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Policy Study

N. 20

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Content

Executive Summary

The European Union (EU) is a key trade partner, both in terms of goods and services, for the countries in its Southern Neighbourhood (SN): Morocco, Algeria, Tunisia, Egypt, Israel, Palestine,[1] Jordan and Lebanon.[2] The economic (and otherwise) relationship between the two partners is governed by the Euro-Mediterranean Association Agreements (EMAAs), which came into force from the early to mid-2000s. The ongoing COVID-19 pandemic has, however, affected the trade exchange between the two, just as it has an adverse impact on trade globally.

As pointed out in the second chapter of this policy study, one of the sectors of great importance to both the EU and the SN is agri-foods. Despite a general drop in merchandise trade, the agri-food exports from the EU actually increased globally by 0.5% during the first 10 months of the pandemic compared to the same period the year before, up to €151.8 billion. In the case of the SN, exports of agri-foods during the first three quarters of 2020 (year-on-year) grew particularly strongly in the case of Morocco (27.2%) and Algeria (20.3%) and decreased most visibly in the case of Lebanon (-37.9%). As for exports from the EU to the SN, during the same period a particularly impressive growth was witnessed in the case of Tunisia (40.3%) but the value of agri-food imports of Morocco also went up (8.4%).

Trade in services, as analysed in chapter three, was hit more severely than trade in goods and declined significantly in all countries in the region during the first months of the pandemic. For Morocco, for instance, during the first three quarters of 2020 it plummeted by almost 60% (year-on-year). Because of lockdowns and travel bans, the tourism sector was among the hardest hit, even though the countries in the SN are mostly visited by travellers from nearby markets: the SN region or Europe – in 2019 the latter constituted between 29.4% (Tunisia) and 68.2% (Morocco) of all arrivals (after excluding nationals of SN countries who live abroad). As a result, tourism revenues plummeted (in Palestine, for instance, by an estimated 68%) and a significant number of people were made redundant; before the pandemic, between just under 6% (Algeria and Israel) and nearly 20% (Lebanon) of all (formally employed) workers were employed in the travel and tourism sector.

The disturbances outlined above have adversely impacted food security in the region, as initial data presented in chapter four suggests. While isolating the

[1] This designation should not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of EU member states on this issue.

[2] Libya and Syria were excluded as states with which Association Agreements (AAs) are presently not in force. For more information on the AAs between the EU and the SN, see Van der Loo's chapter in this study.

impact of the COVID-19 pandemic on food security is difficult, as many other factors – such as bad harvest due to weather conditions in Morocco – were in play in 2020, the pandemic clearly affected both supply of and demand for foodstuffs. Some countries were more affected than others, as has already been mentioned above in the case of agri-food trade with the EU. At the same time, the impact on food security within the countries was also far from homogenous, with refugees (e.g., due to loss of work in informal sector) and poorer households – spending a bigger share of domestic budget on increasingly more expensive food products – more often forced to adopt emergency livelihood coping strategies, such as limitation of daily calory intake.

Looking towards the post-COVID-19 trade relations, as outlined in chapter one of this study, the EU's post-pandemic recovery plans and trade strategy review offer a new momentum for the SN countries to strengthen and modernise their framework for trade relations with the EU, to capitalise on potential re-shoring and near-shoring trends in EU and global value chains, and to promote (intra-) regional economic integration. However, the envisaged Deep and Comprehensive Free Trade Areas (DCFTAs) currently under negotiation with Tunisia and Morocco may not be the most realistic option at this stage. A more gradual approach based on sectoral agreements could be adopted in the short- to medium-term instead, leading to a DCFTA-like model of trade integration. Moreover, in order to strengthen the (intra-)regional economic and value chain integration, modernisation of the Pan-Euro-Mediterranean Convention should remain a priority. Finally, the modernisation of EU-SN trade relations should be linked and integrated into the broader (and longer-term) plans for EU-Africa trade relations, with an eye on the "continent-to-continent Free Trade Area" in the long run.

Internally, governments in the SN should prioritise development of high productivity service sectors and work towards curbing their reliance on tourism and transportation. In order to achieve that goal, improving the quality of their institutions is as important as upgrading telecommunications infrastructure or adopting incentives such as tax breaks. More broadly, speeding up digital transformation would both facilitate servicification and reduce costs associated with merchandise trade.

Introduction

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The global COVID-19 pandemic has profoundly affected the daily functioning of societies and their economies all over the globe. While its impact on international trade may fortunately be less severe than initially expected, the decline is still palpable, with the latest estimations of 5.6% and 15.4% drop in value of trade in goods and services respectively in 2020 compared to the year before (UNCTAD, 2020). For countries in the Middle East and North Africa (MENA) region, where trade in goods accounts for up to 85.6% of gross domestic product (GDP) in the case of Egypt, and 65.3% of GDP for trade in services in the case of Jordan (2009-2017 averages; World Bank, 2020), decline in revenue from trade creates a serious risk for their economies. Equally importantly, due to high dependence on merchandise imports – including those of staple goods – trade disruptions imperil their security and stability.

The European Union (EU) is a key trade partner for its Southern Neighbourhood (SN): Morocco, Algeria, Tunisia, Egypt, Israel, Palestine,[1] Jordan and Lebanon,[2] with which it is linked not just through geographical proximity and historical ties but also AAs, which mostly entered into force in the early to mid-2000s. Indeed, the EU is number one merchandise trade partner for all countries in the region, with the exception of Palestine as well as Jordan, where the EU was overtaken by Saudi Arabia. In 2019, trade between the EU and the region amounted to roughly €150 billion in industrial goods and €15 billion in agricultural goods. It must, however, be noted that the relationship is highly asymmetric, with the region accounting for just 4% of the EU's trade (Ecorys, CASE, & FEMISE, 2020). When it comes to trade in services, the region is also an important partner of the EU. In fact, thanks to their popularity among European holidaymakers, Egypt, Morocco and Tunisia enjoy a positive trade balance in services with the EU.

Against this background, this policy study explores the impact of the first months of the ongoing pandemic on trade relations between the EU and countries in the SN, as well as – whenever possible – sub-Saharan Africa. The authors start by reviewing the existing legislative framework for trade between the EU, the SN and the African continent as a whole. Subsequently, they assess the direct and indirect impact of COVID-19 on intra- and inter-regional trade in goods and services between SN countries and the EU. A particular focus is placed on the tourism and agricultural sectors, both of crucial importance to the region. The authors also explore the ways in which the disruptions identified have affected food security in the SN region. Finally, based on findings of the study, the authors explore different scenarios for the evolution of intra- and inter-regional trade during the post-pandemic period and offer policy recommendations for reinvigorating trade cooperation between the three regions of interest to the study as well as strengthening of the economic performance of the SN.

[1] This designation should not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of EU member states on this issue.

[2] Libya and Syria were excluded as states with which Association Agreements (AAs) are presently not in force. For more information on the AAs between the EU and the SN, see Van der Loo's chapter in this study.

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EU-MENA Trade Relations After COVID-19: State of Play and Scenarios for Modernising the EU-MENA Free Trade Areas

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Introduction

The economies of both the European Union (EU) and the countries in the Middle East and North Africa (MENA) region have been severely hit by the COVID-19 crisis. Whereas the European Commission (EC)'s 2020 Spring Economic Forecast projected that the pandemic would cause the EU economy to contract by 7.4% in 2020 and global trade by between 10% and 16% (EC, 2020b), the combination of a COVID-19 pandemic and a collapse in oil prices would contract the economies of the MENA countries by 5.2% in 2020 (World Bank, 2020). This unprecedented health crisis has also forced the EU and MENA countries to take exceptional trade-related measures such as export restrictions with regard to essential goods – in particular medical supplies and personal protective equipment. Moreover, the COVID-19 crisis disrupted regional and global supply chains.

In the context of the EU's (and MENA region's) post-COVID-19 recovery plans, there are increasing calls to modernise the bilateral Free Trade Areas (FTAs) included in the Euro-Mediterranean Association Agreements (EMAAs) that the EU has concluded with eight of the MENA countries (hereinafter: "the EMAA countries"). For example, the EC has put forward in the context of its "Next Generation EU" recovery plan a model for "Open Strategic Autonomy" (EC, 2020b) and launched in July 2020 a consultation on the review of its trade strategy, which needs to contribute to a rapid and sustainable socioeconomic recovery for the Union. One of the elements considered in the review of the EU's trade strategy is to strengthen supply-chain resilience and sustainability by, for example, the diversification and shortening of supply chains, i.e., bringing these closer to the EU's neighbourhood. The Commission indeed noted that due to their geographical proximity, "a particular focus should be put on the EU's closest partners in its neighbouring region and Africa [as] these countries offer important growth and production markets as well as a key source for imports of goods and services and value chain integration" (EC, 2020b). The COVID-19 crisis could indeed offer opportunities for the MENA countries to capitalise on potential re-shoring and near-shoring trends in EU and global value chains (GVCs), which could bring intermediate input production activities closer to the EU.

In this context, the EU and its MENA partners emphasised during the eleventh Union for the Mediterranean (UfM) Trade Ministers Conference in November 2020 the importance of re-invigorating Euro-Mediterranean trade and increasing the competitive advantage of the region to attract more trade and investments. Not only did the ministers agree to avoid the resurgence of protectionism and on a swift removal of the restrictive trade barriers in line with the parties' World Trade Organization (WTO) commitments and regional or bilateral trade agreements, they also called for the strengthening of regional value chains (RVCs) in the context of a post-COVID-19 sustainable recovery (UfM, 2020). Therefore, both the EU and the MENA countries recognised that "the trade provisions of some of the [EMAAs] should be modernised to enhance integration with the EU market, through mutual market access opportunities and alignment of standards, and to extend their scope by for example strengthening

environment-related provisions and considering a dedicated chapter on trade and sustainable development, as well as to deepen the commitments on key rules governing trade policy" (UfM, 2020).

This chapter will therefore analyse how the EU's FTAs concluded with the EMAA countries could be deepened and broadened to provide for a legal framework that integrates these MENA countries into the EU market and could tap into the opportunities provided by the COVID-19 trade-related recovery plans by strengthening (intra-)regional economic and value chain integration. Thus, this chapter will first discuss the scope, evolution and implementation of the EMAA FTAs. Then, the potential "deep" and "broad" dimension of the envisaged Deep and Comprehensive Free Trade Areas (DCFTAs) with Tunisia and Morocco, which are currently being negotiated, are explored. Finally, an alternative "gradual" model for EU-MENA trade integration is proposed and discussed.

The EMAA FTAs

Broadening the EMAA FTAs

As noted in the introduction of this study, the initial EMAA FTAs were modest trade agreements covering essentially only trade in industrial goods. However, several of them were gradually updated and broadened to match them with the revamped political and economic objectives of the European Neighbourhood Policy (ENP) and the UfM.

An important area where the EMAAs were broadened through sectoral agreements is agriculture and fisheries products. The EU concluded bilateral agreements on agricultural, processed agricultural and fisheries products with several EMAA partners which, once concluded in the form of an Exchange of Letters, were added as a protocol to their respective EMAAs (hereinafter: "the agricultural protocols"). Such agricultural protocols have been concluded with Israel and Egypt (entered into force in 2010), Morocco (entered into force in 2012), Jordan (entered into force in 2007) and Palestine (entered into force in 2012).[1] The EU did not conclude such a protocol with Tunisia, with which further liberalisation of agricultural products is discussed in the context of its DCFTA negotiations. These protocols significantly widened the scope of the EMAAs, but sensitive agricultural products are still only partially liberalised. For example, the Moroccan Protocol gradually liberalised 70% of imports from the EU in terms of value over a period of 10 years. The EU, on the other hand, immediately liberalised 55% of its imports from Morocco. In the case of Lebanon, 89% of products enter tariff and quota free. However, the most sensitive products are not fully liberalised as these protocols apply tariff rate quotas (TRQs) on several sensitive agricultural products. For example, the EU applies TRQs on seven categories of Moroccan agricultural products, mostly fruits and vegetables (e.g., tomatoes) on 27 agricultural products from Lebanon and on virgin olive oil and cut flowers from Jordan. Only in the agreement

[1] For the text of these agricultural agreements with the EMAA partners, see *Official Journal of the European Union (OJ)*, 2012, L 241/4 (Morocco); *OJ*, 2011, L 328/5 (Palestinian Authority of the West Bank and the Gaza Strip); *OJ*, 2010, L 106/41 (Egypt); *OJ*, 2006, L 43/3 (Jordan); and *OJ*, 2009, L 313/83 (Israel).

with Palestine does the EU give full duty-free access to the EU market for all agricultural products.

The EU and Morocco also concluded negotiations in January 2015 on an agreement to mutually protect their geographical indications (GIs) in the area of agri-food products.[2] Also in the area of agriculture, the EU signed a Fisheries Partnership Agreement with Morocco in 2006.[3] Its protocols gave EU vessels certain fishing rights in Moroccan waters in return for financial assistance.[4] Its latest protocol expired in July 2018 and the EU and Morocco concluded a new sustainable fisheries partnership agreement (SFPA) in 2019. Another batch of trade-related protocols negotiated with most of the EMAA countries update the respective settlement mechanisms for trade disputes.[5]

In order to strengthen intra-regional trade in the MENA region, the EC has made specific proposals to modernise the Regional Convention on Pan-Euro-Mediterranean preferential rules of origin (PEM Convention)

Finally, in order to strengthen intra-regional trade in the MENA region, the EC has made specific proposals to modernise the Regional Convention on Pan-Euro-Mediterranean preferential rules of origin (PEM Convention).[6] In November 2019, the EC proposed in the context of the PEM Joint Committee to modernise the PEM Convention in order to strengthen RVC integration. However, although most PEM countries agree with these proposals, several of them had reservations and asked to postpone the modernisation. In the meantime, in order to support (intra-)RVC integration in the context of post-COVID-19 recovery, the Commission continued pursuing the PEM modernisation by a new package of proposals on 24 August 2020 (EC, 2020h). This package would enable the PEM contracting parties that supported the Commission's proposed modernisation of the PEM Convention to begin applying the updated rules, without the agreement of those countries that oppose such a revision.

[2] Once ratified, this agreement will provide a higher level of protection than that provided under the Agreement on Trade-Related Aspects of Intellectual Property Rights as it will protect names against any direct or indirect commercial use, any misuse, imitation or evocation of the product, any other false or misleading indication as to the provenance, origin, nature or essential qualities of the product or any other practice liable to mislead the consumer as to the true origin of the product. The agreement covers 30 Moroccan GIs and about 3,000 EU GIs.

[3] For the text of the agreement, see *OJ*, 2006, L 141.

[4] The latest protocol (which expired in 2018) addressed concerns of the European Parliament with regard to the cost-benefit ratio through increased fishing opportunities for a reduced EU financial contribution (€30 million per year, of which €16 million was for access rights and €14 million for developing Moroccan fisheries policy) and it also undertook to promote sustainable and responsible fishing.

[5] For the texts, see *OJ*, 2010, L 40/75 (Tunisia); *OJ*, 2011, L 177/1 (Jordan); *OJ*, 2011, L 138/2 (Egypt); *OJ*, 2011, L 176/2 (Morocco); and *OJ*, 2010, L 238/20 (Lebanon).

[6] The PEM Convention between the EU, EFTA States, Turkey, the countries which signed the Barcelona Declaration and the Western Balkans aims to replace the network of about 60 bilateral protocols on rules of origin (RoO) in force in the Pan-Euro-Mediterranean zone with a single legal instrument. Contracting Parties to the PEM Convention (currently 24 in total) which have ratified the Convention and have an FTA between them can replace the protocol on RoO to that FTA with the PEM Convention's protocol on RoO. One of the key elements of the PEM Convention that aims to support RVC integration is its system for diagonal cumulation. This means that materials which have obtained originating status in one of the Contracting Parties may be incorporated in products manufactured in another Contracting Party without those products losing their originating status when exported to a third Contracting Party within the Pan-Euro-Mediterranean zone. However, diagonal cumulation only applies if an FTA is in place between all parties concerned.

The EU-Morocco Agricultural Protocol and Fishery Partnership Agreement and the Western Sahara

The deepening and widening of EU-Morocco (trade) relations have over the last few years been stalled by the "Western Sahara" cases before the Court of Justice of the European Union (CJEU). Although the EU and its member states have never recognised Moroccan sovereignty over Western Sahara,[7] the EU has de facto been applying the EU-Morocco agricultural protocol and Fisheries Partnership Agreement to (the waters adjacent to) Western Sahara. This practice has been challenged by Front Polisario (the National Liberation Movement of Western Sahara) in several cases before the CJEU, leading to strong diplomatic tensions between the EU and Morocco and questioning the legality of the legal framework for EU-Morocco trade relations.

In *Council v. Front Polisario* (Case C-104/16), the CJEU basically concluded that in view of the "separate and distinct status" guaranteed to the territory of Western Sahara under international law (e.g., the Charter of the United Nations and the principle of self-determination), it cannot be held that the term "territory of the Kingdom of Morocco", which defines the territorial scope of the EMAA and the agricultural protocol, encompasses Western Sahara and, therefore, that those agreements are applicable to that territory. This ruling upset the Moroccan government as it undermined its long-standing territorial claim over Western Sahara. The EU proceeded swiftly after this judgment to extend the application of these agreements to Western Sahara and in July 2019 the EU and Morocco concluded an agreement that amends the EMAA to provide that products originating in Western Sahara subject to controls by customs authorities of Morocco could benefit from the same trade preferences as those granted by the EU to products covered by the FTA (Council of the EU, 2019a).[8] However, Front Polisario also challenged (again) in April 2019 the legality of this agreement (i.e., of the extension of the preferences to Western Sahara) by challenging the Council's Decision approving the amendment of the Association Agreement, arguing, *inter alia*, that the Council lacks the competence to conclude agreements that apply to Western Sahara and that the agreement violates international law and the rights of the people of Western Sahara. This case (Case T-279/19), which is still pending before the General Court, can again put the legal framework for EU-Morocco trade relations in limbo.

In line with its reasoning in *Council v. Front Polisario*, the Court also argued in Case C-266/16 *Western Sahara*

The deepening and widening of EU-Morocco (trade) relations have over the last few years been stalled by the "Western Sahara" cases before the Court of Justice of the European Union (CJEU)

[7] Western Sahara is recognised as a non-self-governing territory in accordance with Article 73 of the United Nations (UN) Charter, and the right to self-determination for such territories, Western Sahara in particular, has been stressed several times by different UN Resolutions and the International Court of Justice (e.g., its Advisory Opinion of 1975 on Western Sahara).

[8] The Council and European Parliament were sufficiently reassured by a report drafted by the EC and Council of the EU which concluded, after a consultation process in Morocco and Western Sahara, that the agreement complies with the outcome of the Court's judgement; benefits the people of Western Sahara and received their consent (as required by the CJEU's ruling) (EC, 2018). Moreover, the European Parliament insisted on specific monitoring procedures.

Campaign UK on 27 February 2018 that the (waters adjacent to the) territory of Western Sahara is not included within the scope of the 2006 Fisheries Partnership Agreement. Also in this case the EU proceeded swiftly to avoid disruption and agreed on 8 October 2018 with Morocco on a new SFPA and a four-year Implementation Protocol, now explicitly covering the waters adjacent to the territory of Western Sahara.[9] The new SFPA and its four-year protocol allocate fishing opportunities for the EU in exchange for an overall financial contribution of €208 million. The agreement entered into force in July 2019.[10]

Implementation of the EMAA FTAs

The EU's trade relations with the EMAA partners are very asymmetric, in favour of the former: whereas the EU is the number one trading partner for all countries (except for Jordan and Palestine), and for the region as a whole, the EMAA region only represents 4% of EU external trade (see the introduction and Mostafa Kamel's chapter in this report). Nevertheless, the EMAA region remains an important market for specific EU exports such as textiles and ceramics and imports, especially in the energy and agri-food sectors (EC, 2020a).

In 2019, trade between the EU and the region amounted to roughly €150 billion in industrial goods and €15 billion in agricultural goods (EC, 2020a). Morocco, Israel and Algeria remained the EU's largest trading partners in the region. In 2019, Morocco was the region's main market for EU exports, followed by Israel and Egypt. With regard to trade by sector, 90% of EU trade with the region is in industrial goods (energy sector and manufactured goods) and only 6.2% in agri-food products (EC, 2020a). This can be partially attributed to the more limited liberalisation of agri-food products, in particular in the case of Tunisia and Algeria, which have not concluded an additional agricultural protocol. Algeria and Israel are the EU's biggest agri-food destinations in the region. Among the EU's EMAA partners, Morocco is the largest supplier of agricultural products – Morocco is the EU's first supplier in vegetables and second in fruits and olive oil (EC, 2020e). Morocco even has a trade surplus on agricultural products with the EU, while the EU has a surplus on processed agricultural products. The EU is also the largest investor in many of these countries, representing more than half of foreign direct investment (FDI) in Morocco and 85% in Tunisia.

In general, trade between the EU and the EMAAs has grown significantly since the entry into force of the FTAs. In January, the EC launched an ex-post

[9] Also in this case a consultation report by the EC demonstrated that the agreement is beneficial for the people of Western Sahara and received their consent. See EC (2018, October 8). *Document de Travail des Services de la Commission accompagnant le document: Proposition de décision du Conseil relative à la signature, au nom de l'Union, de l'accord de partenariat dans le domaine de la pêche durable entre l'Union européenne et le Royaume du Maroc, de son protocole de mise en œuvre ainsi que d'un échange de lettres accompagnant ledit accord* (SWD(2018) 433 final). Brussels: EC.

