TRADE AND INVESTMENT IN THE MEDITERRANEAN: COUNTRY AND REGIONAL PERSPECTIVES

EVOLUTION AND IMPACT OF EU-MED TRADE INTEGRATION IN THE SOUTH-MED

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ABOUT THIS STUDY

Research Area 6 focuses on economic liberalization, trade integration and investment between the European Union and the Southern Mediterranean countries. To achieve this objective, the first phase of research has consisted of providing an overview of i) the current scope and existing patterns of trade between the two regions, ii) the state of Euro-Mediterranean trade relations and agreements, how these have evolved over time and iii) their impact on the Southern Mediterranean countries. Such questions are exemplified by the case countries of Egypt, Jordan, Morocco and Tunisia.

The study focusses on the evolution and the impact of the EU-Med trade agreements on the South-Med countries in terms of trade, growth and employment creation, relative to the initial expectations about such agreements and in the context of the major crises that have marked the last decade. This will be used as a baseline for constructing a robust analytical research agenda that, ultimately, will provide policy options on how to reap the benefits of EU-Med trade, especially concerning employment and growth creation.

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Introduction

For more than 20 years the EU has openly engaged in promoting trade and investment relationships with the Southern Mediterranean (SM) countries[1] with the aim of contributing to economic growth in the region. Creating an economically fertile ground for democratic forces to generate prosperity for the region is not only important in view of economic relations, but it is crucial in a geopolitical perspective to have reliable partners in the direct neighbourhood of the EU.

With the advent of the 'Arab Spring', at the end of 2010, political turmoil ensued in much of the Southern Mediterranean region. In some countries, the revolutionary wave led to a near breakdown of the economy and shrouded the economic and political environment in uncertainty. Economic growth slowed dramatically in Tunisia and in Egypt, while the Libyan economy collapsed and the country entered into a civil war. Within a matter of years, investment levels more than halved in Egypt and Libya. Tunisia and Egypt saw their unemployment rates rise by nearly 50% within a few years and they have yet to fall back to previous levels. Tunisian youth unemployment reached nearly 40% in 2012 creating a brittle environment (see OECD, 2016). Morocco managed to remain comparatively economically stable. However, seven years after the revolution, most of the SM countries are still in a destabilized or, at least, fragile state. Young and still weak institutions are facing hard challenges in an environment dominated by low economic performance and the absence of the benefits promised by the revolution.

Besides development aid and financial and technical assistance, the EU has always used trade and trade liberalization as means to establish further channels of communication and exchange, as well as to generate mutual economic opportunities. This approach rests essentially on the economic model of most European economies, which are trading nations, and on the assumption that openness and reduction in trade barriers offers benefits for both economies and societies. On the one hand, trade liberalisation is expected to open access to new markets for exports, as well as to increase competitiveness in certain sectors, offering opportunities to integrate into regional or global supply-chains. On the other hand, it makes it possible to import a larger variety of products at lower prices.

Until now, not many of these potential benefits have materialized. None of the SM countries is well integrated into global supply-chains and the presence of high-value export sectors is still weak. This can largely be explained by country-specific factors and is, thus, different across countries, but the outcome is quite similar throughout all of them.

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[1] Hereafter SM, defined as Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria and Tunisia.

The EU trade approach towards the SM countries was initially quite homogenous and was launched in 1995 with the so-called Barcelona Process. This was a project aimed at achieving a Euro-Med Economic Area by the year 2010, through the conclusion of Euro Mediterranean Association Agreements with each of its Mediterranean partners. Between 1995 (Tunisia was the first) and 2002 (Lebanon and Algeria the last ones), Associated Agreements have been concluded with all the Mediterranean countries, with the exception of Libya. The agreements shape bilateral relations between the EU and each of the countries.[2] The results of the process were, however, not very satisfactory for either side. In 2005, both parties agreed to embark on a more ambitious process of further trade liberalisation (covering agriculture), combined with "accompanying" measures within the framework of the European Neighbourhood Policy.

In 2013, negotiations for Deep and Comprehensive Free Trade Agreements (DCFTA) were launched between the EU and Tunisia, followed by Morocco in 2015. DCFTAs are also envisaged with Egypt and Jordan, but these two countries have not yet engaged in negotiations. The goal of the negotiations is to go even beyond a free trade agreement and create additional trade and investment opportunities through a better integration into the EU single market; close to being EU member states but without actually being an EU member state. This implies economic reforms and a significant effort at bringing national legislation closer to that of the EU in trade-related areas. Legislative approximation and compliance with EU standards is as an important but difficult process for these countries. Adjustment costs can be high and completing the process may require years.

As will be illustrated in the report, a key aspect of the trade agreements relates to the assessment, both ex-ante and ex-post. While studies exist, there is no full consensus either on assessment of existing agreements or on the expected impact of further agreements. DCFTA negotiations seem to have lost steam in more recent times and, on some occasions, alternative options have even been proposed. However, the government of both Tunisia and Morocco have formally restated their commitment vis-à-vis the negotiations.

The overall impact of further trade liberalisation between the EU and Euro-Med region is likely to have a relatively minor economic impact on the EU and is concentrated in some specific sectors, since less than 5% of all (extra) EU trade is conducted with the Southern Mediterranean region. By contrast, for the Southern Mediterranean, the EU is the most important trading partner, though large differences across countries exist in this regard. The western end of the Southern Mediterranean, Morocco and Tunisia, conducts 60-70% of its trade with the EU, hence a comprehensive trade agreement with the EU is expected to have a larger impact on their economies and labour markets.

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[2] The Barcelona Process also includes Turkey with which the EU has established a Customs Union.

This report attempts to provide an overview of the trade relations and trade agreements between the SM countries and the EU, as well as an assessment of the actual importance of trade for each of the economies considered. This is done by combining the EU view with a Southern Mediterranean perspective. Four country reports evaluate the process of trade liberalization, both in terms of existing agreements with the EU and other partners and inflow development, trade ties with EU, as well as national trade policy and the relevance of openness for economic growth and employment creation. The four countries in question are Egypt, Jordan, Morocco and Tunisia.

The report is organized as follows: Section 2 first illustrates the historical evolution of trade relations between the Euro-Med and the rationale behind them. It then provides evidence to assess the relative economic importance of bilateral trade for the two regions as a whole, as well as for each of the four individual countries. Sections 3-6 are devoted to each of the four country studies: Egypt, Jordan, Morocco and Tunisia. Each chapter aims at illustrating trade patterns, trends in FDI inflows, the role of remittances, the evolution in trade barriers and the state of trade agreements, with the EU and other countries, as well as the existence of national trade policies and strategies. Ultimately, the reports are an attempt to provide a domestic perspective on EU trade relations and set the stage to understanding the relevance, actual and potential, of trade on economic development and, potentially, job creation in each of the countries. The last section draws conclusions for the region as a whole whilst, inevitably, accounting for country specificities which appear to be very large.

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1.   The EU trade policy and the trade flows

Cinzia Alcidi and Matthias Busse

T rade liberalisation, lowering cross-border investment barriers and fostering regulatory harmonisation, have been and continue to be a key EU tool, both for the development of the internal market (within the EU) and for relations with third countries and regions.

In recent times, following a general trend which saw the decline of a multilateral approach in favour of bilateral agreements to govern trade relations, the EU has engaged in talks with all advanced economies (Canada, US and Japan) to negotiate trade and investment agreements, focusing on services and on non-tariff barriers. This approach, vis-á-vis the countries in the vicinity of the EU, has always been special and, for the last 15 years, has been conducted under the European Neighbourhood Policy (ENP). While trade is an important channel to foster cooperation and intensify linkages, the EPN cooperation framework is much broader and the stabilisation of the region, in political, economic and security terms is the overarching objective of the policy. To this end, European neighbouring countries are separated into two distinct blocs; Eastern European neighbours and Southern Mediterranean neighbours. Georgia, Moldova and Ukraine, which signed Association Agreements much later than SM countries, have already introduced DCFTAs, while negotiations are taking a very long time with other SM counties. The experiences with the Eastern neighbours may offer useful insights for the Southern neighbours, though differences in the respective starting points are very large.[3]

1.1.   EU- Southern Med countries trade agreements: an overview

The first cornerstone of the strategy to foster trade integration, vis-à-vis the Southern Mediterranean region, was the launch of the Barcelona Process in 1995, named after the Euro-Mediterranean conference that took place in Barcelona that year. The Barcelona Process, branded as a Euro-Mediterranean partnership (EMP) agreement, intended to strengthen good governance, democratic values, security, political stability, cultural exchange and raise prosperity in the region. The latter was to be achieved through an economic and financial partnership and the gradual establishment of a free-trade area, to be concluded by 2010. The Barcelona declaration included a relatively shallow FTA since only customs barriers on manufacturing goods were targeted (European Commission, 1995). Agricultural goods and services were also encouraged to be liberalised, but featured to a lesser extent and, consequently, very little was included with regard to service

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[3] Van der Loo (2016) for a full

liberalisation (Hoekman, 2016). The implementation of the FTAs had the double objective of further liberalising trade between the EU and Southern Mediterranean countries but also among Southern Mediterranean countries. Deeper intra-regional (trade) integration would not only benefit the SM countries but also facilitate trade relations with the EU due to strengthened supply chains and harmonised regulatory standards and practices.

The strategy to implement the Euro-Med FTAs relied on a mixture of bilateral trade agreements between the EU and single SM states and intra-regional free trade agreements. These pieces ultimately culminated in an all-encompassing Euro-Med FTA. The key instrument chosen for this purpose were the so-called Association Agreements, which were developed in the context of the European Neighbourhood Policy. The Association Agreements aimed at involving, as much as possible, southern and eastern neighbours in the EU internal market through different tools such as financial, technical and policy support (European External Action Service, 2016). The southern neighbours to whom such agreements were extended are: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia and Turkey (see Table 1).

The Association Agreements offered the partner countries to eventually enter into negotiations for so-called Deep and Comprehensive Free Trade Agreements (DCFTAs).

Table 1: Status of the Association Agreement between EU and Mediterranean partners

Country	Status	Date signed	Entry into Force
Algeria	Signed	Apr-02	Sep-05
Egypt	Signed	Jun-01	Jun-04
Israel	Signed	Nov-95	Jun-00
Jordan	Signed	Nov-97	May-02
Lebanon	Signed	Jun-02	Apr-06
Morocco	Signed	Feb-96	Mar-00
Palestine	Signed	Feb-97	Interim Agreement July 1997
Syria	Initialled (Dec 2008)		
Tunisia	Signed	Jul-95	Mar-98
Turkey	CU January 1996	Customs Union	Dec-95

Source: DG Trade

The Association Agreements install duty-free access to the European single market for industrial products from the Mediterranean partners and ca. 80% of agricultural products. In exchange,

the Mediterranean partners liberalise their markets for EU products but not to the same extent (European Commission, 2017b).

The partnership provides a basis (given the heterogeneity of the single countries) to liberalise trade in goods, while leaving the task to broaden the scope of the agreement to bilateral talks. Indeed, the Association Agreements provided a scheme to promote and deepen trade relations but were unable to go much beyond a pure tariffs removal on industrial goods, leaving apart sensitive issues like agricultural products, liberalisation of trade in services and, more generally, removal of non-tariff barriers (NTB). Especially in services, the provisions included in the agreement for countries like Tunisia Morocco, Egypt and Israel mainly concerned the confirmation of GATS[4] principle, without supporting a serious liberalisation process.

Given the usually limited scope and depth of the original Association Agreements, the partnership sought further bilateral agreements for specific sectors. Agricultural products, fisheries and the issue of dispute settlements were the most common areas where additional effort was made. Service liberalisation and right of establishment were also pursued, but with much less success. The accomplished supplementary integration in these sectors took the form of complementary provisions and protocols.

In the case of Morocco, deals on agricultural, agro-food and fisheries were reached and a dispute settlement mechanism was created in 2012. Rights of establishment, barriers to capital movements, intellectual property rights, competition policy and rules of origin have been touched upon, though the latter has not been adopted yet (European Commission, 2017c). Similarly, the Tunisian-EU negotiations led to the progressive opening of the agricultural, agro-food and fisheries' sectors but were limited to certain items (European Commission, 2017d). A bilateral dispute settlement mechanism, passed in 2011, and references to rights of establishment, barriers to capital movements, intellectual property rights and competition policy, were added to the existing agreements. Moreover, in the wake of the terrorist attacks in 2015, Tunisia was granted an increased quota on olive oil in order to support the Tunisian economy (European Commission, 2015). By 2006, Jordan and the EU had concluded negotiations on a supplementary agreements with regard to agricultural and fisheries which, one year later, was completed by an agreement on agro-food products. A pact on a bilateral dispute settlement mechanism was established in 2011 and provisions on the right of establishment, barriers to capital movements, intellectual property rights and competition policy (European Commission, 2017e). Likewise, Egypt signed an agreement with the EU on agricultural, agro-foods and fisheries products as well as a dispute settlement mechanism (European Commission, 2017f). The depth of bilateral FTAs and the sector level agreements vary

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4 The General Agreement on Trade in Services.

across Mediterranean partners, however all have achieved free trade on industrial products, included provisions for agricultural and fisheries and set up a dispute settlement mechanism. Nevertheless, the agreements are still shallow in many respects and the field of investment, service trade and regulatory harmonisation and have not been comprehensively addressed.

Beside the bilateral liberalisation efforts between the EU and single Mediterranean countries, several intra-regional trade agreements have emerged over the past decade, with the Agadir Agreement between Egypt, Jordan, Morocco and Tunisia being the most prominent (European Commission, 2016b). The latter was set up and launched in Agadir in May 2001. It was signed in Rabat in February 2004 and came into force in March 2007. In order to promote trade among the Arab states, but also to foster trade relations with the EU, the Agadir Agreement adopted EU rules of origin (laid out on different principles to the US rules).

Overall, the Barcelona Process yielded several intra-regional trade agreements, as well as eight additional Association Agreements between the EU and the SM countries. Moreover, in 2008, the Barcelona Process led to the establishment of the 'Union for the Mediterranean' which provides an institution for enhanced cooperation between the EU and the wider SM region and a platform for political dialogue (Union for the Mediterranean, 2016).

The Barcelona Process free trade agreements between the Euro-Med have successfully liberalised most of industrial trade and progress has also been made in agricultural and fisheries sector. These low hanging fruits are no longer available, however, and there are greater obstacles to further integration. At the same time, the academic literature (see section on SIA) suggests the potential gains from service liberalisation and investment partnerships remain substantial. Moreover, benefits from lower non-tariff barriers (derived in ad volorem equivalents) are thought to exceed those achieved via tariff reductions (see Ghoneim et al., 2012).

The traditional Association Agreements and selected sectoral trade liberalisation should serve well as a foundation for a grand FTA between the Euro-Med. With this success in the bag the European Commission deemed the time ripe to extend integration efforts to another level. So, in 2013, the EU began to transpose DCFTAs, which had already been concluded with three Eastern neighbours - namely Georgia, Moldova and Ukraine - to its Southern Mediterranean neighbours. The DCFTAs were envisaged to deepen trade liberalisation in agriculture and fisheries, free up trade in services and create mutual investment opportunities by lowering cross-border investment barriers. Outside of the traditional trade barriers, the main purpose was to lower technical barriers to trade, establish common practices on sanitary and phytosanitary measures (in other words, broad regulatory convergence), as well as strengthening investment protection, opening up public procurement within the FTA and cooperating on competition policy.

DCFTAs are in development with all four cases study countries (Egypt, Jordan, Morocco and Tunisia) which had already made significant progress, not only on integration efforts with the EU, but also among each other via the Agadir Agreement. Only Morocco and Tunisia have so far entered into official negotiations. The DCFTAs have not been picked up by either Egypt or Jordan, despite the fact that the European Council had already given the green light to negotiations on DCFTAs in 2011 (European Commission, 2017f). The EU-Tunisian negotiations only began in April 2016 and it is, thus, too early to evaluate its trajectory. The most illuminating case is the EU-Moroccan DCFTA, as four negotiation rounds have been held over the past four years. From the EU perspective, the meetings yielded "good technical progress" (European Parliament, 2015) and the DCFTA seemed to steadily overcome obstacles towards further Moroccan integration into the single market. However, after the fourth round in April 2014, Morocco asked for a temporary break in negotiations, as it was deemed necessary to conduct an in-depth analysis of the sectoral impact of a DCFTA with the EU. Moreover, in December 2015, the European Court of Justice (ECJ) ruled on a complaint lodged by the Front Polisario (the West-Saharan National Liberation Movement) on the validity of the Association Agreement between the EU and Morocco, since the agreement treats West-Sahara trade as under the ambit of Morocco (Van der Loo, 2016). The ECJ annulled the agricultural agreement and fisheries protocol because it did not sufficiently acknowledge whether and how the agreement would touch upon violations of fundamental rights in the West-Sahara. In response, Morocco temporarily suspended ongoing negotiations and official dialogue with the EU institutions, hence no further progress has since been made on the DCFTA.

1.2. Trade relations between the Euro-Med

1.2.1. Economic importance of the SM region for the EU

The European Union's annual trade[5] amounts to over 5 trillion USD. Put in perspective, this equals 37% of EU GDP (Eurostat 2017, World Bank, 2017) and it is the largest contributor to global trade. The most important trading partners in the goods[6] market are the US (18%), China (15%), Switzerland (7%) and Russia (6%) (European Commission, 2016a), similarly the main service trading partners are the US (29%) and Switzerland (12%).

Gravity models suggest that trade volumes are negatively correlated to distance to the trading partner. This makes the SM countries good candidates as trade partners of the EU. However, a second crucial determinant in the gravity model is the size of the partner economy and SM countries take up

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[5] Excluding the nearly $10 billion intra-EU trade.
[6] Around 70% of EU exports and imports are goods.

only 1.5% of global GDP whilst Morocco, Tunisia, Egypt and Jordan produce merely 0.7% of global output.[7]

Trade overview

The small size of the SM countries partly explains why their combined share in EU trade amounts to only 4.5%. Within this group, Algeria, due to its natural resource exports, accounts for the largest portion. Since this report focuses on the four signatory countries of the Agadir Agreement (Morocco, Tunisia, Egypt and Jordan) in Table 2 we represent a detailed snapshot of the trade and investment figure for the four countries and then aggregate figures. None of the four countries are involved in more than 1% of EU trade, nor are they major recipients/sources of European FDI. While 1.9% of EU imports stem from the four countries, only 0.7% of manufactured goods imported into the EU originate in these countries (see details in Figure 2).

Foreign direct investment inflows from the whole region to the EU make up less than 1% of total inflows and around ¾ of this 1% inflow actually originates in Israel alone. Nevertheless, neither FDI inflows nor outflows, vis-à-vis the region, are substantial given the EU's large direct investment relations with advanced economies and the BRICS.

Table 2: EU trade and foreign direct investment relations with the SM, $bn, 2015

	Jordan	Egypt	Morocco	Tunisia	4 combined	All SM
EU Imports (goods & services)	1.0	13.9	19.4	14.5	33.0	79.9
Share in EU total	0.0%	0.5%	0.7%	0.6%	1.9%	4.0%
EU Exports (goods & services)	5.4	28.0	24.1	13.2	70.7	143.7
Share in EU total	0.2%	1.0%	0.8%	0.5%	2.4%	4.9%
Net exports	4.4	14.1	4.7	-1.3	21.9	39.2
EU FDI inward stock	0.0%	0.0%	0.0%	0.0%	0.0%	0.9%
Share in EU total	0.0	0.0	0.0	0.0	0.0	0.9*
EU FDI outward stock	2.9	46.0	16.9	3.6	69.3	113.9
Share in EU total	0.0%	0.5%	0.2%	0.0%	0.8%	1.3%

Source: Eurostat and DG trade
*Note: Trade data refers to flows of goods and services. *
0.7 percentage points are due to large Israeli investment in the EU.

As shown in Figure 1, the EU has a persistent merchandise trade surplus with all four countries and with the SM region as a whole though, even vis-à-vis the entire region, the surplus is worth only around 0.25% of the EU GDP[8]. Due to the large tourism exports of the SM countries to the EU, most of

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[7] See Jarreau, (2011) for gravity model analysis of the SM countries.
[8] Estimate based on data for 2014

them have a service trade surplus with the EU – Jordan is the only one of the four case countries with a marginal service deficit. The EU's goods surplus, however, is much larger than the service deficit vis-à-vis the Meds and, thus, the EU achieves an overall surplus balance of $21.6bn, which nevertheless accounted for merely 0.15% of EU GDP in 2016. Neither trade nor FDI flows vis-à-vis the region is large at the moment but the trends seem to be on an upward path.

Trade dynamics

Over the past two decades, trade with the four case countries has nearly doubled (relative to GDP), primarily driven by an expansion of EU exports to the region. However, EU service trade with the rest of the world grew even faster and merchandise trade grew at the same pace, thus the share of the Meds in total EU trade has remained quite stable over the past 15 years.

The immediate years after 2006 witnessed a sharp (in relative terms) rise in EU exports to the region, though these slowed down thereafter (see Figure 1). At the same time, the gradual increase in imports that started in the early 2000s, stopped at around 2010.

Figure 1: Euro-Med trade dynamics

EU-SM4 merchandise trade, % of EU GDP

EU-Med* service trade, % of EU GDP
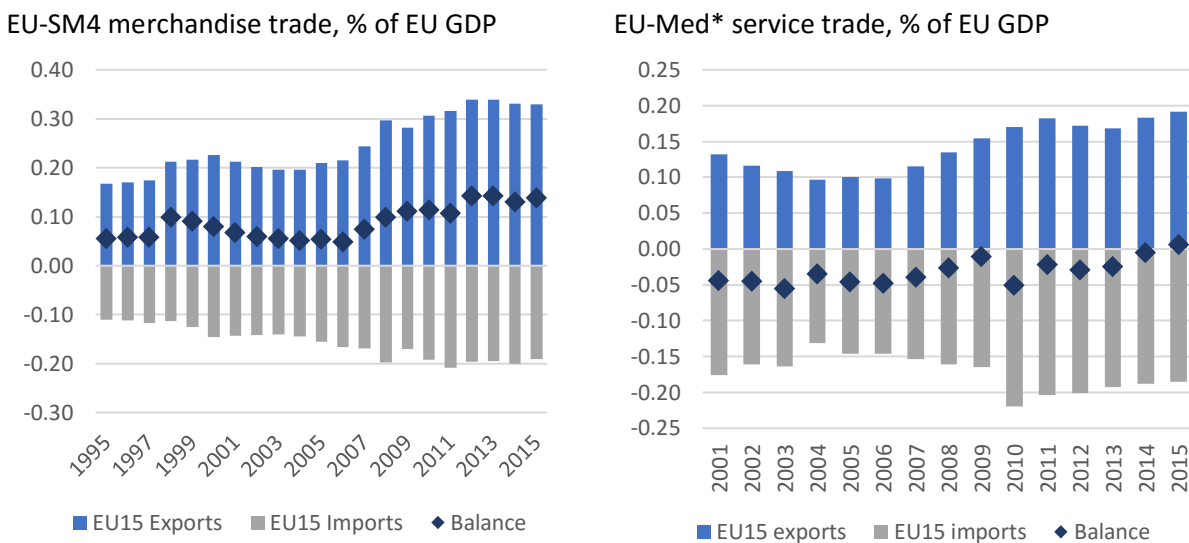
Source: Eurostat, AMECO, UNCTAD and DG Trade

*Note: *Meditarranean countries are here defined as Morocco, Tunisia, Algeria, Libya, Egypt, Syria, Jordan, Lebanon, Palestina and Israel. Eurostat data usually includes Turkey which has been excluded in the calculation for this graph.*

There is a statistical break in 2003 and 2013

(BMP6 estimated growth rates after 2012 applied to BMP5 trade level data from 2012).

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It is difficult to find clear evidence in the trade data of an effect of the association agreements which came into force between 1998 and 2004. In general, they do not coincide with the increases in merchandise trade which happened mostly after 2005. This could be due to implementation lags and other factors but, overall, the data suggests that if an impact of the trade liberalisation can be detected it seems to have contributed more to EU exports than to SM countries exports to the EU.

Service trade between the EU and the SM countries has substantially increased since 2004, with equal contributions from the import and export side. However, in recent years, service imports have started to decline, likely owing to political instability in the region that negatively affected tourism streams of European to the Southern Mediterranean region. This deterioration has led to a swing in the net service balance, from a deficit to a slight surplus in 2015. Notably, the EU still has a service trade deficit, vis-à-vis the combined four case countries, of 0.04% of EU GDP which was stable between 2013 and 2015.

Trade composition

Of the total $54bn goods' exports from the EU to the four SM countries, most are classified as manufactured goods[9], with a share of 73% (see Figure 2) which is consistent with the EU's global trade pattern. Within manufactured products, the relatively sophisticated and high-value added segments of machinery and transport equipment are the largest post, worth around $19bn (35 percentage points). Manufactured goods, classified chiefly by materials (18%), take second place followed by chemical products (14%). Low domestic value-added products, such as mineral fuels (12%) and other crude materials (4%), are less important exports.

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[9] Chemical products, Machinery and transport products, manufactured products chiefly classified by material and misc. manufactured products.

Figure 2: EU imports and exports of merchendise to the four SM countries, by product group, 2015, billion USD

EU exports to the SM4

EU imports from the SM4

Legend:
- Food
- Beverages and tobacco
- Crude Materials
- Mineral Fuels
- Animal And Vegetable Oils
- Chemicals
- Manufactured goods
- Machinery and transport
- Miscellaneous manuf. articles
- Other
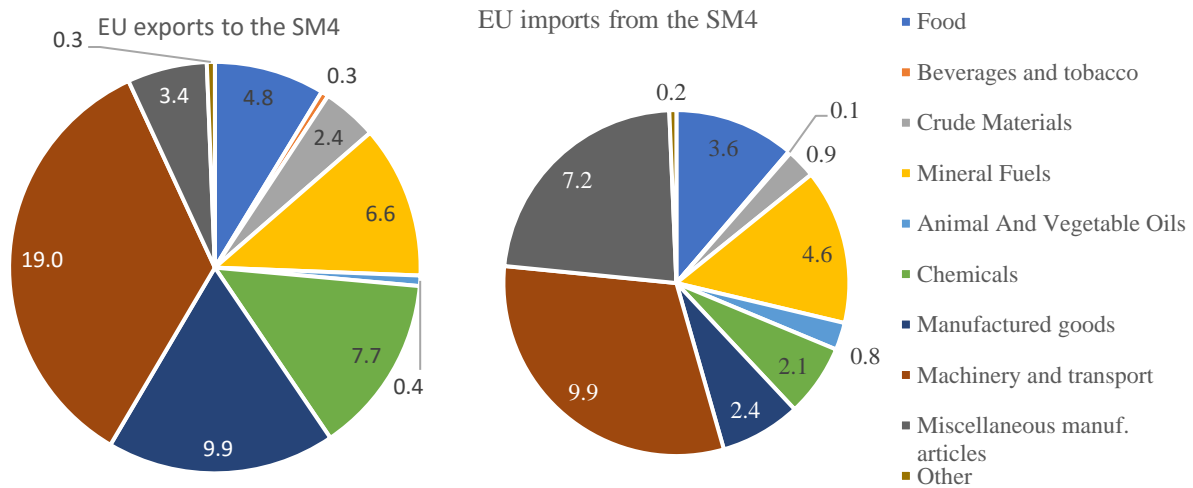
Source: UNCTAD, 2016

Note: Egyptian petroleum exports estimated by applying the growth rate of total petroleum exports (based on Bank of Egypt) on 2014 oil imports of the EU.

The $34bn the EU imports from the four SM countries are chiefly made up of machinery and transport equipment (29%), pointing to substantial intra-industry trade. Miscellaneous manufactured articles (21%) and mineral fuels (14%) are the two other large commodity groups exported to the EU. The latter, however, overstates the importance of petroleum exports since the countries (on aggregate) petro exports are even lower than petro imports, thus rendering the domestic added-value in this sector relatively low. Eurostat figures show that EU service imports from the Meds are dominated by travel and transport services, whose combined contribution in Morocco and Egypt reaches 60% and 75%. On the exports side, travel and transport, as well as business service exports, are the major sources of revenue.

From the data shown, there is little doubt that the SM states' weight in the EU commercial relationship is small in terms of exports, imports and foreign direct investment. Evidence suggests a rising trend in trade, at least until 2012, when it stopped, probably due to a combination of the debt crisis in the euro area and the political crisis in the region. While the increase in relative terms is substantial, in absolute terms flows remain very small from an EU perspective.

1.2.2. Economic importance of the EU for the SM region

While for the EU the Southern Mediterranean markets are not of much (economic) significance, relative to trade with the rest of the world, the SM countries, on the other hand, rely significantly on

access to the European markets given the size, purchasing power and their ties within the EU supply chain. The mode of economic links and strengths, however, varies considerably among the (four) SM countries.

Three out of the four case countries can be characterized as small, relatively open economies. At the same time, their degree of openness ranges from 40% (Egypt) to over 78% (Morocco), 102% (Tunisia) and 113% (Jordan) whilst their economies rely heavily on the export sector as an engine of growth.

As with many other developing countries, the SM countries have sought to use the phase of heightened liberalisation to generate export-led growth and to create jobs in their exporting sectors. Over the past decade, all four countries experienced a rapid growth in trade with the rest of the world. However, at the same time, all four exhibit a substantial trade deficit vis-à-vis the rest of the world, ranging from 6.6% (Egypt) to 19.8% (Jordan), with Morocco and Tunisia in the middle (ca. 9%). The overall deficits are foremost driven by large merchandise trade deficits. Trade of goods by far exceeds services trade, which has been amplified by the Arab Spring and the subsequent lower influx of tourists, as it is the key contributor of service exports. Many of these trade characteristics with the rest of the world can also be found in the trade relationship with the EU.

Morocco and Tunisia stand out as having much stronger trade ties with regard to the EU than the other two. For both Morocco and Tunisia, the EU is by far the main trading partner. For Morocco, the share of exports going to the EU is 59% whilst 58% of imports originate in the EU. Even more remarkable, Tunisia exports 83% of all exports to the EU and 60% of its imports stem from the EU. Tunisian service exports are almost exclusively channelled to the EU. This reliance is much less distinct for Egypt and Jordan, which trade only 40% and 18% respectively.

