 100.0 | 3.3 | 2.5 | 0.2 | 0.6 | 63.1 | 13.4 | 1.3 | 2.1 | 16.8 |
| 7 | Jordan | 100.0 | 11.1 | 3.3 | 6.1 | 1.7 | 4.2 | 16.8 | 1.8 | 0.5 | 65.7 |
| 8 | Lebanon | 100.0 | 15.5 | 2.0 | 9.9 | 3.7 | 15.3 | 1.4 | 1.6 | 5.9 | 60.2 |
| 9 | Palestina (Gaza+Jericho) | 100.0 | 8.8 | 0.2 | 8.3 | 0.3 | 2.1 | 0.9 | 0.0 | 0.1 | 88.1 |
| 10 | Syria | 100.0 | 22.6 | 5.1 | 12.4 | 5.1 | 35.6 | 2.6 | 0.1 | 4.4 | 34.6 |
| 11 | **MASHREQ (7+8+9+10)** | 100.0 | 18.4 | 4.1 | 10.4 | 3.9 | 24.2 | 6.0 | 0.8 | 3.6 | 47.0 |
| 12 | **MENA (1+6+11)** | 100.0 | 5.9 | 3.1 | 2.0 | 0.9 | 55.9 | 11.7 | 1.2 | 2.4 | 22.9 |

***Source: COMTRADE***

**Table 2b**

**TOTAL imports, 2008, USD mn**

| | Reporter | World | MENA | of which: *MAGHREB* | of which: *MASHREQ* | of which: *Egypt* | EU27 | USA | China | Turkey | Rest of the World |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Egypt | 52,751.0 | 1,473.4 | 887.4 | 586.0 | 0.0 | 14,296.3 | 5,673.1 | 4,432.0 | 1,174.7 | 25,701.4 |
| 2 | Algeria | 39,474.7 | 816.8 | 381.7 | 239.6 | 195.6 | 20,867.3 | 2,197.6 | 4,066.9 | 1,345.8 | 10,180.3 |
| 3 | Libya | 17,411.6 | 1,925.4 | 987.4 | 164.4 | 773.6 | 8,411.6 | 703.5 | 1,640.4 | 1,074.3 | 3,656.4 |
| 4 | Morocco | 42,322.0 | 1,791.5 | 1,314.1 | 68.4 | 408.9 | 21,914.3 | 2,162.7 | 2,406.7 | 1,079.0 | 12,967.7 |
| 5 | Tunisia | 24,638.4 | 2,194.4 | 1,887.5 | 57.3 | 249.6 | 14,112.0 | 748.8 | 919.6 | 732.3 | 5,931.3 |
| 6 | **MAGHREB (2+3+4+5)** | 123,846.7 | 6,728.1 | 4,570.7 | 529.7 | 1,627.7 | 65,305.2 | 5,812.6 | 9,033.7 | 4,231.4 | 32,735.8 |
| 7 | Jordan | 16,871.6 | 1,307.3 | 78.8 | 498.6 | 729.9 | 3,529.2 | 773.7 | 1,750.1 | 437.3 | 9,073.8 |
| 8 | Lebanon | 16,136.5 | 941.8 | 106.0 | 377.7 | 458.1 | 5,885.7 | 1,848.6 | 1,390.9 | 698.5 | 5,371.0 |
| 9 | Palestina (Gaza+Jericho) | 3,568.7 | 76.1 | 0.3 | 52.2 | 23.5 | 289.1 | 37.7 | 126.0 | 68.5 | 2,971.3 |
| 10 | Syria | 18,104.7 | 1,161.3 | 236.3 | 304.5 | 620.6 | 4,522.7 | 354.4 | 1,978.4 | 498.7 | 9,589.2 |
| 11 | **MASHREQ (7+8+9+10)** | 54,681.5 | 3,486.6 | 421.5 | 1,233.0 | 1,832.1 | 14,226.8 | 3,014.3 | 5,245.4 | 1,703.0 | 27,005.3 |
| 12 | **MENA (1+6+11)** | 231,279.2 | 11,688.1 | 5,879.5 | 2,348.8 | 3,459.8 | 93,828.3 | 14,500.1 | 18,711.1 | 7,109.2 | 85,442.5 |