[10] In June 2019 Front Polisario again brought the approval of this SFPA before the CJEU by challenging the legality of the Council Decision approving the SFPA (similar to its procedure against the Council Decision approving the extension of the FTA to Western Sahara). This case (Case T-344/19 and T-356/19) is still pending and could also have important repercussions for the legality of the new SFPA.

evaluation of six of the trade agreements. The interim report concluded that although the EU has benefited more, all EMAA partners seem to have obtained some welfare and income gains from this trade liberalisation (EC, 2019b). These gains are, however, rather small in absolute terms – ranging from 0.4% of gross domestic product (GDP) in Jordan to 1.5% of GDP in Tunisia. These limited results can be partially attributed to the EMAA FTAs' preference erosion, as in the meantime the EU has concluded numerous FTAs with several other neighbouring (and other) countries.

A specific concern shared by several MENA countries is their negative trade balance for goods with the EU – and which often grew under the EMAA FTAs, in particular with Morocco, Israel, Jordan, Lebanon and Egypt – but slightly diminished in recent years with the latter two (EC, 2020a). For example, the EU's trade surplus with Morocco reached €7 billion in 2019 – 4.6 times compared to 2002 and up by 1.2 times in the past five years. However, Morocco's trade deficit with the EU represents 34% of Morocco's overall trade deficit and does not reflect Morocco's positive services trade balance with the EU (mainly tourism) (EC, 2020e). The trade deficit with other MENA countries is more limited, such as with Tunisia's – in 2019, Tunisia's trade deficit with the EU was as low as 1.4% of the country's total deficit (EC, 2020f). Because of the absolute dominance of oil and gas in Algeria's exports, Algeria has mostly recorded a trade surplus with the EU, but the decline in oil and gas prices led in 2016 to an EU surplus for the first time – in 2019 Algeria had a small negative trade balance with the EU (EC, 2020d). It has to be flagged that the MENA region saw rising trends of protectionism driven by economic instability or structural problems, in particular in Algeria, and to a lesser extent also in Lebanon and Morocco (EC, 2020g). These forms of protectionism are often incompatible with the EMAA FTAs.

Modernisation of the EMAA FTAs

The envisaged DCFTAs with Tunisia and Morocco

State of play

The EU is currently envisaging deepening and broadening the EMAAs with Tunisia and Morocco by negotiating DCFTAs, which, once concluded, would replace the current FTAs included in their respective EMAAs. The objective to conclude such ambitious DCFTAs was developed in the framework of the ENP. The key objective of such DCFTAs is not only to liberalise most goods and services and to cover all other relevant trade-related areas (e.g., public procurement, competition, technical barriers to trade [TBT], intellectual property rights [IPR], investment, sanitary and phytosanitary [SPS] measures, sustainable development and trade facilitation and trade-related energy), but to also gradually and partially integrate these countries into the EU Internal Market on the basis of legislative approximation.

Whereas DCFTAs were first offered in 2008 to the EU's eastern neighbours (Ukraine, Moldova and Georgia) as part of broader Association Agreements (signed in 2013), DCFTAs were also proposed to the Mediterranean partners after the Arab Spring as an economic and trade answer to the rev-

olutionary developments in the region. The Council adopted negotiating directives for DCFTAs with Morocco, Jordan, Egypt and Tunisia in December 2011. These countries were considered eligible for DCFTAs as they are all WTO members and made progress in sub-regional economic integration (e.g., they are all parties to the 2004 Agadir Agreement). Moreover, the Commission considered – at that time – that these countries implemented in sufficient terms the economic and political priorities enshrined in the bilateral ENP Action Plans.

However, the concept of these DCFTAs has met significant resistance in these four MENA countries, and negotiations were only launched with Morocco in 2013 and with Tunisia in 2015. Whereas Egypt expressed again in 2019 its interest in enhancing trade and investment relations and exploring the possibilities of modernising its EMAA FTA, it has shown limited interest in a fully-fledged DCFTA so far. A dialogue with Egypt was launched in 2019 to jointly consider other suitable approaches to enhanced trade relations. At this stage Egypt mainly aims to reduce its negative trade balance and to attract EU investment (EC, 2020c). Also, Jordan has so far shown no interest in launching DCFTA negotiations with the EU – even if this perspective was again mentioned in the 2016 Partnership Priorities. Both Jordanian public and private sectors have expressed their reservations on a future DCFTA claiming that trade figures between the EU and Jordan do not support a further extension of the ongoing FTA (EC, 2020g).

The Joint Declaration adopted by the EU and Morocco during the Association Council of 27 June 2019 states that both parties aim to develop "an area of economic convergence and social cohesion"

However, negotiations were launched with Morocco in March 2013 but, despite considerable progress on most chapters during the first four negotiation rounds, Morocco insisted on introducing a break in July 2014. Before continuing the trade talks, the Moroccan government wanted first to evaluate the results of its own new sectoral impact assessments, which were called for by Moroccan civil society, fearing increased competition from EU imports in key sectors of their economy and the government's ability to regulate economic and social sectors. Moreover, the relaunch of the negotiations was further complicated by the CJEU's Western Sahara cases (and the implications). It was only after the EU and Morocco brought the EMAA in line with the case law of the CJEU by extending its preferences to Western Sahara and by concluding the new SFPA, that a *détente* was possible. The Joint Declaration adopted by the EU and Morocco during the Association Council of 27 June 2019 states that both parties aim to develop "an area of economic convergence and social cohesion", including by relaunching negotiations for a DCFTA "on the basis of the expected benefits for both parties, the gradual move towards regulatory convergence, close bilateral cooperation regarding customs, good fiscal governance, the protection of personal data and a strengthening of the connectivity of physical and digital infrastructures" (Council of the EU, 2019b). However, this renewed ambition did not yet lead to a new DCFTA negotiation round, although technical meetings have taken place, including a meeting between the EU Trade Commissioner and Mr Moulay Hafid Elalamy, Minister of Industry, Trade and New Technologies of Morocco in February 2020. A visit from the EU Trade Commissioner to Morocco was planned in the spring of 2020 but has been postponed due to the COVID-19 crisis.

Negotiations with Tunisia were launched in October 2015 and, during the first round in April 2016, both parties confirmed the guiding principles: (i) asymmetry, taking into account the different level of development between the two parties; (ii) a progressive liberalisation accompanied by the necessary support to strengthen the competitiveness of the Tunisian economy; and (iii) regulatory and legislative approximation in the priority areas identified by Tunisia. At the fourth (and so far last) round of negotiations in May 2019, the EU and Tunisia reaffirmed their commitment for reciprocal but asymmetric and progressive market opening and gradual legislative approximation in priority areas identified by Tunisia (EC, 2019a). Moreover, Tunisia insisted on urgent measures for their strategic sectors such as olive oil and textiles and on improving the competitiveness of Tunisian exports. Progress was made in several areas (e.g., GIs and most of the IPR text, sustainable development, competition and digital trade), but remained limited in relation to TBT, SPS and public procurement and issues related to market access, notably on agriculture and services. Tunisia has therefore tabled some alternative texts and stressed the need for trade-related assistance and differential treatment. However, negotiations have been effectively brought to a standstill due to a change of government in Tunisia (which took office in late February 2020) as well as to strong civil society protest.

Potential scope and contents of DCFTAs

As explained above, the comprehensive dimension of the DCFTAs implies that, in line with the EU's approach on its new generation of "broad" FTAs, this trade deal would not only cover trade in goods but also tackle all other relevant trade-related areas which are important for the EU's (and global) trade agenda, including trade in services, public procurement, competition, IPR and sustainable development. Looking at the draft negotiation texts and EU proposals for the EU-Tunisia DCFTA – that falls under the same negotiation directives as the Morocco DCFTA[11] – the "broad" dimension of these agreements can be revealed, covering, *inter alia*, the following chapters:

The comprehensive dimension of the DCFTAs implies that, this trade deal would not only cover trade in goods but also tackle all other relevant trade-related areas which are important for the EU's (and global) trade agenda

National Treatment and Market Access for Goods	Public Procurement
Trade Remedies	Intellectual Property
Trade in Agricultural and Fisheries Products	Competition and State Aid
Technical Barriers to Trade	Trade-Related Energy and Raw Materials
Sanitary and Phytosanitary Measures	Transparency
Customs and Trade Facilitation	Trade and Sustainable Development
Trade in Services and Investment	Small and Medium-Sized Enterprises
Investment Protection and Investment Court System*	Digital Trade
Current Payments and Movement of Capital	

*Potentially included in a separate agreement to avoid "mixity"

[11] For the draft EU negotiations texts of the Tunisia DCFTA, see EC (2019). *Les textes proposés par l'UE pour un accord de libre-échange complet et approfondi (ALECA) avec la Tunisie disponibles en ligne.* Retrieved from http://trade.ec.europa.eu/doclib/press/index.cfm?id=1489

The potential scope and depth of each of these chapters cannot be analysed in detail in this contribution. However, several chapters identified by Morocco and Tunisia as priorities deserve a few comments.

With regard to trade in goods, it has to be noted that industrial goods are already liberalised under the current EMAA FTA. However, a chapter on National Treatment and Market Access for Goods could include (WTO-like or plus) rules on import and export restrictions, import and export licensing procedures and export duties. With regard to agricultural and fisheries products, contrary to the other EMAA countries, Tunisia did not conclude an additional protocol on these products. Therefore, there is ample room to further liberalise agricultural, processed agricultural and fisheries products on a reciprocal but asymmetric basis, including specific treatment for sensitive products (e.g., TRQs), similar to the other agricultural protocols. In the case of Morocco, the agricultural protocol already significantly liber-alised agri-food products. As noted above, Morocco is the most important partner in the region for agricultural products. However, it must be noted that Morocco is not able to fully exploit the benefits of this protocol as, for example, in 2019 only the TRQs for tomatoes were fully used. The utilisation rate is high for courgettes (70%) but remains rather low for clementines (56%) and strawberries (EC, 2020g). A crucial DCFTA component that could improve and facilitate trade in agricultural products for Tunisia and Morocco is the SPS chapter. Complying with the EU's SPS standards is a burdensome procedure for Moroccan exports and is an important non-tariff barrier for trade in agricultural products. For example, although Morocco is allowed by the EC to export eight categories of food of animal origin (e.g., fisheries products, frogs' legs and snails), the number of exporters listed as approved "establishments" remains limited. The DCFTA SPS chapters aim to go beyond the WTO's SPS agreement by including provisions on transparency and labelling of products, bilateral consultations and verification and certification procedures. The agreement would also provide for the possibility of "determination of equivalence", which means that the EU can accept Tunisian and Moroccan SPS measures as equivalent (and vice versa) if they can objectively demonstrate that they achieve the same level of protection. Therefore, the EU's proposal foresees that the EU and Tunisia agree on an SPS programme that identifies the priority areas where Tunisia will align with the relevant EU *acquis*.

Another crucial chapter that aims to facilitate trade is the one on TBT. This chapter would include provisions on the affirmation of the TBT Agreement of the WTO, rules on marking and labelling of products and cooperation in the field of technical regulations, standards, metrology, market surveillance, accreditation and conformity assessment procedures, as well as cooperation and consultation procedures. An important element of this chapter would be approximation to the EU's TBT-related *acquis* in order to conclude an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA). An ACAA is a kind of agreement that foresees mutual recognition of regulatory and verification procedures for industrial products. By concluding an ACAA, the parties agree that industrial products listed in the annexes of an ACAA, fulfilling the

requirements for being lawfully placed on the market of one party, may be placed in the market of the other party without additional testing and conformity assessment procedures, thus leading to a partial "integration" into the EU Internal Market. However, before concluding an ACAA, the EU requires that the partner countries implement – a selection of – the relevant EU legislation (such as the sectoral and horizontal New Approach Directives). This is a demanding exercise for the partner countries, but a gradual or partial approach is possible because an ACAA would include a framework agreement, providing for the recognition of equivalence of the conformity assessment and accreditation procedures, and one or more annexes setting out the different product areas covered. Tunisia has already identified electronic and electrical products and construction materials as priority sectors, whereas Morocco pursues an ACAA covering low voltage equipment, construction materials, toys and electronic products.

Considering the increasing importance of services in EU-Morocco and EU-Tunisia trade relations and the services sector within these countries, the DCFTA chapter on services and investment will be crucial. This chapter will aim to create a better climate for business development and to achieve progressive liberalisation of trade in services and investment between the EU and these two MENA countries. At the same time, it will explicitly reaffirm the right of each party to regulate for legitimate public policy objectives (e.g., protection of public health, environmental protection and consumer protection). With regard to investment liberalisation, the agreement would cover market access (e.g., restrictions on the number of investors) and the principle of national treatment and "most-favoured-nation treatment". The section on cross-border supply of services will cover the supply of a service (i) from the territory of a party into the territory of the other party (General Agreement on Trade in Services or GATS Mode 1) and (ii) in the territory of a party to a service consumer of the other party (GATS Mode 2). Significantly, the proposed text for Tunisia also envisages legislative approximation in the area of postal and courier services, financial services, electronic communications services and maritime services. In the case of the eastern ENP DCFTAs, implementation of these approximation commitments is coupled with additional market access (i.e.,"Internal Market Treatment"), but this is at this stage not foreseen for the envisaged DCFTAs with Tunisia and Morocco. A sensitive issue with regard to services relates to the temporary movement of professionals for business purposes (GATS Mode 4). The facilitation and liberalisation of the right of individuals to enter and stay temporarily in the territory of the other party with a view to supplying a service is a key demand by Tunisia and Morocco, which aim to increase mobility to the EU. However, the EU is traditionally reluctant to make strong concessions in this area in trade agreements. The draft provisions presented by the EU for this chapter leave each party free to regulate the entry of natural persons to their territory (e.g., visas, work permits, residence, social rights) as long as measures are not applied in such a manner as to impair concessions. EU FTAs' services chapters typically are limited in terms of personal scope (e.g., mobility only for highly skilled professionals and businesspersons, such as key person-

Before concluding an ACAA, the EU requires that the partner countries implement – a selection of – the relevant EU legislation (such as the sectoral and horizontal New Approach Directives)

nel, graduate trainees, short-term business visitors and contractual service suppliers) and these mobility rights are temporary (e.g., from 90 days up to three years). Moreover, mobility is limited to those activities that are covered by the agreement. However, both Morocco and Tunisia insist on negotiating this issue "in synergy with" the negotiations that are also on-going on a Visa Facilitation Agreement (EC, 2019a). Although it is highly unlikely that the EU will integrate visa facilitation commitments in the DCFTA (mainly due to opposition from the member states), the EC has agreed to organise a meeting with representatives of the member states to discuss the linkage between GATS Mode 4 and visa facilitation and has proposed simplifying the visa application procedure for Tunisian service suppliers in the envisaged Visa Facilitation Agreement. Finally, it has to be noted that the EU has proposed using its new Investment Court System for investor-state disputes. However, in line with its new approach to investment protection, the EC has proposed including this in a separate agreement to avoid "mixity" of the DCFTA.

Finally, a crucial chapter on the EU's side, in particular for the European Parliament, will be the one relating to Trade and Sustainable Development. This chapter would basically strengthen (or even broaden) the parties' international commitments in the field of environmental protection (e.g., more recently the Paris Climate Agreement) and labour (e.g., the International Labour Organization's Fundamental Conventions) and include provisions that aim to maintain a level-playing field on environmental and social standards.

The potential "deep" dimension of the DCFTAs

The "deep" dimension of the DCFTAs relates to the potential gradual and partial integration of Morocco and Tunisia into the EU Internal Market by approximating to a selection of EU legislation. Such approximation provisions were also included in the DCFTAs concluded with Ukraine, Moldova and Georgia and are also envisaged in the Tunisia DCFTA (Van der Loo, 2016). The "eastern" DCFTAs, for example, include binding legislative approximation provisions that oblige the partner country to approximate to a predetermined selection of EU legislation, annexed to the agreement. Moreover, in several chapters of these DCFTAs, implementation of these legislative approximation commitments is linked to increased market access. This market access conditionality implies that the partner countries have to first implement the annexed EU *acquis* within a certain time span. The implementation of these approximation commitments will be monitored by the EC and, following a positive assessment, the EU will grant a specific type of additional market access by way of a decision of the Association Council or another joint body. This is for example the case in the area of TBT – envisaging further market access through an ACAA – SPS, services and public procurement (Van der Loo, 2016). The "deep" dimension of the DCFTAs poses one of the key challenges for Tunisia and Morocco. Both countries will have to find a balance between, on the one hand, approximating to the EU *acquis* in order to integrate into a section of the EU Internal Market and to modernise their economy and attract FDI and, on the other, maintaining the right to regulate and not overburden their economy

with EU legislation that will not directly result in additional market access or is not useful for their domestic reform agenda. It will be crucial that Morocco and Tunisia match their DCFTA commitments with their broader domestic economic policies. This is a two-way process. On the one hand, Morocco's and Tunisia's economic and social reforms should be reflected and incorporated into the DCFTA and, on the other, the DCFTA will have to become part of the overall economic reform policies of both countries. The EU will have to continue to support this process with tailored assistance. In order to properly assist Morocco and Tunisia with their legislative approximation commitments, the EC should develop, jointly with Morocco, detailed and realistic implementation strategies.

Conclusion and recommendations

An alternative "gradual" approach for EU-MENA trade liberalisation

Whereas DCFTAs offer a model to modernise the EU's trade relations with Tunisia and Morocco, this ambitious type of updating of the EMAA FTAs has been rejected by Jordan and Egypt and is not considered a realistic scenario for the other EMAA partners. Moreover, it remains to be seen if the EU will manage to finalise the negotiations with Tunisia and Morocco, considering that both countries remain critical of this type of market liberalisation and integration.

Therefore, an alternative approach could be to gradually expand (or modernise) the existing EMAA FTAs with specific sectoral protocols or agreements (which could be integrated into the EMAAs by, for example, an Exchange of Letters) in those areas where there is already at this stage a shared interest and will to move forward. However, this approach would also face significant challenges. The current EMAA FTAs and different sectoral agreements have already liberalised the "easiest" sectors (e.g., trade in industrial goods and most non-sensitive agricultural products) and the difficult leftovers now remain, such as services and establishment (e.g., GATS Mode 4 and its link with visa facilitation), further liberalisation of sensitive agricultural products, and regulatory alignment in the area of SPS. Moreover, this approach would make it more difficult to link different interests and issues in the form of broader "package deals" (e.g., liberalisation of GATS Mode 4 [MENA demand] in return for an ambitious chapter on Trade and Sustainable Development [EU demand]).

However, by first gradually agreeing on specific sectoral issues, trust can be built between the EU and the EMAA countries and domestic policies can be developed to gradually accommodate further liberalisation, making a more ambitious DCFTA-like form of liberalisation in the longer term possible. For example, the EU could first conclude with Tunisia a protocol on reciprocal but asymmetric and progressive liberalisation of agricultural products. Also, the existing agricultural protocol concluded with the other EMAA countries could be deepened, for example by eliminating or reducing some of the remaining restrictions and exceptions (e.g., TRQs) on sensitive products that are economically or politically important for these countries. However, the implementation reports illustrate that

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so far only a few of the TRQs included in these protocols are (almost) fully used by the EMAA countries (e.g., olive oil [Tunisia]; garlic, strawberries, and oranges [Egypt]; and new potatoes, wine and sweet peppers [Israel]). For other countries the fill rate of all TRQs remained low (e.g., Algeria). Cooperation and technical assistance in the area of SPS could therefore be strengthened in a sectoral agreement to reduce non-tariff barriers for agricultural products.

The EU could also conclude ACAAs with interested MENA countries, although the requirements for this are demanding. In addition to Tunisia and Morocco, several other EMAA countries have cautiously shown interest. For example, the EU supports Algeria in preparation of negotiations on an ACAA in sectors identified as key priorities by Algerian authorities such as construction materials, domestic appliances and low voltage electric goods through Technical Assistance and Information Exchange missions and twinning programmes. The EU and Israel have already concluded a specific ACAA on pharmaceuticals (2013) and Israel has expressed interest in expanding its Good Manufacturing Practice annex by adding medicinal products derived from human blood and plasma and an ACAA on cosmetics. The EU also supported with technical assistance projects with focus on regulatory approximation with Egypt and Jordan in preparation for the possible launch of an ACAA. With regard to those countries that are not interested in the conclusion of an ACAA, the latest UfM Trade Ministers Conference stated that these countries could engage in a process of domestic regulatory reforms including elements of legislative alignment between different regulatory systems in the region, and which would help further strengthen their quality infrastructure and increase their export potential (UfM, 2020).

This approach could also be applied to other areas such as services and investment (e.g., under the EMAAs *rendez-vous* clauses and "in synergy" with Visa Liberalisation Action Plan negotiations, GIs as in the case of Morocco or energy).

Outlook

This chapter gave an overview of the state of play of the legal framework for EU-MENA trade relations and discussed several options for its modernisation in the context of post-COVID-19 recovery, focusing on the EU's EMAA partner countries. The paper demonstrated that the scope and contents of the EMAA FTAs are limited, despite the fact that several of them were broadened by sectoral protocols. Moreover, the economic gains of these trade agreements for the EU's partner countries proved to be rather small and their implementation is being challenged by (EMAA FTA-incompatible) trade barriers and restrictions.

However, the EU's post-COVID-19 recovery plans and trade strategy review offer a new momentum for the MENA countries to strengthen and modernise their framework for trade relations with the EU, to capitalise on potential reshoring and near-shoring trends in EU and GVCs, and to promote (intra-)regional economic integration.

The envisaged DCFTAs currently under negotiation with Tunisia and Morocco provide an ambitious model to deepen and widen trade liberalisation and in-

tegration with the EU. However, this DCFTA-model poses several challenges. The current EMAA FTAs and different sectoral agreements have already liberalised the "easiest" sectors (e.g., trade in industrial goods and most non-sensitive agricultural products) and the difficult leftovers now remain, such as services and establishment and regulatory alignment in the area of SPS. Moreover, the "deep" dimension of the DCFTAs (i.e., gradual and partial integration into the EU Internal Market on the basis of legislative approximation) requires a careful and balanced consideration of legislative approximation efforts and integration into domestic economic reform policies, flanked by supporting measures by the EU.