Table 3: SM Trade relationship with the EU, 2015

	Trade		Exports				Imports			
	Goods and services		Goods		Services		Goods		Services	
	Total, $bn	EU Share	Total, $bn	EU Share	Total, $bn	EU Share	Total, $bn	EU Share	Total, $bn	EU Share
Jordan	36.7	17.5	7.8	5.7	6.3	8.8	18.0	24.6	4.5	22.2
Egypt	105.1	39.8	19.0	42.6	18.5	31.1	50.1	45.2	17.5	30.5
Morocco	74.5	58.4	18.6	74.5	14.7	39.3	33.3	60.3	7.9	47.7
Tunisia	40.0	70.0	14.2	74.4	3.3	121.3*	19.1	62.7	3.1	39.7

Source: **DG trade, Comtrade, WEO and Worldbank**

*Note: * Value above 100% is due to data discrepancies between DG trade and World Bank.*

According to UN Comtrade data, merchandise both export and import merchandise, vis-à-vis the EU, is dominated by manufactured[10] exports. The four countries exhibit a trade deficit in nearly all main industrial product classifications[11], with the notable exception of Moroccan and Tunisian trade surpluses of *electrical machinery, apparatus and appliances* ($1.0 and $1.4 billion in 2015) and *clothing and accessories* ($2.9 and $2.1 billion). The product groups of g*eneral industrial machinery and equipment* and *road vehicles* have among the highest export and import volumes and both also show the largest deficits of the case countries. Overall, difference in the sophistication of exported and imported manufactured goods is still in favour of the EU. Developing and moving up the value-added product chain is key to economic expansion.

The manufacturing sector in Morocco and Tunisia is particularly dependent on sales in the EU (see Table 4). Egypt and Jordan, on the other hand, mostly trade within their region, primarily Saudi Arabia and the United Arab Emirates. In the case of Jordan, the United States is a crucial trade partner, much more so than the EU.

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[10] Chemical products, Machinery and transport products, manufactured products chiefly classified by material and misc. manufactured products.
[11] Rev. 3 SITC 2 digit.

Table 4: Manufactured trade share of SM countries by trading partner, 2015, in percent of total trade

	EU	Egypt	Jordan	Morocco	Tunisia	Algeria	Kuwait	Libya	Saudi Arabia	Turkey	UAE	USA
Egypt	**27.3**		2.6	1.6	0.7	2.1	2.2	2.6	9.2	5.8	5.1	5.6
Jordan	2.9	1.4		0.3	0.3	1.1	3.9	0.5	**14.8**	1.3	4.8	**18.5**
Morocco	**63.5**	1.2	0.1		0.5	0.9	0.1	0.3	0.6	3.1	0.3	3.5
Tunisia	**74.6**	0.5	0.1	1.3		4.0	0.1	3.8	0.2	0.7	0.5	2.5
4 SM	**46.6**	0.7	0.9	0.8	0.4	2.0	1.2	1.8	5.1	3.3	2.4	5.8

Source: Comtrade, 2016

Trade dynamics

World Bank data shows that, over the past two decades (goods and services), trade growth kept pace with economic growth in the four SM countries. All countries experienced a steady rise in openness up to 2008, but thereafter trade, as a percentage of GDP, shrank back to previous levels of the 90s, with exception of Morocco, which managed to maintain its level of openness at around 80% (up from only 50% during the 90s). For the other three countries, the financial crisis, combined with the Arab Uprising, triggered a massive decline of openness in the order of 23 (Tunisia), over 37 (Egypt) to 47 (Jordan) percentage points. After 2008, decreased trade flows were present with regard to all major bilateral trade partners and across sectors, including both service and merchandise trade with the EU.

Egyptian trade with the EU15 has historically been light (below 20% of GDP) and it has experienced some volatility (Figure 3). Between 1995 and the financial crisis, the merchandise trade deficit shrank, mostly due to decreasing imports in the late 90s and, thereafter, there was a substantial parallel rise of exports along with imports. However, after the financial crisis and moreover following the Arab Spring, exports collapsed while the shrink in imports was less pronounced and thereafter the gap widened. The signing of the Association Agreement coincided with a period of rapid improvement but other factors will also have contributed to this development as well the Agreements themselves.

Jordanian trade with the EU15 has been in decline over the past decades, as trade intensified with the Arab world rather than the EU15.

Following the signing of the Association Agreement, Tunisia saw a closing of its merchandise trade deficit while Morocco witnessed a steady rise in imports, far exceeding rather stagnant export flows.

Overall, none of the four SM countries truly experienced a trade boom, vis-à-vis the EU15, which could be related to the Association Agreements, at least not related to merchandise products. If one expresses trade flow not only as GDP of domestic GDP but also allows for GDP growth in the partner market, then the AA still did not herald stronger trade relations but, rather, a decline (see Annex 1). This also matches the finding that the relative importance of the EU to all four countries has been declining until 2012 (see Annex 2).

Figure 3: Merchandise trade vis-à-vis the EU15, in percent GDP
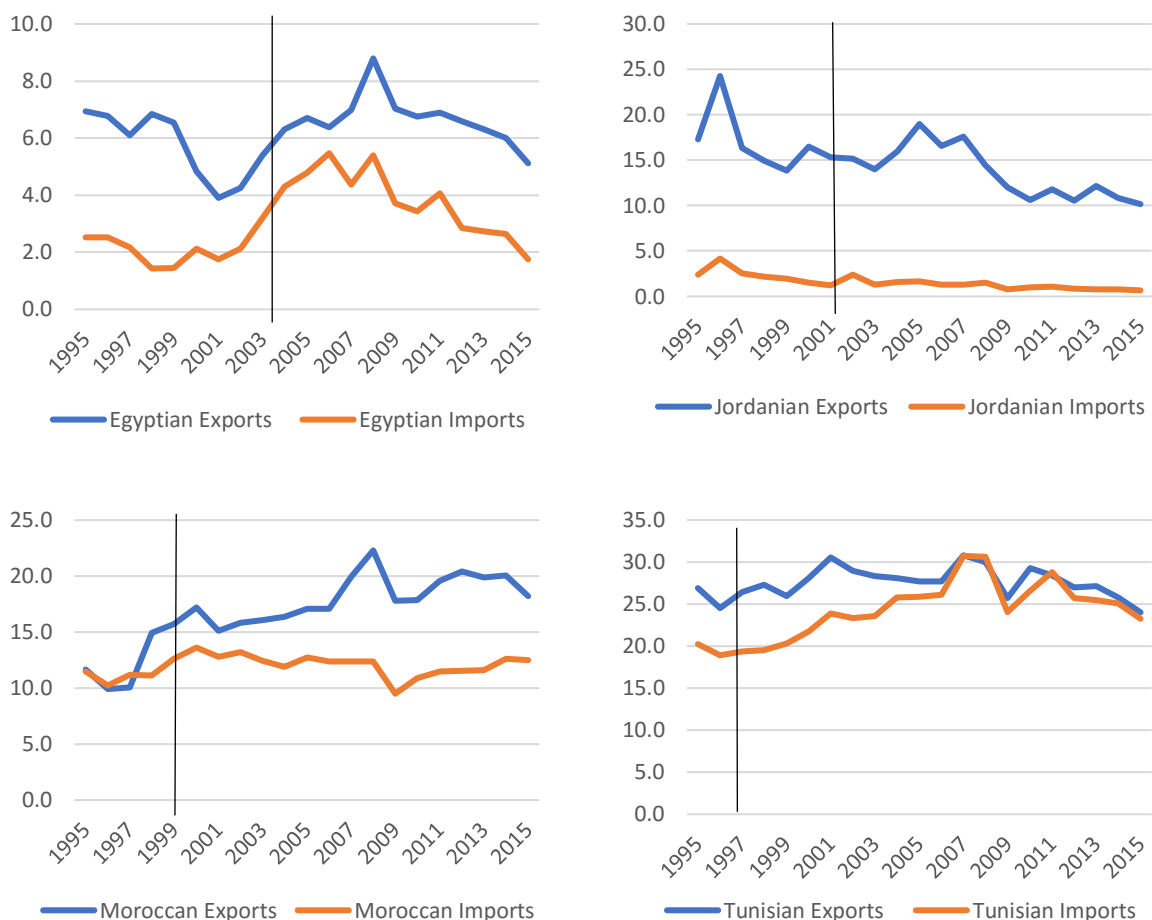
Source: UNCTAD

Note: The vertical bar represents the time of the Association Agreements coming into effect.

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According to Eurostat data, service trade between the SM countries and the EU has been relatively stable over the past three years. However, looking at the trend since the Arab Spring 2010, Egypt for example experienced a decline in service exports of 20%[12], almost exclusively driven by a collapse of tourism receipts to the order of 40%. This trend is unlikely to be reversed due to safety concerns, thus giving rise to a more pessimistic outlook. Morocco is once again the exception, with service exports vis-à-vis the EU actually increasing over the past five years, relying both on the travel and the transport sectors.

Foreign direct investment

As with other developing economies, FDI is a crucial component in the development strategy of the SM countries in accessing new technologies, know-how and becoming part of supply chains. High growth rates in the region attracted flows from the EU prior to the financial crisis but since 2010 (real) growth rates have halved, to around 2-4%, and political instability has reduced the attractiveness of FDI. Inflows have been stagnating, or even drastically declining, over the past years. Stock [13] has even been slightly decreasing in both Morocco and Tunisia since 2013 (the decline in the value of stock might be explained by the effect of a strong exchange rate, induced by the devaluation of the local currency, vis-à-vis the USD), while Egypt and Jordan continued to attract more FDI each year and thus sustained an increasing FDI stock.

Overall, the stock of FDI in Egypt is relatively low, less than 30% GDP, compared to the other three countries, which range from 50% to 80% GDP (Table 5).

Table 5: FDI stocks and flows in percent GDP, 2015

	Outward stock (total)	Outward stock (in EU)	Inward stock (total)	Inward stock (from EU)	Outflows (total)	Inflows (total)	Main recipient sector of inflow (share)
Egypt	2.1	0.0	28.6	13.9	0.1	2.1	53% Oil
Jordan	1.6	1.5	79.7	7.7	0.0	3.4	NA
Morocco	4.5	0.8	49.4	16.8	0.7	3.2	51% Real Estate
Tunisia	0.6	0.8	69.2	8.2	0.0	2.2	49% Energy

Source: IMF database, WEO and DG trade

Note: FDI data from the IMF and DG trade does not necessarily match.

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[12] Up to most recent Eurostat data of 2015.
[13] Based on IMF's International Investment position database.

Despite having the lowest stock in FDI as a percent of GDP, in absolute terms Egypt is currently the largest recipient of EU FDI among the four countries. This is partly because its GDP is larger than that of the other three countries combined but is also due to the fact that most of the FDI into Egypt stems from the EU (around 48%). For Jordan, Morocco and Tunisia, on the other hand, merely 10%, 34% and 12% of their FDI stock respectively stems from the EU. This is in stark contrast to trade patterns where Morocco and Tunisia are the most connected to the EU, though it must be mentioned that, in the case of Egypt and Tunisia, around 50% of FDI respectively is channelled into the oil and energy sectors. [14] In Morocco, on the other hand, FDI is mostly invested in the real estate sector (over 50%)[15].

FDI inflows from the EU, as well as from the rest of the world, have stabilized and have even recovered slightly over the past years (Figure 4)[16]. Nevertheless, they are still far below the inflows achieved during the upswing period of 2005-2007.

Figure 4: FDI inflow, as % of GDP since 2005
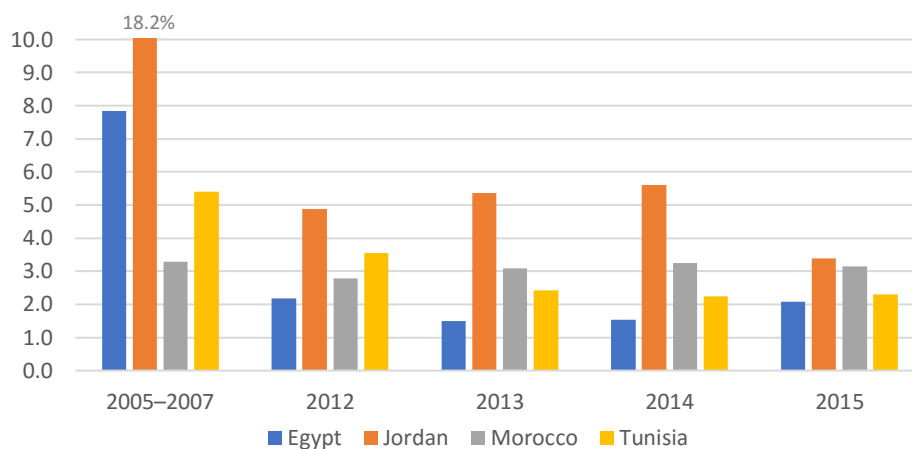
Source: UNCTAD

Remittances

The majority of North African countries have experienced large emigration waves to the rest of the world over past decades, Europe being among the most popular destinations. Migrant populations from the Morocco and Tunisia residing in the EU are estimated to be 2.5 million and 0.6 million

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[14] Santander (2017a & 2017b)
[15] Santander (2017c)
[16] With the exception of Jordan, where FDI inflows stabilized momentarily in 2015.

respectively – which constitutes 88% of their global diaspora[17]. Jordan and Egypt also have large migrant populations abroad, mostly centred in the Arab world and far less in the EU (below 10% of the diaspora).

Expatriates are known to send some share of their income back home to family members and communities in the form of remittances. Remittances are substantial for all four countries. The magnitude of such flows can be examined by separating the current account balance and the trade balance, in the balance of payments. While the previous section highlighted quite large trade deficits for the four SM countries, the current account deficits are much smaller (see

Figure **5**) hinting at large one-directional remittance flows. The deficits in Jordan and Morocco more than halve due to net surplus in current transfers.

The World Bank data shown below suggests that annual remittance transfers equally, on average, are around 6% of GDP (even reaching 14% of GDP in the case of Jordan).

Figure 5: Current account deficit, % GDP, by component
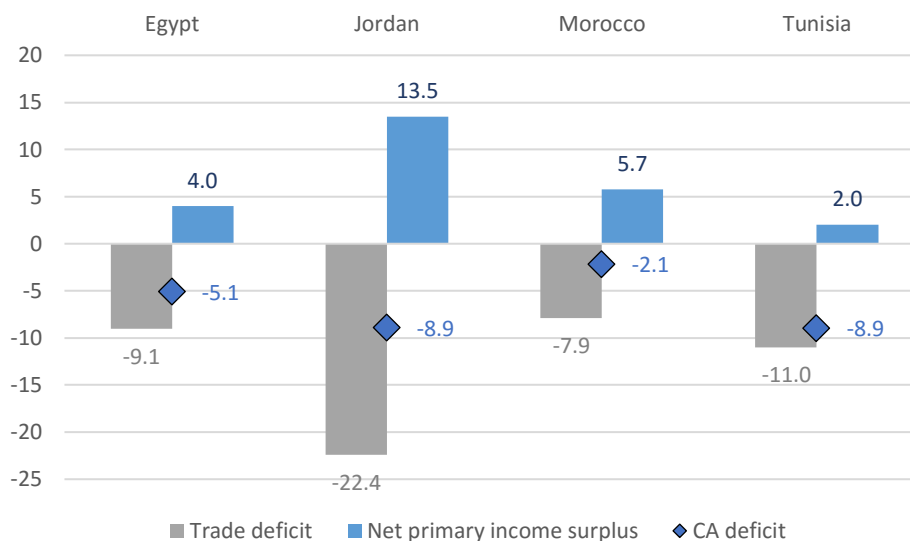
Source: World Bank

As illustrated in Table 6, remittances contribute between 20-43 percent of the total credit position in the current account. Put in perspective, remittances tend to be around 2.5 times larger than the annual inflow of FDI and, thus, are likely to have a larger local impact on consumption.

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[17] United Nations (2015)

Table 6: Annual remittances, 2015

	Egypt	Jordan	Morocco	Tunisia
Remittances (in billion USD)	18.3	5.3	7.1	2.3
Total remittances %GDP	6%	14%	7%	5%
Total remittances % CA credit	43%	20%	20%	25%
Remittances/FDI ratio	2.7	4.2	2.2	2.4
Share of EU in total remittances received	7%	5%	88%	87%
Remittances from the EU, % GDP	0%	1%	7%	5%
Remittances from the EU, % CA credit	3%	1%	20%	24%

Source: Eurostat and World Bank

The persistent inflow of remittances has macroeconomic consequences, to the extent that it reduces the overall current account deficit to such a degree that it affects exchange rates. Ceteris paribus, remittances lead to an appreciation of the domestic currency or, at least, lessen the depreciation forces shifting the local currency into a new equilibrium. The increase in domestic prices, through high consumption relative to domestic production, is likely to hamper the price competitiveness of the export sector.

Secondly, remittances raise the average domestic income but, in particular, for low-income households. If a large share of this income is used for consumption of non-tradable goods, this could lead to higher wages and prices without raising productivity, thus further diverting resources (labour and capital) from the tradable sector and overall hampering export competitiveness, due to spill-over effects on wages and prices of the tradable sector. Remittances may also reduce the incentive of its recipients to seek employment, thereby decreasing the active workforce overall (Amuedo-Dorantes and Pozo, 2004). Moreover, since part of the increased consumption is met by imported goods and services, the trade deficit deteriorates further. Farzanegan and Hassan (2016) analysed remittance flows of the MENA region over a period of 20 years up to 2012 and found that the magnitude of remittances and trade deficits is highly correlated and that the key driver for the MENA is increased domestic consumption which is, to a large part, satisfied by imports. Owusu-Sekyere et al. (2014) analysed this negative impact of remittance inflows on the real exchange rate of sub-Saharan countries and found that remittances tend to harm export competitiveness, though empirical monetary policy responses combined with fiscal spending focussing on the tradable sector, often alleviate the effect of appreciation due to the curse of remittances.

Conversely, aside from the benefits of remittances to the local recipients, re-investing remittances into education, entrepreneurship and technological prowess could offset some of this downside for the economy and the export sector. However, it has been shown that remittances tend to be used for consumption purposes rather than investment. Another benefit from remittances stems from the fact that they are more resilient to shocks and serve as a safety-valve e.g. during the Arab spring (European Parliament, 2017).

Overall, the economic literature has produced mixed results on the impact of remittances on the trade balance (depending on the country selection, time period and control variables), nevertheless most findings point to evidence of an appreciation effect resulting from remittances.[18] The exact impact is difficult to assess, particularly due to potential (long-term) offsetting factors discussed before. Nonetheless, the sheer magnitude of remittances for the SM economies suggests there is a substantial competitive disadvantage for the export sector.

The EU's role in the flow of remittances to the four SM countries is very heterogeneous. Given the comparatively low population from Egypt and Jordan in the EU, it is not surprising that only around 5% of remittance inflows originate in the EU. The primary sending countries, accounting for two-thirds of all transfers, are Saudi Arabia, United Arab Emirates and Kuwait. Morocco and Tunisia have large diaspora in Europe, which is also reflected in the remittances data, from where nearly 90% of all inflows stem.

In conclusion, in all metrics, Morocco and Tunisia are much more linked to the European market than Egypt and Jordan, be it trade, FDI or remittances. This can explain why deeper trade agreements with the EU are more important and are more advanced for those two countries.

1.3. Ex-ante and ex-post impact assessment

The economic impact of liberalisation between the EU and the SM on trade patterns, growth and job creation has been the subject of a number of analyses in recent years. These estimates rely mostly on gravity models and computable general equilibrium (CGE) models, which will be highlighted in the following section. Impact assessment is usually first done ex-ante, in order to set expectation and to identify sectors, regions and policy domain for policy intervention and regulation. It is then done ex-post, after liberalization measures and policies have been implemented in order to verify the actual outcome and, possibly, to recalibrate interventions.

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[18] See e.g. Opoku-Afari et al. (2004), Bayangos and Jansen (2010), Owusu-Sekyere et al. (2014) or Jayaraman et al. (2014).

1.3.1. Gravity models

Gravity models are one of the instruments used in the ex-ante assessment of trade liberalization. They are helpful to quantify a country's bilateral "trade potential" and to compare it to the actual level of trade. In such models, trade flows are a function of country-specific determinants (all variables affecting a country's general capacity to trade, such as GDP, infrastructure, administrative costs, quality of institutions) as well as bilateral variables (e.g. trade cost, multilateral tariffs). This helps identify the contributions of each factor to observed trade flows and to make projections about the trade creation that would result from changes in the determinants of the flows, including in trade barriers. Thus, they are valuable to provide ex-ante projections and to elaborate the ex-post assessment of the effect of past trade liberalisation (Jarreau, 2011 and Hoekman and Sekkat, 2010)

Several studies have tried to investigate the effect of EU-SM integration using gravity models. Results from Bensassi et al. (2010) and Hagemejer and Ciselik (2009) suggest an increase in EU exports towards SM countries following the Association Agreements and point to an insignificant effect on SM countries exports towards Europe. However, in another study Bensassi et al. (2012) find a significant impact of tariff reduction on specific sectors, when they use highly disaggregated sector level data. Still, the overall impact on total exports to the EU has been limited.

Another possible explanation for the insignificance of trade liberalisation on overall SM exports to Europe may be that integration has essentially been limited to manufacturing products and has progressed slowly. Jarreau (2011) further argues that this reflects the asymmetry of the trade agreements in favour of the larger bloc. Non-tariff barriers (NTBs) are still substantial and have been far less addressed in the past. Eradication of these barriers will likely come in the form of harmonisation of SM standards towards the EU, once again favouring the EU starting position.

Another explanation for the relatively weak export and investment boost in the SM countries can be found in studies such as Meon and Sekkat (2004) who have found that the quality of institutions (such as corruption, government stability and rule of law standards) of SM countries tends to restrain their ability to integrate with the rest of the world. Longon and Sekkat (2004) also identify weak infrastructure, as well as poor macroeconomic management and political tensions, as factors having a negative impact on trade integration with the rest of the world as well as among SM countries themselves.

Additional research suggests that policy measures which address high trade costs, particularly via lower non-tariff measures (NTMs), have the greatest potential. Along this line, recent findings by Ghoneim et al. (2012), show that the tariff *ad volorem* equivalents (AVE) of the NTBs are larger than the tariffs themselves. Tackling this issue is key because it restricts exports, however it is also very challenging since NTBs require major structural and institutional reforms. Similar to the case of intra-

trade obstacles, improvement in logistics performance and governance are found to have significant potential to bolster exports to the EU (Peridy, 2012).

1.3.2. Computable general equilibrium

As explained above, gravity models can be useful to estimate the trade creation resulting from reductions in trade costs and to compare levels of intra-regional trade with those observed among similar groups of countries. By contrast, CGE modelling has the advantages that it can be used to foresee how trade agreements are likely to impact production structures in each country, in particular at the sector level, and to compare the effects of different channels of trade costs reduction (e.g. trade agreements versus unilateral changes in trade and transport costs; and 'deep' versus 'shallow' agreements). This modelling approach also allows for the identification of the sources of gains/losses from liberalisation by decomposing welfare variation into terms of trade effects, changes in allocation efficiency and, possibly, other sources of variation depending on modelling hypotheses. In the case of the SM region, an important limitation of such studies stems from the limited availability of data, which causes the vast majority of existing studies to be focused on a few countries where data is readily available.

Although the CGE modelling is commonly considered the state-of-the-art way to assess the impact of free trade agreements, standard models are usually unable to estimate changes in level of unemployment (or the creation of new jobs) but only job reallocation adjustments in the short to medium term, that is between sectors and between different skill-level jobs. The inability to model changes in unemployment, together with the lack of incorporating foreign direct investments, makes it difficult to provide precise policy recommendations at sectoral level. This is an important limitation because policy makers are generally keen to find out whether a trade agreement could create additional employment without jeopardising a substantial number of jobs in those sectors, which are likely to be negatively affected by the intensified competition.

A second drawback is due to the regulatory nature of the majority of the current trade agreements negotiated by the EU, given the already low level of tariffs achieved by previous Association Agreements. Indeed, estimation methods have to face the considerable challenge of quantifying the costs of NTMs, both in goods and services, and translate them into *ad valorem* equivalents (see Jarreau, (2011) or Hoekman and Sekkat (2012)).

Despite the limitations, CGE has been widely used to assess the impact of trade liberalization. Research by Konan (2003) focuses on different types of trade liberalisation reforms in the case of Tunisia and Egypt. Their research looks into different types of liberalisation agreements involving a range of combination of tariffs, goods NTBs and service liberalisation arrangements. Results point to the great benefits of deeper integration scenarios. This is when they involve the elimination both of

tariffs and non-tariff barriers for goods for both countries. Findings also suggest that benefits are doubled when deep commodity trade integration is coupled with service trade integration. Results also stress that while Tunisia would benefit significantly from tariff reduction with the EU, the effect on Egypt is insignificant. Behir et al. (2007) evaluates the impact of moving from a preferential trade agreement to a custom union and single market for the Maghreb area, testing different scenarios of varying levels of integration depth. Their findings indicate that a custom union would increase GDP by about 6% and 4.5% for Tunisia and Morocco respectively, to which would be added an extra 2.5% in the case of the creation of a deep single market (similar to the deep integration scenario from Konan, 2003).

Dennis (2006) seeks to estimate the potential gains from trade facilitation in the region, going beyond the simple tariffs. His findings suggest that potential gains associated with a reduction in trade costs, also involving indirect trade costs, are at their greatest when they involve the reduction of trade cost with the EU, rather than intra-regional trade within SM countries. He also finds that reducing trade cost associated with non-tariff barriers could generate more than twice the welfare gains than would result from only removing all tariffs.

Using input from trade gravity models, Ghoneim et al. (2012) considers different scenarios of shallow versus deep integration between Mediterranean countries and their partners in the EU. Shallow integration relates to tariff barriers, while NTBs are used as proxy for deep trade integration. They find that tariff removal is expected to provide moderate or limited gains, except in Algeria and to a lesser extent Tunisia, because both countries still had higher tariffs than other Mediterranean countries. Conversely, eliminating NTBs would yield strong trade gains, but only if reduction in NTB is large enough. Finally, they indicate that trade gains due to deep integration, can also be reinforced further via a further reduction in trade and logistic costs, particularly for countries such as Algeria, Egypt and Morocco that perform worse than their peers.

1.3.3. Assessment of intra-regional trade liberalisation of the Mediterranean countries

Bilateral trade agreements between SM states and the EU can have positive spill-over effects on their neighbouring countries. For one, supply chain linkages between one country and the EU often require inputs from another SM country during the production process. For this mechanism to work, trade integration between the SM is crucial. Lower barriers to trade facilitate intra-regional supply chains which render them more attractive for European partners. Secondly, more homogenous regulations and practises in the region will ease harmonisation efforts with the EU and could improve the negotiation position of the Mediterranean bloc.

While international trade is of high importance to most SM countries, intra-regional trade takes a rather inferior role. Many authors (e.g. Hoekman and Zarrouk, 2009) have observed for long that intra-regional trade in the MENA region appeared to be low compared to other regions of similar geographical, historical and cultural backgrounds. Indeed only 3.8% (2015) of the SM countries combined trade in goods occurs within the region (UNCTAD, 2016), which is the lowest rate compared with other regions of the world; by comparison, intra-Asian trade takes a share of above 30% (DG Trade, PPT).

Despite the generally low level of trade flows among the SM countries, significant progress in removing tariff-related barrier to intra-pan-Arab-FTA[19] trade in goods has been made. However, many important factors continue to affect the transport and logistics related costs of trade in the region. The lack of regional trade institutions has been identified by Kheir-El-Din and Ghoneim (2005), as a major obstacle to further intra-regional trade integration. In particular, studies (Rosotto et al., 2005 and Harb, 2007) have stressed the negative effects of public monopolies, the high cost for shipping and handling containers due to port inefficiencies, as well as weaknesses in telecommunication, services and air transportations services. In addition to this, in terms of non-tariffs costs, bureaucratic red tape and tedious customs clearance procedures seem to be a major hurdle to regional trade.

The empirical evidence seems to suggest that, until now, export gains for the SM were rather limited while the EU reaped larger benefits in terms of bilateral exports. At the same time, potential gains from trade liberalisation between the two blocs remain substantial, particularly with regard to NTB. Removing NTBs between the EU and the SM countries seems to offer the largest potential gains for the SM regions and the EU. However, this requires much deeper integrations. The idea of great positive effects is reflected in the EU's shift in liberalisation approach, vis-à-vis away from targeted or sectoral agreements towards (DCFTAs).

1.3.4. Sustainability Impact Assessments

After DCFTA negotiations were launched, the European Commission commissioned two *Sustainability Impact Assessments* (SIAs), in 2013 and 2014. *Ecorys* executed the analysis which aimed at evaluating the economic, social and environmental impacts of the trade and investment facilitation under negotiation. For every SIA, the methodology adopted is based on the twofold approach as described in the Trade SIA handbook (European Commission (2016c) and it consists of quantitative and qualitative tools to assess the affected areas in addition to stakeholders' consultation.

The economic assessment is mainly based on CGE models which, as highlighted previously, suffer from the limitations of not providing pure figures on the creation/destruction of new/old jobs.

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[19] Also referred to as Greater Arab Free Trade Area (GAFTA)

The underlying neo-classical assumption that the economy is able to immediately adjust in the short term, owing to full flexibility of prices and wages, is one of the vulnerabilities of these exercises. The SIAs, however, do assess that the reallocation process among different sectors of the economy works after a shock caused by the removal of tariffs. The models are equipped to deal with so called 'new-generation' trade agreements whose degree of ambition goes well beyond the pure removal of tariffs. Tariffs are, on average, already low and mainly concern sensitive products for both parties, like agriculture and fisheries. The main bulk of the negotiations and the main source of economic gains derive from the often difficult exercise of reducing non-tariff barriers in goods and services by aligning regulatory framework and, in this way, removing unnecessary barriers to trade. Quantifying those barriers, often non-quantitative by definition, implies strong reliance on trade cost equivalents being able to proxy the removal of non-tariff barriers – a challenging task.