**SHARES in total imports in %**

| | Reporter | World | MENA | of which: *MAGHREB* | of which: *MASHREQ* | of which: *Egypt* | EU27 | USA | China | Turkey | Rest of the World |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Egypt | 100.0 | 2.8 | 1.7 | 1.1 | 0.0 | 27.1 | 10.8 | 8.4 | 2.2 | 48.7 |
| 2 | Algeria | 100.0 | 2.1 | 1.0 | 0.6 | 0.5 | 52.9 | 5.6 | 10.3 | 3.4 | 25.8 |
| 3 | Libya | 100.0 | 11.1 | 5.7 | 0.9 | 4.4 | 48.3 | 4.0 | 9.4 | 6.2 | 21.0 |
| 4 | Morocco | 100.0 | 4.2 | 3.1 | 0.2 | 1.0 | 51.8 | 5.1 | 5.7 | 2.5 | 30.6 |
| 5 | Tunisia | 100.0 | 8.9 | 7.7 | 0.2 | 1.0 | 57.3 | 3.0 | 3.7 | 3.0 | 24.1 |
| 6 | **MAGHREB (2+3+4+5)** | 100.0 | 5.4 | 3.7 | 0.4 | 1.3 | 52.7 | 4.7 | 7.3 | 3.4 | 26.4 |
| 7 | Jordan | 100.0 | 7.7 | 0.5 | 3.0 | 4.3 | 20.9 | 4.6 | 10.4 | 2.6 | 53.8 |
| 8 | Lebanon | 100.0 | 5.8 | 0.7 | 2.3 | 2.8 | 36.5 | 11.5 | 8.6 | 4.3 | 33.3 |
| 9 | Palestina (Gaza+Jericho) | 100.0 | 2.1 | 0.0 | 1.5 | 0.7 | 8.1 | 1.1 | 3.5 | 1.9 | 83.3 |
| 10 | Syria | 100.0 | 6.4 | 1.3 | 1.7 | 3.4 | 25.0 | 2.0 | 10.9 | 2.8 | 53.0 |
| 11 | **MASHREQ (7+8+9+10)** | 100.0 | 6.4 | 0.8 | 2.3 | 3.4 | 26.0 | 5.5 | 9.6 | 3.1 | 49.4 |
| 12 | **MENA (1+6+11)** | 100.0 | 5.1 | 2.5 | 1.0 | 1.5 | 40.6 | 6.3 | 8.1 | 3.1 | 36.9 |

***Source: COMTRADE***

Kee, Nicita and Olarreaga (2005) analysed the role of non-tariff barriers and came to the conclusion that these are higher in the MENA region than anywhere in the world, moreover, non-tariff barriers contribute to restrictiveness more than tariffs do. Free trade stipulations frequently exist only on the paper but not in real life. In some cases special import permits are required for entering the country of destination, and if an import-competing industry is thought to be harmed through the respective imports, permissions may be refused and the high MFN tariff must be paid. In an analysis about non-tariff barriers the costs of complying with non-tariff protective measures were estimated to amount to 10% of the price of the exported commodities.[1]

Regional trade agreements in MENA typically omit trade in services or include it to a marginal extent.[2] Research results of Konan (2003) suggest that for Egypt and Tunisia comprehensive reform of services and simultaneous opening up to competition would bring about results that are two to three times more significant than tariff removal alone. Due to intra-MENA differences in regulations, restrictions on currency convertibility and physical movement of people it is often easier for a MENA services provider to operate outside than inside the region.[3]

The highly diversified and complicated sets of rules of origin in the MENA countries displace foreign investments to the Northern rim of the Mediterranean.[4] A foreign investor operating from an EU member state can easily serve the individual MENA markets, contrary to a MENA investor which is handicapped by the holes in the set of individual trade agreements across MENA countries coupled with complications of the diverging rules of origin. In the context of the Pan-European-Mediterranean system, diagonal cumulation means that products which have obtained originating status in one of the 42 countries[5] may be added to products originating in any other one of the 42 without losing their originating status within the Pan-Euro-Med zone. In the Pan-Euro-Med zone, a possibility to cumulate origin diagonally is based on a "variable geometry" rule. It means that participants of the Pan-Euro-Med zone can only cumulate originating status of the goods if the free trade agreements including a Pan-Euro-Med origin protocol are applicable between them. Consequently, a country of the zone which is not linked by free trade agreements with the others finds itself outside of the cumulation's benefits.[6] In parallel, full cumulation is currently operated by the European Economic Area (EEA) comprising the Community, Iceland, Liechtenstein and Norway) and between the EU and Algeria, Morocco and Tunisia. These countries apply full cumulation between themselves while diagonal cumulation with the other pan-Euro-Med countries.[7] According to the results of a computable general equilibrium modeling exercise effects of a completed Pan-Euro-Med cumulation of origin would likely be significant and positive. Coupled with capital mobility, in the cases of Egypt, Morocco and Tunisia it is estimated to increase manufacturing production from 2 to 12% respectively, welfare would be raised by 0.6 to 1% relative to GDP.[8]