This DCFTA model is therefore at this stage not a realistic option for the EU's trade relations with the other MENA countries – and even Morocco and Tunisia remain reluctant to finalise the negotiations. Therefore, for these countries this chapter proposes a more gradual approach on the basis of sectoral agreements, which could in the longer term lead to a DCFTA-like model of trade integration. Finally, the EU's recent proposals to strengthen (intra-)regional economic and value chain integration by the proposed modernisation of the PEM Convention have been discussed. It was argued that the EU's recent bilateral approach to the modernisation of the PEM Convention is a step forward but that the overall modernisation of the PEM Convention should remain the priority.

It is important to note that the modernisation of EU-MENA trade relations should be linked and integrated into the broader (and longer-term) plans for EU-Africa trade relations. The EU supports the establishment of the 2019 African Continental Free Trade Area (AfCFTA) and is exploring in the long term a "continent-to-continent FTA".[12] The trade-related priorities for the EU during the ongoing negotiations on the successor of the Cotonou Agreement remain focused on the implementation of the regional and/or interim Economic Partnership Agreements with the sub-Saharan African countries. However, in order to enable the modernised framework for the EU's trade relations with the MENA countries to exploit the opportunities provided for by the AfCFTA, and the modernised EMAA FTAs to function as "a stepping stone" for economic and value chain integration between the EU and sub-Saharan Africa, it will be crucial that the EU's new trade strategy and envisaged new Communication "on a renewed partnership for the Southern Neighbourhood" streamline the EU's MENA and sub-Saharan trade policies and instruments.

The modernisation of EU-MENA trade relations should be linked and integrated into the broader (and longer-term) plans for EU-Africa trade relations

[12] See, for example, EC (2018, September 12). *State of the Union 2018: towards a new "Africa-Europe Alliance" to deepen economic relations and boost investment and jobs.*

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Will the Merchandise Trade and Regional Value Chains Landscape Change for the Euro-Mediterranean Free Trade Area during COVID-19?

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Introduction

There is no doubt that the COVID-19 pandemic has severely hit merchandise trade flows between the eight Southern Neighbourhood (SN) countries – Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine[1] and Tunisia – and the European Union (EU)'s 27 member states. In addition to having caused a global health crisis, border closures and containment measures, the pandemic has exacerbated the toll on trade and has led to unprecedented disruptions in global movements and exchange. Moreover, the collapse of oil prices has accentuated the dual supply and demand shocks in the Arab region and, to a lesser extent, in SN countries. This was reflected in the sharp fall in consumer demand and soaring transportation costs, having a direct impact on the region's exporters and importers – and an indirect one on foreign direct investment (FDI) – which caused increased unemployment rates. The latest figures issued by the European Commission in November 2020 projected that EU countries' merchandise trade volume to SN countries is forecasted to contract on average by 12% for exports and 12.5% for imports. Growth in this sector had already been hindered by various factors even before the COVID-19 pandemic. In this context, the EU has been working to modernise the framework of the Euro-Mediterranean Association Agreements (EMAAs) into a Deep and Comprehensive Free Trade Area (DCFTA) in order to encompass additional sectors other than manufacturing (see Van der Loo's chapter in this study for more details). Based on this, a more comprehensive assessment of merchandise trade flows between the EU and SN countries within the context of the EMAAs has become crucial.

Historically, SN and EU countries suffered from mutually imposed asymmetrical tariff rates that were affecting highly protected sectors such as agriculture. They also imposed numerous procedural, sanitary and phytosanitary and non-tariff measures (NTMs). NTMs set by SN countries reached up to 25% of the world average barriers and further complicated regulatory aspects for cross-border trade. Those barriers led to a slowdown in the integration of the SN into the regional value chains (RVCs)[2] of their European counterparts, particularly when considering their merchandise trade. Therefore, the growth of RVCs in the SN exports to the EU barely exceeded 8% over the last five years (Arezki et al., 2020). Consequently, this hampered the growth in intermediate flows, and diminished the economic complexity of their exports and the possibility to attract higher FDIs. When adding the COVID-19 crisis to the picture, the repercussions were aggravated: a negative growth rate of trade balance from the SN to the EU was recorded across many sectors for the first nine months of 2020. The same occurred to exports from the EU to the SN during the second and third quarters of 2020.

[1] This designation should not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of EU member states on this issue.

[2] Global and regional value chains are based on the fragmentation of the production process that encompasses several stages of design, production, marketing and packaging. Each stage of production is bound to a specific country and conditioned by the percentage of processing, which takes place in two or more countries (Gereffi, 2019; Antràs, 2020).

Hence, this chapter aims to evaluate the impact of the COVID-19 pandemic on the bilateral merchandise trade flows between SN countries and the EU. It seeks to demonstrate to what extent the pandemic can be held accountable for causing further disintegration in RVCs for merchandise trade between the EU and the SN. Further, it investigates whether RVCs were already not agile enough before the pandemic struck, due to the presence of inherent tariff and NTMs between the SN and the EU. Moreover, it reflects on some of the key merchandise trade strategies that the EMAA FTAs should consider, given that there are ongoing negotiations to modernise the framework of the DCFTA. One of the recommendations proposed would be the possibility of shortening and nearshoring value chains towards neighbouring regions of greater proximity. Another recommendation would be to introduce digitalisation into trade and its role in identifying RVC risks and bottlenecks that might arise during the pandemic.

This methodological approach is supported by evidence from the literature and the analysis of statistical data on bilateral merchandise flows between the eight SN countries and the EU before and during the pandemic, supplemented by interviews.[3] Additionally, a sector specific case study on food products and another on automotive spare parts are introduced to reinforce the analysis of the COVID-19 impact on their RVCs. The chapter begins by introducing the topic and presenting stylised facts about the SN and the EU sector specific merchandise flows, trade barriers and RVC dynamics. It then adds the impact of COVID-19 on merchandise trade. Finally, the chapter ends by proposing a number of key takeaways on the possible direction of trade strategies to be considered by the EMAA FTAs during the COVID-19 crisis.

SN merchandise trade and sector specific exports and imports

Even before COVID-19, numerous challenges had been slowing the integration pace of the SN into RVCs as well as global value chains (GVCs). SN countries have a great untapped potential of a market size that accounts for 35% of the Middle East and North Africa (MENA) region's market. They are characterised by a diversity of countries classified as resource-poor labour-abundant as opposed to resource-rich labour-abundant. Further, the SN's geographical proximity to Europe and its location as a gateway to Africa provides access to around two billion citizens in the European and African continents. However, there are still many barriers that slow down their integration efforts. These obstacles were generated by historical conflicts, institutional deficiencies, and the turmoil that took place during the Arab Spring (Behar & Freund, 2011). In fact, political tensions have undermined the SN's trade flows by nearly 8% from 2013 to 2016. Scholars have estimated

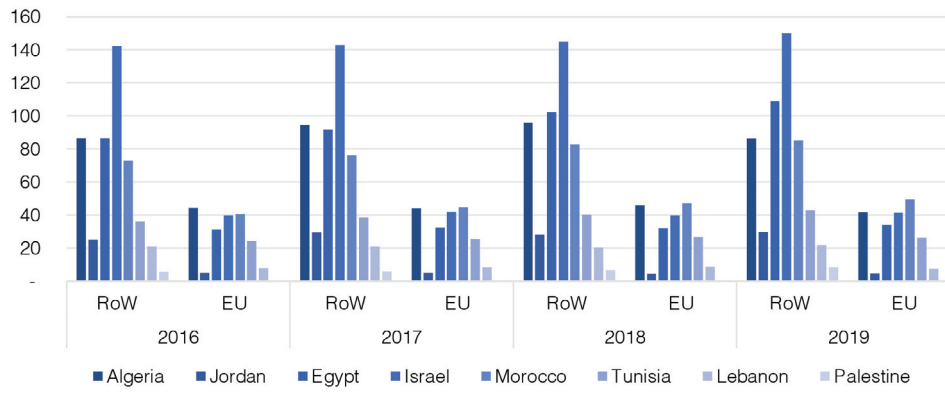
[3] Two in-depth interviews were held with a high-ranking executive from a SN private sector economic think tank, Mr. Ashraf Naguib, CEO of the Global Trade Matters in Egypt, as well as a high-ranking former founder of the EU Association Agreement with SN countries, H.E. Ambassador Gamal Bayoumi, Secretary-General of the Arab Investors Union. The author would like to thank them both for their inputs.

that this had the equivalent effect of a 5% tariff imposed on the trade flows for all Arab countries (Arezki et al., 2020; Behar & Freund, 2011; Karam & Zaki, 2016; Saidi & Prasad, 2018).

Even though exports and imports of the SN to the EU have recorded fluctuations, they managed to increase on average by 2% and 3%, respectively, over the five years ending in 2019. On the one hand, SN countries have recorded trade deficits with the EU across all merchandise, with a few categories witnessing this situation for more than 10 years. On the other hand, EU exports to the SN experienced a modest average growth of 7%. A historical overview of the integration efforts between most of the SN countries and the EU indicates that the consolidation of Association Agreements (AAs) between the EU and Algeria, Egypt, Jordan, Lebanon, Morocco, Syria and Tunisia took place even before the 1995 Barcelona Process. AAs granted access to industrial goods and preferential market access to agricultural products on a reciprocal basis. In 1995, the Barcelona Process amplified the scope of political and economic cooperation between most SN countries and the EU. This was the same objective for the successively endorsed FTAs and EMAAs enacted between both partners between 1995 and 2002. These efforts sought to liberalise trade flows in goods and services between SN countries and the EU. Based on the Ecorys, CASE and FEMISE interim report on the ex-post evaluation of the impact of the AA trade chapters (2020), SN countries were already exporting 2,100 products and enjoying duty-free access to the EU for industrial products. Despite this, AA trade chapters expanded the base of further industrial and agricultural products subject to zero tariffs and duties in the EU markets on a reciprocal basis (for more discussion on the AA trade chapters, refer to Van der Loo's chapter in this study as well as to Ecorys, CASE, & FEMISE, 2020).

As illustrated in figure 1, bilateral merchandise trade values[4] between the SN and the EU, as well as between the SN and the rest of the world (RoW), registered a steady growth of 7% and 6%, respectively, after 2016, whereas SN trade

Figure 1. Merchandise trade value in millions of USD for SN countries to the EU and the RoW (2016-2019)



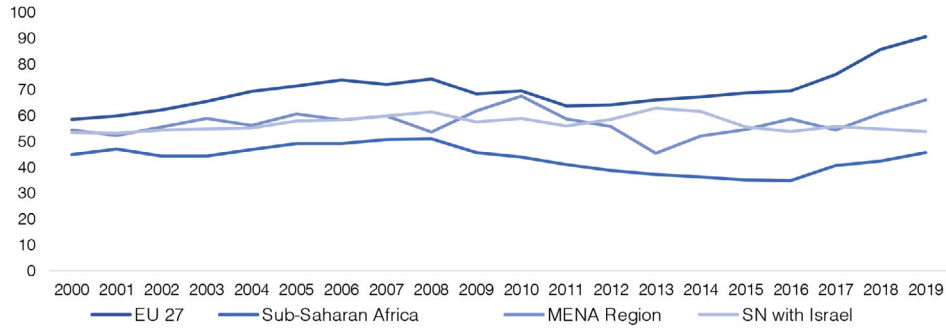
Source: Author's compilation based on data from Eurostat (2020).

[4] Merchandise trade value is calculated by the total sum of exports and imports in millions of USD.

with other MENA countries did not surpass 5% in 2018 (Arezki et al., 2020). From 2016 to 2019, Algeria and Morocco contributed with the most substantial shares in merchandise trade to the EU, which stood on average at 21% and 25%, respectively. It is apparent that Israel's merchandise trade value to the RoW accounted for a substantial share of 30% of the SN's merchandise trade value to the RoW compared to other countries.

In parallel, figure 2 provides an overview of the average merchandise trade value as a percentage of gross domestic product (GDP) for the EU, the SN, sub-Saharan Africa and the MENA region. SN countries' average merchandise trade as of GDP reached 45% over the 19 years covered (from 2000 to 2019). This value is considered one of the highest recorded percentages without the inclusion of Israel,[5] especially when comparing it with the benchmark for sub-Saharan Africa, which did not exceed a threshold of 40%. In figure 2, the merchandise trade to GDP ratio reported for the SN is far lower than that of the EU and the MENA region, which both stood on average at 70% and 55%, respectively, at the end of 2019.

Figure 2. Merchandise trade as a % of GDP across SN neighbouring regions



Source: Author's compilation based on data from the World Bank (2019).

The composition of sector specific exports and imports for the SN and the EU

Figures 3 and 4 provide a detailed description of sector specific merchandise exports and imports from the SN to the EU in 2019. The breakdown of sectors by standard international trade classification[6] codes indicates that most SN exports to the EU were dominated by primary raw materials as well as low value-added and volatile sectors – such as minerals and fuels. These sectors grabbed up to 32% of total merchandise exports to the SN and Algeria provided 95% of minerals and fuels export to the EU. Likewise, nearly 54% of Egypt's exports breakdown to the EU was composed of fuels, minerals and chemicals. In second position came machinery and transport equipment at 21% of the SN exports category to the EU. The SN has also specialised in petrochemical goods, which formed 13% of its total exports. Finally, agri-

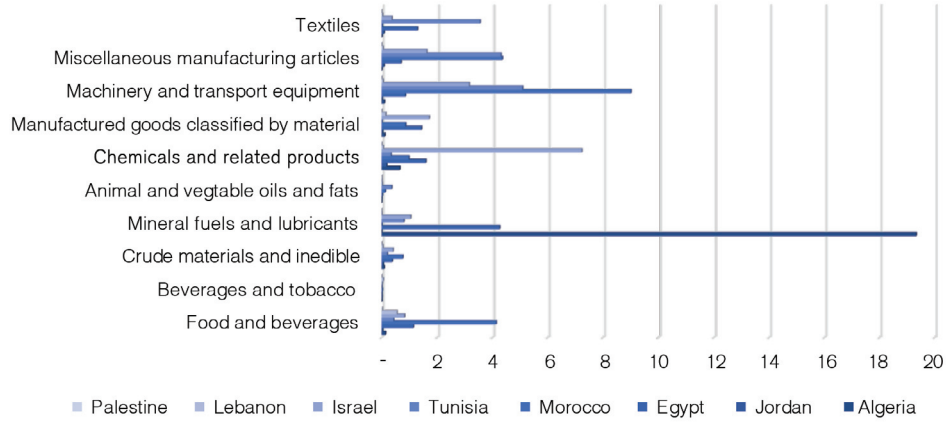
The breakdown of sectors by standard international trade classification codes indicates that most SN exports to the EU were dominated by primary raw materials as well as low value-added and volatile sectors

[6] The standard international trade classification is a product classification of the United Nations and is used to compare trade in manufactured goods.

cultural food products and textiles accounted for the lowest portion of total exports, at 8% and 6%, respectively (Eurostat, 2020; World Bank, 2019).

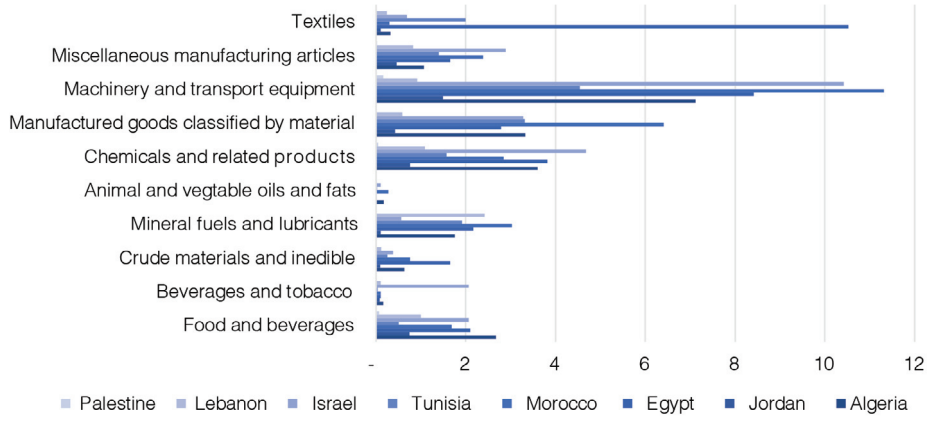
Historically, the reliance of SN countries on exporting products of similar composition and low and medium technology manufactured goods has suppressed their trade complementarity index[7] and eroded their intra-regional flows (Abedini & Péridy, 2008). Comparatively, most of the SN's sector specific imports from the EU were based on higher value-added manufactured goods, machinery and transport equipment, forming nearly 64% of their imports.

Figure 3. Sector specific SN merchandise exports to the EU in millions of USD for 2019



Source: Author's compilation based on data from Eurostat (2020).

Figure 4. Sector specific SN merchandise imports from the EU in millions of USD for 2019



Source: Author's compilation based on data from the World Bank (2019).

[7] The trade complementarity index shows the degree of overlap between the exports and imports categories of two countries. It measures the prospects of intra-regional trade (World Bank, 2019).

In reference to figure 4, agricultural products and textiles of low value-added made up 8% of the SN's imports from the EU. There is evidence that some SN countries like Tunisia and Morocco specialised later on in new products such as components of the aeronautical sector and photovoltaic panels.[8] A country specialised in trading component parts of a product rather than a complete product follows the pattern of intra-industry trade. The intra-industry trade model does not limit trade flows to be concentrated in one category of a product, but it expands the possibilities for countries to specialise and trade in components of a product (Ait Ali et al., 2019; ECA-NA, 2018; Thies & Peterson, 2015).

Sub-Saharan Africa as an opportunity for the EU and the SN

The African Continental Free Trade Area (AfCFTA), which came into effect at the start of 2021 and includes 55 African countries, has the potential to boost trade and build investment bridges between African countries, the SN and the EU. The AfCFTA grants access to 1.3 billion individuals at an estimated GDP of $3.4 trillion. One of the main objectives of the AfCFTA is the elimination of tariff and NTMs on an equivalent and reciprocal basis, especially for protected sectors such as agriculture. It also seeks to adopt comprehensive trade policies and mechanisms that will enable the integration of Africa's trade flows into RVCs for manufactured goods with North African countries such as Morocco, Algeria, Tunisia, Egypt and Europe. For example, Moroccan banks have injected up to 52% of their total investment funds in 25 African countries during the last 10 years and mega infrastructural projects have been established between North Africa and sub-Saharan Africa. One of these projects developed the construction of a long trans-Saharan highway between Algiers and Lagos, which is expected to minimise trade costs and accelerate mutual investment flows between the SN and sub-Saharan Africa (Arezki et al., 2020).

Asymmetrical trade barriers impeding merchandise flows between the SN and the EU

One of the main ideas brought forward in the literature relates to the mechanism of *ad valorem* equivalent tariff dismantlement schemes set for merchandise trade between the SN and the EU. In the framework of the European Neighbourhood Policy adopted in 2004, tariff liberalisation schemes were implemented on the basis of reciprocity. However, when applied practically, they were not symmetrically adopted across all countries (Ait Ali et al., 2020). Furthermore, based on the Ecorys, CASE and FEMISE interim report on the ex-post evaluation of the impact of the AA trade chapters (2020), SN countries prioritised mutual tariff liberalisation on manufacturing products more than on fisheries, agricultural and food products. Table 1 illustrates the stark contrast between weighted most-favoured-nation (MFN) tariff rates set until 2019 by the SN on EU exports and vice versa for nine sectors.

[8] The aeronautical sector and photovoltaic panels are components and spare parts for aircrafts simulation, navigation and control, in addition to solar energy panels (ECA-NA, 2018).

The discrepancies in the MFN tariffs imposed by the SN on EU exports were more pronounced across all sectors with the exception of chemical products. Similarly, agricultural exports for both were subject to exorbitantly high MFN tariffs, which stood at 44%

The discrepancies in the MFN tariffs imposed by the SN on EU exports were more pronounced across all sectors with the exception of chemical products. Similarly, agricultural exports for both were subject to exorbitantly high MFN tariffs, which stood at 44%. Even intermediate goods were subject to MFN tariffs of up to 6.5% imposed by SN countries, which prevented the proliferation of intermediate exports and minimised the regional value-added content (Márquez-Ramos & Martínez-Zarzoso, 2014; Kowalski et al., 2015).

Table1. MFN weighted tariff rate on EU exports to the SN and SN exports to the EU in 2019

	EU Exports to SN (%)	SN Exports to EU (%)
Food and beverages	44.98	43.10
Mineral fuels and lubricants	8.16	0.61
Chemicals and related products	7.08	4.14
Machinery and transport equipment	6.61	1.56
Plastic or rubber	7.60	1.83
Stone and glass	11.25	0.57
Transportation	13.79	2.84
Textiles	12.67	6.83
Intermediate goods	6.56	3.46

Source: Author's compilation based on data from the World Bank (2019).

The NTMs for SN countries and the EU remain a stumbling block against the integration efforts between both parties (World Bank, 2019). SN NTMs have more than doubled over the past 20 years and reached an average of 34.29 for the NTM coverage ratio percentage.[9] The Organization for Economic Cooperation and Development (OECD, 2020) statistics indicated that in SN countries the cost of checking a container's compliance with shipment procedures would take 53 days and cost on average $442 compared to 18 days estimated for OECD high-income countries (OECD, 2016 & 2020). Moreover, today, some SN countries – such as Tunisia and Egypt – continue to impose sanitary requirements on beef, some fruits and poultry on EU exports. In parallel, other countries like Algeria and Jordan have import bans on pharmaceuticals and medicines.

Additional measures applied on merchandise trade between the SN and the EU include rules of origin (RoO). An RoO certificate is registered by the last country, where a product has acquired processing and value-added. SN countries alone have been involved in six regional and bilateral association and trade agreements,[10] with conflicting RoO protocols. The conflict in RoO for

[9] The NTM coverage ratio is calculated by the value of imports of each commodity subject to NTMs. It comprises inspections, product registration, special authorisation, sanitary and inspection requirements of the traded good (World Bank, 2019).