In the trade SIA, the economic impact of the DCFTA is calculated by assuming different 'economic shocks' according to degree of ambition of the negotiations. By definition, the more ambitious the scenario is, especially in terms of non-tariff barriers removal, the higher the aggregated economic gains (and potential sectoral loss) are. Each trade SIA follows a different calibration, since the extent of remaining tariff barriers and the envisaged regulatory harmonisation and elimination of non-trade barriers differs from country to country. In the case of Morocco, there are three scenarios, one continuing the trends which serve as a baseline, or pessimistic scenario, one which assumes the full implementation of a recently concluded trade deal[20] and the optimistic scenario which envisages an ambitious DCFTA implementation. The measures included in this potential DCFTA are[21]:

- No tariff reductions as all tariffs between the EU and Morocco were (with the exceptions) removed by the October 2012 agreement and the Association Agreement;
- Non-Tariff Measures in services as expressed in Trade Costs Equivalents are assumed to be reduced by three per cent for Moroccan services entering the EU market, and 13 per cent for EU services entering the Moroccan market;
- Non-Tariff Measures in goods are modelled either with a limited or ambitious level of regulatory approximation or no approximation at all, depending on the sector.
- Spill-over effects (25% percent)[22] and trade facilitations are also taken into account, if Morocco complies with EU rules and regulatory approximation.

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[20] A 2012 trade agreement on the agricultural sector.

[21] See Ecorys (2013c).

[22] The regulatory approximation process that DCFTA can stimulate by removing NTMs can, due to the compliance of the signatories to some EU regulation, create spill-overs in third party countries that already have established trade links, most likely with neighbours. As happens for other trade agreements that involve bigger economies (see TTIP) spill-over effects to third countries can, in turn, improve the total estimated gains. Direct spill-over effects are an automatic result, without requiring any further action on the part of third party countries. This should enlarge third party countries' trade possibilities.

The trade SIA reports separate the potential gains into short-term and long-term effects for the SM country and the EU for several key indicators (see Table 7).

Table 7: CGE exercice on EU-Med FTA

Variable	Morocco	Tunisia	Jordan	Egypt	EU[23]	Morocco	Tunisia	Jordan	Egypt	EU[24]
	Short-term					**Long-term[25]**				
National income (mil Euro)	1,145	1,834	283	2,343	2,163	1,300	2,498	442	3,374	3,437
GDP, % change	1.3	4.1	1.4	1.2	0.0	1.6	7.4	2.1	1.8	0.0
Consumer prices, % change	0.4	2.6	-0.7	-1.4	0.0	0.4	2.3	-0.5	2.7	0.0
Wages, less skilled %	1.4	7.0	1.7	1.9	0.0	1.5	9.9	2.4	-2.0	0.0
Wages, medium skilled % [26]	1.6	7.6	2.5	4.8	0.0	1.9	10.5	2.9	3.2	0.0
Wages, high skilled %	N.A.	N.A.	2.4	0.1	0.0	N.A.	N.A.	2.8	0.1	0.0
Total Imports, % change	8.0	13.9	3.7	7.7	0.1	8.4	17.7	4.8	24.8	0.1
Total Exports, % change	15.3	17.7	4.4	8.3	0.1	15.3	20.4	5.3	26.7	0.1

Source: **Author's elaboration on DG Trade, SIA reports**

Note: The calibration of the CGE model is towards an ambitious DCFTA (as exemplified by Morocco above).

The collective estimates of the SIA reports substantiate that in the EU, economic growth and wages will not be affected even if all liberalisation efforts (as exemplified above for Morocco) are

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[23] GDP-weighted average, except total exports and total imports which are trade-weighted.

[24] GDP-weighted average, except total exports and total imports which are trade-weighted.

[25] "The long run is defined [...] as the time needed for dynamic investment effects to work through the economy, while in the short-run, investments are assumed fixed." (Ecorys, 2013c, p.78).

[26] The SIA for Morocco and Tunisia does not distinguish medium and high skilled but merely lists "more skilled", which has been allocated into this group for visualization purposes.

carried out. Trade vis-vis the region would be boosted by 0.1% and, as illustrated in the table, the broad economic impact on the economy will be negligible.

Given the high trade dependence of the four SM countries on the EU, the impact on their economies is much larger. GDP is predicted to increase by up to between 1-4% over the short-term (cumulative) and trade is predicted to increase by 4-18%. Notably, the SIA reports indicate a stronger boost from exports than imports for all four countries, thus shifting the trade deficits with the EU closer to a balanced position.

The moderate aggregate gains to the EU, however, hide the fact that the trade patterns are adjusting to the new competition and opportunities. Specialisation can have a profound impact on certain economic sectors and professions. Once again, the impact on the four SM countries is sizeable. For example, Tunisia is expected to experience a shift in employment share away from grains, crops, textiles and air transport towards vegetable oil production, other machinery, trade, vegetables and fruits (see Figure 6 below).

Figure 6: Expected sectoral shift in Tunisia
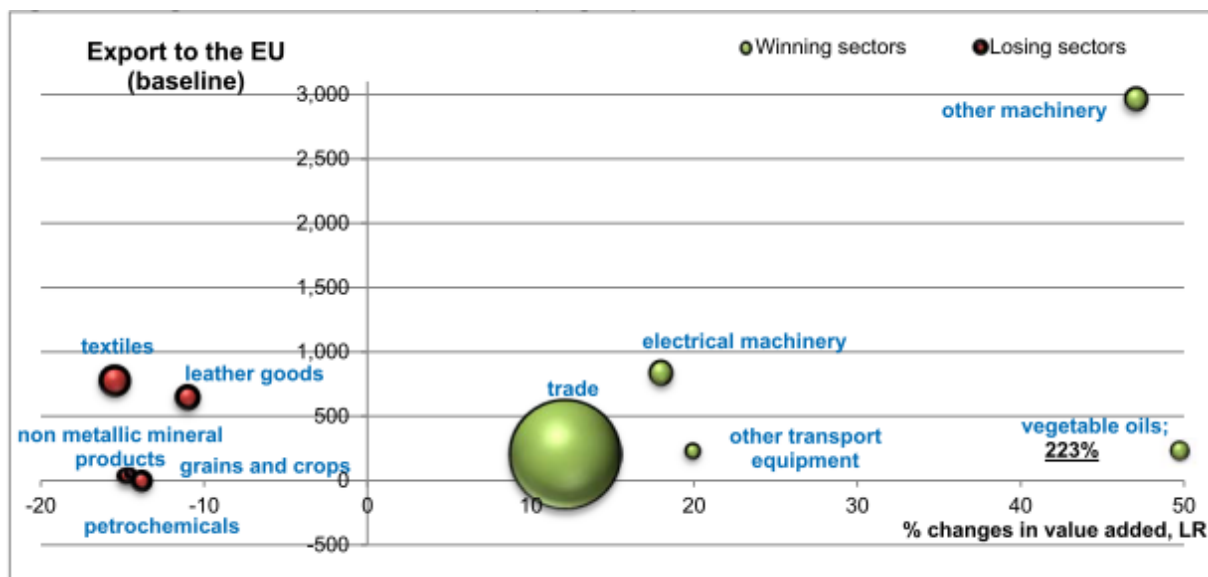
Source: **Ecorys (2013d).**

Note: The changes are expressed as the DCFTA (long-term) scenario over the baseline scenario.

The same argument is theoretically valid for the EU but on a much smaller scale. Indeed, the SIA reports show that most bilateral DCFTAs have an insignificant effect on all EU sectors. With the exception of vegetable oil, of which EU output would decline by 2.2%, and 'other machinery and

equipment', which is estimated to decline by 0.7%, no sectoral output would shrink or grow by more than 0.5% - even in the longer term view. Likewise, exports and imports would only be marginally affected, with the exception of a few sectors that do not make up a noteworthy share of overall EU export volumes. Labour allocation across sectors is expected to witness small shifts, both for high-skilled and low-skilled workers, in the order of less than 1% of employment in the respective sectors.

The SIA estimations clearly point to only a marginal impact of the DCFTAs on the EU but the overall gain is positive, nonetheless. One can thus argue that political considerations are the driving force behind efforts to establish DCFTAs with the SM countries rather than pure economic benefits.

The economic impacts on the SM countries, on the other hand, are estimated to have been substantial (see Table 7) with gains in economic activity and employment for some sectors and losses for others. This trade-off, paired with claims that a more specific policy/sectoral approach may be more efficient,[27] have contributed to a slowing down in the development of DCFTAs. Negotiations with Jordan and Egypt have not officially kicked-off while the Moroccan government has proclaimed the need to re-assess the DCFTAs with regard to the competitiveness of several key sectors and has put the negotiations on hold.

In conclusion, the DCFTA negotiations have not advanced as fast as expected and the EU liberalisation efforts may take a different form in future, unless marked progress is made over the next few years. Advancement of the DCFTAs will depend greatly on the national view and perception as to how far these deals will benefit their respective economies and society at large. Thus, it merits a closer look at trade relations from a domestic Mediterranean perceptive.

1.4. Summary

Euro-Med trade liberalisation has made substantial progress over the past 20 years and recent efforts via DCFTAs are carrying on that spirit. The Southern Mediterranean region is only of minor trade importance to the EU and FDI flows are marginal in the grander picture. Nevertheless, potential benefits are still to be reaped if non-tariff barriers can be reduced. From an EU perspective, political stability in the region is the main incentive for strengthening ties with the Southern Mediterranean region and providing a suitable economic environment.

While the potential gains from further liberalisation are very modest from an EU perspective, they are likely to have a large impact on the Southern Mediterranean region. The SM region, especially certain countries, largely relies on EU markets as a destination for exports. For Morocco and Tunisia,

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[27] E.g. Hoekman (2016)

trade reliance on the EU is particularly high - 60-70% of trade being conducted with the EU. Egypt and Jordan are less focussed on the EU as a trade partner, but the effect of the trade agreement could be potentially high exactly because it could open up new opportunities. The TSIA reports have estimated the economic gains from further trade liberalisation, including non-tariff barriers, to reach between 1.6 and 7.2% of GDP in the long-term if ambitious DCFTAs were concluded between the EU and the SM countries.

The EU continues to emphasize the importance of the agreement based on the TSIA reports and that deeper trade integration with the Meds can deliver economic growth and job creation for the region. However, recent slowdowns in the development and advancement of the DCFTAs have cast doubt over this ambition. Southern Mediterranean countries are reassessing the added-value of such agreements and the cost entailed with complying with the requirements of the agreements. The following four country case studies will shed light on the EU-Mediterranean relationship from the perspective of the individual countries and offer new insights into their assessment of past successes and future prospects for growth and job creation.

2. Country report: Egypt

Chahir Zaki and Nora AbouShady

2.1. Introduction

The Egyptian economy has experienced several waves of liberalisation that has led to a significant boost in both exports and imports. Moreover, it has signed several trade agreements that helped reduce trade barriers (both tariffs and non-tariffs). With exports being among those macro-economic variables with a significant impact on employment, the objective of this report, therefore, is to provide a descriptive analysis of Egypt's trade flows and trade policy, and to provide initial insights into the effect of trade on employment.

The empirical literature on trade and employment in Egypt, at both the micro and the macro levels, is rather scant since most of the studies examined the impact of trade wage inequality (Zaki, 2013). For instance, Said and El Azzawi (2014) show that tariffs do not seem to have a significant impact on wages and job quality. By contrast, while a better export performance has a significantly positive impact on wages, all job quality indices are negatively affected. Hence, there is a trade-off between higher wages and improvement in job quality. Furthermore, using a microsimulation, Hendy and Zaki (2013) find that the effect of trade liberalisation policies is dependent on two factors: individual and sectoral characteristics. This is why employment increases in the following sectors: textiles, garments (especially for women), chemical and services sectors. They also show that the effect of wage inequality is variable among different groups, as it decreases for urban and rural skilled men and for skilled and unskilled women working in urban areas. Yet, inequality among unskilled men and skilled women in rural areas is likely to decrease. These effects are highly correlated with the comparative advantage of Egypt and the abundance factor within each sector. Zaki (2016) shows that, at the macro-economic level, exports had a significant and positive effect on employment over the period from 1960 to 2009. The elasticity of employment with respect to exports is 4.3% during the period 1960-2009. Following the reforms that were launched in the 1990's and resumed in 2004, the impact of exports on employment increased by 30% to reach 5.6% over the period 1990-2009. In the meantime, at an individual level, exports affect men's wages and women's probability of working. In other words, adjustments in the female labour

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market are reflected in quantities, while adjustments in the male labour market are reflected in prices.

In Section 3.2, we provide an overview of trade and investment patterns. Trade has significantly increased after successive episodes of liberalisation and reform starting in the early nineties, reaching 60% of GDP in 2008. However, trade and overall figures of economic performance dropped sharply in the aftermath of the 2011 uprising. Trade remains generally lower than in middle income countries, Arab countries and the MENA region. This is not true, however, for the manufacturing sector, where Egyptian exports account for nearly 50% of total merchandise exports , higher than exports of manufacturing products in both Arab countries and MENA. Egypt's primary trade partner is the EU, with an average of 35% of total trade. Since 2004, bilateral trade in goods has more than doubled, reaching €27.7 billion with exports from Egypt at €7.2 billion in 2015. There is an upward trend in trade with Asia, where imports from Asia reached a share of 21% of Egypt's imports in 2010. Trade in services accounts for nearly 50% of GDP. Egypt's service exports are concentrated in transport services (Suez Canal) and tourism, the latter witnessing a sharp drop since the 2011 uprising. FDI in Egypt increased substantially between 2005 and 2008. thanks to reforms and incentives offered to investors, before declining in the aftermath of the financial crisis, and, later, the revolution. FDI remains concentrated in capital-intensive sectors, such as petroleum, leaving a modest impact on job creation. The Egyptian government has, therefore, recently carried out additional reform measures to attract investments, particularly in labour-intensive projects and export-oriented activities.

Section 3.3 shows Egypt's exchange rate policy. Since the 2011 political turmoil, Egypt has been suffering from a series of rapid declines in international reserves. This led to a series of devaluations, until the Central Bank of Egypt announced its decision to move to a liberalized exchange rate regime, leading to a sharp drop in the value of the Egyptian Pound and to soaring inflation rates.

Remittances are discussed in Section 3.4. Remittances provide more than 20% of hard currency in Egypt. Despite their decline, alongside the drop in the number of Egyptian migrants since the mid-nineties and later due to political instability in the Arab region, remittances continue to originate from the Gulf countries.

In section 3.5, we present trade barriers and non-tariff measures applying to Egypt's trade. Nearly 99 per cent of Egypt's tariff lines are bound by the WTO. Tariffs for non-agricultural products are generally lower than those applying to agricultural goods. These remain higher, however. than those applied by middle-income or high income countries for both sectors. As for non-tariff barriers, Egypt is among the countries with the highest number

of NTBs imposed on trade, particularly administrative barriers. Egyptian exports are also subject to a substansial number of technical barriers and SPS measures imposed by its trade partners.

Finally, section 3.6 briefly discusses Egypt's main trade agreements with the European Union and other trade partners, such as the USA, Arab and African countries. In Section 1.7, we examine the correlation between different macro-economic variables and employment and demonstrate that both exports and FDI are positively and significantly correlated to employment. Finally, Section 1.8 presents concluding remarks and policy recommendations.

2.2. Overview of trade and investment patterns

2.2.1. Trade in Goods

Macro and Sectoral Analysis

Since the early 1990's, exports and imports have increased significantly with the implementation of the Economic Reform and Structural Adjustment Programme. Moreover, with the new reform programme implemented by the government in 2004 aimed at liberalizing trade, exports increased by an average of 5% before 2004 and 24% after that date. Figures for imports are respectively 2% and 24% (Hendy and Zaki, 2014). It is worth noting that Egypt's trade balance has been constantly in deficit throughout the period of the study as raw materials, investment goods or semi-finished products that are used in production and exports have the highest share of total imports.

At the regional level, trade share to GDP exhibits a similar trend for Egypt and its comparative regions (Figure 7). Indeed, this share increased from 40 percent in 2000 to 60 percent in 2008, thanks to tariff reductions, as mentioned above. Yet, since the financial crisis in 2008, a drop in trade has been observed, reaching 40 percent in 2010. Exports also experienced a significant decline from 30 percent in 2008 to 15 percent in 2010.

Figure 7: Exports and Imports of Goods and Services (% of GDP)
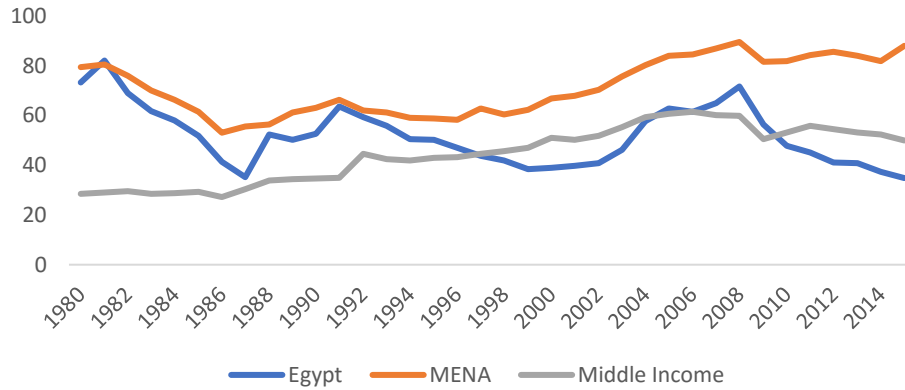
Source: World Development Indicators

Over the same period, merchandise trade as a share of GDP has more than doubled in Egypt, as shown in Figure 8. Yet, it is still lower than the middle income group, the MENA region and the Arab countries.

Figure 8: Merchandise trade (% of GDP)
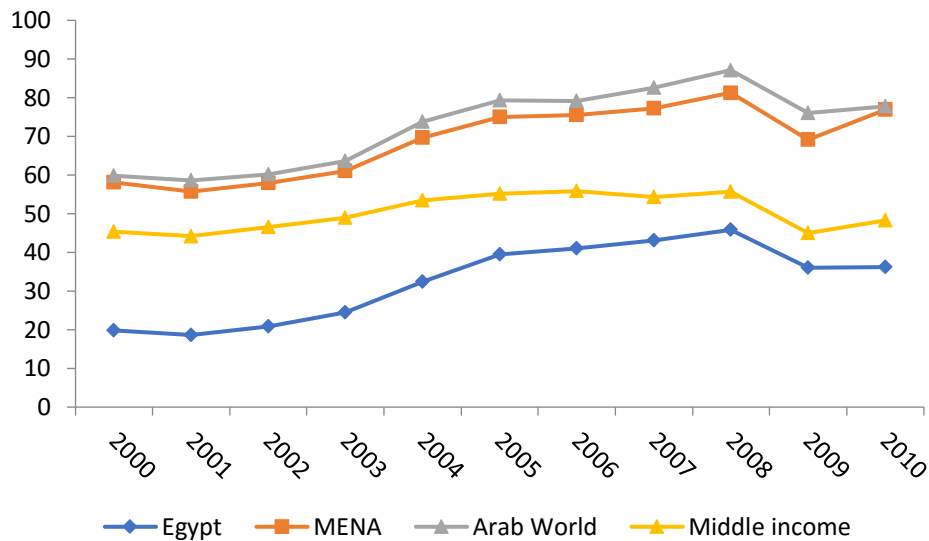
Source: World Development Indicators

Nevertheless, when one considers just the manufacturing sector, Figure 9 shows that Egyptian exports are actually performing better than both the MENA region and Arab countries. Furthermore, while the share of manufacture in merchandise exports significantly

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increased to reach 50 percent in 2009, the equivalent figures were only 10 percent for Arab countries and 20 percent for the MENA region. It is important to note that, despite this evolution, the manufacturing sector in Egypt is still facing several impediments that hinder its competitiveness and make its performance lower than the middle-income countries (Hendy and Zaki, 2014).

Figure 9: Manufactures exports (% of merchandise exports)
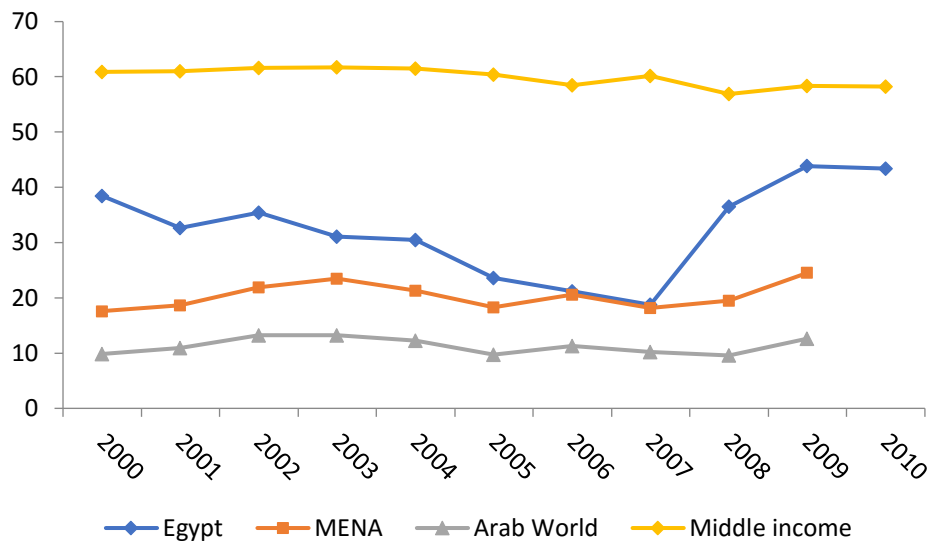
Source: World Development Indicators

Turning to data from the Central Bank of Egypt, however, one can see that Egypt has a moderate level of diversification (see Figure 10). Indeed, fuel, mineral and oil products represent around 40 percent of Egyptian exports. Yet, their share increased marginally by 2% between FY06 and FY10[28]. As per non-oil exports, a significant increase has been observed for raw materials that increased by 90.4%, finished goods by 94.7% and semi-finished goods by 36.7% (Hendy and Zaki, 2014).

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[28] Fiscal year (FY)

Figure 10: Proceeds of Merchandise Exports by Degree of Processing
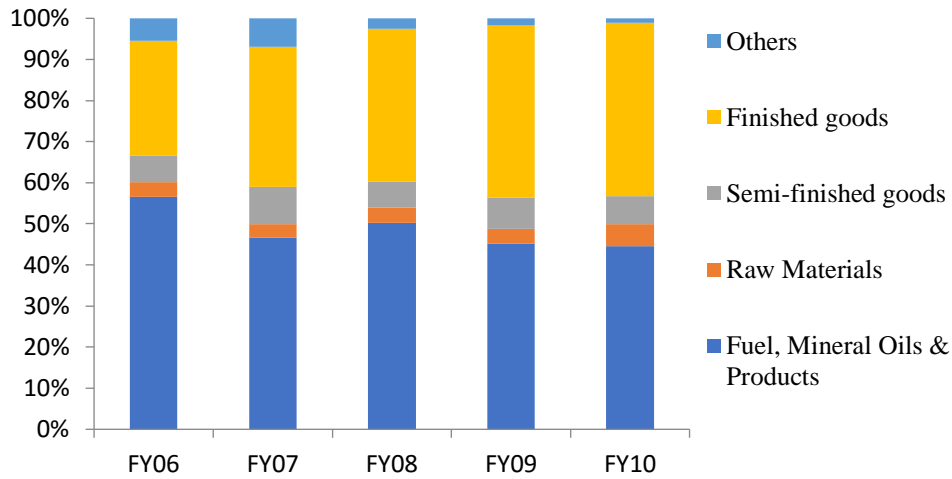
Source: The Central Bank of Egypt.

Imports have a different emphasis since the share of fuel and oil products represents less than 10% of total imports. By contrast, imports of raw materials, investment goods and intermediate goods represent around 70% of Egypt's import bill. Moreover, Figure 11 shows that both consumer non-durable and durable goods (especially those coming from China) have multipied by three between FY06 and FY10.

Figure 11: Payments for Merchandise Imports by Degree of Use
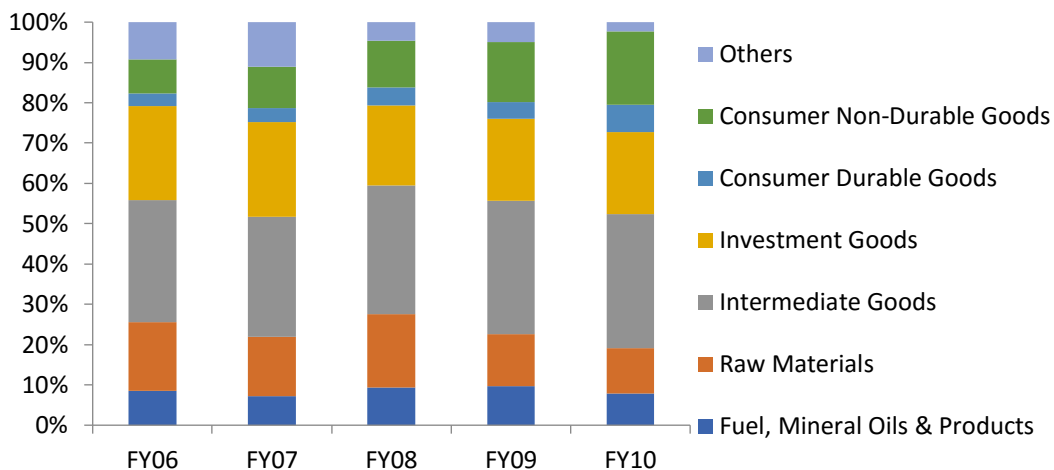
Source: The Central Bank of Egypt

At the geographical level, exports and imports exhibit a similar pattern. Indeed, Egypt's primary trade partner is the European Union with an average of 35% of total trade. Since 2004,

bilateral trade in goods has more than doubled reaching €27.7 billion and exports of €7.2 billion in 2015 (European Commission, 2017). The main products exported by Egypt to the European Union are crude oil and products, cast iron, cotton textiles, cement, iron and steel products, pharmaceuticals and aluminum products. Imports from the EU are chiefly concentrated in crude oil and products, iron and steel products, organic and inorganic chemicals, pharmaceuticals, and electric appliances for telephones and telegraphy. As for the United States of America (USA), its share of both exports and imports is 33% and 22% respectively (Figure 12). While American imports from Egypt are mainly crude oil and products, cement, and iron and steel products, Egyptian imports from the USA are crude oil and products, iron and steel products, wheat and maize (Zaki, 2013).

Figure 12: Geographical Distribution of Exports
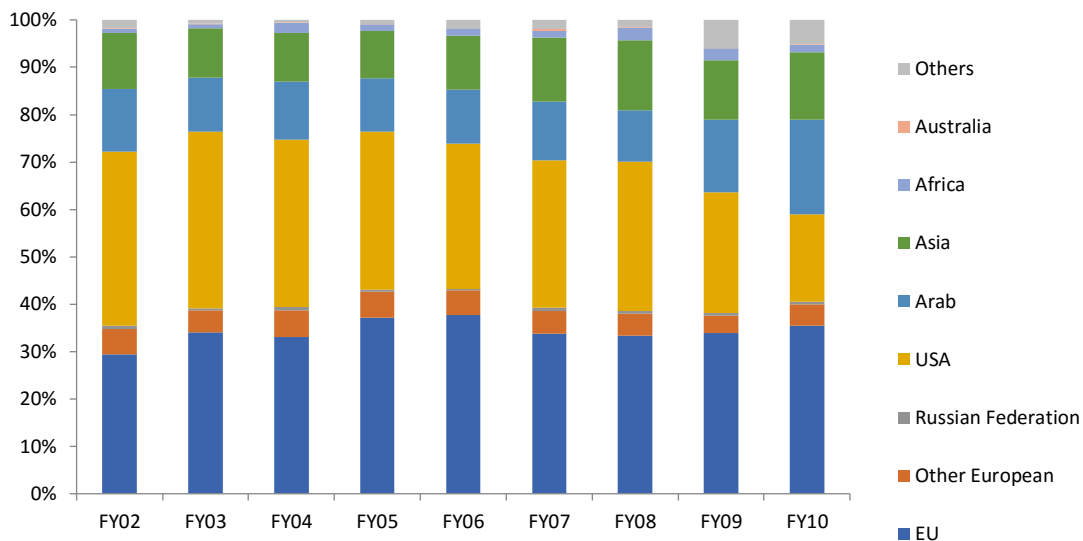
Source: The Central Bank of Egypt

Table 8: Exports by type of product and destination in FY 2010

Country of Destination	Share in Egypt's exports	Product type
European Union	36%	• Crude oil and products • Cast iron • Cotton textiles • Cement • Iron and steel products

		• Pharmaceuticals • Aluminum products
Arab countries	20%	• Crude oil and products • Iron and steel products Cast iron • Cement • Rice
United States of America	18%	• Crude oil and products • Cement • Iron and steel products

Source: **Constructed by the authors from figure 12 and Zaki (2013).**

Figure 13 also shows that since FY09, the share of imports from Asia reached 20%, exceeding those from the USA, putting them in second place after the EU. Trade with Asia has increased more rapidly than trade with the USA. Between FY02 and FY10, the former increased five-fold, while the latter multiplied by a mere 1.7. Imports from Asian countries included car parts and accessories, animal and vegetable fats, cars, ready-made clothes, and iron and steel products. Finally, Arab countries occupy a modest share of only 10% of Egypt's total trade. Egypt mainly exports crude oil and products, iron and steel products, cast iron, cement, and rice to the Arab region, and imports crude oil and products, organic and inorganic chemicals, and cars.

Figure 13: Geographical Distribution of Imports

Source: The Central Bank of Egypt.