High transport, logistics and communication costs, coupled with lack of adequate infrastructure are factors impeding trade in the MENA region. The institutional framework does not align prices with costs and an enabling environment is also missing that would permit and entice private provision.[9] All this discourages the start up of small and medium size firms which otherwise ought to figure as typical drivers of intra-regional trade.[10] In addition, other impediments to trade and FDI (such as intellectual property rights, corruption, complex rules of origin, state intervention, cultural differences and linguistic barriers) have been identified by a number of studies.[11]

## 3. Regional integration in Central, East and South East Europe

Between 1949 and 1991 many countries in Central, East and South East Europe (CESEE) had been members of the Soviet dominated integration block called Council for Mutual Economic Assistance (CMEA or COMECON). This organization provided the institutional framework for its members' mutual trade. For the CMEA independence from the capitalist (western, highly developed) part of the world economy, implemented through the possible highest level of regional autarchy was an explicit goal. Although regional autarchy had never been fully achieved, more than four decades partial isolation from the mainstream world economy had serious detrimental consequences for the intra-CMEA mutual trade. Artificial, non-market export and import prices, rigidities due to the lack of convertible foreign exchange to settle intra-regional payments, and the overwhelming role of state institutions in virtually all aspects of external economic relations led to distorted specialization- and enterprise-behaviour patterns. These patterns certainly

[1] Zarrouk (2003).

[2] World Bank (2010).

[3] Shui and Walkenhorst (2010).

[4] Ülgen (2011).

[5] The 42 countries the EU, the EEA/EFTA countries, the signatories of the Barcelona Declaration (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia, the Palestine Territories, and also the Faroe Islands and Turkey.)

[6] European Commission (2012c)

[7] Op.cit.

[8] Augier et. al (2006)

[9] Page and Van Gelder (2001).

[10] Nabli (2007).

[11] Eurochambres (2011).

could not be maintained once liberalization had opened up the CESEE economies to western competition in 1990/1991.[12] As a consequence, mutual trade of the transition countries dropped to very low levels. It is important to note that practically simultaneously with transition several new independent economies emerged in the region from broken-up countries like Czechoslovakia, the Soviet Union and Yugoslavia. Trade flows which were earlier part of domestic trade became overnight foreign trade.

Of the post-transition regional integration attempts of the CESEE that of the Central European Transition Countries (CETC)[13] has been the most successful and therefore relevant to the MENA region. Immediately after the political changes in 1989/90 one of the main endeavours of the democratically elected new governments was to restore traditional trade relations with Western Europe and much less attention was paid to the future of intra-CETC trade relations. After the conclusion of the Association Agreements (including a gradual introduction of free trade) between the EU and the individual CEEs it took one year until an agreement on the establishment of the Central European Free Trade Area (CEFTA) was concluded.[14] The reserved attitude toward intra-regional economic cooperation is explained by the suspicion in these countries that the EU's attempts to foster intra-CEFTA trade was nothing else but a disguised intention to postpone or even sabotage their full membership in the European Union. The CEEs were in the early stages of rearranging their external trade relations, and it was already discernible that this process would result in a temporary or even a medium term decline in intra-regional trade. There was a well-grounded fear that the inability to boost intra-regional trade would be regarded as the proof of the CEFTA inability to become part of a broader European integration framework.

Following the accession to the EU in 2004 intra-CETC trade underwent a spectacular revival after the collapse in the early 1990s. In 2007, three years after the EU accession, the value of aggregate intra-CETC trade was two and a half times higher than in 2003, the last year before accession. The rate of growth in CETC trade with the 'old' EU member states was only half as much as that. This sudden acceleration of intra-CETC trade cannot be explained by removal of trade barriers upon accession. Free trade for industrial commodities had been long in place. Most of the restrictions on agricultural and food industry products had also been already removed prior to May 1, 2004, the day of EU accession, and this applied to trade with the 'old' EU and intra-regional trade as well.[15]

All in all, intra-regional trade of the CETC has been a success story since these countries' EU accession.[16] Three years after the EU accession the share of intra-CETC trade attained the level experienced back in 1985. The fundamental difference is, however, that in the 1980s that level was achieved under the extreme protection provided by the CMEA which efficiently excluded competition from the world market. The current level has been attained under the conditions of the single European market, without any protection for the intra- CETC trade.

The causes of the intra- CETC trade expansion are far from obvious. Foster, Hunya, Pindyuk and Richter (2011) and Hunya and Richter (2011) looked at various possible explanations. Analysing the changes in mutual trade specialization the authors found that trade specialization itself did not explain the revival of mutual trade. It turned out that both extreme strong specialization (Hungary) and a virtual lack of specialization (Slovakia) were recorded in countries achieving very high export growth rates in intra-NMS trade. Another field of investigation, intra-CETC FDI flows, demonstrated that while FDI inflows have been playing a decisive role in the economic growth of these countries, the significance of *mutual* FDI was small to negligible.