[10] In addition to EU AAs, the SN is part of the Arab Maghreb Union, Agadir Agreement and Pan-Arab Free Trade Area. The bilateral agreements between the United States of America (USA), Egypt and Jordan are known as the Qualified Industrial Zones (Estevadeordal et al., 2009).

the SN and Arab region has created a debate in the literature, which is known as the "spaghetti bowl" phenomenon of overlapping bilateral and regional trade agreements. On the one hand, some scholars advocated that regime-wide RoO are permissive and they allow the processing of higher foreign value-added into a product in cross-border trade. On the other hand, other scholars asserted that the adoption of conflicting RoO might increase the cost to trade (Augier et al., 2019; Estevadeordal et al., 2009; Kamel, 2020).

SN position on RVCs for merchandise trade

The benchmark to estimate a country's participation in RVCs is determined by tariffs, FDIs, political stability, customs efficiency and logistics quality (Banga, 2013; Arezki et al., 2020). Indeed, there is a clear distinction between backward and forward RVC linkages. Backward RVCs indicate how a country's exports acquire foreign value-added from components previously imported from other countries. Forward RVC linkages refer to the domestic value-added exports of a country that goes into exports of other countries. The more SN countries and the EU are intertwined into forward and backward RVCs, the higher their intermediate and final export flows will be (Carril-Caccia & Pavlova, 2018; Gasiorek et al., 2020). Table 2 asserts that machinery equipment, chemical and related sectors as well as textiles attained one of the highest RVC as a percentage of exports for the EU, Israel, Jordan and Tunisia, respectively, during 2016.

Analysis of merchandise trade landscape for the SN during COVID-19

Inevitably, the COVID-19 pandemic has exacerbated disruptions in GVCs across all countries. The outbreak began in China, which is considered

Table 2. Percentage of value-added in exports for SN countries to the EU in 2016

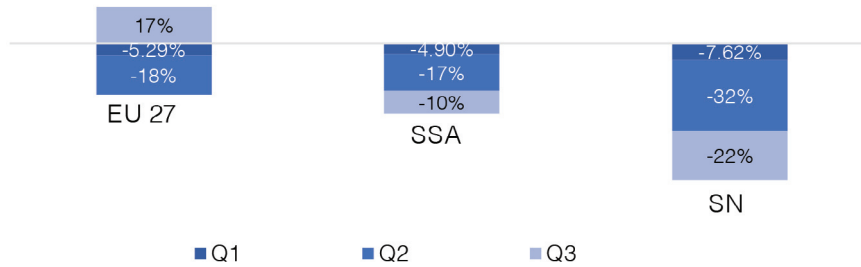
Sector	Egypt	Jordan	Morocco	Tunisia	Israel	EU
Food products	4.90	3.44	9.43	4.28	1.56	7.10
Beverages and tobacco	0.38	0.93	0.17	0.22	0.27	2.92
Mineral fuels and lubricants	2.32	0.60	0.41	0.99	0.70	0.91
Chemical products	5.78	22.97	11.10	7.78	16.29	12.73
Machinery equipment	2.78	3.13	9.80	8.98	19.07	16.98
Textiles	2.78	3.13	9.80	22.45	19.07	17.73

Source: Author's compilation[11] based on data from the World Bank (2019).

[11] The calculations of percentages are based on the regional value-added in millions of USD as a percentage of total exports for the SN and the EU.

the world's workshop of GVC creation. Both China and the USA set up 50% of the world's GVC (Baldwin & di Mauro, 2020, pp. 15-16). According to the latest World Economic Outlook from the International Monetary Fund (2020), the most severely impacted trade flows were merchandise trade volumes, which tumbled by 11% at the end of 2020, compared with 0.9% for the same period of 2019. Figure 5 illustrates the effects of the pandemic on the merchandise trade activity of the EU, the SN and sub-Saharan Africa during the first three quarters of 2020 (UNCTAD, 2020). The three regions recorded negative average exports of -7% for the EU as opposed to a dive of -62% for the SN and -32% for sub-Saharan Africa between January and November 2020. One of the steepest declines was registered by the SN with -32.2% in the second quarter of 2020, amid the peak of the pandemic (Banh et al., 2020; Eurostat, 2020).

Figure 5. Growth rate for merchandise exports during the first three quarters of 2020



Source: UNCTAD (2020).

Analysis of the impact of COVID-19 on merchandise trade for the EU and the SN during the first three quarters of 2020

The crisis was strongly mirrored by SN countries' merchandise imports from the EU, which fell by nearly 43% over the last three months of 2020 compared to 9% of same period in 2019

COVID-19 has also provoked a new historic decline in global oil prices, which lost nearly 60% of their value, thus setting the price of a barrel at $26 at the end of March. The oil crisis led to a collapse of the global aggregate demand. In parallel, lockdowns and containment measures hindered the mobility of merchandise by all forms of transport. This dealt a severe blow to intermediate and final trade, as well as investment flows. It further reduced the capability of firms to outsource the immediate inputs necessary for processing and aggravated the disruption in value chains. The crisis was strongly mirrored by SN countries' merchandise imports from the EU, which fell by nearly 43% over the last three months of 2020 compared to 9% of same period in 2019 (Eurostat, 2020). Egypt, for example, experienced a delay in importing silicon and carbon steel used in the production of heavy industries. Failure to outsource inputs led to repetitive production halts, fewer hours of operation and additional layoffs in the manufacturing sector (Baldwin & di Mauro, 2020; Baldwin & Tomiura, 2020). Figure 6 provides an overview of the EU's merchandise trade exports and imports to the SN. It shows

that the EU maintained a merchandise surplus[12] of around $2 billion towards SN countries from January until September 2020.

Figure 6. Merchandise trade value in billions of USD from EU-SN (January-September 2020)

Source: Author's compilation based on data from Eurostat (2020).

Sector-specific mapping of merchandise trade for the SN-EU in the first nine months of 2020

The COVID-19 pandemic has led to a high degree of uncertainty. This is reflected in the upsurge in transportation and production costs, evident after containment measures were put in place. When monitoring the repercussions of the pandemic on the SN's merchandise exports to the EU for first nine months of 2020, it was observed that some sectors were highly sensitive to COVID-19 in the short run. This was apparent in the case of SN countries' merchandise exports to the EU for food and livestock production and distribution, ready-made garments and manufactured products of higher RVCs. They all underperformed and recorded on average negative growth rates of -23%, -5% and -2%, respectively, during 2020. In the meantime, other sectors were more resilient and contributed to an incremental growth rate in the SN's merchandise exports ranging from 0.5% for raw material and 8% for machinery and transport equipment (Dür et al., 2020; Eurostat, 2020).

The sharp downturn in the SN's merchandise exports to the EU during 2020 could have been generated by additional measures taken by the SN, such as the partial closure of cargo traffic, quarantines and the health certificates required for agricultural and food products. These measures led to substantial delays in the processing and entry of cargo shipments. Such practices occurred in

When monitoring the repercussions of the pandemic on the SN's merchandise exports to the EU for first nine months of 2020, it was observed that some sectors were highly sensitive to COVID-19 in the short run

[12] The merchandise trade surplus of the EU to the SN is calculated as the net trade balance (exports -imports) value for the EU to the SN over an average over the first nine months in 2020.

Algeria, Lebanon and Egypt, as their policies prioritised substituting imports and banning exports of basic commodities. During the pandemic, both Algeria and Egypt banned the export of basic foods – such as wheat, beans and lentils – and medical goods. On the contrary, one of the good practices pursued by Lebanon and Morocco was the reduction of import tariffs on healthcare and digital services. Finally, Algeria, Tunisia and Jordan sought to substitute their pharmaceutical imports domestically, in order to mitigate the risk of supply shortages and offset the foreign exchange drainage (Arezki et al., 2020; OECD, 2020; Ouhemmou & Moumine, 2020; Park et al., 2020).

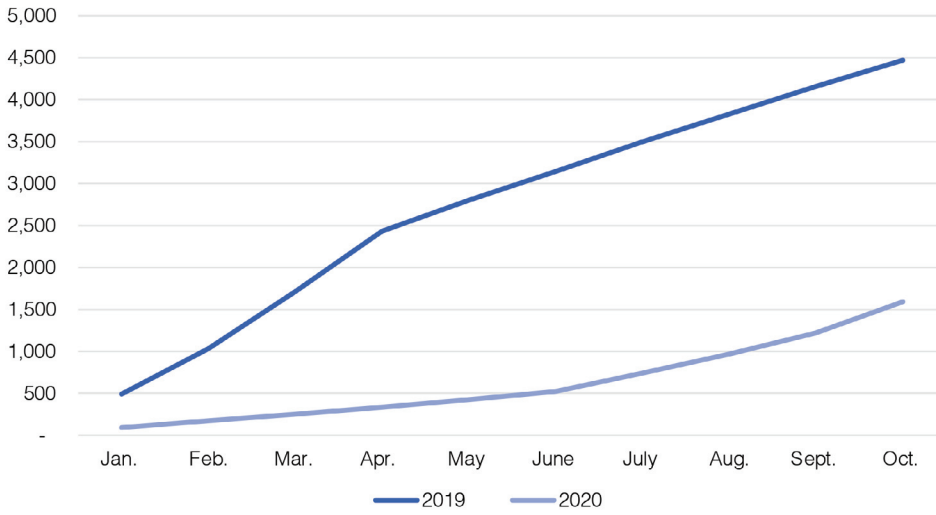
Analysis of food products during COVID-19

The food products industry has always been considered the safety valve for a country's food and nutrition security and sustainability during crisis (for more on food security, see Sidło's chapter in this study). It is equally one of the most protected industries in the EU and the SN, as it has been exposed to a wide range of tariffs and NTMs and it is a problematic sector with respect to the adoption of RoO and has the lowest regional value-added (refer to Van der Loo's chapter on the legal aspects of AAs in the food products industry). The EU has sustained the least import tariff preferences at a margin of 3% on SN food product exports, as opposed to the SN, slowly liberalising tariffs on agricultural products, fish products, olive oil, fruits, vegetables and beef, which ranged from 6% to 12% during the pandemic (Eurostat, 2020). Finally, performance indicators, such as border compliance costs to export, continued to grow on protected sectors, as in the case of the SN's food products in 2020. This cost of inspections reached an average of $258 and $480 for Egypt and Lebanon, respectively, as opposed to $150 for the EU. The cross-border costs included strict additional sanitary and phytosanitary shipment inspections, which amounted up to approximately 1,496 measures set during 2020 (Arezki et al., 2020).

Through the analysis of secondary data on food products[13] exports from the SN to the EU and vice versa, the following key findings were made. As illustrated in figure 7, food products exports from the EU to the SN were flat, realising a cumulative value of $1.2 million for the first 10 months of 2020 benchmarked to $4.3 million recorded during the same comparative period in 2019. However, EU food products exports rebounded to their 2019 levels at $374 thousand registered during the month of October 2020, benchmarked to $312.4 thousand for October 2019. In contrast, figure 8 indicates food products exports from the SN to the EU, which experienced a severe blow, as they were at a zero level and lost nearly 93% of their value for the first 10 months of 2020. SN exports started to pick up and reach $72 thousand, which is relatively higher than the $67 thousand realised during October 2019.

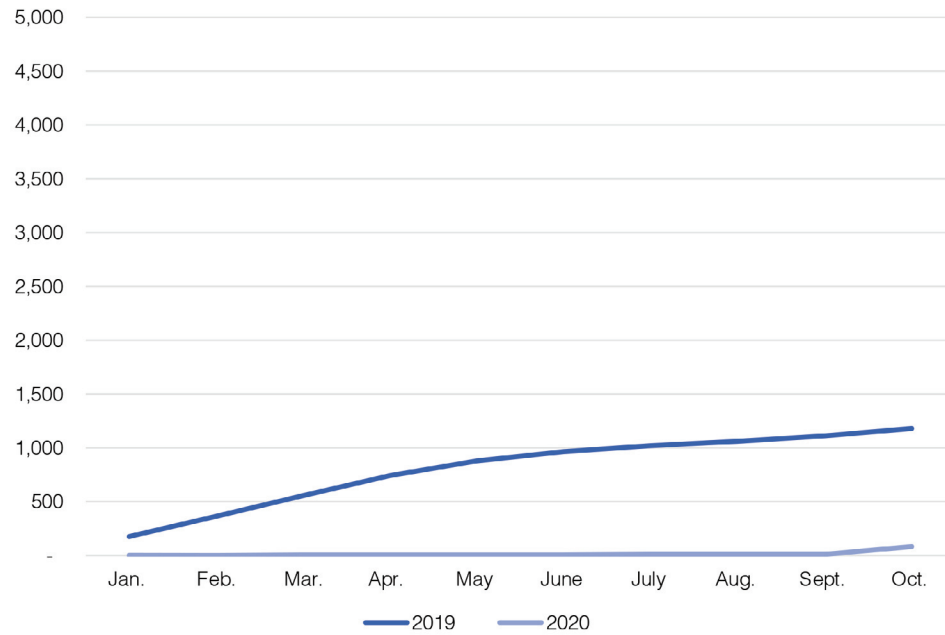
[13] Data for food products encompass 14 sectors: wines, pig meat, cereals, pasta, confectionary, wheat, cheese, vegetables, meat, poultry products, olive oil, citrus, rice, and tomatoes.

Figure 7. Cumulative exports of food products from the EU to the SN in thousands of USD for the first 10 months of 2020



Source: Author's compilation based on data from the EC (2020).

Figure 8. Cumulative exports of food products from the SN to the EU in thousands of USD for the first 10 months of 2020



Source: Author's compilation based on data from the EC (2020).

Figures 9 to 14 of the appendix provide an in-depth analysis of cereal grain[14] exports of six SN countries – Egypt, Israel, Jordan, Lebanon, Morocco and Tunisia[15] – to the EU. Cereal grain export values were near zero for the first six months of 2020, compared to higher export values in 2019. This was primarily attributed to the struggle of all countries, and particularly SN countries, to keep up with their planned merchandise flows, handle the pandemic sanitarian crisis and, in the meantime, secure imports against shortages in basic food items that arose from the crisis (Arezki et al., 2020). Then, apart from July 2020, SN countries offset their losses in cereal exports to double their original values recorded in 2019, as shown in the cases of Lebanon, Jordan, Morocco and Tunisia (EC, 2020).

There have also been contradictions between the protectionism and free trade policy approaches employed by several SN countries for food products. On the one hand, Morocco has suspended import duties on food categories like wheat. On the other, Egypt has imposed a temporary export ban on beans, lentils and some vegetables (see Arezki et al., 2020). The interviews[16] held with exporters/importers surveillance database prepared by an Egyptian economic think tank indicated that the food products sector picked up its activity during the COVID-19 crisis in Egypt but it is still lacking momentum. The exporters and importers interviewed emphasised that the equitable and symmetrical down rooted elimination of NTMs between Egypt and its trading neighbours in Europe and sub-Saharan Africa is needed to harness additional gains from trade. The interviewees also mentioned that the additional barriers in the food products accentuated disruptions in supply chain and triggered short run food shortages in some basic items. This was evident precisely from the behaviour of some SN countries when they resorted to excessive overstocking, as in the case of Egypt and Morocco (Evenett, 2020).

Analysis of the automotive sector in Morocco during COVID-19

The automotive sector is known for its high economic complexity, its fragmented production and its elevated value-added content. This industry is one of the most severely hit by the pandemic. In 2020, the global automotive manufacturing hubs recorded sluggish production rates, which declined by 8.6% in China, 27.5% in the USA and 24% in Europe. A direct consequence of the supply chain disruption in the industry led to a sudden drop in demand for vehicles. As a result, EU exports of automotives plunged by 25.7% from January to August 2020, as opposed to the same period in 2019 (Baldwin & Di Mauro, 2020; ACEA, 2020).

One of the main drivers for choosing Morocco as a case study in the analysis of this sector lies in its role as the fore-

[14] Cereal grains based on the EC's (2020) agri-food trade data are comprised of barley, common wheat, durum wheat, maize, oats, other cereals, rye, sorghum and triticale.

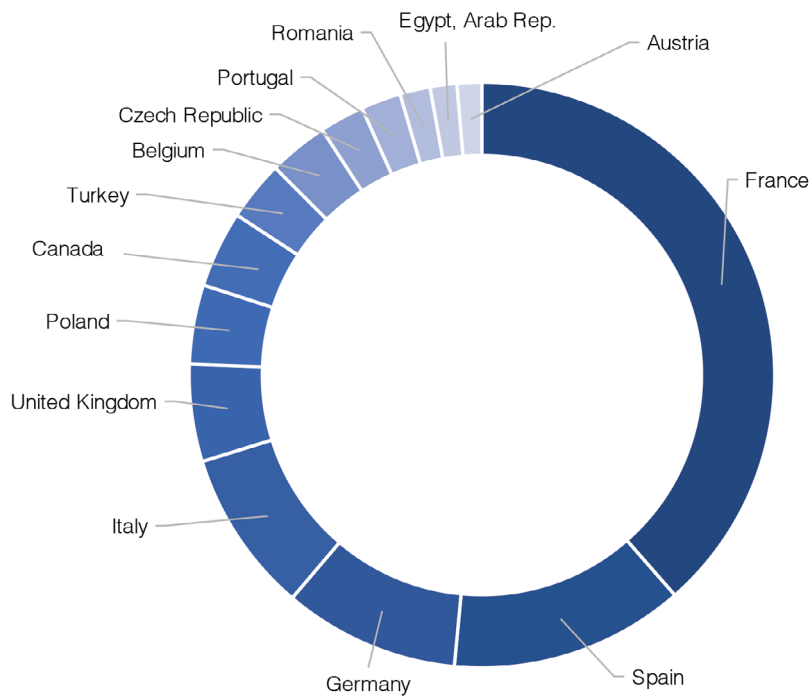
[15] No data was found on the EC's (2020) agri-food data portal for Algeria and Palestine.

[16] These interviews were held with the CEO of Global Trade Matters and the Secretary-General of Arab Investors Union (see footnote 3 for more details).

front producer and a meeting point in automotive spare parts production and trade between SN countries and sub-Saharan African countries. Furthermore, it is specialised in the assembly of mechanical parts for multinational manufacturers – such as Fiat, Citroën and Renault – and its geographical proximity to Europe together with its infrastructural preparedness have enabled it to build a strong partnership with EU countries. In 2019, Morocco's total automotive exports stood at $10.5 billion, representing 25% of the country's total exports, making it Africa's third largest producer in the automotive sector (Ait Ali, 2020; ECA-NA, 2018).

As illustrated in figure 15 below, France receives up to 38.5% of Morocco's intermediate exports of automotive components, followed by Spain with 12.97%, Germany with 9.7%, Italy with 9% and the United Kingdom with 5.3%, while a smaller balance is split between the rest. The breakdown of its intermediate exports is clustered in vehicle components, such as cables, seats, fuel tanks, brakes, electric transmissions and airbags. The intermediate export flows for this sector in Morocco generated a total regional value-added at about $2,976 million in 2019 compared to other sectors. The intra-SN trade in automotive components does not exceed 10% of total SN trade and is limited to Moroccan exports of tour bus components and spare parts to Tunisia and Algeria. It also includes Tunisia's exports of auto accessories to Algeria and Morocco (ECA-NA, 2018; World Bank, 2019).

Figure 15. Morocco's intermediate exports of automotive components in 2020



Source: Author's compilation based on data from the World Bank (2019).

The COVID-19 crisis hampered the export performance of Morocco's automotive sector. Morocco's exports of vehicle components plunged by 40% in May 2020, when benchmarked to a year before in May 2019

The COVID-19 crisis hampered the export performance of Morocco's automotive sector. Morocco's exports of vehicle components plunged by 40% in May 2020, when benchmarked to a year before in May 2019. At the same time, intermediate flows for the assembly of vehicle interior and seat components fell by 13% in May 2020, when compared to those of May 2019. If the COVID-19 containment measures persist for a longer period of time, it will cause a shrinkage of intermediate flows, which will interrupt the formation of backward and forward RVCs for vehicle spare parts in Morocco and its neighbouring countries. According to the European Statistical Office (Eurostat, 2020), EU passenger car imports volume from Morocco plummeted by nearly 31% to reach a lower production of 131,496 vehicles from January to August 2020 (Ait Ali, 2020; ACEA, 2020).

Conclusions and recommendations

This chapter sheds light on the RVCs of merchandise trade between the SN and the EU. It conducts a comparative analysis of trade flows and barriers posed between both partners before and during the COVID-19 pandemic. The analysis is supported by evidence from the literature and historical statistical data on bilateral merchandise flows between eight SN countries and the EU. Furthermore, the chapter detects the extent to which the pandemic has exposed the vulnerabilities of RVCs for merchandise trade between both partners. As predicted by Kilic and Marin (2020), the COVID-19 pandemic has further reduced world GVC activity by 35.4% and is forecasted to propagate additional disruptions to countries and regions, which are loosely bonded to RVC in production, as in the case of SN countries.

Even though the pandemic has exacerbated its toll on the SN and EU trade flows after repeated blockades and production bottlenecks were witnessed, there are still many opportunities that could arise. Notably, these opportunities will emerge through the collaborative efforts of both partners to modernise the framework of EMAA FTAs into the DCFTA. Neither SN countries nor the EU will be able to make the best use of the pandemic unless mutual symmetric trade liberalisation schemes are amplified to particularly include procedural measures and NTMs on the agricultural sector and food products. One of the opportunities provided to both partners will be the possibility of re-designing their RVCs to be not only necessarily shorter but rather more resilient and diversified to reach out to the sub-Saharan African partners, digitally monitored and handled in a cost-effective manner to cope with the unpredictable waves and uncertainties emanated by the pandemic.