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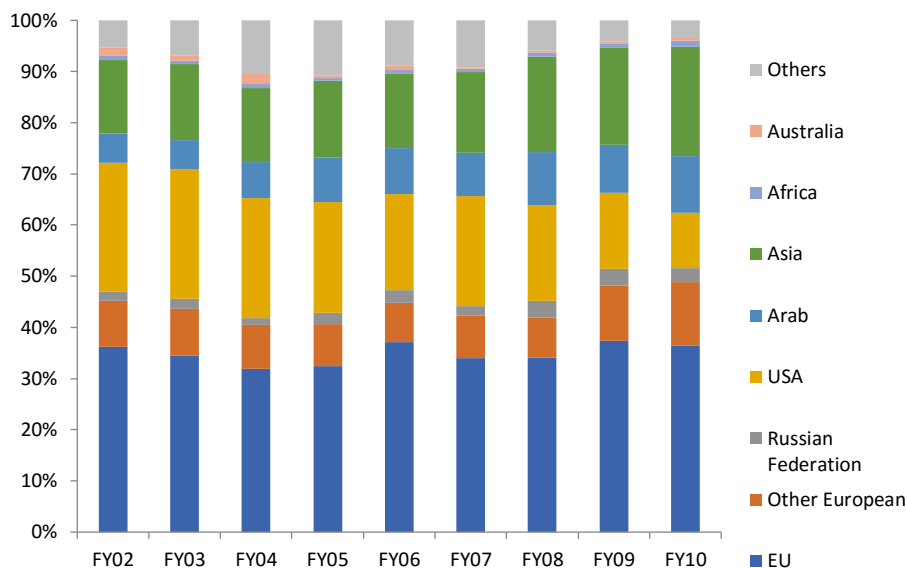
Table 9: Imports by type of product and origin in FY 2010

Country of Origin	Share in Egypt's imports	Product type
European Union	37%	• Crude oil and products • Iron and steel products • Organic and inorganic chemicals • Pharmaceuticals • Electric appliances for telephones and telegraphs
Asia	21%	• Parts and accessories of cars • Animal and vegetable fats • Cars • Ready-made clothes • Iron and steel products
United States of America	11%	• Crude oil and products • Iron and steel products • Wheat • Maize
Arab Countries	11%	• Crude oil and products • Organic and inorganic chemicals • Cars

Source: Constructed by the authors from figure 13 and Zaki (2013).

2.2.2. Firm-level Analysis

At a company level, Figure 14 illustrates a rationalization effect between 2006 and 2010. Indeed, there has been a significant decrease in the number of exporting firms from 22.9 to 19.6 thousand, but with an increase in value of total exports of 65.5% over the same period (Elenbaby et al, 2016). Hence, only productive firms are able to compete and stay in the market, leading to more exports by fewer businesses. .

As per company dynamics, the number of new entrants as well as firms ceasing trading (together accounted for one third of the market) decreased at an annual average of 21% between 2006 and 2010. Incumbent firms (two thirds of the market) that sustained their exports increased by 13.5% throughout the period of interest, from 6,070 firms in 2007 to 6,887 in 2010 (see Figure 15).

Figure 14: Exports and Number of Firms
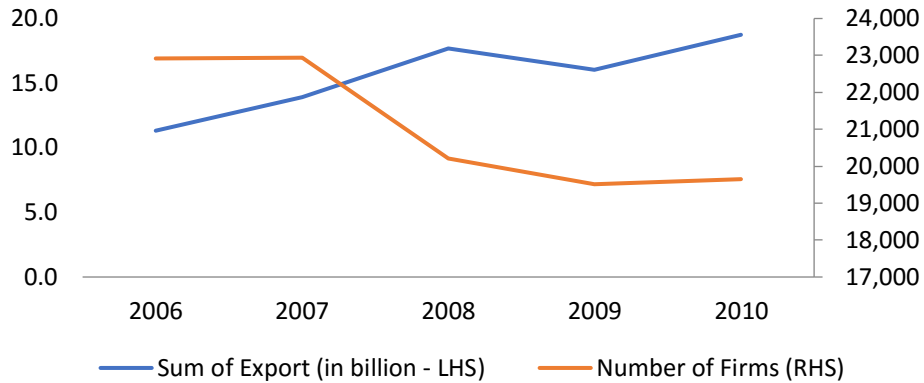
Source: ElEnbaby et al (2016) using the General Organization for Exports & Imports Control (GOEIC) dataset.

Figure 15: Firms' Entry and Exit
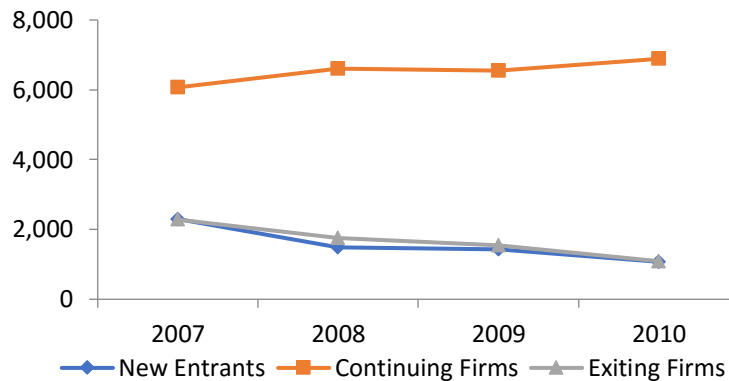
Source: ElEnbaby et al (2016) using the General Organization for Exports & Imports Control (GOEIC) dataset.

Figure 16 presents the number of new firms in more recent years. Indeed, in the wake of the political uprisings in Egypt, the extensive margin measured by the number of new exporters has almost disappeared attaining just four new firms in 2012 (panel a). This is in line with the significant decline in the 2500 plants that stopped operating after the revolution which chiefly belonged to exporting firms. Although the value of exports for new, as well as the total number of exporters slightly improved between 2010 and 2011, it dropped from 1,661 in 2011, recording 157 in 2012 (panel b) (Hendy and Zaki, 2014)[29].

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[29] Although this huge decline might be attributed to a default in the reporting of company export activity, or the non-reporting of cross-border customs flows, we do not have data on informal trade or underreporting. Yet, there is a clear association between political instability and both the number of plants that stopped operating and the number of exporters.

Figure 16: New Exporters (by year)

(a) Count of New and Total Exporters

(b) Value of New Exporter
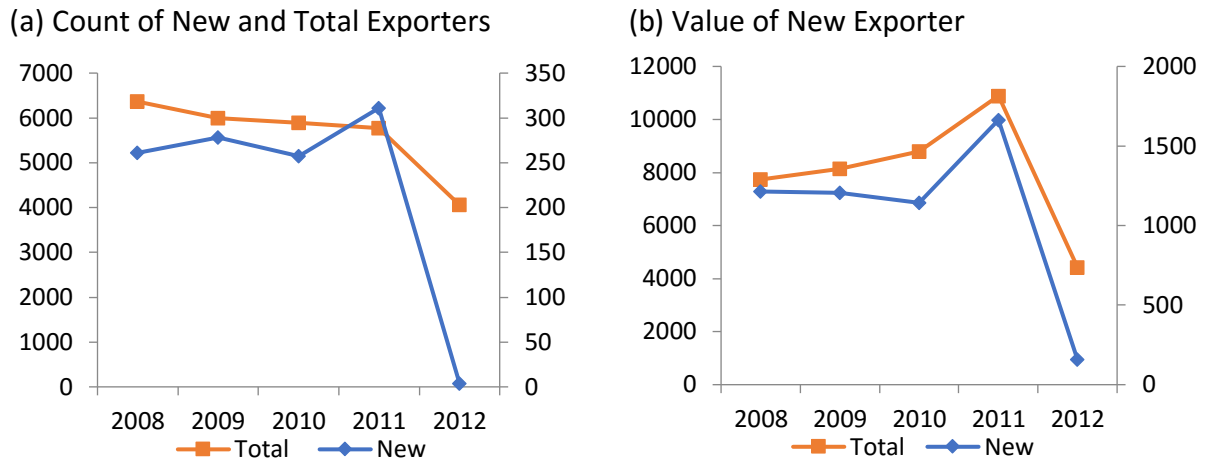
Source: **The Monthly Digest (2012), General Organization for Exports & Imports Control (GOEIC).**

Note: (i) A new exporter is defined as one who did not export for the previous three years, provided that the value of annual exports is a million LE or more. (ii) In Panel a, the left hand axis shows the total number of exporters and the right hand side shows new exporters. In Panel b, the left hand axis shows the total value of exports and the right hand side shows the export value of new exporters.

2.2.3. Service trade

The share of services in the Egyptian economy is around 50 percent. This share is lower than East Asia and Latin America but higher than the MENA region. Indeed, it has remained at around 50 percent of GDP since 2000 thanks to tourism, the Suez Canal and financial services (Table 10).

Table 10: Share of Services in GDP (in percent)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
East Asia & Pacific	61.0	62.3	62.9	62.9	62.7	62.9	63.2	63.7	64.7	-
Europe & Central Asia	68.6	69.3	70.1	70.8	70.7	70.9	70.8	70.8	71.3	73.5
Latin America & Caribbean	64.6	65.3	63.6	60.9	59.5	60.2	61.0	61.7	61.5	63.3
Middle East & North Africa	42.8	45.0	44.3	43.2	44.1	42.1	41.4	41.4	-	42.3
North America	74.6	75.8	76.5	76.5	75.9	75.9	76.0	76.9	77.3	-
South Asia	50.3	51.3	52.4	52.6	52.7	52.8	52.8	52.7	53.9	54.9
Sub-Saharan Africa	54.2	54.1	50.5	51.3	51.9	51.7	52.0	52.7	55.5	57.2
High income	70.4	71.5	72.2	72.4	72.2	72.3	72.4	72.7	73.4	-
Low & middle income	52.8	53.9	53.3	52.4	52.0	52.2	52.5	53.1	53.5	55.3
Low income	45.2	45.3	46.3	46.7	46.7	47.4	47.5	48.9	49.5	49.9
Egypt	50.1	50.1	49.1	48.4	48.3	49.2	47.5	49.5	49.2	49.0

Source: World Bank, World Development Indicators database online.
Note: Services correspond to the International Standard Industrial Classification (ISIC) divisions 50-99 and they include value added in wholesale and retail trade (including hotels and restaurants), transport, and government, financial, professional and personal services such as education, health care, and real estate services. Also included are estimated bank service charges, import duties, and any statistical discrepancies noted by national compilers, as well as discrepancies arising from rescaling.

The current importance of services, as reflected by their contribution to GDP, is also mirrored in employment statistics. Figure 17 shows the service sector attracts at least half of Egypt's total employment. Obviously, the composition of public and private sector employment indicates that the government service sector is indeed a large employer in Egypt.

Figure 17: Share of Services in Total Employment (in percent)
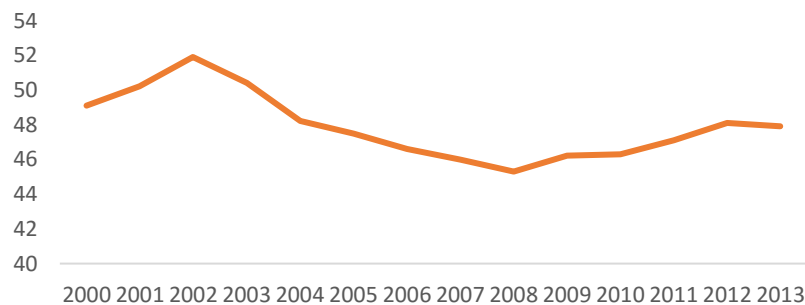
Source: World Bank, World Development Indicators database online.
Note: Services correspond to divisions 6-9 (ISIC revision 2) or tabulation categories G-P (ISIC revision 3) and include wholesale and retail trade and restaurants and hotels; transport, storage, and communications; financing, insurance, real estate, and business services; and community, social, and personal services.

As per trade, Egypt exports goods and service worth 13% of GDP and imports merchandise and services equal to 22% of GDP. Merchandise trade with the rest of the world is characterized by a large and persistent deficit, however, the overall current account deficit is closer to a balanced position, due to Egypt's large service trade surplus, vis-à-vis the rest of the world. In fact, World Bank data reveals that around 1/3 of all Egyptian trade occurs in the service sector. Service exports and imports had reached their peak in 2004/05 with 18% and 11.7% of GDP, but following the financial crisis both imports and exports collapsed. The service trade balance remained in surplus but it shrank from around 5% previously to below 1% GDP.

Figure 18: Service Trade pattern
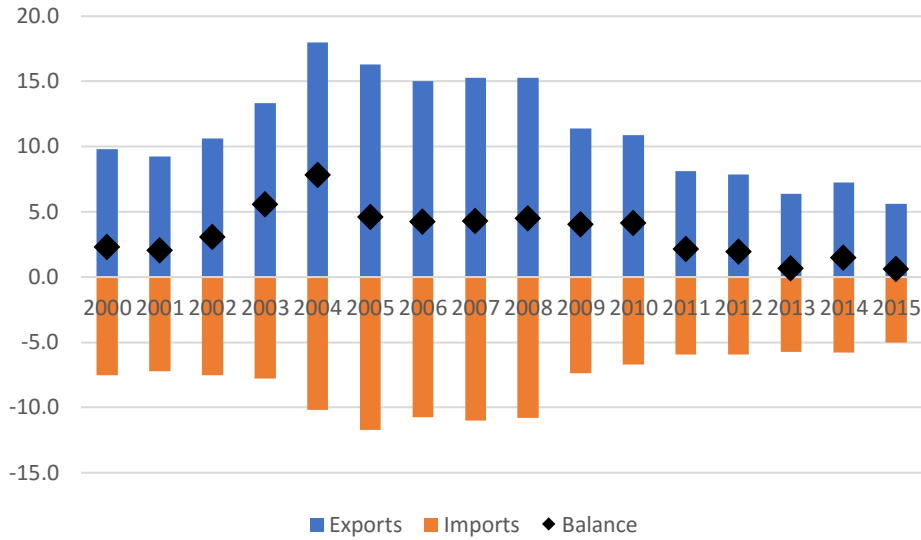
Source: Worldbank and Central Bank of Egypt.

The stark decline in service trade is largely due to the collapse of tourism inflows following the Arab Spring, paired with the global transport industry crisis and political turmoil. While transport exports grew at a slower pace, tourism receipts dropped by 70% between 2010 and 2015. Nevertheless, 33% of service exports are related to travel while transport exports make up more than half – a reversal in their previous shares. .

Figure 19: Service exports by sector

Share of service exports by item, 2014   Share of service imports by item, 2014
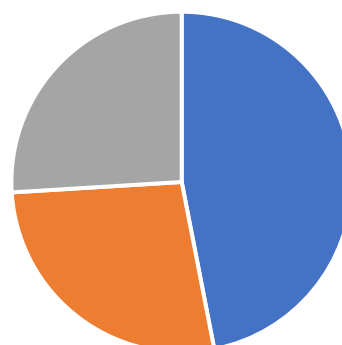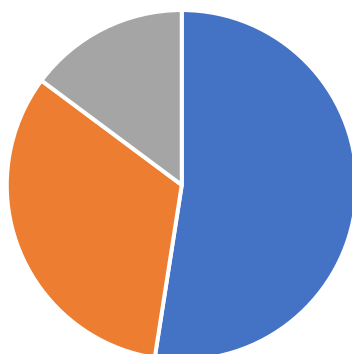
Source: Worldbank and Central Bank of Egypt

Transport exports are mainly sea freight, for which the Suez Canal is vital. The net tonnage passing through the canal has remained stable over recent years at around 950 million tons. The stable income from sea freight has kept the service balance in surplus but the Egyptian economy is suffering severely from declining tourism revenue, which has not yet shown signs of reversal.

At the sectoral level, Egypt has a perceived comparative advantage, as measured by net exports or exports in transportation (thanks to the Suez Canal), travel, construction services, financial services and personal remittances. By contrast, communication services, insurance services, computer and information services, other business services, personal, cultural and recreational services and finally government services suffer from a comparative disadvantage (Figure 20).

Figure 20: Revealed Comparative Advantage Index for Egypt, 2008
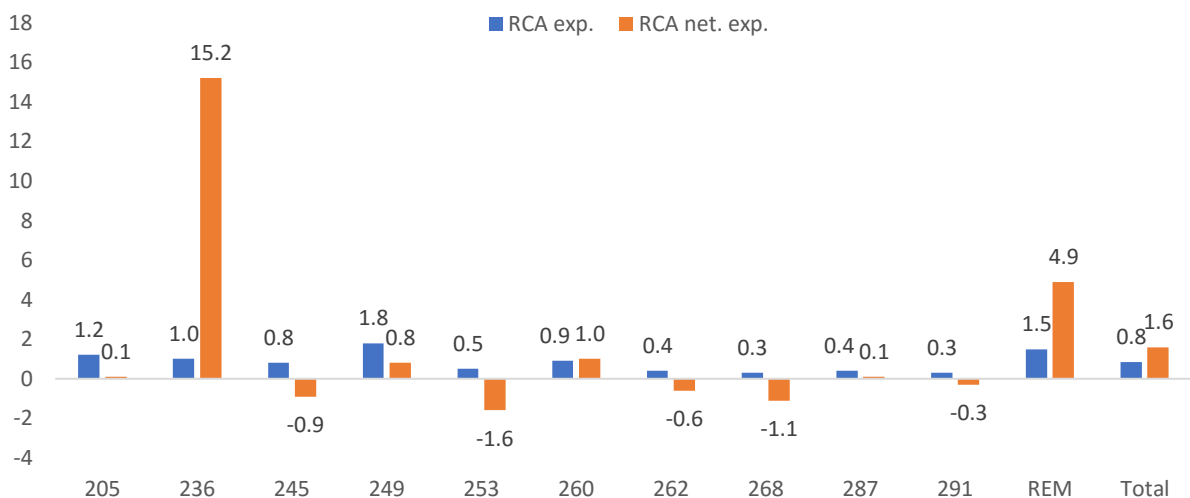
Source: Authors' calculations from Trade Map, International Trade Centre.

Notes: (i) For each sector, the blue bar provides the measure of Perceived Comparative Advantage based on export data only and the orange bar provides the same measure based on net exports. To have a comparative advantage, the former must be greater than one and the latter should be positive.

(ii) 205 = Transportation; 236 = Travel; 245 = Communication Services; 249 = Construction Services; 253 = Insurance Services; 260 = Financial Services; 262 = Computer and Information Services; 266 = Royalties and License Fees; 268 = Other Business Services; 287 = Personal, Cultural and Recreational Services; 291 = Government Services; REM = Personal Remittances.

Table 11 presents the number of commitments by sector and by country in the MENA region. It is important to note that Egypt, similarly to Jordan, Morocco, Oman and Kuwait have committed their trade in services to several sectors at the WTO. Egypt has specific

commitments in communications, construction, insurance, financial, travel and transportation services. Such commitments are likely to positively increase trade in services and attract domestic and foreign investments. Despite liberalisation efforts, trade in services remains hampered by barriers to commercial establishment, such as caps on foreign ownership and joint venture obligations, restrictions on types of commercial presence and number/type of services that can be provided, discriminatory registration requirements and licensing procedures, nationality and residency requirements, economic needs tests and discriminatory treatment advantaging domestic companies over the foreign ones. More restrictions could be identified, such as public monopolies in ports and port services, poor infrastructure for loading and storing goods, arbitrary changes in documentary requirements, surcharges and discriminatory taxes, and prohibiting the obtaining of cargo in the country of destination to take back to the country of origin (Karam and Zaki, 2013).

Table 11: Number of Commitments by Country and by Sector

	262	268	245	249	253	260	291	236	287	205
Bahrain					1	1				
Djibouti		1	3					1	1	
Egypt			1	3	1	2		4		1
Israel	1	2	4		1	1		3		
Jordan	1	5	3	5	1	1	8	2	4	7
Kuwait	1	3		4		1	3	3	2	3
Malta					1	1		2		1
Morocco	1	2	1	5	1	1		4		2
Oman	1	3	3	5	1	1	5	2		7
Qatar	1	3	1	4		2		1		0
Saudi Arabia	1	4	5	5		2	7	3	2	8
Tunisia			1		1	1		2		
UAE	1	3	1	5		1		2		

Source: WTO dataset.

2.2.4. Foreign Direct Investment

FDI in Egypt increased substantially between 2005 and 2008, as Egypt adopted a series of reforms that attracted FDI from European and Arab investors. Indeed, inflow of FDI decreased by 62 per cent from the 1990s until 2003. Following the adoption of reforms, FDI

multiplied 17-fold from 2003 to 2008. Yet, after the financial crisis and the revolution, FDI declined by 72 per cent between 2009 and 2013 (see Figure 21). To restore the economy and enhance the investment climate, a number of legislative and regulatory reforms were introduced. In March 2014, the overnment re-activated the role of the Egyptian Regulatory Reform and Development Activity (ERRADA) to revise and streamline business-related regulations and administrative procedures. In March 2015, new legislation was issued to simplify investment procedures, enhance the licensing system, and introduce better government-investor dispute settlement mechanisms. Moreover, the new law specifically targets labour-intensive projects, export-oriented activities and investments in remote areas with a number of incentives, such as reduced sales taxes and tariffs on machinery and equipment, free allocation of land, reduced energy tariffs, and increased tax exemptions.

Figure 21: Net FDI in Egypt, million USD
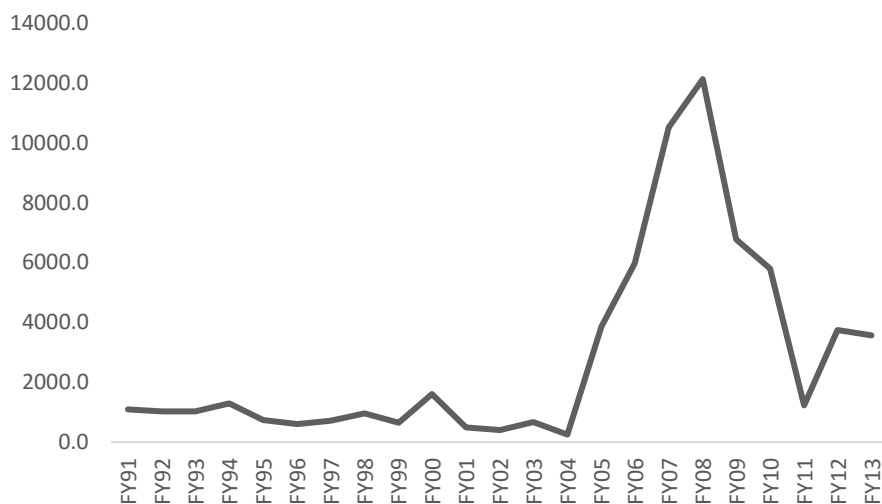
Source: Central Bank of Egypt

Nonetheless, as shown in Figure 22, Egypt's FDI inflows (as a share of GDP) have been increasing with reforms between 2005 and 2008. Yet, they reached significantly low levels with the financial crisis and the political turmoil of 2011, where they dropped lower than those of the MENA region or the middle-income countries.

Figure 22: Evolution of FDI inflows, 1970-2013 (share to GDP)
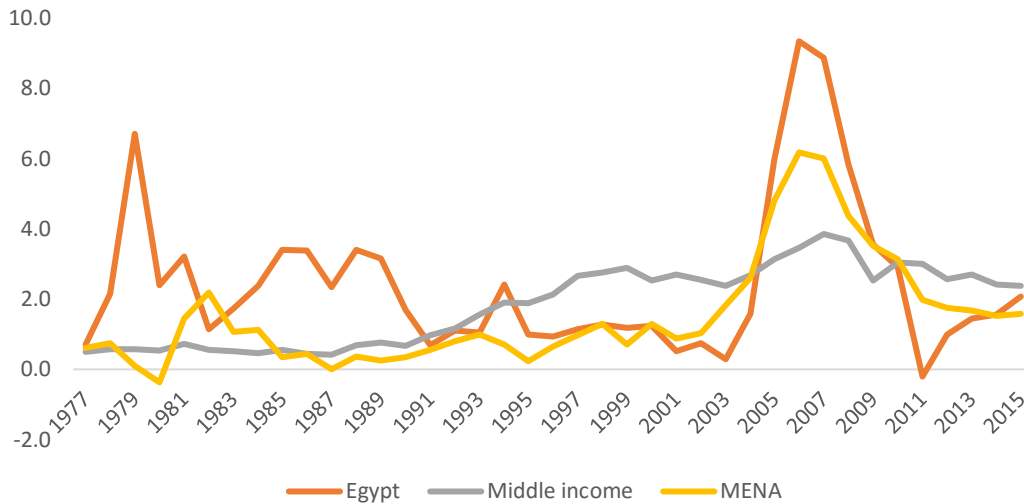
Source: Constructed by the authors using the World Development Indicators

Furthermore, a similar observation can be concluded from the capital account openness (KAOPEN) index developed by Chinn and Ito (2006). This index is a *de jure* measure of financial openness and liberalisation using four variables: the presence of multiple exchange rates, restrictions on current account transactions, restrictions on capital account transactions and the degree of commercial openness. The higher the index, the weaker the restrictions on capital movements. The index shows that, in general, the MENA region is much less integrated in the capital market than other regions (Figure 23).

Figure 23: KAOPEN index of developing countries across different regions
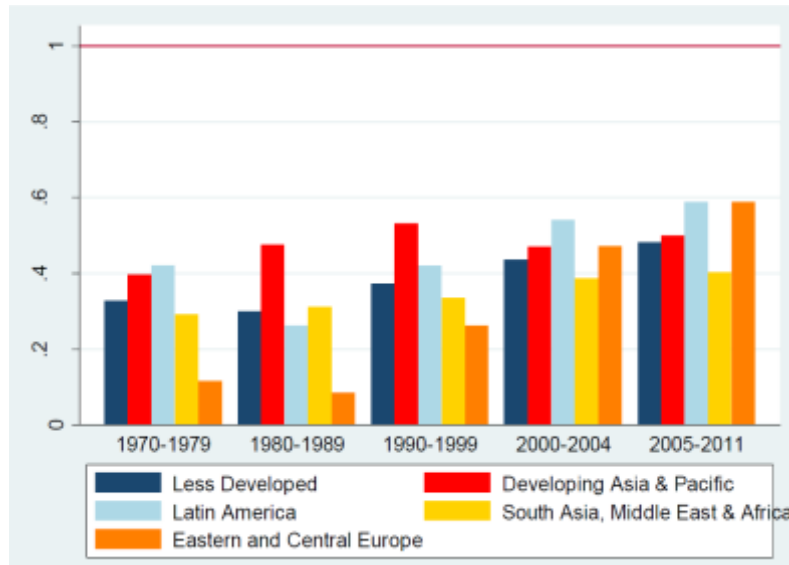
Source: Chinn and Ito (2006)

In Egypt, a severe decline in financial openness has been experienced (Figure 24) as the index decreased dramatically in recent years, pointing to a reversal of financial integration in the wake of the revolution.

Figure 24: Evolution of the KAOPEN index in Egypt (1970-2012)
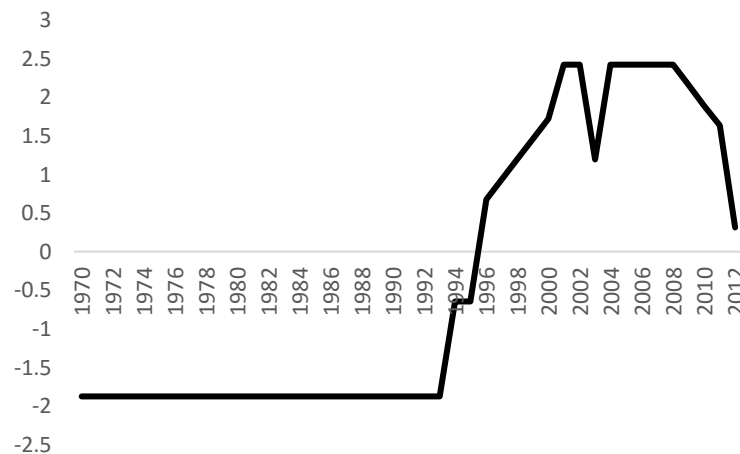
Source: Constructed by the authors using the KAOPEN index

Looking at the sectoral distribution of FDI in Egypt, the petroleum sector ranks first, followed by the services sector (Figure 25). This explains why most of the FDI inflows in Egypt did not generate enough jobs. Indeed, extractive industries are primarily capital intensive rather than labour intensive and their added value is extremely low. For this reason, it is strongly recommended to provide more incentives that attract FDI in the manufacturing sector, which is more likely to be conducive to employment generation.

Figure 25: Total FDI in Egypt by Economic Sector 2011/2012
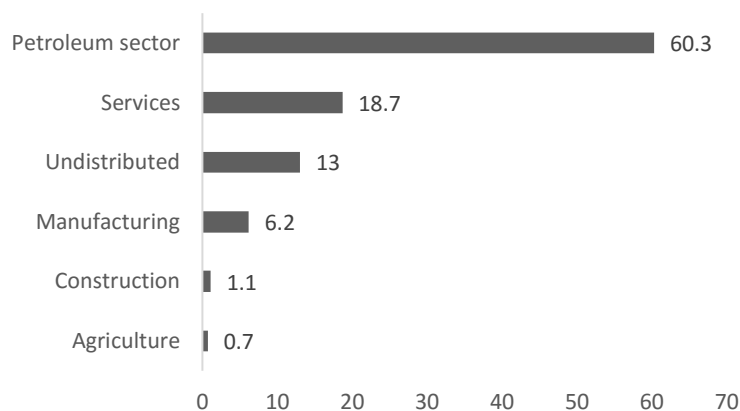
Source: Central Bank of Egypt (2012)

2.3. Exchange Rate Policy

Since the 2011 political turmoil, Egypt has been suffering from a series of rapid declines in international reserves. Between January 2011 and December 2012, the Egyptian Pound lost around 4 per cent of its value against the dollar. To maintain its declining foreign reserves, in December 2012, the Central Bank of Egypt introduced a new system of regular currency auctions allowing the Egyptian pound to float more freely and to more closely reflect supply and demand forces. This resulted in a drop in the pound against the US dollar, reaching EGP6.70/US$1 in March 2013. The Egyptian pound experienced a further depreciation in early 2015, reaching 7.61EGP/US$1 with a level of foreign reserves of US$15.4 billion (compared to US$36 billion in December 2010) and equivalent to only 2.8 months of projected imports of goods and services. By October 2016, the dollar reached an official rate of EGP 8.88 and as high as EGP 18 on the parallel market. The CBE hereby announced its decision to move, with immediate effect, to a liberalized exchange rate regime in order to quell any distortions in the domestic foreign currency market. By the end of 2016, the Egyptian pound was floated against

the US dollar to EGP 13.00 per USD. By early 2017, the exchange rate reached 18 EGP/USD (Figure 26) leading to soaring inflation rates (Figure 27).