As main explanation for fast intra-CETC trade growth remains FDI in general which expanded fast and facilitated the inclusion of the CETC into the European production networks. Most of the exports of the CETC are generated by subsidiaries of multinational corporations from the EU-15 and other developed countries. These subsidiaries are linked by intra-company trade, sourcing and selling in the CETC region. A rationalization of subsidiaries took place to fewer locations serving several countries in the region.[17] Foreign investors have concentrated the production of consumer goods marketed in the region to a lower number of locations after EU enlargement which also generated trade among the CETC countries. What most probably changed in the wake of enlargement was the specialization of subsidiaries.

EU accession must have played an indirect role not tied to the exact date of enlargement. Despite the hesitant attitude of the incumbent EU members towards eastern enlargement in the 1990s and the lack of their final commitment up until 2002, with closing in on the year of accession it became more and more

[12] Havlik (1991), Gács, and Winckler (1994).

[13] The Czech Republic, Hungary, Poland and Slovakia.

[14] For details see Richter and Tóth G. (1994)

[15] Nevertheless according to Hornok (2010) the elimination of non-traditional trade barriers following the EU accession may have been a significant contribution to the upturn in mutual trade flows. The author mentions the following non-traditional trade barriers: eliminated border waiting time and customs procedures; elimination of technical barriers through completion of harmonization; lower legal and information costs for exporters and reduced political risk.

[16] This is in sharp contrast with an ongoing trade disintegration in the CIS (Havlik, 2008) and partly also in SEE.

[17] Bellak and Narula (2009).

obvious that the accession would take place indeed. In this gradual process of self-conviction the foreign firms involved in the intra-NMS trade gradually embarked on a new, geographically more diversified sales/procurement strategy. In the new strategic concepts of the main exporting firms (mostly multinationals) the CETC region has been upgraded both as target for sales and as a host of potential co-operation partners for production.

# 4. Conclusions: What MENA may learn from Central European experiences with intra-regional trade

Foster, Hunya, Pindyuk and Richter (2011) and Hunya and Richter (2011) point out that a successful revival of intra-regional trade in Central Europe was conditional upon these countries' close integration with the EU. In the case of the CETC close integration meant full EU membership, what is for the MENA not available currently and in the near and medium term future. Nevertheless a provision of some of the main attributes of deep integration with the EU, even without full membership, may facilitate intra-MENA trade to a similar way as it did for the CETC.

A strong presence of multinational companies in the CETC manufacturing industries and the gradual involvement of these affiliates into worldwide production networks of these companies was the first step. A gradual loosening of the initial 'hub and spoke' relation (highly developed 'old' EU members as the hub and individual CETC as the spokes), further the establishment and/or gradual upgrading of intra-NMS networks of the originally 'region-blind' multinationals is a model that can be adapted to the special circumstances of intra-MENA trade. A precondition for that is an implemented free trade agreement with the EU and, with regard to problems regarding the rules of origin, a common (MENA-wide) external tariff, perhaps a customs union with the EU.[18] For a levelled playing ground key elements of the *acquis communautaire* in trade, FDI, state aid, environmental protection, etc. could be adapted by the MENA. Abolishment of non-tariff trade barriers is indispensible as well. Last but not least, an unambiguously FDI-friendly regulatory environment is a key element of a policy targeted at an upswing of intra-MENA trade, too.

While the economic preconditions of a stepped up intra-MENA trade are quite clear, the political, social and cultural implications are less so. Increased competition would have winners and losers as well, with different balance by countries, regions, social strata, industrial and services sectors, enterprise size, etc. Therefore any attempt to fulfil the above outlined preconditions for stepping up intra-MENA trade must be preceded by the elaboration of comprehensive impact analyses.

[18] Ülgen (2011) proposes that the MENA countries could join the EU-Turkey customs union.

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**Impressum:**
Die Policy Briefs erscheinen in unregelmäßigen Abständen zu aktuellen außenwirtschaftlichen Themen. Herausgeber ist das Kompetenzzentrum „Forschungsschwerpunkt Internationale Wirtschaft“ (FIW). Das FIW wird im Auftrag des Bundesministeriums für Wirtschaft, Familie und Jugend (BMWFJ) im Rahmen der Internationalisierungsoffensive der Bundesregierung von drei Instituten (WIFO, wiiw, WSR) betrieben. Es bietet den Zugang zu internationalen Außenwirtschafts-Datenbanken, eine Forschungsplattform und Informationen zu außenwirtschaftsrelevanten Themen.

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