DCFTA key takeaways to foster merchandise trade in the age of COVID-19

Takeaway 1: Conceiving resilient and cost-effective RVCs

It is obvious that COVID-19 played a key role in slowing down the integration into RVCs for merchandise trade between the EU and the SN; however, it does not negate the fact that RVCs between both counterparts were already fragile and at risk before the pandemic. One of the proposed re-

medies would call for the re-design and shortening of RVCs. Shortening RVCs would imply minimising the distance between the suppliers and targeted markets, which is known as nearshoring. The additional benefits that could arise from nearshoring would result in lower transportation and shipment costs and would act as a buffer against the pandemic's adverse effects (Baldwin & Di Mauro, 2020; OECD, 2020; Nilsson et al., 2020).

The idea of seeking nearby supply chains in regions of geographical proximity was supported theoretically and empirically by the trade gravity model. This model assumes that bilateral trade intensity between two countries is driven by the size of their respective GDPs and the shorter distance covered between them, which minimises the cost of trading. This gravity model is supplemented by a set of common cultural heritage and linguistic ties and lower NTMs envisaged through membership in FTAs and AAs (Egger & Larch, 2008). The gravity model dynamics could work properly between the EU, its SN and the sub-Saharan Africa region, provided that more efforts are devoted to the dismantling of tariffs and NTMs. The elimination of barriers will be crucial during the pandemic for strategic sectors such as food and agricultural products and medical supplies. One of the good trade practices to look up to is the case of Tunisia's investment promotion strategy for 2021, which seeks to attract European FDIs. These FDIs plan to replace their existing supply chains and production lines and relocate from China to closer offshore countries, such as Morocco and Jordan. This will be a more probable solution for SN countries, given that they provide investors with higher investment incentives, lower wage benefits and a digitalised infrastructure (OECD, 2020).

Takeaway 2: Digitalisation of merchandise trade flows paves the way towards smoother and more agile RVCs

As demonstrated throughout this chapter, for food products and many other sectors, the EU and the SN need to address NTMs on merchandise trade, which have more than doubled over the past 20 years. The minimisation of NTMs could be achieved through the digitalisation of cross-border systems, custom patrols, entry points and the establishment of electronic single window systems for the registration of trade transactions (see Dür et al., 2020; Flegontova & Ponomareva, 2020). The latest statistics have shown that e-commerce activities for businesses in the Arab region have grown by 25%. Thus, digitalisation is expected to reduce the cost and time of cross-border movements and facilitate e-payment transactions. It will ease off tedious border measures for merchandise goods and secure higher intermediate flows, as in the case of the automotive sector and its components of rubber, plastics, metals and electronics (Arezki, 2020; OECD, 2020; Dür et al., 2020; Flegontova & Ponomareva, 2020; Kowalski et al., 2015).

Digitalisation could further provide an opportunity for SN countries to reduce their trade costs, given that they can make the best use of their skilled youth and human capital. The use of production facilities and complementary logistic services that are fully digitalised and promoted by artificial intelligence and machine learning will certainly ameliorate intermediate flows and raise backward and forward linkages of RVCs in merchandise trade. In fact, during the

pandemic, mutual gains from trade could only be realised for countries investing in digitalisation and using robots to replace humans in specific production tasks, in order to reduce the risk of spreading the virus (Artuc et al., 2018). Some SN countries with exports of a highly automated nature and composition such as Morocco and Tunisia are already striving to prove their readiness to transition into this new trade era.

Figures 9 to 14. SN exports of cereal grains to the EU during the first nine months of 2020

Figure 9. Egypt's export of cereal grains to the EU in thousands of USD

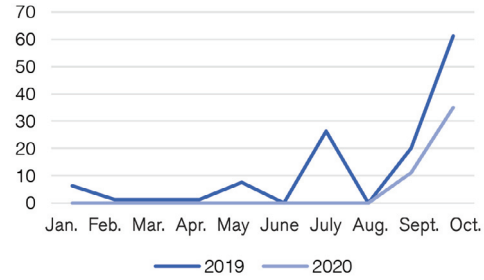


Figure 10. Israel's export of cereal grains to the EU in thousands of USD

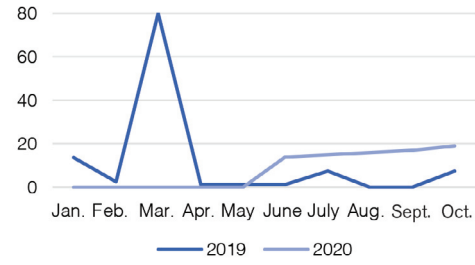


Figure 11. Jordan's export of cereal grains to the EU in thousands of USD

Figure 12. Lebanon's export of cereal grains to the EU in thousands of USD

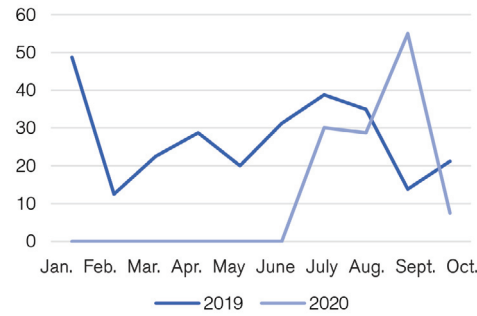


Figure 13. Morocco's export of cereal grains to the EU in thousands of USD

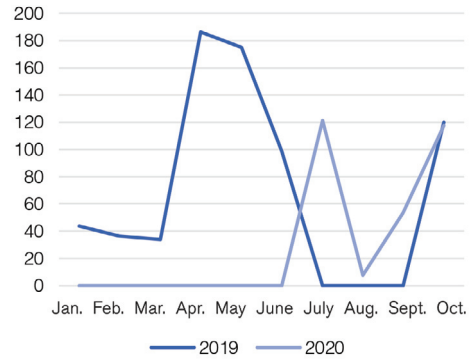
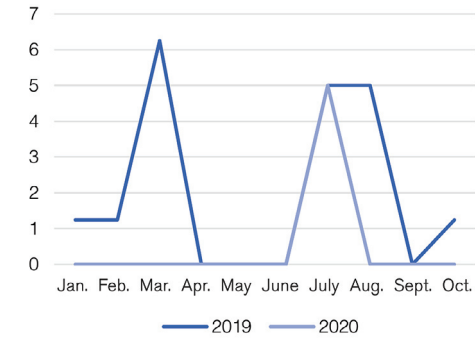


Figure 14. Tunisia's export of cereal grains to the EU in thousands of USD



Source: Eurostat (2020).
Note: data for Algeria was not available.

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Trade in Services in Southern Neighbourhood Countries: Potential, Complications and the COVID-19 Crisis

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Introduction

The services sector is playing an increasingly significant role in today's economies. Its contribution to employment, gross domestic product (GDP) and value-added of other sectors are rising across countries at various income levels. Nevertheless, trade in services continues to lag far behind trade in goods, and is facing more barriers that hinder its progress and deprive economies of the gains of trade that will have pervasive spillover effects beyond services and to every other sector.

The Southern Mediterranean region, referred to in this chapter as Southern Neighbourhood (SN),[1] is a stark example of this paradox, as most of its countries are largely dependent on services sectors, especially for job creation, while such sectors are simultaneously underperforming and the countries in the region are also among the most restricting to trade in services globally.

This chapter aims to examine trade in services of the SN region, in light of the COVID-19 crisis and its powerful impact, especially trade with its leading regional partner, the European Union (EU); trade in services with other regional partners, specifically sub-Saharan Africa, is not thoroughly covered in the chapter since there is currently not enough data on it. However, the African Union is planning to issue its first yearbook on trade in services statistics later in 2021, which is expected to provide valuable data on the topic (African Union, 2020). The chapter first highlights the reasons why services sectors and trade matter in modern economies, especially for developing and least developed countries that are trying to kick-start their economic transformation process, while facing challenges that could make the growth models of the past not as successful now. Next, the chapter examines trade in services in SN countries, pre-COVID-19 crisis, focusing on the partnership with the EU, the leading partner to the region, in addition to the size and structure of trade in services in the region, and what such structures mean for the potentials of these services. In addition, challenges and barriers to trade in services in the region are highlighted.

The chapter then addresses the impact of the COVID-19 pandemic on trade in services in the region during the crisis and global restriction measures. It also highlights how it might affect SN trade in services in a longer-term post-pandemic, both in terms of size and direction of trade, since the pandemic could potentially cause long-lasting shifts in global trade and supply chains in both services and goods. And, finally, the chapter concludes with policy recommendations to both Southern Mediterranean countries and regional partners on how to overcome challenges and boost regional trade in services in order to achieve common goals that bring such partners together.

[1] Understood as countries with which Association Agreements with the EU are presently in force: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine*, and Tunisia. Libya and Syria are excluded, and Turkey is not considered as part of the SN. (*This designation should not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of EU member states on this issue.) Retrieved from https://www.europarl.europa.eu/factsheets/en/sheet/173/southern-partners

Why trade in services matters

In their quest for economic progress, SN countries have been facing the same challenges as the majority of developing economies. They might find the East Asian growth model of the last five decades, of dependency on mass manufacturing and export orientation, appealing. However, there is a growing realisation that such a model might not be as effective now as it was decades ago, and might not help developing countries achieve their economic goals as successfully. Manufacturing is becoming increasingly less labour-intensive thanks to modern technologies, and the share of manufacturing in GDP on average is peaking at lower levels than it did decades ago; in the 1980s, average shares of manufacturing peaked at nearly 20% of GDP, while in the 2010s, they peaked at only 14%. In addition, there is now more competition in manufacturing trade than five decades ago, which might leave less room for emerging economies to develop an employment-creating manufacturing-led growth model today (Newfarmer et al., 2018).

However, modern technologies that might have made industrialisation less transformative have simultaneously enabled new opportunities in other sectors. New, fast and less expensive forms of communications, especially digital ones, have improved financial transactions, commerce, shipping and transportation, among other economic activities, and have given rise to new ones as well. These changes in technology have made services, which were long predominantly viewed as non-tradeable activities, highly tradeable, and are consequently turning the growth of services sectors, or servicification, into a potential engine of economic growth and development (Hallward-Driemeier & Nayyar, 2018).

Services are classified into five main sectors according to the World Bank: financial, telecommunications, distribution, transportation, and professional. These five sectors are further broken down into 23 subsectors (Borchert et al., 2020a). Services have four modes of supplying through which they could be traded, according to the World Trade Organization (WTO): cross-border supply, from one country to another, via telecommunications for example; consumption abroad, when the services consumer moves temporarily to obtain a service, as in tourism; commercial presence, when a service supplier from a country establishes a presence in another to provide a service; and, finally, the presence of natural persons, when persons from a country temporarily move to another country to provide services (WTO, 2020).

There is now more competition in manufacturing trade than five decades ago, which might leave less room for emerging economies to develop an employment-creating manufacturing-led growth model today

Services sectors are increasingly growing in significance globally. Services contributed 61.2% of global GDP in 2018, and accounted for 50.1% of total employment in the world in 2019, with 74% of total employment working in services in high income countries, and 46% in middle income ones (World Bank, 2020). Trade in services is also growing. It was worth $13.3 trillion in 2017, after accounting for the value of services provided by countries through commercial presence in other countries, which was previously overlooked. This estimate is much higher than perceived otherwise, and puts global trade in services at nearly 42.6% of total global trade in 2017. This rise in trade in services share is a result of

growth in global trade in services at an annual rate of 5.4% during the period 2005-2017, compared to a slower annual growth rate, at 4.6% for merchandise trade (WTO, 2019).

Some services sectors are consumed in the form of final demand, while others are inputs for other productive activities and sectors, including mostly manufacturing. These input sectors include wholesale and retail services, financial services and transport services. Manufacturing in particular is witnessing an increase in reliance on services activities in its operations, referred to as servicification; moreover, companies in manufacturing and other sectors are increasingly crossing sector boundaries, and are providing a variety of final demand supporting services in addition to their goods. Thus, currently around 25% to 60% of employment in manufacturing firms globally is found in service support tasks; or, in other words, backdoor tasks (WTO, 2019). This has translated into higher contribution by services to manufacturing output and trade. In 2015, services value-added accounted for 33% of manufacturing exports in developed countries, and 29% in developing countries. Meanwhile, services rely mainly on themselves with minimal contribution by other sectors, as they account for 90% of value-added in services exports; furthermore, services sectors also rely heavily on services from the same service sector (WTO, 2019).

Thus, improving the supply side capacity of input services sectors will also benefit manufacturing and other sectors, since the quality and prices of services would affect the productivity and growth of such sectors, and thus of the economy at large. It is estimated that a 10% improvement in services productivity is associated with an increase of 0.3% in manufacturing productivity, resulting in an increase of 0.2% in manufacturing exports in general. Services sectors play a bigger role in developed economies, and are responsible for more than half of total exports of the United States of America (USA), United Kingdom, France, Germany and Italy (Hoekman & Shepherd, 2017).

For SN countries and developing economies at large, services sectors could thus, through their direct and indirect effects, be significant for achieving sustainable development. Given that services already account for a large share of employment and GDP, and that their contribution to economies is rising, improving services sectors' productivity would increase real incomes and foster economic growth, and thus help reduce poverty and hunger (Fiorini & Hoekman, 2018). In addition, services sectors are more accessible for female workers on average than manufacturing, which could help boost underperforming female employment in SN countries (WTO, 2019). Furthermore, sustainable development directly involves bolstering access to a range of services, notably the financial, information and communication technologies (ICT) and transport services, besides the basic services of health, education, sanitation, and so on. Thus, improving access to services, through availability and lower costs, would help achieve sustainable development (Fiorini & Hoekman, 2018).

Services productivity and availability largely hinge on competition, which could be boosted by liberalisation of services sectors, and opening up trade in services to enable more providers to

operate, and larger varieties of services to exist. Trade in services, specifically through commercial presence, is significant for services productivity through the transfer of technology and expertise to importing countries, and also for providing a new and wide range of services to consumers and productive sectors (Hoekman & Shepherd, 2017).

SN trade in services pre-COVID-19 crisis

Services sectors are already significant for the economies of SN countries. They contribute with more than 50% of GDP in almost all countries in the region, as table 1 in the annex shows in detail (World Bank, 2020). Services also account for more than 50% of total employment in all countries, except for Egypt and Morocco, where a larger share of the workforce is still employed in agriculture. Services are proving to be more specifically attractive and accessible for female workers in the region, as more than 50% of all working females are in services, larger than the share of males working in the sector, again with the exception of Morocco, where the agricultural sector is employing a significant share of working females (World Bank, 2020).

Trade in services is also more significant in SN countries than in most regions. As table 1 shows, trade in services as a percentage of GDP is much higher in most SN countries than the world average of 13.4%, or the middle-income countries' average of 8.2% (World Bank, 2020). This highlights the significant role of trade in services for SN economies, which is close to the "weight" of trade in services in the EU economy, the largest exporter and importer of services in the world (World Bank, 2020).

The EU is the leading partner outside the region, to most SN countries, in trade in services

In fact, the EU is the leading partner outside the region, to most SN countries, in trade in services. Trade in services with the EU constitutes 64.9% of Tunisian trade in services, 43.2% of Moroccan, 36.5% of Algerian, 30.6% of Egyptian, 20% of Israeli, 14.9% of Jordanian, 10% of Lebanese, and 9.3% of Palestinian. And, on average, trade with the EU constitutes 26.3% of total trade in services of SN countries (Eurostat, 2020; World Bank, 2020).

However, despite the large share of services in GDP and employment in SN countries, and mostly high levels of trade in services as a percentage of GDP as well, it is evident that these sectors are underperforming in the majority of the region's countries, as they employ a large share of the workforce but produce below average levels of value-added per worker. As table 1 shows, services value-added per worker range between $10,500 and $16,700 in most of the region, with a higher value-added in Lebanon, at $21,600, and a much higher level in Israel, with $67,000 (World Bank, 2020). Low value-added levels in the majority of the region, with the exception of Israel, below the global average of $26,000 per worker, are due to the reliance on low productivity services sectors in the region.

Most SN countries rely on low productivity (low value-added) services sectors, which are characterised by the intensity of face-to-face physical interaction, routine tasks and low growth, are less knowledge intensive, and employ low or middle skilled labour; this category includes transport, trade, travel and hospitality services. This

contrasts with high productivity sectors, such as ICT, finance and professional services, which enjoy high growth rates, employ highly skilled labour, rely on research and development, and are knowledge- and capital-intensive sectors that take advantage of economies of scale, capital deepening and knowledge spillovers to boost productivity (Sorbe et al., 2018).

Data on sector shares in services exports in the region, in table 1, highlights this issue. Most SN countries mainly export tourism and transport services, both low productivity sectors in aggregate, that employ large numbers of low-skilled, informal and self-employed labour, despite including some higher productivity activities, such as air transport and amusement parks, for example (Blake et al., 2006). Both sectors together account for 63.4% of all services exports in Morocco, 68.7% in Lebanon, 80.5% in Tunisia, 88.8% in Egypt, and 94.1% in Jordan, with small to negligible shares of the high productivity exports of finance, ICT or professional services in these countries. Palestine exports a larger share of its services from ICT and professional sectors, 53.6%, with the majority from professional services, and exports an additional 43.7% as travel services. Israel, on the other hand, with by far the largest services value-added per worker in the region, exports 78.4% of its services exports in the form of ICT and professional services.

Algeria might also seem to rely on exports of high productivity services, which amount to 70.9% of its total services exports. However, the reason is that both total services exports and low productivity services exports are negligible in Algeria, making the share of high productivity services exports appear high, when the latter are in fact also negligible in size.

Trade in services in the SN is thus concentrated in low productivity sectors, accounting for the majority of both services exports and imports in the region (World Bank, 2020).

One reason why this is the case in most SN countries is that high productivity services, especially the ICT sector, now rely heavily in their activities on new telecommunications and digital technologies – and their relevant infrastructure (Sorbe et al., 2018). Thus, underperformance of ICT sectors in specific SN countries, especially because of the inadequate telecommunications infrastructure in the region, could be one of the factors hindering greater contribution by high productivity services. In addition, digital and telecommunications technologies are also increasingly being used to boost productivity in low productivity services too, which also leaves such potentials in these sectors unrealised in the region, with low quality digital and telecommunications infrastructure.

SN countries' scores on the telecommunications infrastructure index, one of the components of the United Nations E-Government Development Index (UN, 2020), range between 0.4123, Lebanon's score, and 0.6803, Tunisia's score, with most countries closer to the lower end, and where zero means least developed telecommunications infrastructure, and one means the most developed. Meanwhile, Israel's score is 0.8689, reflecting far better coverage and quality of telecommunications infrastructure, which helps explain why technology-depend-

ent high productivity services contribute with a larger share of trade in services in Israel than in other SN countries.

Low levels of education and labour skills could also be a major challenge for knowledge-intensive high productivity services sectors in general. In the human capital index of the United Nations E-Government Development Index, the lowest SN country score is 0.6512 for Morocco, while the highest are 0.6974 for Tunisia, and 0.8924 for Israel. This shows that while improving the quality of human capital in SN countries could help boost output and trade of high productivity services in the region, the quality of human capital in the region is already far better than that of the telecommunications infrastructure, and is the best across the region, compared with other components of the index, and could also be currently underutilised. Another reason why trade in high productivity services is lagging in SN countries is that it is facing stifling trade restrictions. Aside from tourism, trade in services in general faces more regulatory restrictions on average than trade in goods because services sectors are more likely to suffer from market failures, which calls for more government intervention. Examples of such failures are natural monopolies (rail transport, electrical distribution), network externalities (telecommunications), and information asymmetry (healthcare, finance) (WTO, 2019). In fact, the main impediments to trade in services globally are not tariffs or shipping cost, but regulations and entry barriers for service providers. This is complicated by the fact that only 1% of all regional trade agreements signed between 1950 and 2010 target services specifically (Kern et al., 2019). And for SN countries, even the legal framework of trade with their leading partner in trade in services, the EU, which is the Euro-Mediterranean Association Agreements, focuses mainly on trade in manufactured goods, and to a less extent on agricultural products, with no agreement on liberalisation of trade in services, which is an issue explained in detail in Van der Loo's chapter in this study.

Such regulatory restrictions are globally more severe on average in high productivity services sectors than low productivity ones, and in the Middle East and North Africa (MENA) region, including SN countries, these sectors are even more restricted. According to the service trade restrictiveness index (STRI), professional services and ICT sectors are among the top services sectors that face the highest regulatory restrictions in the region, and, in general, the region has the second highest overall STRI value after South Asia, where higher values denote more services trade restrictiveness (Fida & Zaki, 2019).

While improving the quality of human capital in SN countries could help boost output and trade of high productivity services in the region, the quality of human capital in the region is already far better than that of the telecommunications infrastructure

These regulatory barriers to trade in services could be translated into estimates of *ad valorem* tariff equivalents, which are in fact even higher than tariffs on goods (Fiorini & Hoekman, 2017). It is estimated that the tariff rate that is equivalent to trade in services regulatory barriers in the Middle East is nearly 16% in the banking sector, 26% in distribution, 30% in air transport, and 60% in telecommunications. Estimates for individual SN countries are few, but those available show a large difference in tariff equivalent of regulatory barriers between Egypt and Israel for example, especially in the crucial ICT sector – one of the most open services sectors globally (Borchert et al., 2020b) – where the tariff equivalent of regulations on ICT trade in Israel is 43.5%, while the sector is nearly closed in Egypt with a tariff equivalent rate of

90.2%, the highest globally (Hoekman & Shepherd, 2019).

Furthermore, a high overall STRI and equivalent tariffs in SN countries are complicated by high regulatory heterogeneity among countries, since regulations significantly differ from one country in the region to another. Such regulatory heterogeneity further hinders trade in services, whether among SN countries or with their partners, because trade in services involves movements of individuals and establishing commercial presence between countries, unlike trade in goods, which requires the recognition and acceptance of different regulations in partner countries (Fida & Zaki, 2019). It is estimated that at least 17% of bilateral trade costs in services are accounted for by regulatory heterogeneity alongside trade policy barriers, and that the reduction of the regulatory heterogeneity index by 0.05 is associated with a 2.5% increase in services exports (WTO, 2019).