Figure 26: Exchange Rate Developments (EGP/USD)
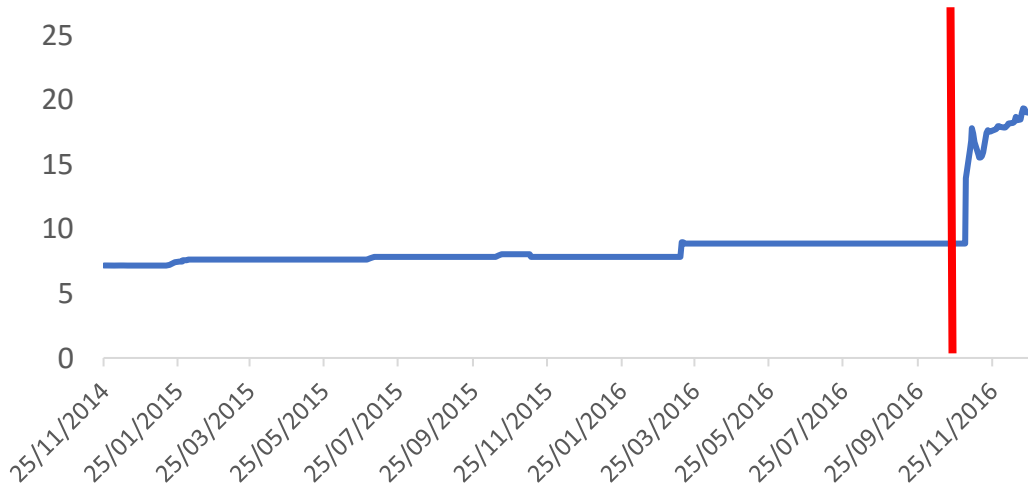
Source: The Central Bank of Egypt

Figure 27: Inflation Rate Development
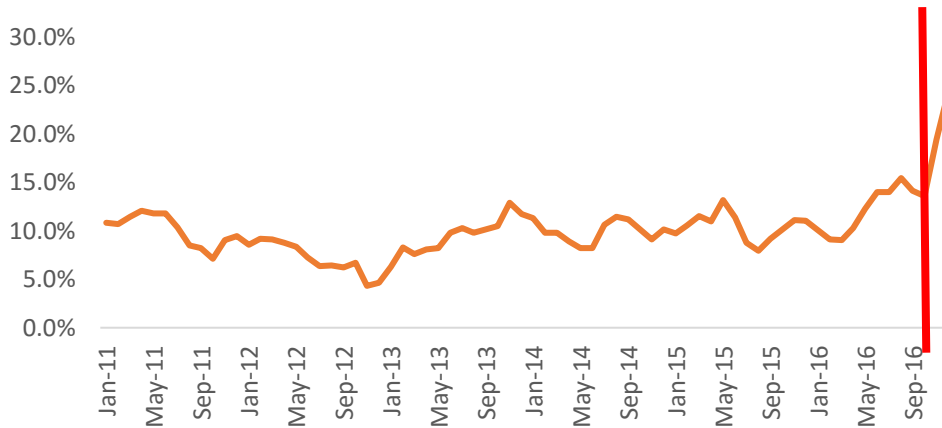
Source: The Central Bank of Egypt

Yet, it is worth noting that exports are not very elastic to exchange rate movements. Indeed, Figure 28 shows that exports do not appear to be elastic, in the short term, to exchange rate movements. Yet, due to the lack of a longer time scale, it is difficult to look at the real impact it could have in the medium/long term.

Figure 28: Correlation between Exports and Exchange Rate

$$y = 0.0592x + 1.5715$$
$$R^2 = 0.0218$$
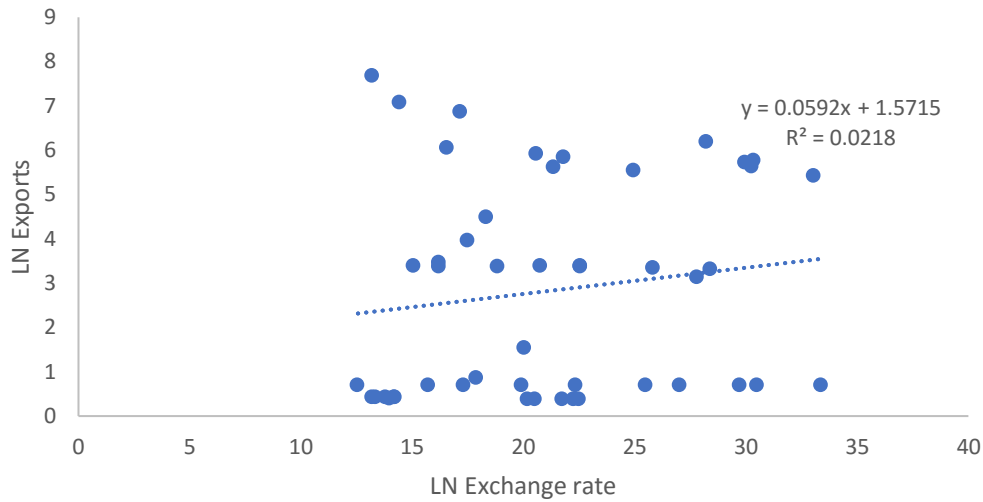
Source: The Central Bank of Egypt

2.4. Remittances

Remittances represent one of the main sources of hard currency in Egypt (see Figure 29) with export proceeds, FDI, tourism and Suez Canal receipts.

Figure 29: Sources of Foreign Currency in Egypt
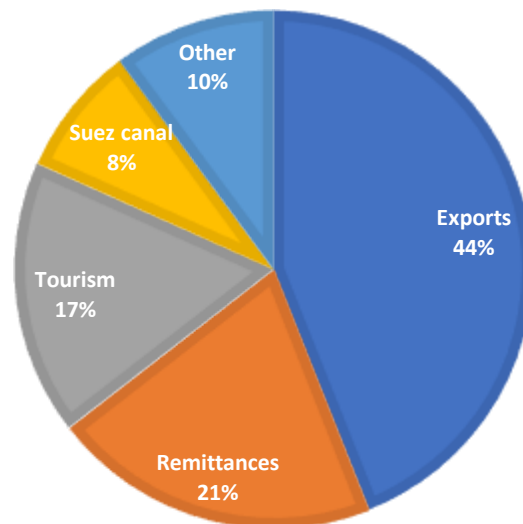
Source: Central Bank of Egypt

Since the 1970's, the main destinations for Egyptian skilled and unskilled labour has been the Gulf countries, followed by Africa (especially Libya), Europe and North America. Remittances originating from the Gulf region have increased to 59% of total remittances in 2009. Meanwhile, the contribution of other destinations to remittances is much lower (Figure 30).

Figure 30: Origin of Remittances in Egypt (2009)

(a) Remittance Inflows to Egypt by Continent of Origin

(b) Percent of Egyptian Migrants by Continent of Destination
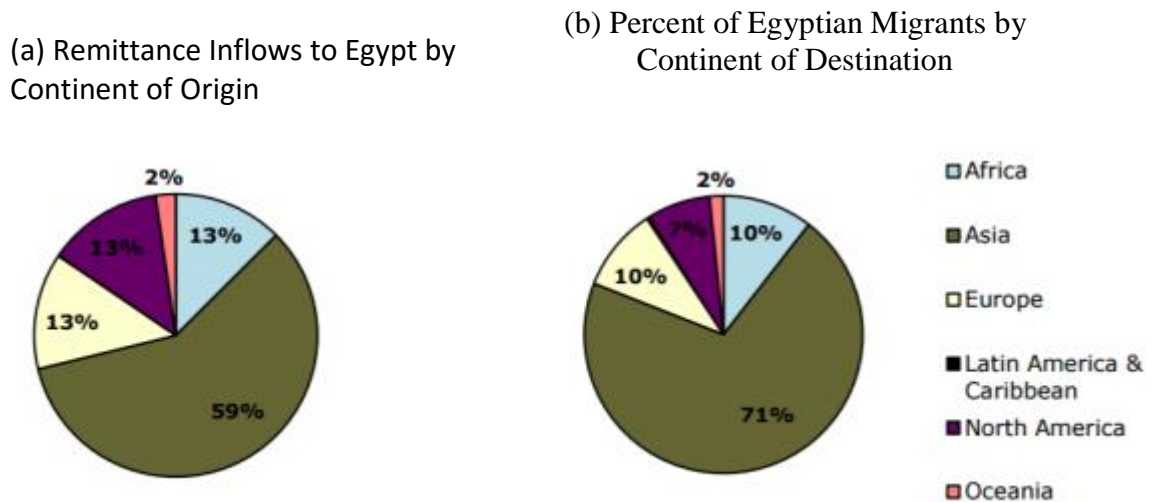
Source: Human Development Report (2010).

The importance of remittances has evolved over time where, in an initial phase between the late 1970's and the early 1990's, they had reached up to 15% of GDP by 1993. The second phase started shortly after the second Gulf War, where remittances witnessed a sudden and sharp drop from 15% of GDP in 1993 to a mere 7% of GDP in only one year. Remittances continued to drop to as low as 2.8% of GDP in the year 2000, before they began to pick up slightly afterwards, reaching almost 5.5% of GDP in 2015. Remittances have dropped since 2012 due to political instability in the Arab region, especially in Libya, one of the most important destinations of unskilled Egyptian labour.

Figure 31: Evolution of Remittances in Egypt
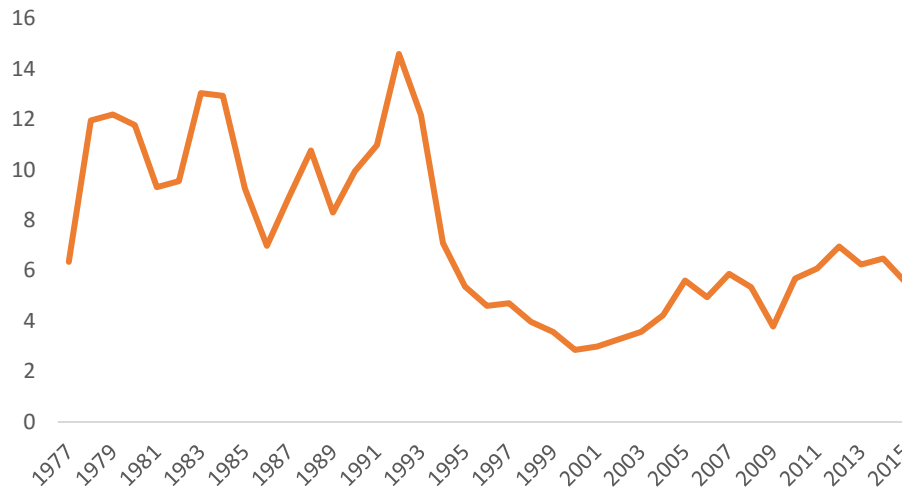
Source: World Development Indicators

2.5. Trade and investment barriers

2.5.1. Tariff barriers

Nearly 99 per cent of Egypt's tariff lines are bound by the WTO. Most Favoured Nation (MFN) tariffs, applying to non-agricultural products, are generally lower than those applying to agricultural goods, with an average of 12.8% and 66.4% respectively. Some tariffs on agricultural goods exceed 1,000 percent, such as those on beverages and spirits. Table 12 illustrates both applied and MFN tariff rates for Egypt, middle-income and high income countries.[30] Between 2000 and 2005, Egypt's applied tariffs dropped significantly: simple and weighted averages of applied tariffs[31] fell from 25% and 16.8% to 14.2% and 8.8% respectively. While the manufacturing sector has been significantly liberalised, the primary sector remains relatively protected. In 2012, the simple average of MFN tariffs was 39.7% for the primary sector, compared to 10% for manufacturing. Moreover, there is a wider gap between applied and weighted tariff rates in the primary sector than in manufacturing (39.7% and 6.6% respectively for primary, compared to 9.9% and 12.8% respectively for manufacturing). Such

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[30] MFN tariffs are what countries committed to impose on imports from other members of the WTO who are not part of an effective preferential trade agreement. This means that, in practice, MFN rates are the highest tariff rates that WTO members charge one another. An applied tariff rate is the average of effectively applied rates for all products, subject to tariffs calculated for all traded goods.

[31] According to the World Development Indicators dataset, a weighted mean tariff is the average of tariff rates weighted by the product import shares corresponding to each partner country. A simple mean tariff is the unweighted average of tariff rates for all products, subject to tariffs calculated for all traded goods.

differences are due to high tariffs imposed on some products with little weight in international trade, such as in the case of tobacco and alcohol. It is also important to note that, on average, Egypt's tariffs are higher than those of middle-income or high income countries for both the primary and manufacturing sectors.

In the 2030 Sustainable Development Strategy, the government of Egypt has announced its plan to increase the contribution of exports to GDP growth from 3.5% to 25%. This requires an overall reduction in bureaucracy, administrative procedures and other implicit impediments to trade, if Egypt is to increase not only the volume of exports to the same destinations, but, more importantly, the number of products, of destinations, and of exporters.

Table 12: Tariff Rate by Sector, 1995-2009

Country	Year	Applied - simple mean			Applied - weighted mean			MFN - simple mean			MFN - weighted mean		
		All	Manuf.	Prim.	All	Manuf.	Prim.	All	Manuf.	Prim.	All	Manuf.	Prim.
Egypt	1996	24.3	24.12	25.88	16.65	22.36	7.65	34.65	29.34	52.88	16.65	22.36	7.65
	2000	25.09	21.63	52.34	16.82	19.98	12.88	28.57	22.19	50.72	16.82	19.98	12.88
	2005	14.23	11.37	37.03	8.76	10.67	6.3	19.59	13.38	41.08	10.01	11.56	8.14
	2010	10.94	8.21	32.89	9.6	10.9	7.69	16.76	9.99	39.67	11.66	13.23	9.34
	2012	9.76	7.27	28.64	7.4	9.99	4.7	16.76	9.99	39.67	9.73	12.79	6.57
Middle Income	1996	13.99	13.99	13.95	12.95	13.23	12.31	14.11	13.99	14.35	12.99	13.27	12.36
	2000	14.4	14.2	15.84	12.84	12.92	12.66	15.01	14.49	16.68	13.05	13.15	12.79
	2005	10.2	9.83	13.16	6.09	6.11	5.94	11.1	10.51	13.1	7.93	8.06	7.52
	2010	7.27	7.16	8.17	4.2	5.06	2.53	8.64	8.27	9.8	5.89	6.87	3.98
	2012	8.15	7.78	10.95	4.86	5.96	2.89	9.77	9.06	12.06	6.43	7.71	4.15
High Income	1996	5.79	5.03	10.32	39.37	3.52	141.86	8.38	6.97	13.18	40.57	4.81	142.6
	2000	4.99	4.46	8.17	2.37	2.08	3.26	6.74	5.87	9.75	3.37	3.18	3.98
	2005	3.39	3.07	5.31	1.76	1.68	2	5.57	5.19	6.92	2.64	2.63	2.7
	2010	2.8	2.58	4.13	1.84	1.91	1.77	5.86	5.74	6.33	2.67	2.73	2.6
	2012	3.91	3.74	5.02	1.66	1.81	1.47	6.73	6.49	7.57	2.49	2.72	2.16

Source: World Bank, World Development Indicators, 2011

2.5.2. Non-tariff barriers

Despite significant liberalisation efforts, Egypt remains among the group of developing countries that have the highest frequency index and coverage ratio of non-tariff measures (NTMs) (see Figure 32). Moreover, the EU, Egypt's main trade partner, also a high index of NTMs, which affects the ability of Egyptian exports to enter the European market. These are sanitary and phyto-sanitary measures, as well as technical barriers, as will be shown later.

Figure 32: Frequency index and coverage ratios by country
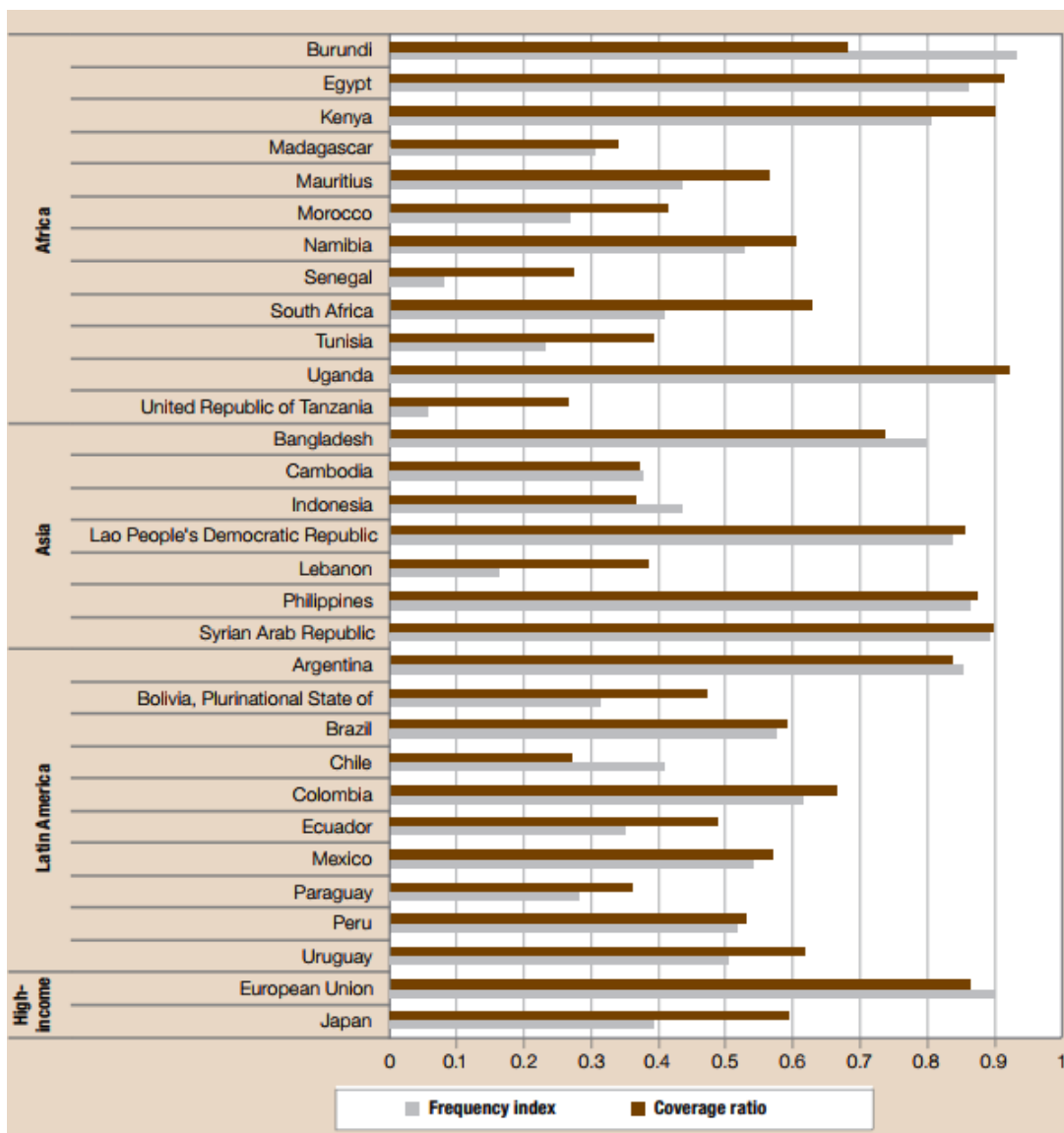
Source: UNCTAD (2013).

The structure of NTMs in Egypt suggests that administrartive barriers are the most important impediments to trade. Hendy and Zaki (2014) show that the cost of some red tape for exports and imports is high and time-consuming (Table 13). In fact, according to the Doing Business dataset, when compared to MENA or the OECD, it transpires that Egyptian procedures entail the greatest number of documents, which creates a lengthier than necessary clearance process for imported and exported goods. Nonetheless, Egypt's cost of exporting and importing is lower than the OECD or the MENA region. There is still much Egypt can learn from best practice countries in aspects of trade facilitation.

Table 13: Export and Import Procedures, 2015

Indicator	Egypt	MENA	OECD
Documents to export (number)	8	6	4
Time to export (days)	12.0	19.4	10.5
Cost to export (US$ per container)	625	1,166	1,080
Documents to import (number)	10	8	4
Time to import (days)	15	23.8	9.6
Cost to import (US$ per container)	790	1,307	1,100

Source: World Bank (2015b), Doing Business Indicators

El-Enbaby et al. (2016) show that Sanitary and Phyto-Sanitary (SPS) measures do matter for Eypt's trade. Indeed, it is worth noting that the number of SPS measures imposed on Egypt increased exponentially from 18 in 2006 to 888 in 2012, as shown in Figure 33. This is consistent with what has been mentioned before, as lower tariffs were coupled with more non-tariff measures between developing and developed countries.

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Figure 33: Number of SPS Measures 2006-2012
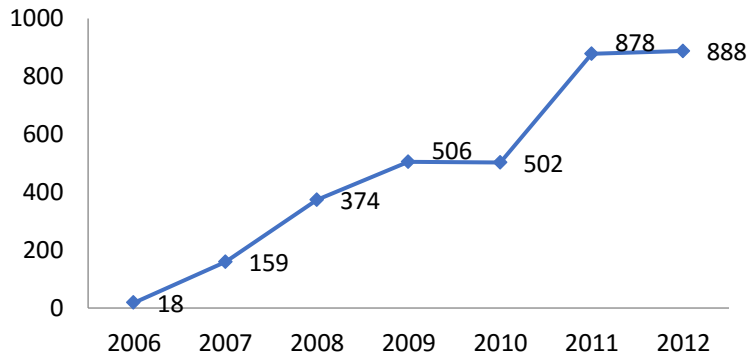
Source: El-Enbaby et al (2016).

Figure 34 illustrates the share of SPS measures imposed on Egypt by different countries. The highest shares are attributed to Japan and Canada (among developed countries) and Brazil, Ukraine and China (among emerging economies). Surprisingly, these countries impose SPS measures on products that Egyptian firms do not export (El-Enbaby et al., 2016). The presence of such measures could be among the main reasons explaining the absence of exports of such products. Hence, these measures are prohibitive.

Figure 34: SPS Measures Imposed on Egypt by Country (in %)
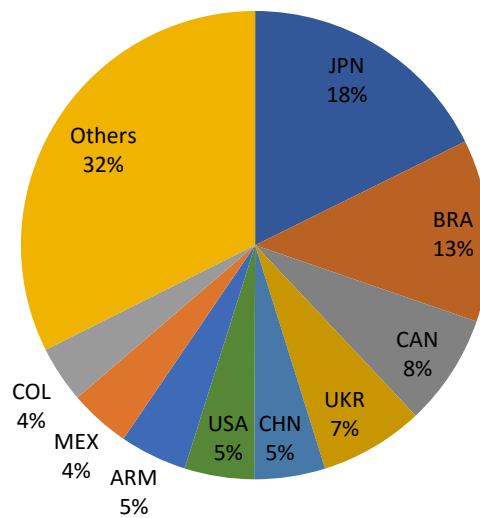
Source: El-Enbaby et al (2016).

As for SPS measures imposed on products effectively exported by Egypt, these mainly originate from EU countries, as shown in Figure 35. Being the most important trading partner

for Egypt, the EU mainly imposes SPS measures on leguminous vegetables, beans and seeds. Food safety, and protection of humans, animals and plants from pests and diseases are the reasons for imposing these measures (El-Enbaby et al., 2016).

Figure 35: SPS Measures Imposed by European Countries on Egypt (in %)
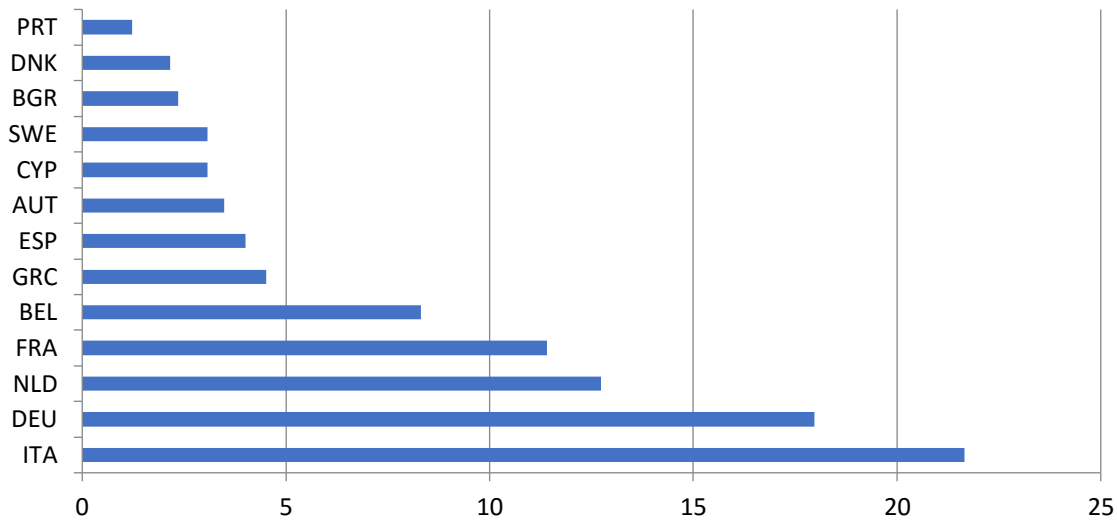
Source: Constructed by authors using WTO SPS data.

The average value of Egyptian exports for products not subject to SPS measures, is almost triple the value of products subject to such measures. SPS measures on Egypt mainly apply to food products, given their potential risks to human and animal health. At the HS2 level (see Figure 36), edible vegetables are subject to the highest number of SPS measures. SPS measures applying to this category represent more than triple those on meat and meat offal, and live animals arriving at second and third destinations respectively. In the framework of the EU-Egyptian Association Agreement, Egypt is currently working on the development of an Egyptian policy on food safety, and on the establishment of a unified food safety authority.

Figure 36: SPS Measures Imposed on Egypt (by sector, at the HS2 level)
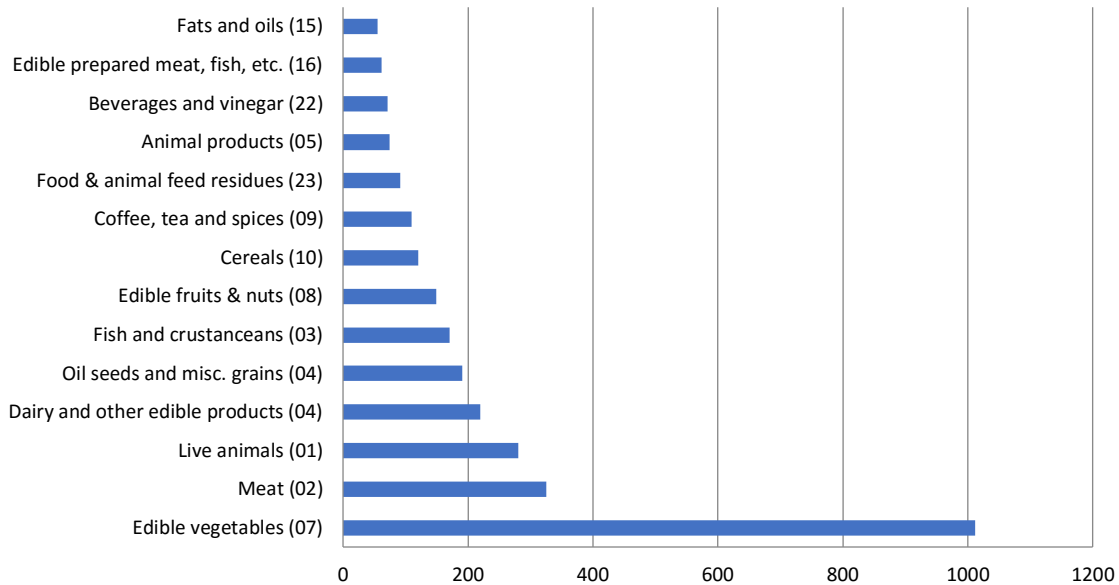
Source: El-Enbaby et al (2016).

Rules of origin continue to act as a barrier to Egyptian exports. Commodities are considered of Egyptian origin in the following cases:

a- Products entirely obtained from Egypt.

b- Products obtained from Egypt but their components are foreign, with at least 40% of the value added from Arab countries, 50% from European countries, and 60% from Islamic countries.

c- Transformation is not sufficient to grant the product the quality of origin when tariff line changes.

It is worth noting that rules of origin are also present in most Egyptian trade agreements. First, in the *Egypt-EU Partnership*, all goods exported from Egypt to the EU are immediately exempt from tariffs. Local component requirements (a minimum of 60% from Egypt or the EU) under the rules of origin for Mediterranean countries also allow for the use of inputs from third countries (diagonal accumulation of origin) for the remaining 40% of content. Second, for *the GAFTA Agreement*, the percentage of value-added required to confer origin is 40% of the ex-factory cost. Local labour is counted as value-added and Egyptian assembly of US parts constitutes transformation to meet the origin requirements under

GAFTA. Moreover, local component requirements under GAFTA rules of origin also allow for the use of inputs from all other members (diagonal accumulation of origin). Third, according to *the COMESA Agreement*, all commodities are exempt between member countries with a minimum local value-added of 45%. Yet, US companies exporting from Egypt would have an edge entering the 19 COMESA countries duty free, where general import duties reach up to 15%. Finally, in the *Qualified Industrial Zones (QIZ) protocol*, some designated geographic areas within Egypt enjoy a duty free status with the USA. Companies located within such zones are granted duty free access to the US markets, provided that they satisfy the agreed Israeli component as per the pre-defined rules of origin, which state that 35% of the product's value must be manufactured in Egypt, of which 10.5% must be of Israeli origin to satisfy the agreed ratio.

2.6. Trade and investment agreements

Unilateral trade liberalisation efforts have been coupled with many bilateral and multilateral free trade agreements (FTAs).

Table 14 and Table 15 show the different trade agreements signed by Egypt. On the bilateral front, Egypt has concluded free-trade agreements with the European Union (2004), the members of EFTA (the Republic of Iceland, the Principality of Liechtenstein, the Kingdom of Norway, the Swiss Confederation, 2004), Turkey, and other Arab countries.

As far as EU-Egyptian relations are concerned, negotiations have been resumed after a temporary hold, in the wake of the January 2011 revolution. Exploratory discussions on the Deep and Comprehensive Free Trade Agreement (DCFTA) began in 2012, followed by a dialogue that was launched in June 2013. However, these negotiations are currently on hold.

Nevertheless, some of the components of the EU-Egyptian Action Plan have been covered by both previous and ongoing reforms. Speaking of trade and trade facilitation, the Government of Egypt has significantly reduced tariff and non-tariff barriers. It is also currently working on the streamlining and harmonisation of Egyptian standards to be in line with the EU and international standards, on upgrading its quality infrastructure and on identifying areas with export potential to the EU, in preparation for an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA).

At the regional level, Egypt has acceded to the Greater Arab Free Trade Area (GAFTA), the Common Market of Eastern and Southern Africa (COMESA) and the Agadir Free Trade Agreement (with Tunisia, Jordan and Morocco). According to the latter, member countries are

to remove all tariffs on trade between them and to harmonize their legislation with regard to standards and customs procedures.

Egypt also has some framework agreements that should turn into free trade ones, such as the agreement with the MERCOSUR countries, as well as one with the West African Economic and Monetary Union (UEMOA). Finally, Egypt signed the Qualified Industrial Zones (QIZ) Protocol[32] in December 2005 with the United States and Israel. All these agreements have contributed to the increase of exports and imports in Egypt since 2004 (Zaki, 2014). Nonetheless, several agreements are not effective or did not generate the expected positive effects.

Table 14: (Intra-regional) Trade Agreement in Egypt

Preferential trade arrangements	WTO member states	Signature date	Date of entry into force
Egypt-Syria FTA	Syrian Arab Republic	July 1991	December 1991
Egypt-Tunisia FTA	Tunisia	March 1998	March 1999
Egypt-Morocco FTA	Morocco	May 1998	April 1999
Egypt-Jordan FTA	Jordan	December 1998	December 1999
Egypt-Lebanon Executive Program to Support Trade	Lebanon	January 1999	March 1999
Egypt-Iraq FTA	Iraq	January 2001	July 2001
Egypt-Libya Trade and Customs Agreement	Libya	August 2003	April 2007
Greater Arab Free Trade Area	Algeria – Bahrain – Iraq – Jordan – Kuwait – Lebanon – Libya – Morocco – Oman – Palestine (State of) – Qatar – Saudi Arabia – Sudan – Syrian Arab Republic – Tunisia – United Arab Emirates – Yemen – Mauritania (signed only)	February 1997	January 1998
Common Market for Eastern and Southern Africa	Burundi – Comoros – Democratic Republic of the Congo – Djibouti – Eritrea – Ethiopia – Kenya – Libya – Madagascar – Malawi – Mauritius – Rwanda – Seychelles – Sudan – Swaziland – Uganda – Zambia – Zimbabwe	Egypt became a member in June 1998	October 2000

Source: WTO

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[32] Qualifying Industrial Zones (QIZ) are designated geographic areas, within Egypt, that enjoy a duty free status with the United States. Companies located within such zones are granted duty free access to the US markets, provided that they satisfy the agreed Israeli component of 10.5%, as per the pre-defined rules of origin.

Table 15: (Extra-regional) Trade Agreements in Egypt

Preferential trade arrangements	WTO member states	Signature date	Date of entry into force
EU-Egypt Association Agreement (AA)	27: Luxembourg – France – Germany – Italy – Ireland – Belgium – Netherlands – Denmark – United Kingdom – Greece – Portugal – Spain – Austria – Finland – Sweden – Cyprus - Czech Republic – Estonia – Hungary – Latvia – Lithuania – Malta – Poland – Slovakia – Slovenia – Romania – Bulgaria	Signature: June 2001	Interim Trade Section: January 2004 Full AA: June 2004
Egypt-Turkey FTA	Turkey	December 2005	March 2007
Egypt-EFTA FTA	Iceland – Liechtenstein – Norway – Switzerland	January 2007	August 2007
Agadir FTA	Morocco – Jordan – Tunisia	February 2004	March 2007
Qualifying Industrial Zones	Israel – United States	December 2004	February 2005
Egypt-MERCOSUR FTA	Argentina – Brazil – Uruguay – Paraguay	August 2010	--
Egypt-Russian Federation FTA	Russian Federation	Initiation: January 2010 – Currently Egypt is offered GSP scheme for several agricultural products	--

Source: WTO

2.7. Ex-post impact assessment on employment

It is useful to examine the correlation between different macro-economic variables and employment. Figure 37 and 38 demonstrate that both exports and FDI are positively and significantly correlated to employment. Yet, the correlation is stronger between exports and employment than that between FDI and employment. This shows that FDI should be allocated to sectors that can generate more jobs and are less capital intensive, given that most of the FDI inflow in Egypt is currently directed to the oil sector. From a policy perspective, this result underlines the necessity for decision makers to promote policies aimed at encouraging domestic producers to export and at attracting foreign investments in labour-intensive sectors, in order to help reduce unemployment.

Figure 37: Correlation between Exports and Employment
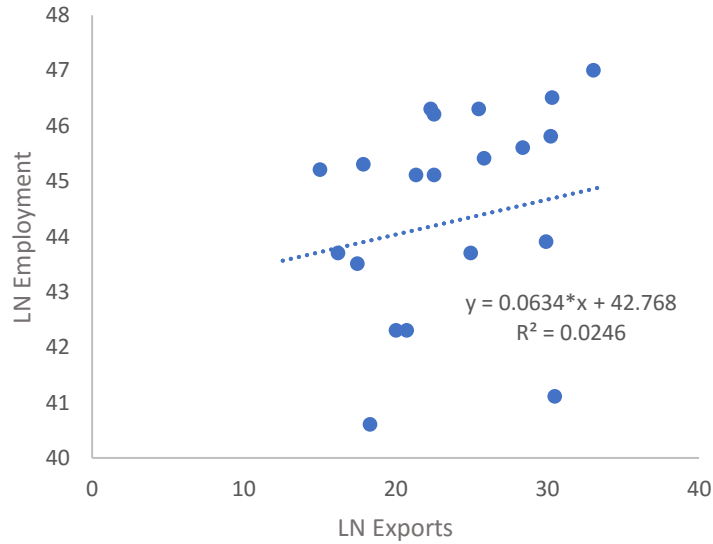
Source: Constructed by the authors using the World Development Indicators

Figure 38: Correlation between FDI and Employment
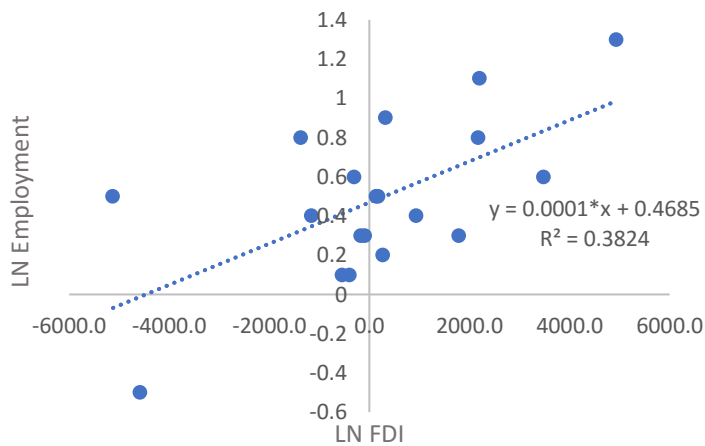
Source: Constructed by the authors using the World Development Indicators

2.8. Conclusion

Recent decades have witnessed significant growth in global trade. Many developing countries have undergone an economic liberalisation process through tariff reduction and removal of non-tariff barriers. Hence, exports have become an engine of growth for these economies. From a general equilibrium perspective, more exports mean more production, and, thus, more employment.

The Egyptian economy has experienced several waves of liberalisation that led to a significant boost in both exports and imports. The Government of Egypt has carried out a series of reforms aimed at facilitating local and foreign investment, especially in export-oriented sectors. Moreover, Egypt has signed several trade agreements that helped reducing trade barriers (both tariffs and non-tariffs) and aiming at improved integration of Egypt into the region and into the world economy. With exports being among those macro-economic variables with significant impact on employment, the objective of this report is to provide a descriptive analysis of Egypt's trade flows and trade policy and provide initial insights on the nexus between trade and employment in Egypt.

Our preliminary findings suggest a stronger link between exports and employment than between FDI and employment. This can be attributed to the privilege of capital-intensive industries, especially the oil sector, in receiving investments. Meanwhile, Egypt has managed to diversify its exports beyond oil, which has contributed to increased employment of the relatively abundant blue-collar workers. It is, therefore, necessary for the Egyptian government to take further steps in enhancing the overall climate for local businesses and investors, especially in labour-intensive and export-oriented sectors, and to take serious steps to attract foreign direct investments in sectors other than oil.

3. Country report: Jordan

Nooh Alshyab

Since its deep financial crisis of 1989, Jordan has engaged in a comprehensive economic reform programme and, under the guidance of the International Monetary Fund, Jordan took important steps towards opening up its market and integrating in the global economy. As a result, Jordan has become a member of the World Trade Organization and has signed a large number of Free Trade Agreements, including with the United States and the European Union. Despite these policies, Jordan suffers from a chronic trade deficit, as the country is strongly import oriented. To support the balance of payment, Jordan has also put much effort into attracting foreign direct investment. Nevertheless, the inflow of foreign direct investment has been mostly sporadic and our analysis could not find support for its correlation with employment. An important source of capital is represented by workers' remittances. Since the early 1970s, remittances have assumed growing importance for the Jordanian economy and have had a major effect, both on the role of the state and on the patterns of consumption.

3.1. Introduction

Jordan is a small country, poor in natural resources and heavily dependent on imports. The country is characterized, therefore, by a chronic deficit in its balance of trade, which can be considered an enduring feature and has presented a serious macro-economic concern since the constitution of Jordan. Jordan is not an oil producing country. The agricultural sector is performing poorly (3% of GDP) and, since Jordan is the world's second water scarcest country, does not show potential for significant improvement. The industrial sector and, in particular, manufacturing are weak, too: as a reference, the manufacturing sector contributes only 18% to GDP. During the 50s and 60s, international aid represented one of the main sources of finance for the chronic balance of trade, to which was added, in the 70s, a massive inflow of remittances from expatriate workers. In fact, Jordan has a long standing tradition of migration of highly educated workers, as the education level in Jordan is relatively high in regional comparison. Overall, the inflow of international aid and remittances has financially supported the country and has facilitated the development of its state apparatus and infrastructure building. However, on the other hand, these capital flows have contributed to the establishment of a semi rentier state and have, herewith, further hampered the development of a solid productive economy, in turn reinforcing the dependency on imports.

In the realm of its economic reform programme, Jordan has done much to improve its integration into the global economy. Until the beginning of the 1990s, however, Jordan had a rather fiscalist approach to international trade, and tariff revenues were one of the main sources of state revenues. After that, Jordan took taken important steps towards trade liberalisation and, in 2000, became a member of the World Trade Organization (WTO). At present, Jordan is classified as a "mostly free" economy concerning the sub-indicator "trade freedom" by the Heritage Foundation's Index of Economic Freedom 2016. Furthermore, Jordan has established trade and economic agreements both at a regional and at bilateral level with 86 countries from all over the world (specifically, 19 agreements are with Arab countries and 67 with non-Arab countries).

3.2. Overview of trade and investment patterns

An overview of a country's international transactions, both in terms of international trade and in terms of international flows of capital and investment, is provided by the Balance of Payment. The Balance of Payment for Jordan from 2000 to 2014 is presented in Annex 1 and shows that the current account deficit is a chronic feature of the Jordanian economy. In 2014, the current account deficit represented 7% of GDP, mildly recovering from a deficit of almost 10% in 2013. The main reason for the current account deficit is the sustained deficit in the trade balance, which is due to imports significantly exceeding exports. In 2014, the trade balance deficit was almost 34% of GDP, with imports being 57% of GDP and exports 23%.

Trade in services has improved its net position: the service account, which was 5% of GDP in 2013, increased to 7% of GDP in 2014. Similarly, current transfers have increased, too, mostly due to the increase in the inflow of workers' remittances.

In 2014, the decrease in financial accounts made the financing of the current account deficit more challenging. In the last year, financial accounts have suffered from a decrease in Foreign Direct Investment, which reduced their share of GDP from 23% in 2006 to less than 5% in 2014.

International trade and Foreign Direct Investment have been recognized as important pillars for economic growth, leading to job creation and employment. Therefore, to follow, trade in goods, trade in services, and FDI will be analyzed in more detail.

The volume of trade in Jordan has exponentially increased, in particular since 2000 and the admission of Jordan to the WTO.

The development of the volume of trade (import plus export) between 1980 and 2014 is presented in Figure 39. It emerges that the volume of trade in Jordan has exponentially increased over time, in particular after the accession of Jordan to the WTO in 2000.

Because of the financial crisis, the increase in trade sharply decreased in 2009 (-13% between 2008 and 2009) thereafter starting to increase again. The volume of trade in goods and in services reveals pretty similar trends.

Figure 39: Volume of trade between 1980 and 2014 in US$ ml
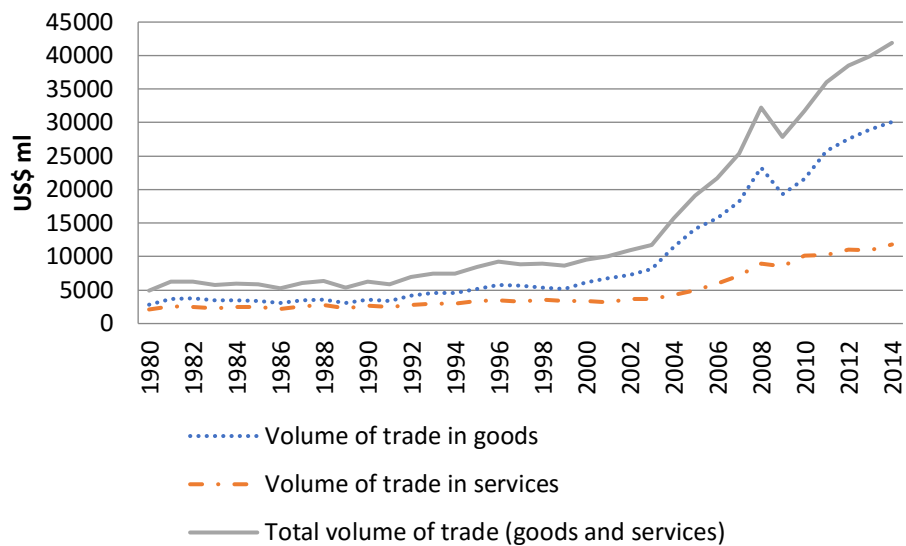
Source: UNCTAD database, 2016

Figure 40 assesses the volume of trade in terms of GDP. The trade to GDP ratio can be used as an indicator for the openness of an economy and helps understanding of the importance of trade and of trade liberalisation for Jordan. In recent years, the volume of trade to GDP ratio has steadily decreased, from 125% in 2011 to 119.5% in 2013 and to 118% in 2014. In terms of ratio to GDP, trade in goods has, thus, been fluctuating but always within a given range. On average for the whole period under consideration, the trade in goods to GDP ratio was 79.2%, with a standard deviation of 14.6. The trend in the trade in services ratio is, on the contrary, decreasing: it was more than 50% at the beginning of the 80s and is presently at around 32-33%.

Figure 40: Volume of trade to GDP ratio between 1980 and 2014
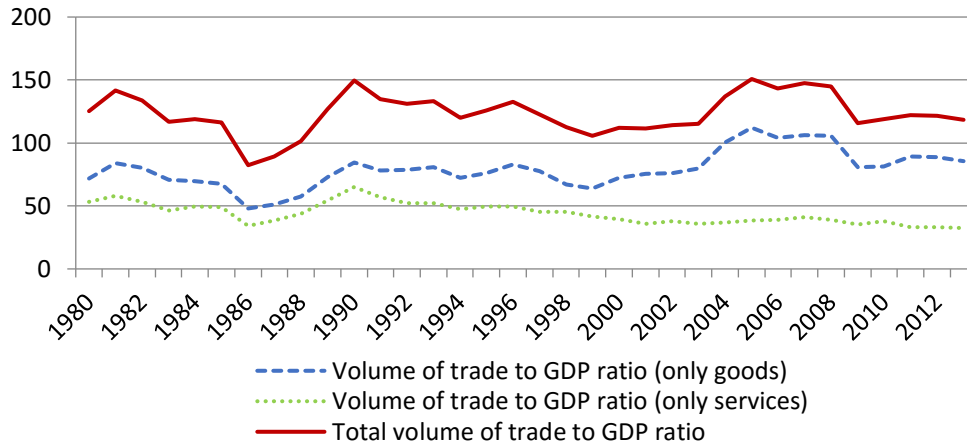
Source: UNCTAD database, 2016

Overall, the net trade in goods and in services is clearly negative: total imports in goods and services are significantly higher than total exports. In 2014, deficit of total trade in goods and in services was almost 34% of GDP, with total imports of goods and services being 57% of GDP and total exports 23%.

3.2.1. Trade in goods

The Trade openness ratio (defined as the external trade to GDP ratio) reached its highest levels between 2004 and 2008. The maximum was in 2007, at 106% of GDP, and because of the financial crises the ratio started to decrease falling to 80-81% in 2009 and 2010. It then started to increase again reaching 85% in 2014 slightly less than the almost 86% of 2013.

Imports and exports of the last five years are presented as a share of GDP in Figure 41. It is also evident here that there is a slight decreasing trend, with the total volume of trade over the last years reflected in a similar manner, both on imports and on exports.

Figure 41: Imports and exports as share of GDP between 2010 and 2014
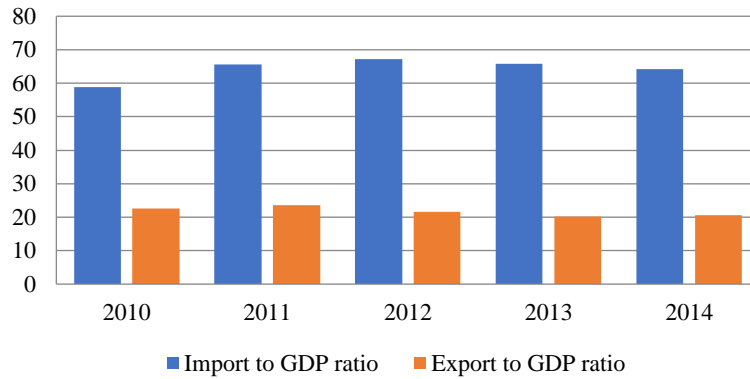
Source: Authors' calculation based on data by the Central Bank of Jordan, 2015

The chronic situation of Jordan's trade balance is depicted in Figure 42. In terms of share of GDP, the trade balance deficit was almost 34% in 2014.

Figure 42: Jordanian balance of trade between 1980 and 2014 in US$ ml

Source: UNCTAD, 2016

The volume of trade and, thus, trade deficit (in absolute value) started jumping up by the mid 1970s. In particular, imports started to gain importance as a consequence of the increase in workers' remittances and international aid, which at the beginning of the 1980s accounted for almost 50% of Jordanian GDP. A second large jump in the trade deficit then occurred at the beginning of the 1990s, coinciding with the IMF involvement in the country in respect of the economic reform process. After accession to the WTO in 2000, the trade

balance deficit again increased in size, becoming a very serious concern for the country (see Figure 42).

Export composition

In general, Jordan is not an export oriented economy and, since 2000, exports have reached around 20% of GDP. The composition of Jordanian domestic exports by commodity has remained relatively stable from 2000 until the present (see Figure 43). This emerges from comparing the average export composition between 2000 and 2014 to the export composition in 2014 (Figure 43 and Figure 44). The only remarkable change is the export of food and live animals, which has significantly increased its share of total export from a share of 11% in 2000, 10% in 2001 to 19% in 2014.

Figure 43: Average Jordanian domestic exports by commodity from 2000 to 2014
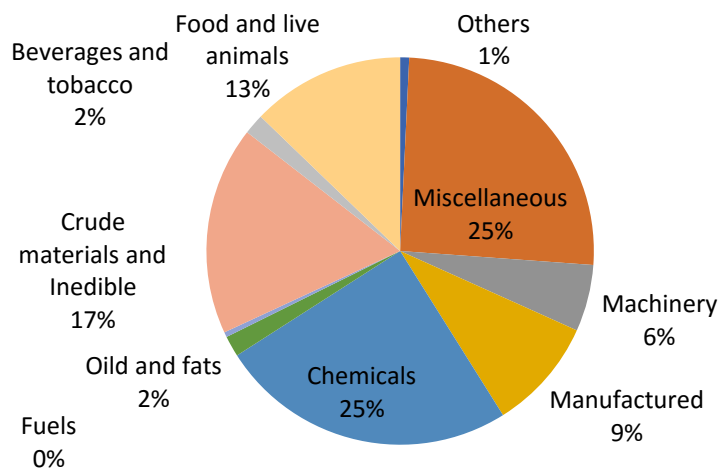
Source: Author's elaboration based on CBJ, 2015

Figure 44: Export composition by commodity for 2014
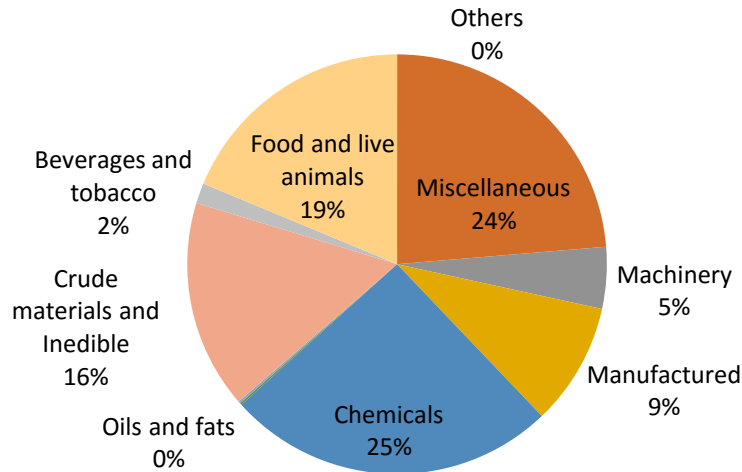
Source: Author's elaboration based on CBJ, 2015

As presented in Figure 44, the most important export categories are miscellaneous (mainly clothes) and chemicals (mostly medical and pharmaceutical), which represent half of Jordanian exports. Crude materials and inedibles (mostly potash and phosphates) follow with a share of 16%. Food and live animals (which mostly consist of vegetables) represent 19% of exports. Manufactured (the main item being paper and cardboard) represents 9% and machineries, with a share of 5%, play a marginal role in Jordanian exports.

In 2014, the major exported items were, in order of importance: clothes, vegetables, medical and pharmaceutical products, potash, phosphates, and fertilizers.

Clothes are the primary export in terms of total export share. Most of it goes to the USA, due to the free trade agreement between the two countries. Exports of vegetables are increasing their relative importance; between 2013 and 2014, the share of vegetables within total exports increased from 7.6% to almost 9% of GDP. Main destination countries for exported vegetables are United Arab Emirates, Iraq, and Saudi Arabia. Given the limited size of the domestic market, the pharmaceutical industry is export oriented. Most of its products are sold abroad and the main markets are, hereby, Saudi Arabia, Algeria, Iraq and Sudan, which absorbs almost 60% of exported medical and pharmaceutical products. Potash and phosphates, which are the country's main natural resources, together account for almost 15% of total exports. 64.5% of potash exports go to India, China, and Malaysia. The most important trading partner for phosphates is India. It is estimated that 69% of phosphates are actually exported to the Indian market.

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Table 16: Major export products as share of total exports for 2013 and 2014

Major exports as share of total export	2013	2014
Clothes	16.9	17.6
Vegetables	7.6	8.9
Medical and pharmaceutical products	9.1	8.2
Potash	8.7	8.2
Phosphate	5.6	6.5
Fertilizers	4.4	5.9

Source: Authors' calculation from data by the Central Bank of Jordan, 2015

Import composition

In 2014, the total import of goods reached 16280 million JD (US$22,9 billion) around 64% of GDP for that year. The major imported items were crude oil and petroleum products, transport equipment and spare parts, textile yarns and fabrics, iron and steel, plastics, meat, fish, and the preparations thereof (CBJ, 2014).

As shown in Figure 45, in 2014 the majority of imported goods were crude materials (mostly fuels) and intermediate goods. Consumer goods represented 27% of total imports whilst capital goods was only 13%.

Figure 45: Import composition by economic function for 2014
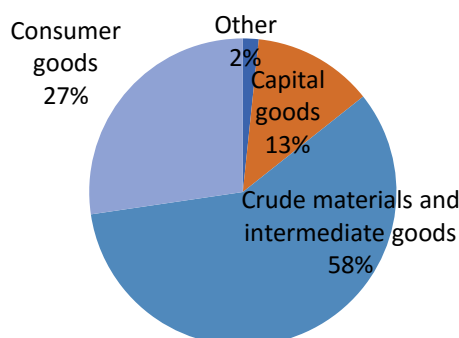
Source: Central Bank of Jordan, 2015

Figure 46 presents the composition of imports by commodity for the year 2014. The most important import products were mineral fuels, representing 27% of total imports. The main products in this category are crude oil and petroleum products, which respectively accounted for 10% and 15% of total imports (Table 17). Crude oil is mostly imported from Saudi Arabia.

The second category, in terms of share, is machinery and transport equipment (18% of import). Hereby, transport equipment and spare parts alone represented 6% of total imports in 2013 and increased to 10% in 2014 (Table 17). With a share of 16%, food and live animals were the third most important category of imports. In particular, import of food and live animals in 2014 was JD ml 2545.1 (US$3.6bn) whereas exports of food and live animals was JD ml 966.8 (US$1.4bn). Thus, Jordan hereby had a net deficit, as it imported food for JD ml 1578.2 (US$2.2bn) more than what it exported.

Figure 46: Imports by commodity for 2014
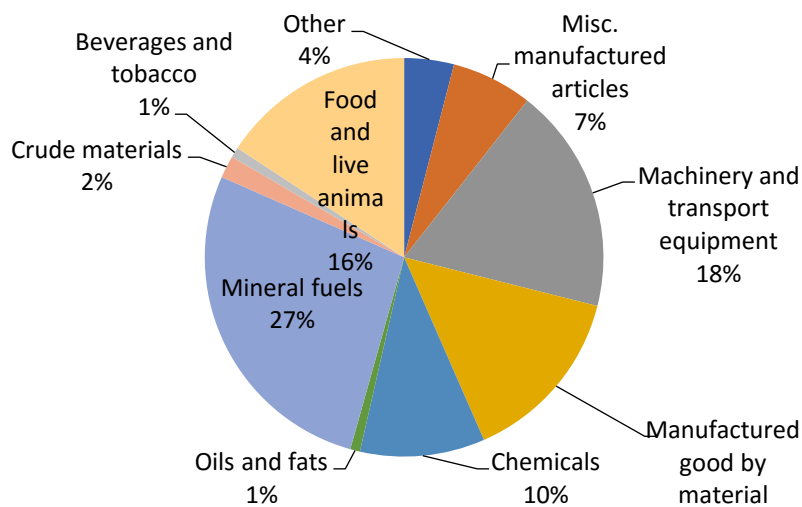
Source: Central Bank of Jordan, 2015

Table 17 shows the main imported products in terms of share of total imports for 2013 and 2014.

Table 17: Main imports as share of total import

Major imports as share of total imports	2013	2014
Petroleum products	11.9	15.0
Crude Oil	11.7	10.2
Transport equipment and spare parts	6.1	10.2
Textile yarn, fabrics and related products	3.8	3.7
Iron and steel	3.6	3.2
Plastic and articles thereof	3.1	3.2

Source: Central Bank of Jordan

3.2.2. Direction of trade

Concerning the main trading partners of Jordan, a prominent role is played by the Arab countries, which represent the main destinations of Jordanian exports and an important provider of imports to Jordan (see Figure 47 for average data on the distribution of international trade in Jordan between 2000 and 2014).

Figure 47: Average import and export in goods from 2000 to 2014 by trading partner in JD thousand
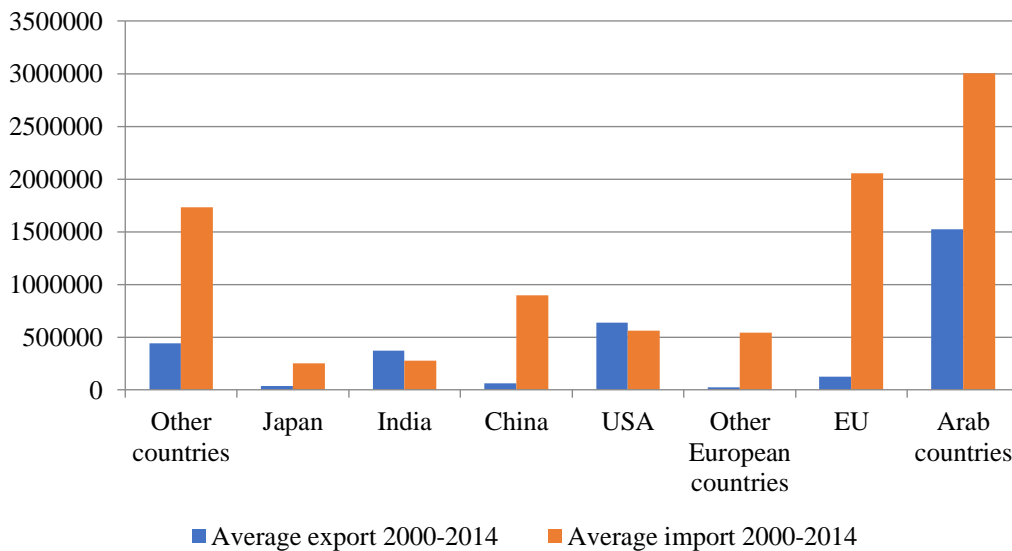
Source: Central Bank of Jordan, 2016

More specifically, Figure 48 represents exports by country of destination. The Arab countries are the primary destination of Jordanian exports, as they receive more than half of total exports from Jordan. Among these countries, Saudi Arabia and Iraq alone absorb almost 30% of total exports. The USA are a further very important trade partner of Jordan; namely, 18% of Jordanian exports go to the USA, mainly represented by clothes. This is essentially due to the FTA between the two countries.