Besides barriers to trade in services, regulatory heterogeneity and quality and reach of telecommunications infrastructure, another reason that could explain the dominance of trade in low productivity services in SN countries is the quality of institutions in the region. Low quality institutions, such as widespread corruption, weak rule of law or incompetent public policy management, create uncertainty and insecurity for traders and investors, and specifically hinder foreign direct investment (FDI) from entering the market altogether, or from operating efficiently if it does (Beverelli et al., 2016). FDI is proven to be a key channel for trade in services, through the presence of service providers in importing countries. Commercial presence – mainly through FDI – is the dominant mode of supply for trade in services in the world, accounting for almost 60% of trade in services in 2017 (WTO, 2019). FDI is specifically an important vehicle through which services technology and know-how is transferred, making it more crucial for high productivity and knowledge-intensive services than low productivity ones (Francois & Hoekman, 2009).

SN trade in services during and post-COVID-19 crisis

The COVID-19 pandemic and the lockdown measures put in place by most countries worldwide to control its spread have severely impacted the global economy and trade, including trade in services. Global trade in services declined by -7.3% in the first quarter of 2020 compared to the same period the year before, while it further declined in the second by -28.5% (UNCTAD, 2020a). And, as expected, low productivity services, such as travel and transport, have been the worst hit by the pandemic and containment measures, compared to higher productivity ones, since the former are characterised by intensity of face-to-face physical interaction.

Global trade in transport services declined by -7.4% in the first quarter, which further deteriorated to a -30.1% fall in the second quarter. International tourism was the worst hit services sector due to global lockdown measures, declining by -26.2% in the first quarter and by -81.4% in the second quarter (UNCTAD, 2020a). By April 2020, 100% of destinations around the globe imposed travel restrictions; of these countries, 45% totally or partially closed their borders for tourists, 30% totally or partially

suspended international flights, 18% were banning entry of passengers from specific countries, or transiting through certain destinations. And, finally, 7% were applying different measures, including quarantine or self-isolation (UNWTO, 2020a). Countries have been easing restrictions since then, and, by September, 53% of countries had eased travel restrictions (UNWTO, 2020b). Such restrictions caused tourism arrivals to decline by 70% from January to August 2020, leading to a loss of 704 million international tourist arrivals, and a $730 billion loss in tourism exports, which is eightfold the income loss during the 2008 financial crisis (UNWTO, 2020c). Meanwhile, other services, which include high productivity sectors that require less physical proximity, such as ICT, professional and financial services, have been more resilient, declining only by -0.9% in the first quarter and by -8.1% in the second quarter of 2020 (UNCTAD, 2020a).

Trade in services in SN countries, which is dominated by the severely-hit low productivity sectors of travel and transport, has thus been significantly affected by the COVID-19 crisis. International tourist arrivals to the Middle East declined by 69% from January to August 2020, compared to the previous year (UNWTO, 2020d).

In Morocco, as figure 1 shows, tourism and transport exports account for 10% of GDP (Bank Al-Maghrib, 2020), the majority of which is tourism receipts, which reached $8.2 billion in 2019. The sector's revenues plummeted from January to September 2020 by almost 60%, compared to the same period in 2019 (CEIC, 2020).

In Egypt, the revenues of tourism and Suez Canal – the main source of transport exports – contribute 6.2% of GDP combined, most of which is also tourism receipts, which reached $13 billion in 2019, while Suez Canal revenues were $5.8 billion. During the first six months of 2020, Egyptian tourism receipts fell by -55% (UNWTO, 2020d). Meanwhile, Suez Canal revenues declined by -4.2% during the first nine months, compared to last year (Egyptian Cabinet IDSC, 2020).

In Tunisia, tourism and transport exports, the majority of services exports, account for 8.4% of GDP (Central Bank of Tunisia, 2020a). Tourism receipts, which amounted to $2 billion in 2019, declined by -44% in the first six months of 2020 compared to the same period the previous year, while transport exports declined by -25.8% (Central Bank of Tunisia, 2020b). In general, tourism, transport and trade services sectors in Tunisia were expected to contract in 2020 by -30%, -15%, and -10% respectively, while communications and financial services were expected to grow by 2.3% and 3% (Central Bank of Tunisia, 2020a), reflecting the difference in impact on low and high productivity services by the COVID-19 crisis.

In Jordan, tourism revenues accounted for a larger share of GDP, with 13.7% in 2019, as they reached $5.8 billion from 4.6 million visitors. During the first eight months of 2020, travel revenues fell by 80% to only $1.2 billion, compared to $5.9 billion during the first eight months of 2019 (Central Bank of Jordan, 2020).

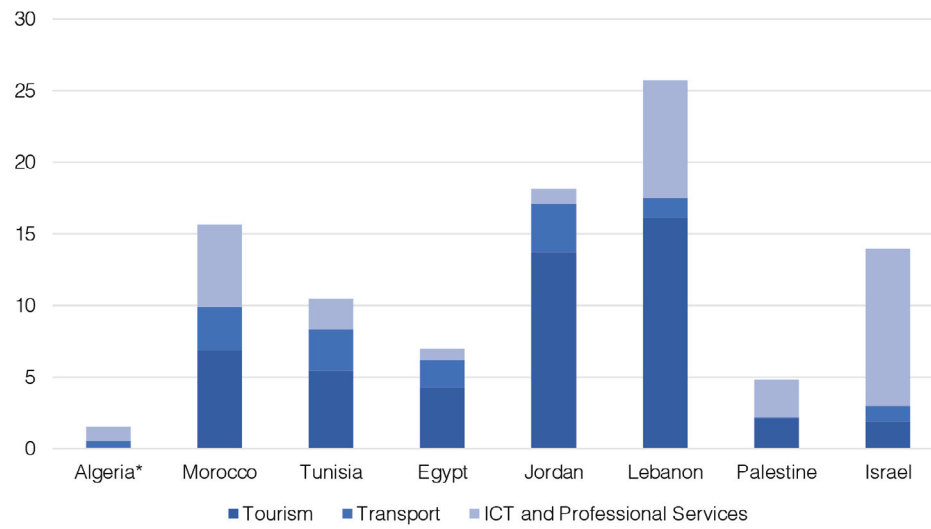
And in Lebanon, tourism, financial and insurance services exports contribute 19.3% of GDP, with tourism

alone contributing 16.1% of GDP (Banque du Liban, 2020). The first quarter of 2020 witnessed a decline of -42% in Lebanese tourism revenues, and it was expected that in the second quarter the fall would be even larger as the lockdown tightened. Tourist arrivals in April and May are useful indicators on this fall, as they declined by -100% and -98%, respectively (UNWTO, 2020d). Thus, tourism revenues in the second quarter might have reached almost zero, compared to $2.3 billion in the second quarter of 2019. In addition, insurance services exports also decreased during the first quarter of 2020, albeit at a slower rate, -23.6% (Banque du Liban, 2020).

In Palestine as well, tourism, which accounts for 2.5% of GDP, has witnessed a sharp decline. It is estimated that tourism revenues to Palestine decreased in 2020 by 68% compared to 2019, with losses estimated at $1.021 billion, compared to projections of 2020 revenues without the pandemic and global lockdown (PCBS, 2020).

Finally, in Israel, ICT services exports and tourism revenues together contributed 12.9% of GDP in 2019, with ICT exports alone contributing the majority, 11% of GDP. Tourism revenues plummeted by -58% in the first sixth months of 2020, compared to the previous year, and the decline is expected to continue, as tourist arrivals fell by more than 90% monthly from June to September as well. Meanwhile, ICT exports fell only by -9.1% in the first quarter of 2020, before growing positively by 3.6% in the second quarter (Bank of Israel, 2020).

Figure 1. Services exports (% of GDP) by service category (2019)



* Data from Algeria is for 2017.
Source: Author's compilation and calculation based on data from the World Bank (2020), Central Bank of Tunisia (2020a & 2020b), Bank Al-Maghrib (2020), Palestinian Central Bureau of Statistics (2020), and Central Agency for Public Mobilization and Statistics of Egypt (2020).

The COVID-19 crisis, which affected tourism the most and brought it to a near complete halt for months, has thus exposed the vulnerability of trade in services in most SN countries, which rely mainly on tourism as their main services exports, and as a significant share of their GDP.

However, less negatively, and despite the natural vulnerability of tourism to global shocks, owing to its reliance on physical movement of individuals and face-to-face interaction, tourism is normally a more resilient sector that usually starts recovering sooner than most others. Globally, it started growing again after only five months of the beginning of the SARS outbreak and September 11 attacks, and 10 months after the beginning of the financial crisis early in 2009, which might indicate a quick recovery of the sector shortly after the COVID-19 pandemic is under control (UNWTO, 2020e). What supports these hopes is that the expected contraction in trade in services in 2020 – driven mainly by the fall in tourism – is more severe than could be explained by contracting demand, suggesting a strong role for special factors, including travel restrictions for example (IMF, 2020), which means that shortly after such restrictions are effectively lifted, tourism could start recovering again. Nonetheless, the pace of such recovery would largely depend on the roll out of vaccines that would hasten the easing of international flight restrictions. The World Tourism Organization projects these combined factors to delay a return of international tourist arrivals to 2019 levels by 2023 or 2024 (UNWTO, 2020f).

Thus, SN countries will have two and a half to four years, according to projections, before their main services exports fully recover. In the meantime, SN countries will have to minimise the damage and compensate for part of the loss in tourism exports, by working to bolster other services sectors and their exports, especially high productivity services, that proved to be more resilient during the crisis, and even managed to grow during periods of 2020 in some countries, as highlighted above.

And although high productivity sectors cannot be developed overnight, a couple of years could be enough to achieve much improvement, especially in the ICT sector. As noted above, SN countries already have a relatively adequate human capital for such sectors, which outperforms infrastructure and availability of digital services, and is the one factor that usually needs more time to develop. This would help develop high productivity services in a relatively short period, if necessary reforms were undertaken, which include minimising trade in services barriers, improving infrastructure, accelerating institutional reforms, adopting sector-specific policies and incentives, and boosting regional partnerships in trade in services, as will be discussed later.

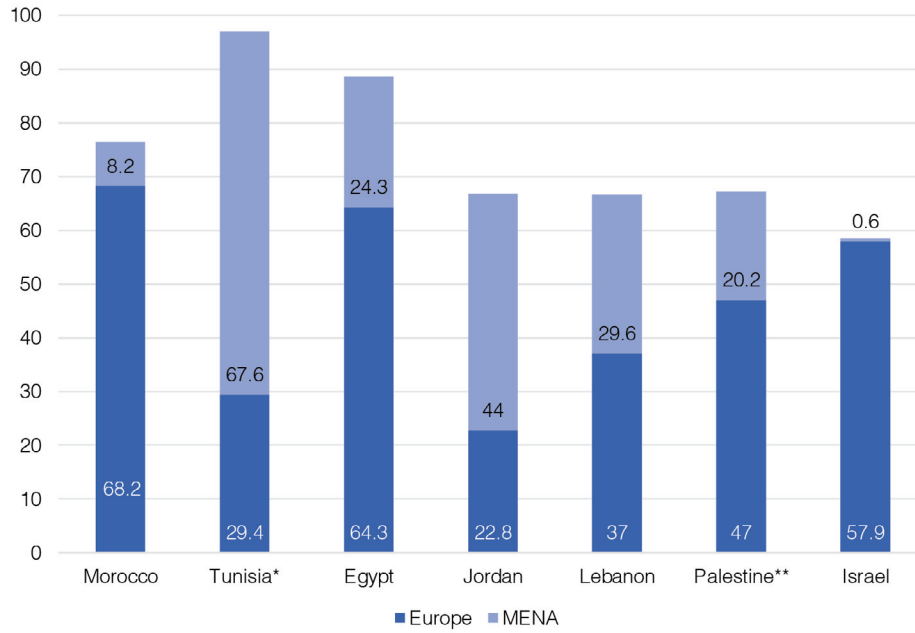
On the other hand, the pandemic might have a lasting impact on tourism even after it is near full recovery. Global movement of people, the basis of tourism, and simultaneously the main vehicle of infection spread, might change after the COVID-19 pandemic, as a part of a potential decoupling of the global economy, and a movement towards shorter supply chains and regional integration (Subramanian & Felman, 2020). Governments might attempt to minimise the impact and spread of potential future

The expected contraction in trade in services in 2020 – driven mainly by the fall in tourism – is more severe than could be explained by contracting demand, suggesting a strong role for special factors, including travel restrictions

pandemics and shocks by prioritising closer host/origin countries for tourism purposes, and limiting/discouraging movement with certain high-risk countries or regions. Furthermore, the trauma of the COVID-19 pandemic could affect the behaviours and preferences of both tourists and citizens in host countries towards other countries and nationalities, thus changing the demand for tourist destinations from the pre-COVID-19 structure.

Fortunately, under such potential scenarios, and as figure 2 shows, tourism exports of SN countries are largely consumed by visitors from very close markets, mainly in the MENA region, or with European countries (after excluding nationals of SN countries who live abroad). Thus, a global shift towards regional and close-to-home tourism would not severely harm tourism in SN countries but could even benefit it and boost demand for it from neighbouring partner countries.

Figure 2. Nationality of tourists visiting Southern Mediterranean countries in 2019 (% of total tourists)



* Data from Tunisia is for 2017.
** West Bank Data.
Source: Author's compilation based on data from the Moroccan Ministry of Tourism, Air Transport, Craft and Social Economy (2020), Central Agency for Public Mobilization and Statistics of Egypt (2020), National Institute of Statistics of Tunisia (2020), Central Bank of Jordan (2020), BLOMINVEST Bank (2020), Palestinian Central Bureau of Statistics (2020), and Bank of Israel (2020).

Through the difference in its impact on tourism versus high productivity services, the COVID-19 crisis could change not only the size or direction of trade in services of SN countries but could also be an opportunity to change its structure, kick-starting a necessary progress in higher productivity services

sectors and trade. The increase in reliance on digital services during the pandemic and restrictions, to substitute for the difficulty of physical face-to-face interaction in work, education or personal life, have both highlighted the urgent significance of strong ICT sectors, and the underqualified telecommunications infrastructure in SN countries. In response, most governments in the region have announced scaling up their efforts towards digital transformation and improving ICT sectors (Guermazi, 2020), which will hinge on focusing specifically on improving the quality and coverage of their telecommunications infrastructure, a main challenge to trade in high productivity services in SN countries as explained earlier.

The COVID-19 crisis and its potential impact of shortening supply chains in trade in goods and services and prioritising regional partnerships could also bolster trade in services between North African countries south of the Mediterranean and their neighbouring sub-Saharan countries. This would coincide with the expected effect of the nascent African Continental Free Trade Area (AfCFTA), with its protocol on trade in services, which aims to establish an African single market in services. The AfCFTA was agreed upon in 2018 and was supposed to be effective by mid-2020 – but was postponed because of the COVID-19 crisis – and is now active as of 1 January 2021. The AfCFTA will be the largest economic integration agreement since the WTO, and will be a step towards the establishment of an African Economic Community (Simo, 2020).

The COVID-19 crisis might thus help accelerate closer partnerships in trade in services, which are already being negotiated between SN countries and their partners, notably the EU. This includes potential Deep and Comprehensive Free Trade Areas between the EU and Morocco and Tunisia, which would include a chapter on trade in services that achieves liberalisation of trade in services and investment, which is discussed in more details in Van der Loo's chapter in this study.

In addition, SN countries could also benefit from trade in services with other key global economies, particularly China, whether directly or with sub-Saharan Africa, through the AfCFTA. China has increasingly been getting involved in high productivity services sectors in Africa, especially ICT sectors. Chinese investments in digital connectivity and infrastructure in Africa are rapidly rising, and the development of Africa's ICT sector was a clear priority in the Action Plan (2019-2021) of the 2018 Forum on China-Africa Cooperation Beijing Summit (Yeophantong & Wang, 2019). Such a partnership, and potential others with key global economies and their leading corporations, could be a leap forward to both SN countries and sub-Saharan Africa in developing high productivity services sectors through capacity-building, improvement of infrastructure, provision of capital, transfer of technology and know-how, and human capital enhancement. Such global cooperation will not only thrive in Africa on the back of the AfCFTA and its protocol on trade in services but could also be a key driving force for its fulfilment, since an African single market in services will not be a success without a functioning and growing high-productivity sector in the continent.

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Conclusions and recommendations

Employment creating growth that raises incomes and decreases poverty

could be possible with the lead of services sectors. However, it is high productivity services sectors that could match the productivity of manufacturing sectors that led the growth models of Asian countries throughout the last few decades. SN countries cannot continue to rely solely on tourism and transport exports, both low productivity sectors, and expect to achieve sustained strong economic growth that creates employment, decreases poverty and raises incomes.

Furthermore, with the rise of servicification, high productivity services sectors are proven to boost productivity of other sectors as well, including low productivity services, agriculture and, more importantly, manufacturing. Thus, the spillover effects alone of having strong high productivity services sectors more than justify prioritising their progress in the quest for sustainable development.

Trade in services could potentially play a key role in the necessary rise of high productivity services in SN countries, since it increases competition, facilitates transfer of technologies and know-how through FDI, and improves productivity. Thus, Southern Mediterranean countries, which are among the countries with most restrictions on trade in services globally, should work on the liberalisation of trade in services. Liberalisation should not be misunderstood as deregulation, since regulations are key to services sectors, as explained above. Liberalising trade in services would entail granting easier access to services markets, without limiting the government's rights to regulate, but through transparency and predictability of relevant rules and regulations (UNCTAD, 2020b).

However, it might not suffice for SN countries to reduce barriers to services and regulatory heterogeneity with their partners, if they do not improve the quality of their institutions. Widespread corruption, weak rule of law, insecure property rights and other forms of weak institutions deter FDI, the main vehicle of trade in services, or reduce its productivity. Thus, SN countries might need more deep-rooted institutional reforms than first perceived in order to develop well-performing high-productivity services sectors and trade.

Moreover, SN countries will need to improve their telecommunications infrastructure, a main barrier to high productivity sectors in the region. Governments could dedicate more public investments to telecommunications infrastructure, and could also allow the private sector to directly invest in it, instead of limiting its role to service provision only. SN governments will also need to invest more in education and training to improve the quality of their human capital and the size of their highly skilled labour force, which is necessary for high productivity services sectors. Furthermore, SN governments should adopt more active policies that provide incentives to domestic high productivity services sectors to help them grow, which include tax breaks, low-cost loans, grants, contribution to costs of employees training, and quotas in public procurement contracts, especially with the governmental plans for digital transformation in the region, which would increase domestic demand for high productivity sectors. Such incentives should target small and medium-sized enterprises and start-ups more specifically to support them and enable them to compete both domestically and in the global market.

In addition to domestic policies, engaging in more partnerships in trade in services would be a step forward to boosting high productivity services, especially with regional partners. As mentioned above, there has been a potential for rising partnership and trade in high productivity services, especially ICT services, between SN countries and China with its leading corporations, either directly or through their operations in sub-Saharan Africa. There is now uncertainty regarding whether such a potential partnership would flourish or retreat in the post-COVID-19 world. Possible near-shoring and a further slow-down of globalisation could hinder such nascent trade and lead the two parties to seek closer regional partners, in a global trend to limit the risks of globalised long supply chains in goods and services, whose vulnerability was exposed during the pandemic, and before, during the peak of the USA-China trade conflict, and even since the 2008 financial crisis. On the contrary, this could push China to get more involved in the African services markets, which are far from being saturated and where its presence is already influential, in order to compensate for lost markets elsewhere in the world.

Either way, SN countries should seek to boost trade with their closer regional partners, whether in the Middle East, Europe or sub-Saharan Africa, in order to hedge their trade against such uncertainty and possible post-COVID-19 deglobalisation risks. Trade in services of SN countries, mainly travel and tourism, is already largely partnered with Europe and neighbouring Middle Eastern countries. However, diversification of trade in services would open new horizons of trade, both with Europe and with sub-Saharan Africa, especially in light of the AfCFTA, helping all parties achieve common interests. Boosting European trade in services with North African countries in high productivity sectors of ICT, financial and professional services, through the main vehicle of FDI, will grant European services providers more access to the large nascent single services market in Africa, while providing much needed varieties of high order services and technologies to this market. This would be a necessary step towards the idea of a continent-to-continent free trade agreement with Africa, which the EU is exploring in the long run, as explained in Van der Loo's chapter in this study.

SN countries could thus act as a bridge between Europe and sub-Saharan Africa to increase the flow of services across the two continents. This bridge could play a key role in achieving common goals of African and European countries, summarised through partnerships for green transition, digital transformation, sustainable growth and jobs, peace and governance, and migration (EC, 2020). Growth of services sectors and trade in North and sub-Saharan Africa would help achieve these goals; services are a more climate-friendly sector, labour-intensive, a pillar of digitalisation (Newfarmer et al., 2018), and closely interconnected with governance and quality of institutions.

And while SN countries have their responsibilities in liberalising and supporting their services sectors and trade, their leading trade in services partners around the globe, especially in the EU, could also play a key role in boosting trade in high productivity services with SN countries. They could help improve the telecommunications infrastructure of the SN, the cornerstone of high pro-

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ductivity services; they could also encourage coordinating and unifying regulations across the Mediterranean to reduce heterogeneity and facilitate the flow of services with the region; they could also provide valuable assistance to the SN in encouraging and supporting institutional reform, good governance practices and improvement of the business environment; they could also enable and facilitate the entry of more SN professionals to supply and export services abroad; and, more importantly, they could encourage more FDI in services to SN countries, which would be the key to driving services sectors and trade forward in the region.