Figure 48: Geographic distribution of exports for 2014
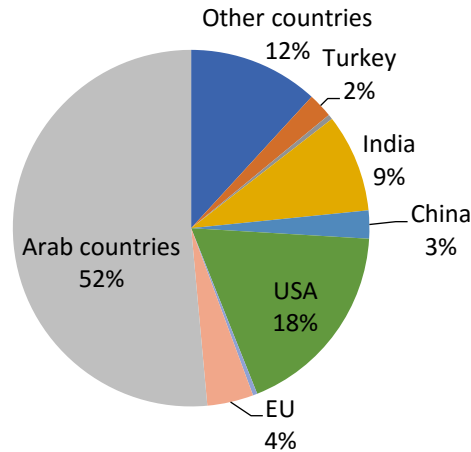
Source: Central Bank of Jordan, 2015

Figure 49 represents the geographical distribution of imports for 2014. The Arab countries again play an important role as they deliver 30% of imports to Jordan. Among these countries, Saudi Arabia and United Arab Emirates respectively deliver almost 20% and 5% of total imports. A further 3% comes from Egypt.

With a share of 20% of total imports, the countries of the European Union are the second most important trading partners. Herein, the main trading partners are Germany, Italy and France, which altogether contribute 9% of total imports to Jordan.

Further important partners are China (10%), the USA (6%), and India (5%). Among the other countries, South Korea and Russia each deliver 3.3% of imports.

Since the stipulation of the Free Trade Agreement with Turkey in 2011, bilateral trade has significantly increased: 3.7% of Jordanian imports originate from Turkey and Turkey receives 2% of Jordanian exports.

Figure 49: Geographic distribution of imports for 2014
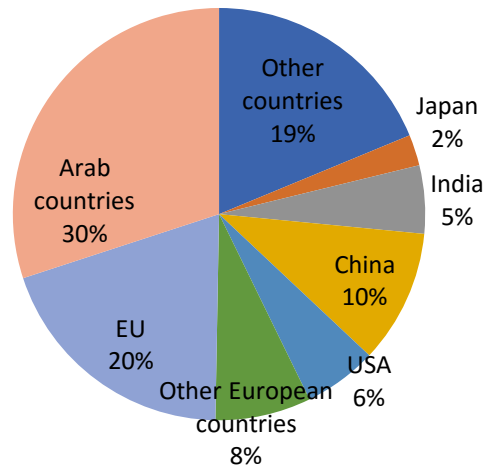
Source: Central Bank of Jordan, 2015

A further important trading partner for Jordan is the US, which received 20% of Jordanian exports, but only delivered 6% of total imports to Jordan.

Trade patterns between Jordan and the EU show an opposite picture of the trade between Jordan and the USA: slightly less than 23% of imports to Jordan come from the European Union and less than 4% of exports to Jordan are absorbed by EU countries. Thus, it seems that the Euro-Jordanian Association Agreement is having the opposite effect to the Free Trade Agreement with the US. This may be related to the exclusion of some products from the free trade with the EU, e.g. agricultural products. The different patterns of trade with the US and with the EU are particularly evident looking at Figure 50 and 51.

Figure 50: Jordanian export to the USA and to the EU in JD
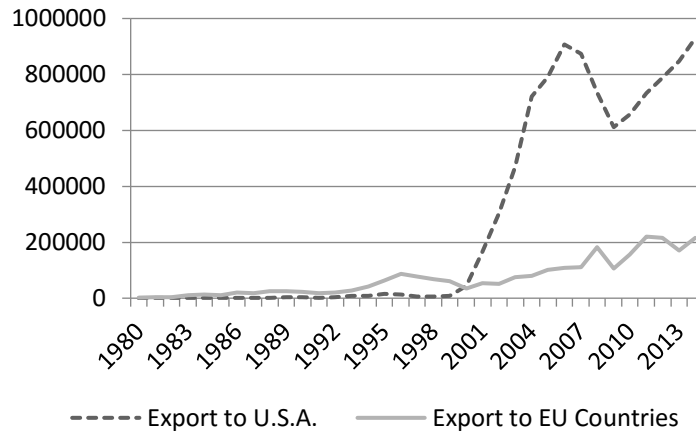
Source: Based on CBJ, 2013 and 2014

Figure 51: Jordanian imports from the USA and from the EU in JD
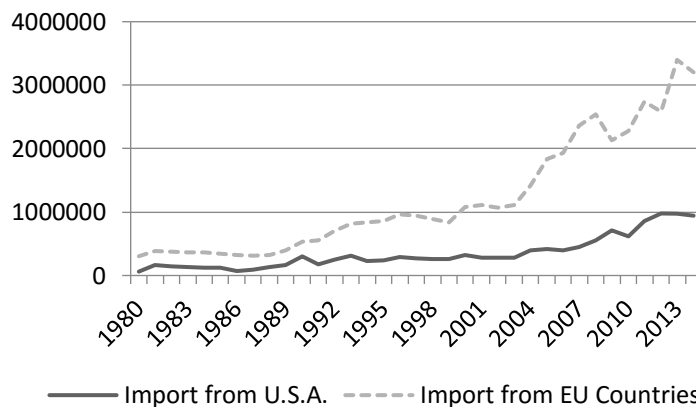
Source: Based on CBJ, 2013 and 2014

3.2.3. Trade in services

Being a member of the WTO, Jordan also adheres to the General Agreement of Trade in Services (GATS) and has taken the corresponding steps to liberalize its services market. In general, GATS considers four modes of supply for delivering services, namely cross-border supply, consumption abroad, commercial presence, and movement of natural persons.

Over time, trade in services has improved its net position and has considerably expanded during recent years. As shown in Figure 52, since 2006, the services balance has remained positive and increased in value. In 2014, exports of services represented 50% of

total exports (in both goods and services), whereas imports represented almost 17% of total import flows. Thus, the country can be defined as a net exporter of services.

Figure 52: Trade in services between 1980 and 2014 in US$ ml
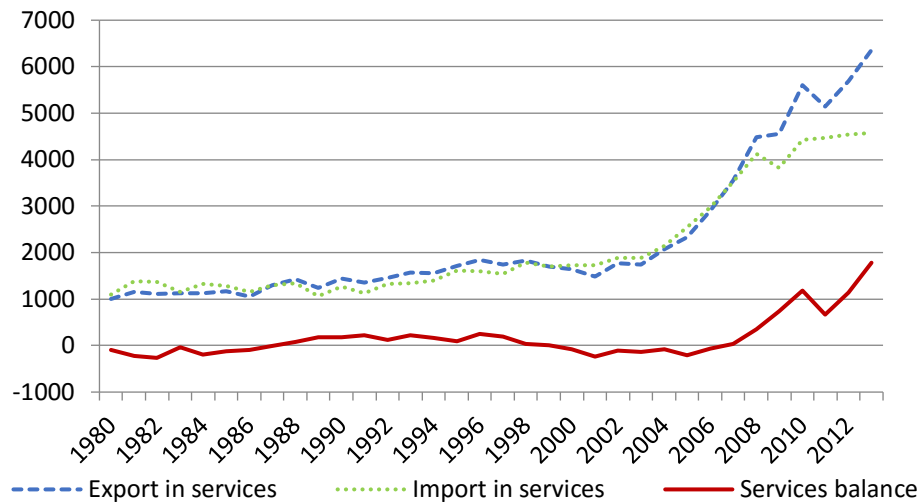
Source: Based on UNCTAD, 2015

Travel services are clearly the bulk of services exported by Jordan (see Figure 53). In percentage terms, in 2015 they represented almost a 69% share of total exports in services. Transportation, government services, and other services follow in order of size.

Figure 53: Net sector contribution to the services balance in JD ml
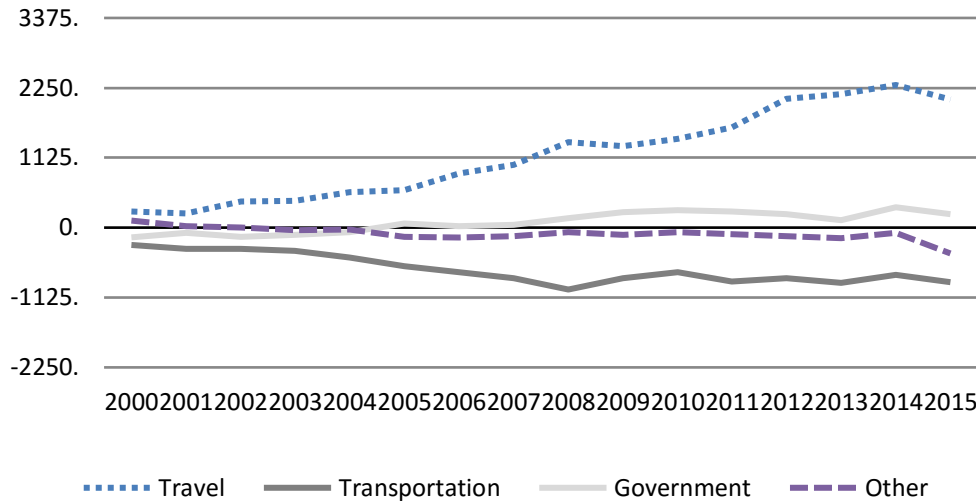
Source: Central Bank of Jordan, 2015

Figure 54 presents the development of the services balance of Jordan from 2000 to 2014. Even though data on trade in services is also available from the Central Bank of Jordan, we rather prefer to rely on data by UNCTAD. The main problem with Central Bank data is the difficulty in comparing data before and after the year 2000, due to the adoption of a new definition for the import and export of services. More specifically, before 2000, the balance of services comprised the net of workers' remittances, travel, investment income, transportation, and other services. After 2000, it was calculated out of the net of travel, transportation, government services, and other services. In particular, due to the elimination of the conspicuous net inflow of workers' remittances, figures for exports and for the balance before and after 2000 are hardly comparable. After 2000, data from UNCTAD and from the Central Bank is pretty similar and both can be used.

Figure 54: Services balance between 2000 and 2014 in US$ ml
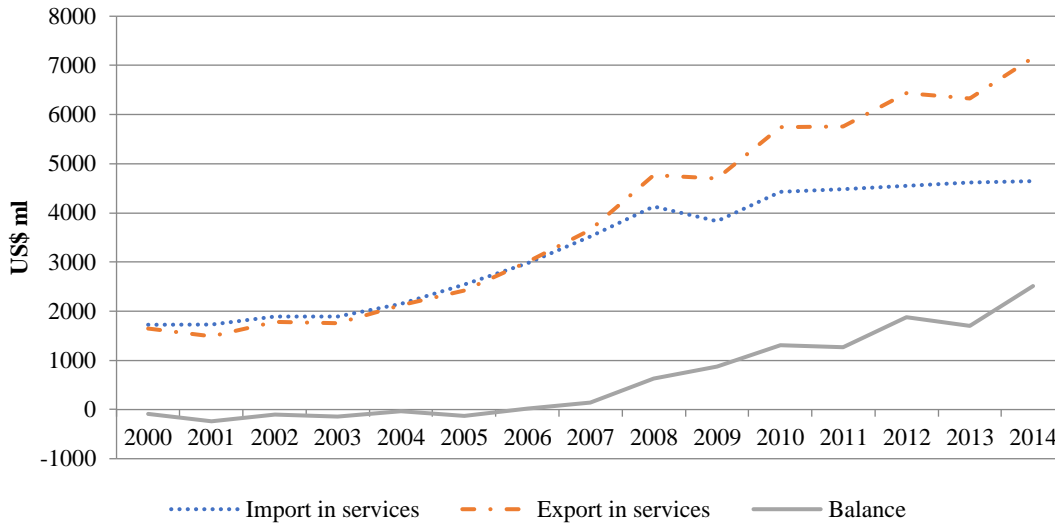
The net contribution to the services balance clearly reveals that the travel sector is by far the largest contributor (Figure 55). Government services increased their net contribution over time and transportation services reveal a chronic negative balance.

Figure 55: Net sector contribution to the services balance in JD ml
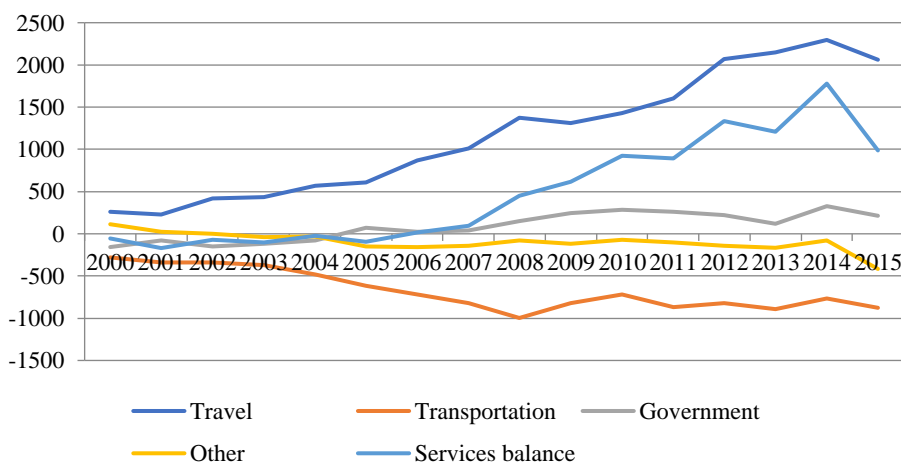
Export in services

Figure 56 shows that travel services are clearly the bulk of the services exported by Jordan. In 2015. they represented a 69% share of total export in services. Transportation, government services, and other services follow in order of size. In 2015, altogether they contributed a 29% share of total exports in services.

Figure 56: Composition of exports in services in JD ml
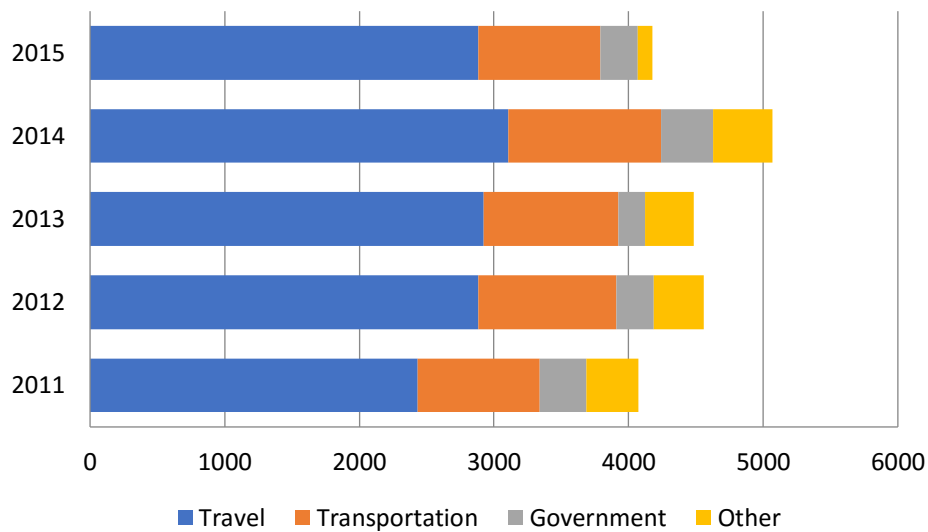
Source: Central Bank of Jordan, 2015

Import in services

Considering the composition of imports in services to Jordan, which has remained pretty stable over recent years, transportation services clearly play the most important role. Government services play a marginal role (Figure 57). In 2015, more than half of total imports in services was due to transportation services. Travel constituted a 26% share of total imports and other services were 16%. Government services made up the remaining 2%.

Figure 57: Composition of import in services in JD ml
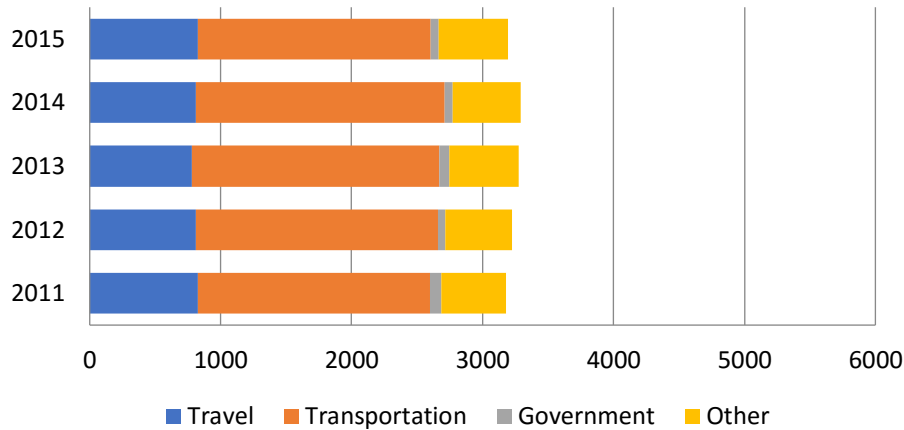
Source: Central Bank of Jordan, 2015

3.2.4. Foreign Direct Investment

FDI is a particularly important support for the Jordanian economy in terms of financing its balance of payment deficit. While in the past the country has mostly relied on international aid and remittances, over the last decade Jordan has increasingly counted on FDI to cover its balance of payment deficit. As it emerges from Figure 58, the amount of FDI started to increase considerably by the second half of the 1990s, where Jordan was already implementing important steps of economic reforms and trade liberalisation. Further, it can be estimated that almost 50% of FDI was from the oil rich Arab countries in real estate. (World Bank, 2013).[33]

As a percentage of GDP, between 1990 and 2014 the average share of FDI did not exceed 6.2%. FDI reached a maximum of 23% of GDP in 2006, but after that it started to decrease, falling to less than 5% of GDP in 2014 (Figure 58).

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[33] World Bank, 2013. The Hashemite Kingdom of Jordan's Investment Climate. Small and Medium Enterprises in Jordan. Challenges for Growth, Employment, Exports, and Innovation. Finance and Private Sector Development. Middle East and North Africa Region, World Bank.

Figure 58: Net FDI as share of GDP
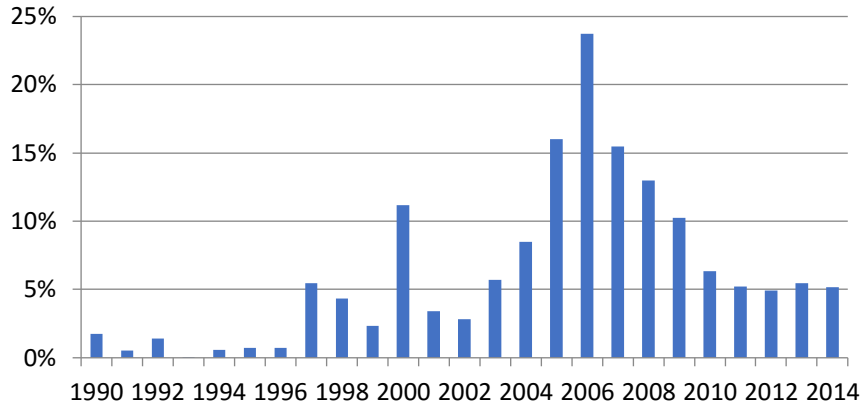
Comparing FDI inflow with the growth rate of employment, there is no apparent direct evidence that FDI is increasing employment (*Figure 59*).[34]

Figure 59: Growth rate of employment between 1990 and 2014
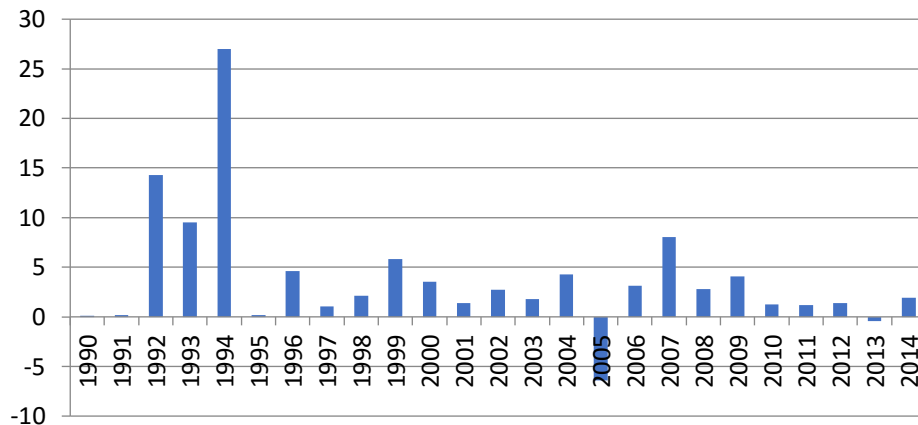
Thus, Jordan has adopted several measures to attract FDI. One of the major programmes has been the establishment of investment zones. The zones include special qualified business clusters that are industry specific and have a well developed infrastructure. Each area or zone offers distinctive advantages, in some cases also related to the location, and

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[34] More detailed analysis is needed to look at the impact of FDI on employment in Jordan.

incentives. Overall, there are four types of investment zones in Jordan: Development Areas, Aqaba Special Economic Zone, Industrial Zones, and Free Zones.

The government has also issued the National Investment Map that highlights the core competencies and resources of each governorate in Jordan. Further, the Jordan Investment Board (JIB) provides potential foreign investors with feasibility studies classified by sector and for different investment thresholds. According to the National Export Strategy of 2012, almost 150 feasibility studies were run covering 15 different sectors.

3.3. Exchange Rate Policy

The Central Bank of Jordan (CBJ) was constituted in 1964 as an independent and autonomous corporate body, whose capital is entirely owned by the government. The Central Bank of Jordan succeeded the Jordan Currency Board which had been established in 1950. The main objectives of the CBJ are to maintain monetary stability in Jordan, to ensure the convertibility of the Jordanian Dinar, to pursue banking and financial stability in the Kingdom, and to support the economy by fostering economic growth.

The stability of the exchange rate has always been the upmost priority of monetary policy in Jordan. Exchange rate stability is the key to monetary stability, which is necessary to provide a suitable environment for investment. To ensure this stability, the Jordanian Dinar has always operated under some sort of fixed or semi-fixed exchange rate regime, either to an individual currency or to a basket of currencies. The only exception was in late 1988 and early 1989, in the wake of the financial crisis, when the JD was free to float.

Specifically, since its first issuance in 1950 and until 1967 the Jordanian Dinar was pegged to the Pound Sterling at the rate of one pound per JD. In 1967, due to the devaluation of the Pound Sterling, the Central Bank of Jordan decided to unpeg the JD from the Pound and opted for a fixed exchange rate with the US dollar, at the same exchange rate that was valid before the pound's devaluation (i.e. 1 JD for 2.8 US). After the United States abandoned the Gold Standard and floated the US dollar in the early seventies, in 1975 the Jordanian Dinar was pegged to the IMF's Special Drawing Rights (SDRs).

In 1986, when signs of overvaluation of the JD exchange rate emerged, the dinar was pegged to a basket of currencies, reflecting Jordan's international trade relations. The aim of the peg was, on the one hand to control overvaluation and, on the other hand, to allow for more flexibility in determining the exchange rate.

During the second half of the eighties, as a result of the reduction of remittances and international aid, as well as the worsening deficit in the balance of payments, foreign reserves decreased to a level that did not allow the Central Bank to fully meet the demand for foreign currencies. This resulted in significant pressure on the exchange rate and led to the creation of a parallel market for foreign currencies. In October 1988, with extensive speculation and the widening gap between the official and the parallel market's exchange rates, the Central Bank of Jordan was forced to float the exchange rate to achieve the greatest possible balance between supply and demand.

Floating resulted in the Dinar losing around 50% of its value and a sharp increase in the price of goods and services. This prompted the Central Bank, in February 1989, to peg the exchange rate against the US dollar, at an average price of 0.540 JD per US dollar.

This policy did not improve the situation and did not prevent the continuous decline in foreign currency resources. So, at the end of May 1989, this policy was abandoned and the Central Bank decided to link the JD exchange rate to a basket of major currencies that make up the SDR and assigned, to each of these currencies, a weight that reflected their importance in trade relations with Jordan.

In October 1995, having managed to build an adequate level of foreign reserves and after completion of several structural reforms in the monetary and banking sector, the Central Bank decided to peg to the US dollar at the rate of an average 0.709 JD(i.e. 1 JD=1.41044 US $).

Until the present day Jordan has stuck to this exchange rate policy, so that changes in the US $ exchange rate reflect changes in the JD exchange rate with the other currencies. Over the last 22 years, this policy has proved to have important advantages for Jordan, such as investor confidence, attracting foreign funds with no risk of possible loss of exchange, preventing dollarization, controlling inflation, and confirming confidence in the economy in general.

3.4. Remittances.

Remittances assumed a growing importance for the Jordanian economy in the early 1970s, as a consequence of the oil boom and the increased demand for labour from the Gulf countries: the circulation of oil revenues enabled the Gulf states to massively spend on infrastructure developments and in order to sustain high levels of consumption and the needs of the expanding petrol industry, this increased the demand for foreign workers.

The situation of a country like Jordan which lacked natural resources, industrial development, and where, in addition, the traditional agricultural sector was starting to contract, increased the incentives from the beginning of the 1970s for Jordanians to accept work abroad. This expanded the value of education and human capital as a condition for having better access to the labour market of the host countries. As a result, remittances significantly increased during the 1970s and grew in 1984 to 24.8 % of GDP. It can be estimated that by the end of the 1970s almost one third of the Jordanian workforce was employed abroad (Robins, 2004). Since then, workers' migration has been a particularly striking phenomenon for Jordan and a cornerstone of its economy.[35] In 2014, remittances represented almost 18% of GDP and decreased to 14% in 2015 (Figure 60). Remittances are a very important source of capital for Jordan and have had a major effect on its economy[36].

Figure 60: Remittances as percentage share of GDP
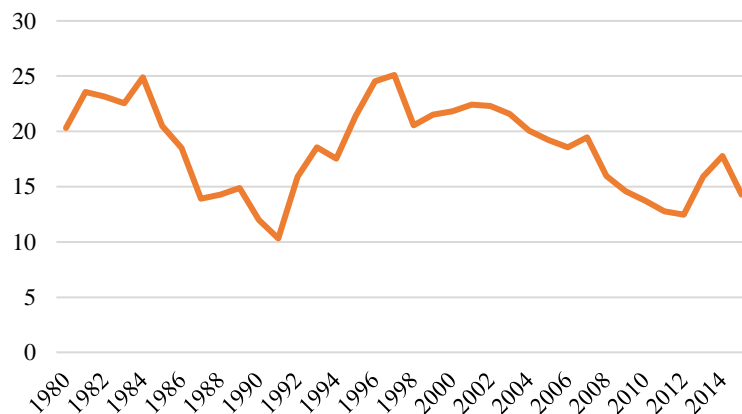
Source: World Bank, WDI (2017)

3.5. Trade and investment barriers

Economic reforms and integration into global markets required Jordan to implement essential changes in its trade policy and tariff system. The following section provides an overview on the main tariff and non-tariff barriers in Jordan.

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[35] Not surprisingly, a large number of migrant workers during the 1970s were Palestinians with Jordanian nationality, who, because of their homeland situation, were more prone to take the migration option, which was also facilitated by the existence of Palestinian migrant communities in the Gulf since the 1950s.
[36] For an in-depth analysis of the phenomenon see Alshyab (2012).

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3.5.1. Tariff barriers

As a member of the World Trade Organization, Jordan applies Most Favoured Nation tariffs (MFN). These are the rates that countries promise to impose on imports from other WTO members, unless there are preferential trade relationships (such as free trade agreements, areas, or customs unions). In other words, MFN rates are the highest rates that WTO members charge one another. Besides MFN rates, to obtain better trade conditions, Jordan has stipulated numerous preferential trade agreements with preferential tariffs (see section 4.6). According to the conditions negotiated with the WTO, Jordan bounds its tariffs on all products and lines of commodity. A bound tariff is the specific commitment made by a WTO member state and constitutes the maximum level of MFN tariffs for a certain commodity line.[37]

In 2015, Jordan's applied MFN tariffs consisted of 6,676 lines at the HS 8-digit level (HS 2012). 52.4% of the tariff lines are duty free. Applied MFN tariffs are within the range of 0–200% and the highest rates are applied on certain alcoholic beverages (where tariffs on some products were increased from 180% in 2008 to 200% in 2015), and tobacco and tobacco products (where tariffs were increased from 100% to 150%). With the exception of the FTA with Turkey, Jordan has no quota tariffs.

Table 18 presents an overview of the structure of Most Favoured Nations (MFN) tariffs for 2015.

In particular, in 2015, the simple average of the final bound tariff was 16.3% (24.1% for agricultural products and 15.2% for non-agricultural products), whereas the simple average applied MFN tariff rate has decreased from 10.9% in 2008 to 10.2% in 2015. Specifically, over the same period, the simple average applied MFN for agricultural products fell from 17.1% to 16.8% and for non-agricultural products from 9.9% to 9.1%. The increase in the dispersion of applied MFN rates (as revealed by the higher standard deviation in 2015) is due to the higher tariff rates on some alcoholic beverages and tobacco products.