Table 1. Services and trade in services in the SN Region[2]

	Algeria	Morocco	Tunisia	Egypt	Jordan	Lebanon	Palestine	Israel	EU
Services, value-added (% of GDP) (2018)	43.99	50.01	59.23	51.50	61.84	76.67	60.0	69.77	65.4
Services, value-added annual % growth (2018)	3.54	2.69	2.40	4.96	2.33	-1.11	1.49	3.61	2.2
Services, value-added per worker (constant 2010 USD)	14,642.57	13,264.69	16,697.22	10,491.22	12,815.12	21,645.52	14,531.59	67,007.36	76,544.3
Services trade (% of GDP)	8.60	24.90	18.60	15.30	29.30	50.60	15.58**	22.10	27.30
Service exports (current billions of USD)	3.00 *	19.37	4.17	25.05	7.97	13.64	0.77	55.34	2,204.5
Service imports (current billions of USD)	11.32 *	10.18	3.05	21.19	4.84	13.36	1.81	32.14	2,037.4
Employment in services (% of total employment)	59.41	43.60	54.42	48.53	72.40	63.93	62.28	82.08	70.74
Employment in services, female (% of female employment)	72.86	33.68	57.69	57.50	85.95	71.44	83.75	91.73	83.96
Employment in services, male (% of male employment)	56.89	46.70	53.39	46.20	69.77	61.63	58.20	73.39	59.62
Insurance and financial services (% of service exports) (2018)	11.02 *	1.07	3.58	1.51	2.07	12.65	0.01	0.08	7.2
Insurance and financial services (% of service imports) (2018)	2.81 *	1.65	8.25	11.17	10.75	16.52	4.77	1.95	6.6

[2] Data is for 2019 unless stated otherwise.

Transport services (% of service exports)	24.33 *	19.61	28.08	35.06	19.09	5.41	1.78	7.77	19.7
Transport services (% of service imports)	32.00 *	46.92	49.80	41.89	55.27	13.97	25.77	24.87	20.6
Travel services (% of service exports)	4.82 *	43.75	52.43	53.73	74.97	63.27	43.74	13.74	19.5
Travel services (% of service imports)	5.35 *	23.61	27.96	17.23	31.02	50.00	50.40	25.60	20.9
ICT service exports (% of service exports, balance of payments) (2017)	5.24	8.61	9.18	3.49	0.36	4.22	14.1	45.61	12.68
ICT service exports (balance of payments, current USD billions) (2017)	0.16	1.49	0.30	0.68	0.02	0.64	0.086	20.03	250.9
Communications, computer, professional services, etc. (% of service exports)	59.83 *	35.63	19.49	9.21	5.95	31.32	53.60	78.43	53.7
Communications, computer, professional services, etc. (% of service imports)	59.84 *	27.52	14.21	29.77	4.20	21.17	18.67	47.34	52

* Refers to data from 2017.

** Refers to data from 2018.

Source: World Bank (2020).

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Impact of COVID-19-Induced Trade Disruptions on Food Security in Southern Neighbourhood Countries

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Introduction

Ensuring food security has long been a challenge for authorities in the Middle East and North Africa (MENA) region. High population growth rates, the presence of large numbers of refugees and internally displaced persons, water scarcity, and – in the case of Algeria, Egypt and Jordan – limited arable, fertile land have been but a few challenges towards ensuring a state where "all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life" (CFS, 2009; see also Woertz et al., 2014). The outbreak of the COVID-19 pandemic in early 2020, which disturbed economic and social lives all over the globe, threatened to exacerbate the existing problems by virtue of disturbing production of and trade in food products, as well as adversely affecting state and household budgets due to lockdowns and other measures undertaken to contain the spread of the virus.

Against this background, the present chapter examines the impact of the COVID-19 pandemic-induced disruptions in trade (discussed in more depth in Mostafa Kamel's and Suleiman's chapters in this study) on food security in eight countries in the European Union (EU)'s Southern Neighbourhood[1] (henceforth SN): Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine[2] and Tunisia. It does so by looking at two particular channels: disruptions in trade in food products with particular focus on wheat and disruptions in food demand brought on by decline in trade in services (with a focus on the tourism sector) as well as food price inflation. It then reviews policies introduced by the governments in the countries under study aimed at maintaining the food security of their populations. Finally, it gathers the evidence available thus far on the state of food security in the SN and summarises the main take-aways stemming from the analysis of the food security-related situation during the first months of the pandemic.

Pre-pandemic food security in the SN

All countries in the SN are heavily reliant on food imports and indeed are some of the biggest food importers in the world (Harrigan, 2014; Paciello, 2015).[3] The Arab countries as a whole spend approximately 4% of the regions' gross domestic product (GDP) (approx. $110 billion) on food imports annually and over half of the daily calory intake of the populations in the Arab world come from imported foodstuffs (ESCWA, 2020a), making them vulnerable to global market disruptions. At the same time, the situation is not homogenous throughout

[1] Libya and Syria were excluded as states with which Association Agreements (AAs) are presently not in force. For more information on the AAs between the EU and SN, see Van der Loo's chapter in this study.

[2] This designation should not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of EU member states on this issue.

[3] Egypt, Jordan, Morocco and Tunisia are considered net food-importing developing countries for the purposes of the World Trade Organization's Marrakesh Ministerial Decision.

the SN region. The self-sufficiency ratios[4] (as of 2013) varied from 16% for the Palestinian Authority, through 38% for Jordan, 41% for Lebanon, up to 64% for Algeria, 72% for Egypt, 75% for Tunisia, and 80% for Morocco (OECD & FAO, 2018). Moreover, huge inequalities exist within each of the countries under study, with hundreds of thousands of families living below the global poverty line throughout the SN (World Bank, 2020c).

In general, households in the SN are vulnerable to food price inflation. Throughout the region, between 16.2% of income of household budgets in Israel and 37.3% in Algeria are spent on foodstuffs – compared to, e.g., 12.1% in the EU on average (see Table 1). For low-income households, this share is even higher. In Lebanon, for instance, it consumes close to one third (30.7%) of their budgets, compared to one fifth among the general population (Hamdan, 2020). An interesting way of understanding the scale of this issue is provided by the United Nations World Food Programme (WFP, 2020c), according to which residents of Jordan and Lebanon pay, respectively, five and almost six times more (calculated as % of their income) for the price of a plate of food compared to people in the State of New York. Particularly difficult is the situation of refugees and internally displaced people, as well as migrant workers. Indeed, the primary reasons for food crisis in Lebanon and Jordan was conflict – namely, wars in neighbouring Iraq and Syria, in addition to economic shocks, i.e., high food prices (WHO, 2019).

At the same time, the situation in the SN countries is much better than, for example, in neighbouring sub-Saharan African countries. According to the measure of the Global Hunger Index (GHI, 2020), Morocco, Tunisia, Algeria, Lebanon and Jordan are in fact food secure countries[5] (for details, see Table 1), although Egypt fared worse, falling into the "moderately severe hunger risk" category. Moreover, in all countries under study – with the exception of Jordan, whose performance slightly deteriorated – the pre-pandemic situation in terms of food security improved compared to 2012, when the Global Hunger Index was last published (no data for Israel or Palestine was available).

At the outbreak of the pandemic, policy-makers and experts around the globe expressed concerns about its potential impact on food security. This was also the case in the MENA region and African continent in general (Ghoneim, 2020; Brookings, 2020; Pais et al., 2020; ESCWA, 2020a; Welsh, 2020; Vos et al., 2020; WFP, 2020a). In April 2020, the Ministers for Agriculture of the African Union member states warned that the "COVID-19 pandemic poses significant challenges to the already strained health, food and nutrition security and broad socio-economic conditions in Africa" and that the "decline in demand and production from the most economically developed countries where contagion had initially hit hardest is causing a global recession, with direct repercussions in Africa" (FAO & African Union, 2020).

Residents of Jordan and Lebanon pay, respectively, five and almost six times more (calculated as % of their income) for the price of a plate of food compared to people in the State of New York

[4] Understood as (value of gross agricultural production in current USD) multiplied by 100 divided by (value of gross agricultural production in current USD plus value of imports in current USD minus value of exports in current USD). Source: OECD & FAO, 2018.

[5] The index is created based on the review of four indicators: undernourishment, child wasting, child stunting, and child mortality. See more: https://www.globalhungerindex.org/about.html

Table 1. Food security-related indicators for the SN

	Cereal import dependency ratio (2019)	Food imports as % of merchandise imports	Food exports as % of merchandise exports	Global Hunger Index (2020)*	Moderate or severe food insecurity in population (%) (2018)	Prevalence of under-nourishment in population (%) (2004-2006/ 2016-2018)	Household expenditure on food as % of total ex-penditure (2018)
Algeria	34.1%	20% (2017)	1% (2017)	9.0	17.6%	8.8%/3.9%	37.3%
Egypt	42.1%	19% (2019)	18% (2019)	11.9	34.2%	5.4%/4.5%	33.3%
Israel	…	9% (2019)	3% (2019)	…	12.2%	>2.5%/>2/5%	16.2%
Jordan	93.7%	20% (2019)	15% (2019)	8.8	…	6.6%/12.2%	29.6%
Lebanon	86.5%	18% (2018)	24% (2018)	8.9	…	3.4%/11%	20.7%
Morocco	42.1%	11% (2019)	21% (2019)	8.9	…	5.7%/3.4%	34%
Palestine	…	**29% (2018)	**24% (2018)	…	**26.3% (2017)	…	…
Tunisia	59.7%	11% (2019)	11% (2019)	5.7	20%	5.6%/4.3%	21.9%
EU	…	9% (2019)	10% (2019)	…	…	<2.5%	12.1%
Low- and middle-income countries	…	8% (2018)	11% (2018)	…	29.3%	…	…

* On a scale of 0-100, where 0 is the best possible score
** West Bank and Gaza
Source: ESCWA (2019a), Global Hunger Index (2020), World Bank (2020), WHO (2019), Eurostat (2019), USDA (2020b).

According to the United Nations Economic and Social Commission for Western Asia (2020b, 2020c), an additional 8.3 million people in the Arab region may fall into poverty and 1.9 million may become undernourished as a spillover from the pandemic. In Lebanon alone, over half of the population "may be at risk of failing to access basic food needs by the end of 2020" due to COVID-19 but also due to "restrictions on access to foreign currencies, reduction of financial flows" and the explosion of 4 August that destroyed much of the Port of Beirut in a country heavily reliant on imports of food (and other commodities).

This risk is exacerbated by other factors such as droughts or excessive rainfalls that also affected food producing countries globally and in the region itself, notably in Morocco and Tunisia (FAO, 2020a). Moreover, locust invasion affecting parts of East Africa and the Middle East is another factor adversely affecting food production (Zurayk, 2020).

Trade in foodstuffs and food security: a conceptual framework

Availability, access, utilisation and stability are the pillars of food security (CFS, 2009). The pandemic-induced disturbances in trade in foodstuffs may affect all four through a number of direct and indirect channels, most

notably the first two: i) availability, that is the supply side, and ii) access, i.e., the demand side or extent to which populations can(not) afford food (ESCWA, 2019b & 2019c; Zurayk, 2020).

On the supply side, the potential channels included disturbances in food production (domestic and abroad), transportation, supply chains, and distribution. Food prices may be increasing due to disruptions in production chains caused by lockdowns, difficulties in mobilising migrant labour or restrictions regarding the number of people allowed to work at the same time in a given space, as well as export bans by producing countries and stockpiling by governments and individuals alike. This potentially constituted a serious problem to the SN, which – as already discussed above – is highly dependent on food imports and whose populations are sensitive to food price changes. Additionally, disturbances in exports of agricultural or non-agricultural (depending on the country in question) products can adversely affect export revenues and, as a result, budgets (FAO, 2020a). Overall, countries relying on food imports, such as the ones under study, by virtue of being more dependent on volatility of exchange rates, are the ones where food security is under higher risk amid the pandemic – causing the aforementioned currency volatilities (UNCTAD, 2020).

On the demand side, even if food is available without any disturbances, job loss, salary cuts, payment delays and disturbances in the remittance flows – an important source of income in the region, which in 2017 amounted to between 0.3% of GDP in Israel and 1.19% in Algeria, through 5.0% in Tunisia, 5.5% in Egypt, and 6.7% in Morocco, to 11.1% in Jordan, 14.6% in Lebanon, and 16.2% in West Bank and Gaza (Knomad, 2020) – may lead to shrinking of disposable incomes of families throughout the region and, consequently, decrease their purchasing power (especially when paired with food inflation), creating a double risk of lower calory intake per person in general, and fewer high quality, nutritional products like fresh fruits and vegetables in particular. At the country level, reductions in export revenues may have a similar effect.

Food supply

While it might be too early to comprehensively assess the impact of the COVID-19 pandemic on food security in the SN, data at hand suggests that at least some of the scenarios indicated above came into being. For instance, from the outbreak of the crisis, countries around the world – including China – began to stockpile basic foodstuffs (Almeida & Murtaugh, 2020).

The SN countries followed the trend, focusing on particular foodstuffs, notably wheat and other cereals. Indeed, while the SN region is self-sufficient when it comes to production of fruits and vegetables, it imports most of the other foodstuffs, including meat, oilseeds and cereals. The latter are of crucial importance to the region, as the daily caloric intake coming from cereals in the region is 40% higher than elsewhere in the world (CASE, Ecorys, & FEMISE, 2020). Among key imported products is wheat, one of the staple foods in Arab countries, with approximately

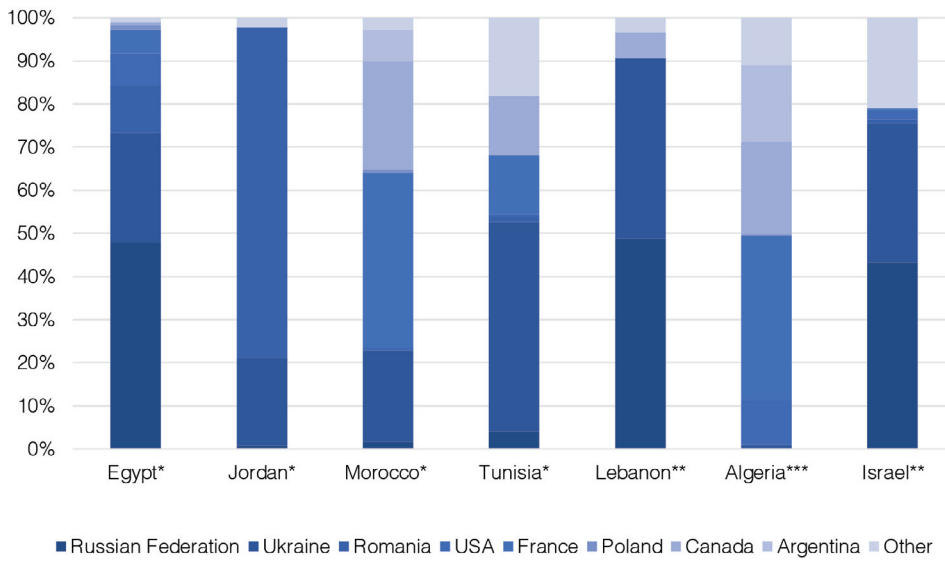
127 kg per capita consumed on an annual basis throughout the region, almost two thirds (65%) of which are imported to the region (ESCWA, 2020a) – although this number can be as high as 85% in the case of, for example, Lebanon (ESCWA, 2020b). Egypt alone, the largest wheat importer in the world, in 2019/2020 consumed approximately 20.4 million metric tonnes of wheat, out of which approximately 12.8 million metric tonnes (62.8%) were imported (USDA, 2020d) – despite the fact that the country is using approximately 60% of its land resources for cereal production for internal consumption (CASE, Ecorys, & FEMISE, 2020).

Consequently, given the importance of wheat, in reaction to the COVID-19 outbreak countries in the region undertook actions to boost their supplies. For instance, Egypt increased its purchases of wheat via international tenders by 51% between April and October 2020 (Almeida & Murtaugh, 2020). Jordan has done so already and is planning to further increase its wheat reserves to 1.35 million tonnes or 17 months' worth of supply in order to "ensure food safety amid uncertainties in light of coronavirus" (Taysee & El Wardany, 2020). The Moroccan government, in turn, not only increased its wheat (and other cereal) imports (CIHEAM, 2020) but also suspended duty on imports of wheat until the end of 2020 – a reaction not just to the pandemic but also poor harvest in the country itself, whereby wheat and barley production in 2020 is expected to stand at 57% below the country's 10-year production average according to the Moroccan Ministry of Agriculture (Almeida & Murtaugh, 2020; USDA, 2020f). Lebanon does not maintain public grain stores (Bahn et al., 2020). This increase in demand was one of the main reasons behind spikes in wholesale prices of wheat on the global markets, in line with increases in the prices of most foodstuffs (FAO, 2020b). Overall, the price of wheat in 2020 was 5.6% higher than in 2019 (FAO, 2021).

Prior to the outbreak of COVID-19, in 2019 wheat was imported to the SN mainly from Russia (24%), Ukraine (20%) and France (20%), as well as Canada (11%), Romania (7%), the United States of America (7%) and Argentina (6%) (in dollar terms; FAOSTAT, 2020). Imports from Poland, Spain, Uruguay and Germany each constituted 1% of overall wheat imports of the SN. Overall, almost one third (31%) of wheat was imported to the region from the EU ($2.05 billion), and the total value of wheat imports from the EU and beyond stood in 2019 at $6.57 billion. At the same time, the import structure differed quite significantly between individual countries. The least diversified was Jordan's import structure: in 2019, 77% of its wheat came from Romania and 20% from Ukraine. For Egypt, Israel and Lebanon, the major sources of wheat were Russia (48%, 43.2% and 49%, respectively), followed by Ukraine (26%, 32.3% and 42%). Algeria and Morocco imported their wheat predominantly from France (38% and 40%, respectively) and Canada (22% and 25%, respectively), while for Tunisia the major suppliers were Ukraine (46%), followed by Canada and France (14% each) (FAOSTAT, 2020).

Given the importance of the relatively few countries on which the SN relies for its wheat imports, ensuring continuity of

Figure 1. SN wheat imports by trading partner (measured in value of imports in USD)



*2019, **2018, ***2017
Source: Author's elaboration based on data from FAOSTAT, detailed trade matrix, 2020 (no data for Palestine).

shipments has been paramount. The ban on exports of grains, oil seeds and sugar (among others) to non-EU countries that Romania imposed on 10 April 2020 triggered supply chain concerns in many countries in Asia and the Middle East, including Jordan and Egypt. The concerns were exacerbated by the fact that one week before Russia announced the introduction of grain exports quotas and Ukrainian authorities signalled the possibility of a similar move (S&P Global, 2020). Bucharest was promptly forced to rescind the ban following an intervention from the European Commission, which deemed it illegal. However, incidents such as holding up of a shipment of Romanian wheat to one of Egypt's state-owned buyers were reported (CIHEAM, 2020), prompting some countries to move towards securing supplies "just in case" amid the spread of the pandemic.

Overall, imports of wheat from the EU to the SN increased during January-September 2020 compared to the same period the year before by nearly 18%, from 7.96 million tonnes during the first three quarters of 2019 up to 9.38 million tonnes during the first three quarters of 2020 (Eurostat COMEXT, 2020). It is worth noting, however, that during the third quarter of 2020 a decrease of -34.8% was noted, so the final outcome for the year will be dependent on the reversal of this trend in the last quarter of 2020.[6] In terms of individual countries, the volume of exports of wheat from the EU during the first three quarters of 2020 increased compared to the same period the year

[6] Normally, trade in wheat is analysed in cycles starting in July of any given year and ending in June of the following year. However, for the purpose of this chapter a different approach was taken to examine changes in trade volumes as the pandemic unravelled.

before in Morocco, Algeria, Israel and Jordan. Morocco in particular decisively increased its wheat purchases, although as has already been mentioned this resulted from a bad harvest in the country rather than just the pandemic itself. In Tunisia, Egypt and Lebanon, on the other hand, the volume of wheat exports from EU countries declined by -0.1%, -14.39% and -27.56%, respectively.

It is also worth mentioning that in a step towards imports diversification, Jordan and Algeria are reported to start importing wheat from Russia. The latter has never done so in the recent past due to concerns regarding the quality of the Russian grains (USDA, 2020a).

Food demand

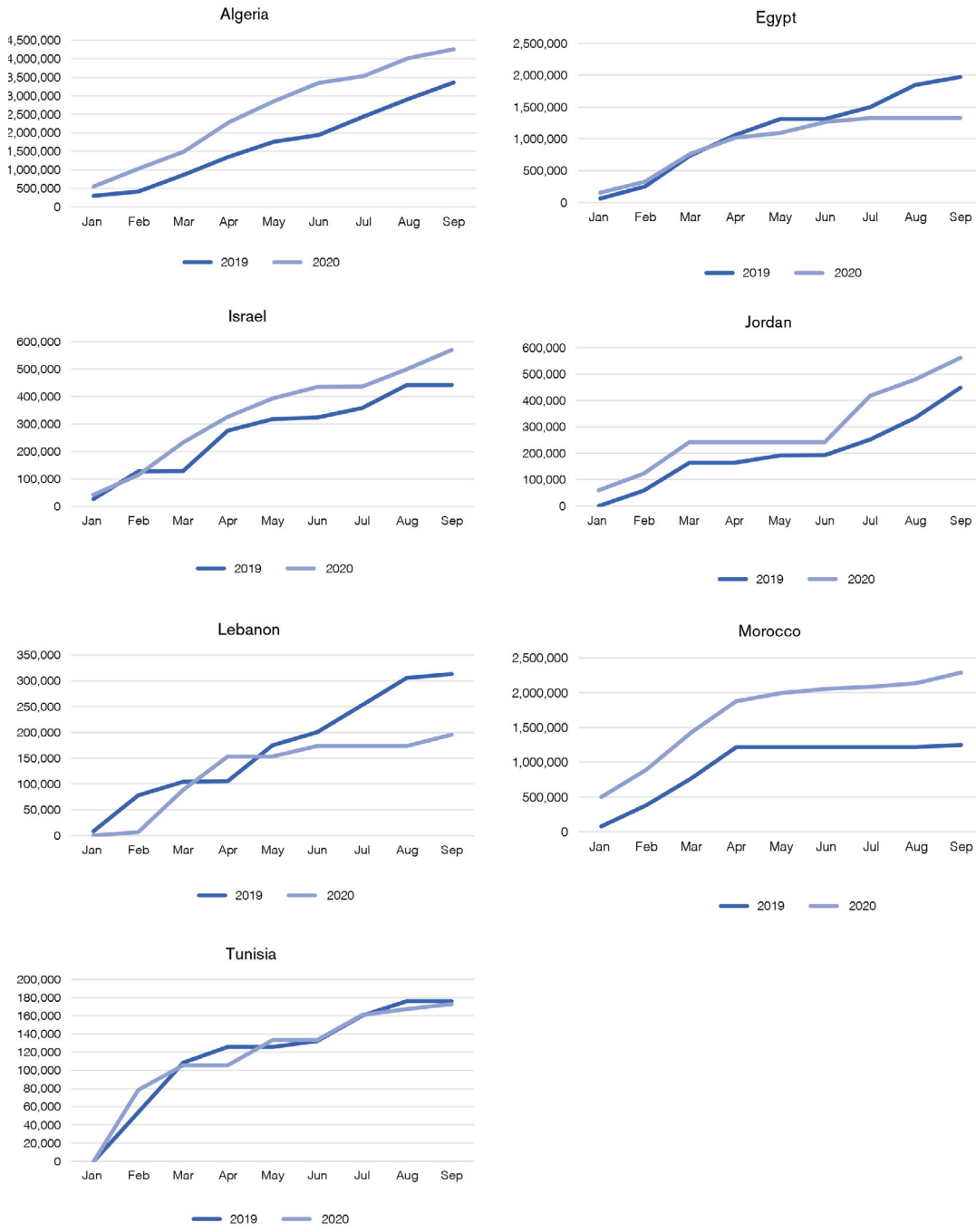
Food inflation and shrinking of disposable incomes of households in the SN are among the factors affecting food security of populations in the region.
The Food and Agriculture Organization (FAO) Food Price Index, measuring month-on-month changes in international prices of a basket of foodstuffs, showed steady increases in food prices between May and October 2020. The cereal prices were especially affected, with the Cereal Price Index in October 2020 16.5% higher than the same month a year before and 7.2% month-on-month. Wheat, a staple in all the SN countries, became more expensive due to the growing demand globally and decreasing supply availabilities, including in the Black Sea region (affected by drought) from where the majority of wheat is imported to the SN (FAO, 2020c). Indeed, floods and droughts in 2020 have been at least equally if not more responsible for shrinking supply capabilities and, consequently, increases in food prices, as the COVID-19 pandemic (FAO, 2020a).

Floods and droughts in 2020 have been at least equally if not more responsible for shrinking supply capabilities and, consequently, increases in food prices, as the COVID-19 pandemic

In Lebanon, the situation has been particularly serious. Prices of food and beverages have been on the rise despite subsidies introduced by the government in July 2020. The price of bread in September 2020 was 95.87% higher than in September 2019; the price of fruits by 98.73%, of vegetables by 106.34%, of eggs and dairy products by 111.54%, of fats and oils by 155.87%, of meat and poultry by 158.93%, and sugar and confectioneries by 234.53% (CRI, 2020a). While the explosion in the Port of Beirut of 4 August 2020 further deteriorated the socioeconomic situation in the country (and indeed affected the country's import and storage capacities – the grain silos damaged during the explosion are now planned to be demolished due to the risk of collapse; Bahn et al., 2020), inflation was also high before. Indeed, the prices of food and beverages were on average 74% higher in June 2020 than the same month the year before (CRI, 2020b) and prices of items included in the WFP's Survival Minimum Expenditure Basket surged by over 40% between September 2019 and March 2020. The impact of COVID-19 on consumer prices is, however, particularly difficult to isolate, as prices in the country have been on the rise long before the outbreak of the pandemic. Indeed, the food prices have been particularly adversely (if slightly belatedly) affected by the development of a parallel foreign exchange rate in the country in October 2019, increasing by 3.1%, 10%, 16.8% and 20% year-on-year in December 2019 and the first three months of 2020 respectively (Hamdan, 2020).

In other SN countries the food inflation varied. In Jordan, for instance, increase

Figure 2. Cumulative exports of soft wheat (including flour and groats) from the EU to the SN (tonnes - grain equivalent), January-September 2019/January-September 2020



Source: Author's compilation based on data from Eurostat COMEXT, as of 17 November 2020.

in prices of food and beverages owing to COVID-19 alone amounted to 20%, but in Tunisia to 5% (as of April 2020; ESCWA, 2020a). Overall, as pointed out by the International Center for Advanced Mediterranean Agronomic Studies (CIHEAM, 2020), the governments actively worked to stabilise prices (for more details on governmental interventions, see section below), and the fact that demand for food in the hospitality sector decreased significantly due to the halt of international tourism and closures of restaurants and coffee shops helped to prevent higher food price increases. Moreover, as the outbreak of the pandemic in the SN fell just before commencement of Ramadan – when traditionally larger than usual amounts of food are consumed – "retail stores were generally well prepared for this surge in demand" (CIHEAM, 2020).

Regarding changes in disposable incomes of households throughout the SN, the impact of COVID-19 was expected to manifest itself, among others, through reduction in employment, especially in the informal and tourism and hospitality sectors. Indeed, according to the United Nations World Tourism Organization (UNWTO, 2020a), the economic importance of tourism in Jordan, Lebanon, Morocco, and Tunisia is "considerable" (T-GDP[7]>10% and <=20%) and "moderate" (T-GDP>5% and <=10%) in Algeria, Egypt and Israel (see figure 3 below). In Jordan alone, 53,488 persons were employed in the tourism sector in 2019 according to official data and tourism receipts that year amounted to JOD 2.749 billion (approx. €3.26 billion; JOD 4.108 billion/approx. €4.88 billion if one includes Jordanians residing abroad); non-Arab tourists – a majority (58.8%) of them European – accounted for 39.7% of that sum (JOD 1.09 billion/approx. €1.29 billion) (MOTA, 2020). Overall, in 2019, be-

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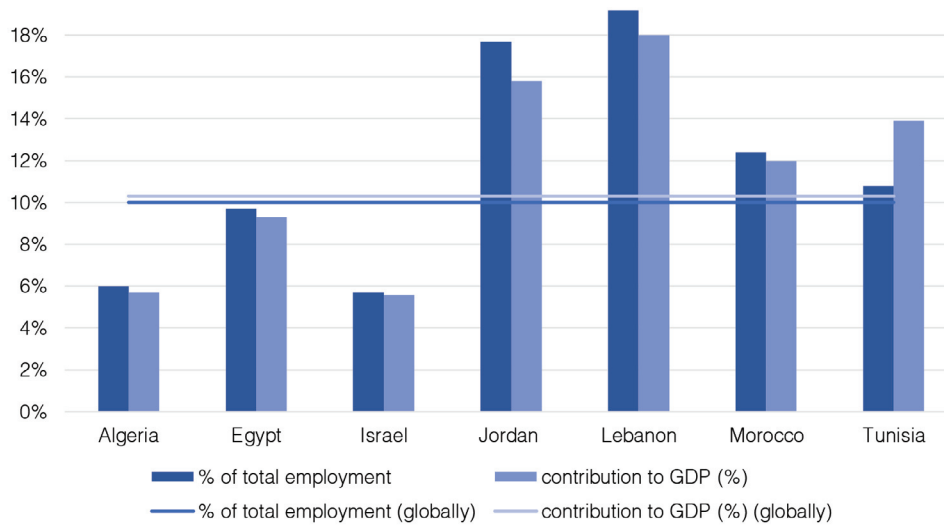
Figure 3. Contribution of travel and tourism sector to total employment (%) and GDP (%) in SN countries in 2019



*No data for Palestine
Source: WTTC (2020a).

[7] Tourism gross domestic product

tween 22.8% of tourists in Jordan and 68.2% of tourists in Morocco hailed from Europe (for more details on the EU-SN trade in services in the tourism sector, see Suleiman's chapter in this study).

While all SN countries but Algeria and Israel (no data for Palestine) have as of December eased travel restrictions for international tourists, in the broadly understood MENA region, encompassing all countries of interest to the present chapter,[8] the number of international tourist arrivals decreased by 69% during January-August 2020, compared to the same period last year. In the last month for which data is available, August 2020, the decrease was 94% year-on-year (UNWTO, 2020b).

The World Travel and Tourism Council (2020b) estimates that the COVID-19 pandemic has already (as of November 2020) cost the sector 4.2 million jobs in the Middle East and 12.4 in Africa, numbers which – if no improvement is registered – could go up to 4.7 million and 15 million, respectively.

A not negligible (if difficult to estimate) share of those working in the tourism and hospitality sector in the SN are doing so informally, even as the issue of informality is most pronounced in agriculture (ILO, 2018; FAO, 2020a). Overall, between 44.9% of workers in Jordan (higher among Syrian and Egyptian labourers), 58.8% in Tunisia, 63.3% in Egypt, 64.3% in Palestine and 79.9% in Morocco participate in the informal sector (no data for Algeria, Lebanon and Israel; ILO, 2018; ILO, 2020a; Kuttab, 2020). Importantly, refugees are more likely to be employed outside of the formal sector, with no to little job protection, and hence were more likely than native populations to lose their jobs due to the pandemic (Kattaa et al., 2020). Similarly, women are at higher risk than men of being made redundant (see, e.g., early unemployment data from Jordan; DOS, 2020a & 2020b). This is, among others, due to the fact that they more often work part-time – and so do not enjoy the kind of legal protection that full-time employees do (ILO, 2020b) – but also because social norms see men as breadwinners and consequently having a priority when accessing jobs – a belief held by three in four men in Egypt, Lebanon, Morocco and Palestine (El Feki et al., 2017).

Government interventions

Apart from boosting wheat stockpiles, the governments throughout the region introduced a number of policies aimed at cushioning the impact of the pandemic on food security of their populations. As already mentioned above, Morocco suspended import duties on some foodstuffs; in case of wheat and its products the suspension was prolonged until the end of 2020 (USDA, 2020e). Certain kinds of food export prohibitions were introduced in turn by Algeria, Egypt and Jordan (ITC, 2020).

Moreover, the governments of Algeria and Morocco imposed stricter price control instruments (CIHEAM, 2020). In the former, for instance, a public body overseeing the meat and vegetables market (ONILEV) was assigned to commissioning selected retailers throughout the country to supply foodstuffs at "reasonable prices" (CIHEAM, 2020).

[8] IMF classification, see the Statistical Annex of the IMF World Economic Outlook of April 2017, page 175, at www.imf.org/external/ns/cs.aspx?id=29

Some countries, like Morocco, also focused on boosting household budgets. The government provided a monthly stipend of MAD 2,000 (approx. €185) to those who were made temporarily unemployed due to COVID-19 (repayment of their debts was suspended until 30 June 2020). The number of those eligible for support stood at 1 million in April 2020. Importantly, those working in the informal sector were provided monthly transfers of MAD 800-1,200 (approx. €80-110) provided they were registered with non-contributory health insurance (RAMED) or an online governmental system (IMF, 2020). In Jordan, vulnerable households (approx. 100,0000) were provided with e-cards topped up by the authorities with JOD 100 a month (approx. €116, for up to six months), to be spent on food and non-food supplies (FAO, 2020e). Vulnerable Algerian households (around 2.2 million) were given emergency cash assistance of DZD 10,000 (€70), with 400,000 most needy households provided with food items as well (CIHEAM, 2020). In West Bank and Gaza, the authorities were distributing food and providing in cash assistance to the most vulnerable households (IMF, 2020).

There are early signs that the economic slowdown caused by the pandemic and other factors are forcing governments to manage their spending on subsidies

Food subsidies have traditionally been an important way of providing governmental transfers throughout the region. In Egypt, for instance, even prior to the outbreak of the pandemic a significant percentage of the population was covered by food subsidy programmes; during the financial year 2019/2020 (July-June) the government spent $5.39 billion (EGP 89 billion) on food and bread subsidies (USDA, 2020c). Currently, roughly 71 million Egyptians are entitled to a purchase of up to five subsidised loaves of bread per day (the "bread quota" can be spent on 44 other food items in government-approved retailers) on top of receiving on subsidy cards a monthly allowance of EGP 21 (approx. €1.1) for food purchases (FAO, 2020d).

International donors are also providing assistance. In Lebanon, the World Bank and other donors have been providing support through a National Poverty Targeting Programme to the most vulnerable Lebanese households as well as Syrian refugees, and as of April 2020 they increased the food component of their support by LBP 9,500 (approx. €5.2 as of February 2021, CIHEAM, 2020).

At the same time, there are early signs that the economic slowdown caused by the pandemic and other factors are forcing governments to manage their spending on subsidies. Algerian authorities, for instance – adversely affected by the oil prices crisis and drop in demand for oil due to the pandemic – announced that from November 2020 they would stop subsidies of durum wheat for manufacturing of pasta and of common wheat used for manufacturing goods other than bread (USDA, 2020a).

Impacts on food security during the first months of the pandemic

The COVID-19 pandemic has affected different pillars of food security through various channels, some of which were discussed in more detail in the present chapter. On the supply side, stockpiling on the part of some countries, paired with export quotas/bans resulted in increased prices of foodstuffs, notably – as discussed above – wheat, one of the

staple foods in the SN. Higher prices meant more pressure on state budgets, additionally burdened by spending on subsidies, cash handouts and other forms of pandemic-related assistance. Job cuts, salary reductions and payment delays have in turn resulted in shrinking of disposable incomes of families throughout the region, decreasing their purchasing power. This has been, as demonstrated above, especially visible in the tourism and hospitality sector, particularly badly affected by travel bans and lockdowns.

It should be underlined once again at this point that isolating the impacts of the COVID-19 pandemic on food security is difficult, as many other factors already mentioned in the chapter (such as bad harvest due to weather conditions) were also in play in 2020. Indeed, the first systematic studies aimed at establishing causation between COVID-19 and food (in)security levels in the SN and beyond are just beginning to emerge. One recent study by Erokhin and Gao (2020), for instance, found that the trade in foodstuffs (as well as related foreign currency exchange[9]) channel affected food security in Algeria, Egypt, Lebanon and Jordan more than increases in food prices. According to the United States Department of Agriculture (USDA, 2020e)[10] share of populations facing food insecurity in Algeria, Morocco and Tunisia are expected to rise due to COVID-19 by 26.6%, 25% and 1.6% percentage points – but decrease in Egypt despite the pandemic. Another study (Erokhin & Gao, 2020) confirmed that "the number of registered COVID-19 cases [was] confirmed to result in higher food insecurity" in Algeria, Egypt, Lebanon and Tunisia – but not in Jordan (Morocco was excluded from the analysis).

In Tunisia, recent data shows that nearly one in five households had to change their food consumption patterns as a result of the pandemic, with 19% eating less-preferred foods and 18% consuming less overall (Arezki et al., 2020). The latter strategy is five times more often adopted by households from the poorest quintile compared to the wealthiest one; one third of the poorest families (and 6% of the richest ones) in the country was forced to limit their food consumption. Lebanon, in turn, was put on a list of 45 (mostly African) countries that the FAO (2020b) expects will need external assistance for food.

In the case of Jordan, more concrete data is available. One study (Elsahoryi et al., 2020)[11] that measured food security of (ethnic) Jordanians during the first four weeks (14 March-14 April 2020) of national lockdown found that "23.1% of the total participants were severe food insecure, while 36.1% were moderate food insecure, and 40.7% were food secure." The authors found that lockdown had "a tangible impact on food security levels." WFP, in turn, assessed the situation among the refugees in the country (Syrians, Iraqis, Sudanese, Yemenis, Somalis and others), and found that food security deteriorated in 2020 compared to 2019 among refugees living in camps and host communities alike (WFP,

The trade in foodstuffs (as well as related foreign currency exchange) channel affected food security in Algeria, Egypt, Lebanon and Jordan more than increases in food prices

[9] Indeed, the currency exchange is adversely affecting both "food availability (more expensive imports due to currency depreciation) and access to food (the higher price of imported food on the domestic market when expressed in national currency)" (Erokhin & Gao, 2020).

[10] Jordan and Lebanon were excluded from the analysis.

[11] As the study took the form of an online questionnaire with 3,129 voluntary responses, it is not representative. It did not involve refugees residing in Jordan.

2020b; see also AUB, 2020). Insufficient food consumption became more prevalent and a reality for nearly one in five (19%) refugees living in camps (up from 5% in 2019), who no longer had better food consumption than refugees living among host communities. Among the latter, the situation also deteriorated, with two in three (67%) families being vulnerable to food insecurity. Female-led households were disproportionately more affected in both groups. As a result, an increasing number of refugee families (12% among those living in camps and 34% among those living in communities) had to adopt emergency livelihood coping strategies such as sending to work or marrying off their underage children (WFP, 2020b; see also AUB, 2020). Over half of the adult refugees (52% of those in camps and 59% of those living in communities) limited their food intake in 2020 (compared to just 3% in 2019) to save more food for their children. The main reasons for this deterioration were lowering of incomes – predominantly due to loss of informal employment opportunities, but also suspension of some form of assistance from international donors such as school meals provided by WFP, as well as an increase in the price of certain staple foods and limited market access due to lockdowns.

Conclusions and short- to medium-term recommendations

The data analysed in the chapter suggests that disruptions in trade affected food security in the SN predominantly through the access channel (see also, e.g., Karasapan, 2020). As the tourism sector case study showed, the result of a near-total decrease in trade in hospitality-related services led to numerous persons being made redundant and losing (at least partially) their income. Food inflation further diminished purchasing power of households in the region. On the supply side (availability channel), it appears that despite temporary disturbances in trade of agri-foods – as in the analysed wheat case study – in the majority of cases exports to the SN, at least from the EU, either increased or decreased only marginally – with the exception of Egypt and Lebanon, but the former secured imports from other partners and in the case of the latter many other factors including pre-existing economic crisis and the explosion in the Port of Beirut in August 2020 affected its trade.

Initial data confirms the adverse effects of the pandemic on food security of individuals in the SN, in particular the most vulnerable sectors of population. Especially worrying are strategies adopted by households to deal with the situation, including limiting of the food intake and changes in consumption patterns, resulting in a risk of micro nutritional deficiencies. The EU should continue to work with the SN partner countries offering both financial and technical assistance targeted at socioeconomic needs. For instance, ensuring that children who lost access to school meals due to lockdowns are still provided with food could be achieved through an organised scheme of ordering and delivering meals from re-opened school kitchens, restaurants that were forced to close, or home cooks offering meals on online platforms – on the condition that social distancing and sanitary regimes are maintained of course. Such a solution could have an additional advantage of maintaining work for otherwise (temporarily) unemployed workers from the restaurants and catering sector.

Regarding the tourism and hospitality sector, crucial for securing income – and therefore helping to mitigate the risk of food insecurity – to a significant proportion of households throughout the region, as the vaccination schemes are launched, the EU should work with the SN countries on establishing rules allowing for safe – or as safe as possible given the circumstances – resumption of travel and tourist flows. Once the pandemic is contained in individual countries allowing for ending of lockdowns, "digital nomad" schemes could be, for instance, developed, enabling persons with confirmed immunity – either due to vaccination or having gone through COVID-19 – to live (and spend their income) in the SN while continuing to work remotely. The "Work from Georgia" programme introduced by the government in Tbilisi could serve as an inspiration here.

Moreover, while the EU remains an important source of wheat for the region, some countries in the SN, following difficulties experienced during the year, took steps towards diversification of their supply sources. Notably, Jordan – heavily reliant on Romania, which temporarily halted its wheat exports outside of the EU – announced its first serious wheat purchase from Russia in years. Egypt was another country increasing its wheat purchases from Russia while Algeria moved to importing from the country for the first time ever, despite previous reservations regarding the quality of Russian grains. This has been partly driven by lower yields – and resulting higher prices (also due to a stronger euro) – in France and Romania. However, as noted by a representative of the United Grain Company, a state-controlled grain trader from Russia, "[e]xport of grain is not so much a commercial story as a task of state importance" (Devitt, 2020). Indeed, Morocco, which enjoys a much closer relationship with the EU – and France in particular – than Egypt, increased its imports from the Union. Member states such as Poland could use this opportunity to enter new markets, contributing to the strengthening of trade exchange in wheat – and possible other food commodities – with the SN and helping partner countries to boost their food security by means of diversifying their supplier base.

While the EU remains an important source of wheat for the region, some countries in the SN, following difficulties experienced during the year, took steps towards diversification of their supply sources

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List of acronyms and abbreviations

AA	Association Agreement
ACAA	Agreement on Conformity Assessment and Acceptance of Industrial Products
AfCFTA	African Continental Free Trade Area
CJEU	Court of Justice of the European Union
DCFTA	Deep and Comprehensive Free Trade Area
EC	European Commission
EMAA	Euro-Mediterranean Association Agreement
ENP	European Neighbourhood Policy
EU	European Union
FDI	foreign direct investment
FTA	Free Trade Area
GATS	General Agreement on Trade in Services
GI	geographical indication
GPD	gross domestic product
GVC	global value chain
ICT	information and communication technologies
IPR	intellectual property rights
MENA	Middle East and North Africa
MFN	most-favoured-nation
NTM	non-tariff measure
PEM	Pan-Euro-Mediterranean
RoO	rules of origin
RoW	rest of the world
RVC	regional value chain
SFPA	sustainable fisheries partnership agreement
SN	Southern Neighbourhood
SPS	sanitary and phytosanitary
STRI	service trade restrictiveness index
TBT	technical barriers to trade
TRQ	tariff rate quota
UfM	Union for the Mediterranean
USA	United States of America
WFP	World Food Programme
WTO	World Trade Organization

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