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[37] The definitions of the different types of tariffs refer to the information by the World Bank (http://wits.worldbank.org/wits/wits/witshelp/content/data_retrieval/p/intro/C2.Types_of_Tariffs.htm)

Table 18: Structure of MFN tariffs in Jordan for 2015

	MFN tariffs in 2008	MFN tariffs in 2015	Final bound
Bound tariff lines (% of all tariff lines)	n.a.	n.a.	100.0
Simple average tariff rate	10.9	10.2	16.3
Agricultural products (WTO definition)	17.1	16.8	24.1
Non-agricultural products (WTO definition)	9.9	9.1	15.2
Agriculture, hunting, forestry, and fishing (ISIC1)	16.7	14.9	21.4
Mining and quarrying (ISIC2)	7.3	7.1	15.3
Manufacturing (ISIC3)	10.6	9.9	16.0
Duty free tariff lines (% of all tariff lines)	49.0	52.4	6.4
Tariff quotas (% of all tariff lines)	0.0	0.0	0.0
Overall standard deviation of applied rates	14.7	15.3	15.0

Source: WTO, 2015a

Besides these standard MFN conditions, Jordan has stipulated several preferential trade agreements and has, thus, committed to apply preferential tariff rates and to enlarge duty free coverage with several of its main trade partners. Between Jordan and the EU, the countries belonging to the Greater Arab Free Trade Agreement (GAFTA), Singapore, and the USA, simple average tariff rates are lower than 1% and the percentage share of duty free lines is higher than 90%.[38] Figure 62 provides an overview of some of the preferential simple average tariff rates.[39]

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[38] For more on the preferential trade agreements of Jordan, see section 4.6.
[39] EFTA stays for the European Free Trade Association between Iceland, Liechtenstein, Norway, and the Swiss confederation and Jordan.

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Figure 61: MFN versus preferential tariffs in Jordan
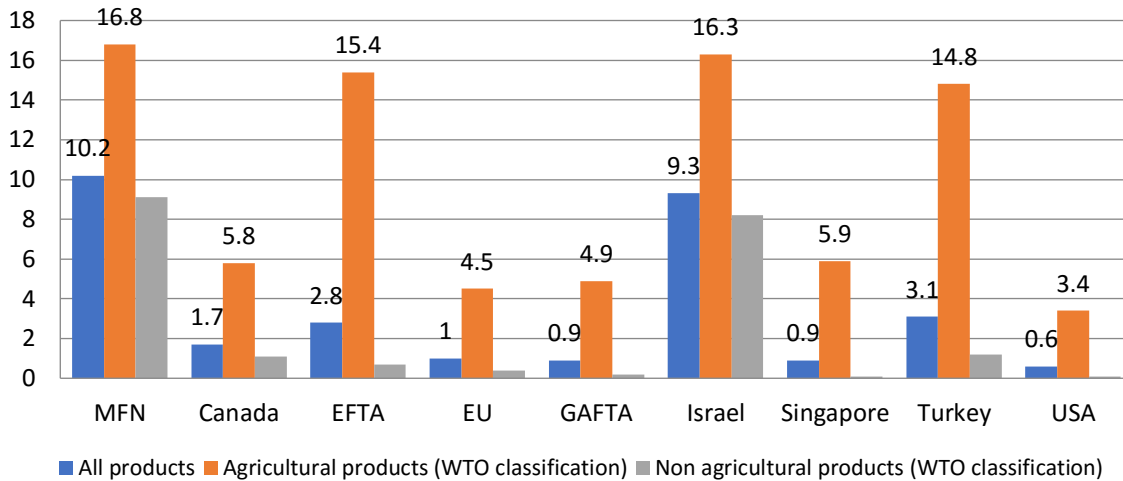
Source: **WTO, 2015a**

3.5.2. Non-tariff barriers

Non-tariff barriers are defined as official policy measures on exports and imports, other than ordinary customs tariffs that have an effect on the international trade in goods. Non-tariff barriers and measures typically include mandatory requirements, rules, regulations, custom procedures, technical measures and standards.

In Jordan, the Ministry of Industry and Trade issues import licenses that are necessary to import goods. Both Jordanian and foreign trading companies can obtain import licenses. However, the import of some products is banned, such as diesel cars and some older machines, plastic waste, and narcotic plants.

Table 19 presents an overview of the predefined stages for trade in Jordan in the year 2015. It hereby includes the time and the cost for the documents necessary to complete the transaction, the predefined stages (such as documentation requirements and procedures at customs and other regulatory agencies as well as at the port), and the trade logistics (including the time and cost of inland transport to the largest business city).

**Table 19: Summary of predefined stages and documents for
trading across borders in Jordan in 2015**

Customs procedures	Import procedure		Export procedure	
	Time (days)	Cost (US$)	Time (days)	Cost (US$)
Documents preparation	8	385	6	135
Custom clearance	3	65	2	80
Ports ad terminal handling	2	130	2	110
Inland transportation and handling	2	655	2	500
Total	**15**	**1,235**	**12**	**825**

Source: **Doing Business 2015 – Jordan**

To facilitate customs clearance, since 2010 Jordan has implemented an online custom declaration submissions system (ASYCUDA WORLD) and, according to Doing Business 2015, Jordan's ranking concerning the ease of trading across borders improved from 59th in 2008 to 54th in 2015, out of 178 countries included in the evaluation.

In 2017, Jordan's ranking has improved to 50th out of 190 countries included in the evaluation. Herewith, Jordan ranks first out of all Arab countries.

The assessment by the 2017 Doing Business in Jordan report, provides encouraging figures on the reduction of non tariff barriers to trade in Jordan. As pointed out by Table 20, time and cost of cross border trade has reduced. The report also praises that "Jordan made exporting and importing easier by streamlining customs clearance processes, advancing the use of a single window and improving infrastructure at the Aqaba customs and port" (Doing Business in Jordan, 2017).

Further, the 2017 Doing Business in the MENA report provides a useful comparison of the cost and time requested to import and export across border in the MENA region. Jordan reveals, hereby, a very favourable ranking, both concerning documentary and border compliance.[40] The report estimates that documentary compliance for exports requires two hours in Jordan and costs US$16, vis a vis a regional average of 77 h and US$261. Import related documentary compliance is still better in Jordan than the regional average, but to a

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[40] Documentary compliance includes the cost of obtaining, preparing, and submitting all documents requested by the law and in practice for transport, clearance, inspections and port or border handling, as requested by origin, transit, as well as destination economies. Border compliance refers to the cost and time necessary for customs clearance and inspections, by inspections by other agencies, and by port or border handling. It includes the cost and the time for obtaining, preparing, and submitting the necessary documentation. For more, see Doing Business in the MENA, 2017.

smaller margin, with an estimated time of 55 h versus 101 h regionwide and a cost of US$30 versus US$305. Border compliance for export requires 38 h and US$131 in Jordan, vis a vis an average of 64 h and US$460 across the MENA countries. Border compliance for import requires 75 h and US$181 in Jordan and 121 h and US$555 in the region.

Table 20: Summary of export and import time and cost for trading across borders in Jordan

	Jordan	Regional average
Documentary compliance for export	2h / 16$	77h / 261$
Documentary compliance for import	55h / 30$	101h / 305$
Border compliance for export	38h / 131$	64h / 460$
Border compliance for import	75h / 181$	121h / 555$

Source: **Data from 2017 Doing Business database**

3.6. Trade and investment agreements

After the serious financial crisis Jordan experienced in 1989, the country started to implement a comprehensive structural adjustment programme. The programme was inspired by the precepts of the Washington Consensus and, thus, tackled market opening and trade liberalisation. Since then, the Jordanian authorities have cultivated the aim of developing an economy that is open to regional and international markets and that is well connected and integrated to the global economy. Accordingly, much has been done to strengthen and facilitate international trade and to improve economic relationships with leading regions and economies. As a result, Jordan has established trade and economic agreements, both at a regional and bilateral level with around 86 countries from all over the world (specifically, 19 agreements are with Arab countries and 67 with non-Arab countries).

To foster integration with global markets, in 1994 Jordan requested accession to the World Trade Organization and became one of its members in 2000. To gain accession, Jordan had to undertake major changes in its legal and economic framework. These included some major amendments in the Trademarks and Copyright Law, as well as in the Patents Law. Further important amendments concerned the Custom Law, the General Sales Tax Law, and the Law on Unifying Fees and Taxes. In particular, Jordan committed to lower tariff lines until 2010, to keep them below the upper level of 30% and to abolish them in some sectors.

Jordan has also made efforts to create a strong regional market with the Arab countries, which represent very important trading partners: in 2014, almost 50% of Jordanian

exports and almost 30% of imports were traded with Arab countries.[41] Jordan signed bilateral trade agreements with 19 Arab countries and, in 1997, was then one of the Arab League's members who entered the Greater Arab Free Trade Agreement. GAFTA was the first regional agreement entered into by Jordan and its precursor was the all too ambitious Arab Common Market Agreement of the 1970s. In 2006, Jordan joined the Agadir agreement, which created a free trade area between Jordan, Egypt, Tunisia, and Morocco. In particular, the Agadir agreement also aims at strengthening trade between the member countries and the European Union, by applying the Pan Euro Med Rules of Origin, which also allows preferential treatment for exports jointly produced by member states and by countries of the European Union.[42]

Concerning trade with leading economies, the Jordan-United States Free Trade Agreement, which entered into force in 2001, was the first free trade agreement between the USA and an Arab state and the third free trade agreement ever stipulated by the USA.

One year later, in 2002, the Euro-Jordanian Association Agreement came into force. The agreement with the European Union (EU) aims at the progressive elimination of tariffs on industrial goods but places some limits on the elimination of tariffs for agricultural products. In the same year, Jordan also joined the European Free Trade Association (EFTA) and signed a free trade agreement with the member countries (Iceland, Liechtenstein, Norway, and the Swiss Confederation). Furthermore, starting in 2011, the Council of the European Union began adopting negotiating directives for a Deep and Comprehensive Free Trade Area (DCFTA) with Jordan. The overall aim of these directives is to more closely integrate Jordan with the European market, to harmonize Jordanian trade related legislation with EU standards, and to address issues not included in the Association Agreement, such as trade in services, government procurement, and investment protection.[43]

Further, Jordan was the first country in the Middle East to sign a FTA with Singapore, thus creating a gateway for business partnerships between the MENA region and South Eastern Asia. The agreement came into force in 2005.

In 2009, the FTA with Canada also came into force, followed in 2011 by the FTA with Turkey. This agreement states that Jordanian products will be allowed to enter the Turkish

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[41] Authors' calculations based on data by the CBJ, 2014.
[42] For more information, see agadiragreement.org (as of 11.06.2016).
[43] For more info, see http://ec.europa.eu/trade/policy/countries-and-regions/countries/jordan/)

market tax exempt, while taxes on Turkish products entering Jordan should be reduced on a gradual basis until complete elimination in 2018.

Among policies to promote investment and for fostering private sector development, there has been the creation of qualified industrial zones and special economic areas which should hereby be mentioned. For example, the Aqaba Special Economic Zone, which was founded in 2000, offers a special fiscal regime, no custom duties on imports, and several tax exemptions (no social services tax, a 5% tax rate on all business incomes, except banking, insurance, and land transport, and a 7% sales tax versus a sales tax of 13% in the rest of the country), in order to attract investments, further economic activities, and tourism (Aqaba Special Economic Law Zone Law, 2000).

In 1998, Foreign Trade Policy Department was created at the Ministry of Industry and Trade with the specific aim of facilitating and promoting international trade.

A further intervention has been the establishment of Public Private Partnerships (PPP), i.e. agreements between the government and private enterprises in sectors where private enterprise is typically excluded. PPP have, for example been considered for the expansion of the Queen Alia International Airport, for the Disi Water Conveyor, and for some projects in the field of water sewage and treatment. (Info from IFC report, 2012).

In 2008 ,a further intervention consisted of launching the so called Development Areas, with the aim of stimulating investment in specific zones. The Development Areas offer investors ease of licensing and obtaining permits, low rates of 5% income tax on all taxable income from activities within the area, full exemption from income tax on profits from exports, full exemption from sales tax on goods sold into (or within) the area for business purposes, full exemption from import duties on all materials, instruments, machines, etc. to be used in establishing, constructing and equipping an enterprise in the area, full exemption from social services and on dividends tax (Development Areas Law). As examples, Development Areas have been started in Mafraq and Ma'an (National Investment Strategy 2020).

3.7. Ex-post assessment of trade liberalisation

To empirically investigate and disentangle the specific growth contribution of trade in goods and services in Jordan, we have estimated a Solow growth for the period 1980-2014. The model is estimated using the Fully Modified Ordinary Least Squares approach, which corrects for endogeneity of data and serial correlation. Overall, the results of the analysis corroborate the idea that, in the case of Jordan, trade in goods has negative implications for

growth, whereas trade in services seems to positively stimulate economic performance. Specifically, we found that an increase in trade in goods by 1% decreases GDP by 0.22%, whereas an increase in trade in services by 1% improves output by 0.28%. Therefore, trade in services may represent a chance for the country to create a comparative advantage and expand its market. It gives a clear sign for the need to strengthen and facilitate exports in services, in order to increase their size and importance for the economy. The results are published in Sandri et al. (2016).

Based on these findings, we recommend Jordanian policy makers try to reduce the trade balance deficit by supporting the export sector. In particular, we see potential in fostering the agricultural and industrial sectors, especially concerning pharmaceutical and chemical products. Considering the Jordanian business environment, this can be achieved via encouraging small and medium-sized enterprises (SMEs) to become exporters of competitive products and services.

Further, considering the bilateral flows of trade, it emerges that trade agreements are very important elements and should be framed to really address the specific needs of the Jordanian exporting sectors.

Based on the composition of trade in services, precise policy recommendations should be developed, too. In particular, the government has to invest more to foster the service sector in Jordan. Travel plays a central role and should be encouraged; the authorities should invest in the tourism sector to revive *"Jordan's position as a competitive tourist destination"* (MoIT and UNCTAD, 2006) and find some mechanisms to train the necessary manpower.

3.8. Conclusion

Jordan is a small country in the Middle East, poor of natural resources and water and characterized by a chronic deficit in the balance of trade.

After more than 25 years of economic reforms, Jordan has achieved important steps concerning trade liberalisation and openness. Among these steps, in 2000 Jordan joined the World Trade Organization and has established a large number of free trade agreements, both at a regional and at bilateral level. At present, Jordan is classified as a "mostly free" economy concerning the sub-indicator "trade freedom" by the Heritage Foundation's Index of Economic Freedom 2016.

This report has analyzed the main patterns of trade for Jordan. In 2014, the deficit of trade in goods and in services was almost 34% of GDP, with total imports of goods and services being 57% of GDP and total exports 23%. In recent years, total volume of trade (both in goods

and in services) as a ratio of GDP has decreased from 125% in 2011 to 119.5% in 2013 and to 118% in 2014.

The most important categories of exports in goods are miscellaneous (mainly clothes) and chemicals (mostly medical and pharmaceutical), which represent half of Jordanian exports. The Arab countries are the primary destination of Jordanian export in goods, as they receive more than half of total exports from Jordan. The USA is a further very important trade partner of Jordan; namely, 18% of Jordanian exports go to the USA.

In 2014, the total import of goods reached US$22.9 billion, i.e. around 64% of GDP. The major imported items were crude oil and petroleum products, transport equipment and spare parts, textile yarns and fabrics, iron and steel, plastics, meat, fish, and preparations thereof. The Arab again play an important role as they deliver 30% of imports to Jordan. With a share of 20% of total imports, the countries of the European Union are the second most important trading partners.

Since 2006, the services balance has remained positive and has increased in value. In 2014, export in services represented 50% of total exports (in both good and services), whereas imports represented almost 17% of total import flows. Travel services are clearly the bulk of the services exported by Jordan; in 2015, they namely represented almost a 69% share of total exports in services.

FDI is a particularly important support for the Jordanian economy in financing its balance of payment deficit: As a percentage of GDP, however, between 1990 and 2014 the average share of FDI did not exceed 6.2%. FDI reached a maximum of 23% of GDP in 2006 and then started to decrease, falling to less than 5% of GDP in 2014. It is further estimated, that almost 50% of FDI is from the oil rich Arab countries and is in real estate. (World Bank, 2013).

From the analysis of the effect of trade liberalisation for Jordan, it seems that trade in goods has negative implications for growth, whereas trade in services seems to positively stimulate economic performance. Relying on the empirical evidence by Sandri et al. (2016), an increase in trade in goods by 1% decreases GDP by 0.22%, whereas an increase in trade in services by 1% improves output by 0.28%. Therefore, trade in services may represent a chance for the country and should be fostered.

4. Country report Morocco

Abdelkader Ait El Mekki

The Moroccan economy is largely open, despite the existence of some non-tariff barriers that are linked to technical regulations and standards. The various sectoral strategies launched by Morocco during the last two decades have allowed a real transformation of the productive and export sectors with skilled job content, including new global businesses, such as automotive and aerospace. Consequently, non-agricultural activities have taken advantage of sectors with high added value that rose 3.5% per year between 2010 and 2015. On the issue of social development, government efforts have resulted in encouraging figures in the labour market despite persistent imbalances and challenges, particularly regarding the unemployment of young graduates and women. Indeed, preferential agreements, especially with the EU, have boosted FDI resulting in a qualitative shift to sectors with high value added such as industry, real estate and tourism. However, no information has so far been provided about the effects of this FDI increase on sectoral employment. Besides, the role of remittances represents almost 7% of the average GDP, which means that they are as much as the third largest source of foreign exchange, behind tourism and phosphate exports. But the investment share of total transferred funds remains under 8% while the consumption share is 71%. The challenge is that all the efforts of trade liberalisation, FDI boosting and the best orientation of remittances have to be, among others, beneficial to job creation leading to poverty alleviation.

4.1. Introduction[44]

According to the Ministry of Finance (2015), growth of the Moroccan economy has been maintained at a steady pace, in line with its potential, recording average annual growth in volume of around 4.2% since 2008. The agricultural sector has played a key role in this performance as it is becoming less dependent on weather conditions and also because of the efforts of modernization and the contribution of agricultural activities with high added value. Indeed, agricultural added value, accounting for around 13% of the Total Value Added (VAT) increased on average by 7.8% per year between 2008 and 2014.

On the other hand, various sectoral strategies launched by Morocco have created a real transformation in the revitalization of high skilled job content within the productive and

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[44] For a larger view on reported data, see : *Ministère de l'Economie et des Finances (2015), Synthèse du Rapport Economique et Financier 2016. Direction des Etudes et des Prévisions Financières.*

export sectors, including Morocco's new global businesses, such as automotive and aerospace. Consequently, non-agricultural activities have taken advantage of sectors with high added value, rising by 3.5% per year during this period. Thus, the secondary sector, representing 28.8% of the average VAT, increased by 2.6% on average per year. It is mainly driven by the processing industries which constitute 17.2% of VAT. The main represented sectors are i) the construction sector with an average share of 6.1%, ii) food and tobacco and other industries with 5.8% and iii) mechanical, metallurgical and electrical industries with 3.7%. Added value of these three sectors grew respectively on average by 3.2%, 4.1%, and 4.2% e per year.

The transformation of the national economy was also marked by the increasing importance of the tertiary sector, with a share of around 57.3% of the VAT and an average growth rate of 4% per year between 2008 and 2014.

On the social development issue, government efforts have resulted in the implementation of sectoral policies and programmes to promote employment. Over recent decades, the labour market has experienced a net increase of 1.37 million job positions or an annual average of 125,000 job opportunities. The services sector remains the main source of employment in Morocco with an average annual share of 80% and nearly a million jobs created between 2004 and 2014. Consequently, the unemployment rate improved from 10.8% in 2004 to 9.9% in 2014. This downward trend was confirmed in the second quarter of 2015, with an unemployment rate of 8.7%.

However, it must be noted that, despite these encouraging figures, the labour market has to overcome persistent imbalances and challenges, particularly regarding the unemployment of young graduates and women.

4.2. Overview of trade and investment patterns

4.2.1. The economic role of trade

The Moroccan economy is largely open. In 2014, total trade (goods and services) amounted to 81% of GDP (Table 21). Imports of goods and services accounted for 47% of GDP while exports recorded 34% for the same year. The total export effort, measured by the ratio of exports to GDP improved in 2014. It reached 36.3% (21.7% for goods and 14.6% for services) instead of 34.6% (21.2% and 13.4% respectively) in 2013 following an increase of 6% of total exports.

Table 21: Trade indicators (2010 - 14)

Indicator	2010	2011	2012	2013	2014
Nominal GDP (USD million)	90,771	99,211	95,903	103,836	109,128
Imports of goods (USD million)	35.381	44.272	44.872	45.19	45.832
Exports of goods (USD million)	17.771	21.654	21.446	21.972	23.663
Imports of services (USD million)	5.66	6.713	6.578	6.418	7.983
Exports of services (USD million)	14.329	15.486	14.947	13.935	15.948
Imports of goods and services (% change)	8	9	3	1	2
Exports of goods and services (% change)	18	6	3	1	6
Trade balance (USD million)	-17.318	-21.387	-21.885	-21.592	-22.169
Foreign trade (%GDP)	75	83	85	80	81
Trade balance (%GDP)	-19.08	-21.56	-22.82	-20.79	-20.31
Imports of goods and services (% GDP)	43	49	50	47	47
Exports of goods and services (% GDP)	32	35	35	33	34

Source: **WTO, World Bank (2016)**

Conversely, the total import dependency, which measures the ratio of imports to GDP, amounted to 49.3% in 2014 (42% for goods and 7.3% for services). It registered a slight decrease in comparison with 2013 but remained roughly the same throughout the period 2010 – 2014.

Finally the coverage ratio of total imports by total exports reached 73.6%, cumulated from a lower ratio of 51.6% for goods and much higher ratio of around 200% for services.

Thus, Morocco displays a structural trade deficit, which exacerbates the issue of the kingdom's foreign exchange reserves. However, according to the Moroccan Exchange Office, the trade deficit reached its lowest level for ten years in 2015. In fact, exports of goods and services revenue from exports increased. A decline in imports has also been noted, thanks to the decline in oil prices.

To remedy the structural trade deficit, four key strategic plans have been launched by the government since 2008 aimed at stimulating economic growth through, among others, boosting exports. These plans are the *"Plan Emergence"* for industry, the *"Plan Maroc Vert"* for agriculture, the *"Plan Halieutis"* for fisheries and the *"Plan Azur"* for tourism. They constitute a solid platform of an export-oriented plan entitled *"Morocco Export Plus"* that aims to triple the export volume of goods and services and to create 380,000 additional jobs between 2008 and 2018 (Ministry of Foreign Trade, 2010). However, no information is given about job creation that is linked to trade.

To consolidate the planned export efforts within this vision, Morocco would surely activate its commercial transactions in the framework of the Association or Free Trade Agreements concluded with the EU, the United States, Turkey and Arab countries. Moreover, the country is in the process of fostering its trade relations with Sub-Saharan African countries, in particular West African countries, and deepening trade integration with the European Union.

4.2.2. Trade balance structure

Morocco imports mainly crude and (recently) refined oil, food (dominated by wheat), chemicals, vehicles and equipment and electrical machinery (Table 22). Data from WTO (2015) shows that in 2014, the imports share of these five items amounted to 67.3% of total goods imports (USD 45.8 billion).

Table 22: Structure of merchandise trade

Exports	%	Imports	%
Agriculture	19.6	Fuels	23.9
Chemicals	16.5	Agriculture	14.0
Electrical machinery	15.9	Chemicals	10.1
Clothing	13.8	Transport and equipment	9.7
Transport equipment	12.3	Electrical machinery	9.6
Other manufactures	8.6	Other semi-finished products	7.4
Ores and other minerals	7.0	Non-electrical machinery	6.5
Mineral fuels	5.0	Textiles	5.9
Others	1.3	Other manufactures	5.7
		Iron and steel	3.2
		Ores and other minerals	2.0
		Others	1.9
Total	**100**	**Total**	**100**

Source: WTO, 2015b

On the other hand, agricultural products (predominately represented by citrus and early season vegetables), chemicals (phosphorous acid, etc.), electrical machinery, transport equipment and textiles represent the most prominent exported merchandise. In the same year, they represented 78.1% of Moroccan total merchandise exports (USD 23.7 billion). Morocco's main trading partners are France and Spain. Table 23 shows that these two

countries supplied 26.8% of Moroccan imports and were the destination of 42.7% of Moroccan exports in 2014.

Table 23: Top 5 trade suppliers and buyers

Supplier	%	Buyer	%
France	13.5	Spain	21.9
Spain	13.3	France	20.8
China	7.6	Brazil	4.6
USA	7.0	Italy	4.3
Saudi Arabia	5.4	India	3.6
Top 5	**46.8**	**Top 5**	**55.2**

Source: **Comtrade (2016)**

For the same year, the EU was the main trading partner, far ahead of the US with whom Morocco signed a Free trade agreement that has applied since January 2006. Indeed, imports from the EU accounted for 55.6% of Morocco's total imports and exports to the EU reached 66.6% of total exports (WTO, 2015).

4.2.3. Trade in services

Turning to services, the most important revenues come from travel, transport, services to firms, communication and computer and information services with an aggregate share of 94.8% of total revenues in 2013. Meanwhile, the top five expenses, including those of transport, services to firms, travel, services to public administration and insurance, amounted to 95.2% part of total expenses (Table 24).

Table 24: Structure of trade in services (2013)

Exports	%	Imports	%
Travels	51.28	Transport	40.65
Transport	19.43	Services to firms (accounting, etc.)	21.05
Services to firms (accounting, etc.)	15.57	Travels	16.39
Communication	4.94	Administration	14.39
Computer and information	3.57	Insurance	2.71
Administration	3.10	Communication	1.51
Insurance	1.06	Computer and information	1.35

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Culture and recreation	0.39	Royalties and license fees	1.02
Finance	0.37	Finance	0.70
Construction	0.29	Culture and recreation	0.22
Royalties and license fees	0.01		

Source: **UNCTAD (2016)**

Morocco is a net exporter of services, with a net balance of around US$8 billion in 2014. Revenues from service exports amounted to almost 60% of those of goods. Unlike the export earnings of goods that have increased significantly between 2010 and 2014 (33.2% change), those from service exports have experienced a lower rate of change, limited to 11.3% over the same period.

4.2.4. Foreign direct investments

According to the WTO (2015), FDI flows in Morocco reached $4,032 million in 2014 against $4,649 million in 2013, showing a decrease of 13.3% (Table 25). Based on UNCTAD database, their contribution to the Gross Fixed Capital Formation (GFCF) was 10.9% and the stock of FDI recorded a share of 47.3% of GDP. The same source confirmed that 67 new projects (Greenfield) were launched in Morocco in 2014, following a lower number of 45 projects in 2013.

Table 25: Foreign direct investment inflows by sector (2008 – 14), percent of total

Sector shares of total	2008	2009	2010	2011	2012	2013	2014
Industry	6.4	10.8	13.6	23.5	25.5	39.2	27.1
Real estate	32.7	22.0	20.7	31.2	22.8	19.2	29.5
Energy and mining	5.6	0.6	2.2	6.9	17.4	7.0	3.9
Holding companies	7.9	0.7	2.7	4.5	2.6	4.5	5.1
Banks	17.7	25.5	13.0	5.2	5.5	3.8	2.4
Tourism	20.3	11.4	11.6	9.8	5.2	8.5 9.3	9.3
Commerce	0.6	0.7	3.5	6.7	4.6	5.1	7.1
Major public works	0.9	0.4	1.2	2.2	2.8	4.8	4.6
Transport	0.6	1.5	1.7	1.2	0.9	2.3	0.6
Telecommunications	0.8	21.2	25.0	1.6	0.2	0.6	0.5
Agriculture	0.1	0.1	0.2	0.4	0.3	0.8	0.4
Fishing	0.1	0.0	0.1	0.1	0.0	0.2	0.1
Insurance	0.7	1.8	0.6	0.6	6.5	0.3	0.4
Other services	5.3	3.1	3.6	5.5	4.7	3.2	8.3
Miscellaneous	0.1	0.2	0.2	0.6	0.2	0.2	0.4
Total (US$ million)	**3,608**	**3,134**	**4,166**	**3,221**	**3,719**	**4,649**	**4,032**

Source : WTO (2015), Moroccan Trade Policy Review, Office des Changes (2015)

Morocco received the sixth largest share of FDI coming into African in 2014 with US$4.0 billion, just behind South Africa ($5.7 billion), the Congo ($5.5 billion), Mozambique ($4.9 billion), Egypt ($4.8 billion) and Nigeria ($4.7 billion). According to statistics from the Foreign Exchange Office, the geographical distribution of FDI shows that France remains the biggest investor country in Morocco, with 32.4% of total revenues in foreign investment in 2014. Investments from France have, however, declined from a higher share of 37.3% in 2013 (Ministry of Economy and Finance, 2015).

Investments from the UAE, the second largest investor in Morocco with 12.3% of total FDI, increased by 48% to reach around US$500 million in 2014. It is followed by Saudi Arabia with a share of 10.6%, the US (7.3%), the UK (5.3%), Switzerland (5.2%), and Spain (4%).

Selected FDI figures are shown by key economic sector (Table 25). Starting with agriculture, we remember that, in order to modernize this sector, in 2008 Morocco launched the *Morocco Green Plan* (PMV)[45]. The *PMV* is the instrument for implementing a new agricultural development strategy which aims to meet new socio-economic challenges based on the following strategic foundations (Hajjaji, 2009):

- The expected role of the *PMV* as a tool for economic growth for the 2020 horizon;
- The launch of private and public investments of around US$ 1.2 billion a year for the targeted agricultural development projects;
- The adoption of a contractual approach between various operators of agricultural sectors including the State;
- The natural resource conservation for sustainable agriculture through the preparation of special programmes with The Global Environment Fund (GEF) and the Hassan II Fund for Economic and Social Development;
- The modification of sectorial framework concerns regarding land policy, water policy, tax policy and the operation of the domestic market.

Conversely, in terms of FDI, the share of agriculture remains weak with 0.4% in 2014. One principal reason is that foreigners cannot own agricultural land in Morocco, although they have the possibility to contract long term leases (up to 40 years).

The socio-economic challenges of *PMV* are, thus, numerous and interrelated. Certainly, this plan creates enormous expectations regarding the creation of employment, the

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[45] *Plan Maroc Vert* in French

promotion of investment in agriculture and improving the incomes of rural communities. Its relationship with food security is available through its objective of reducing the rate of poverty especially in rural areas, improving the purchasing power of consumers and increasing the availability of affordable food at accessible prices and at a required quality (Ait El Mekki and Ghanmat, 2015).

Real estate (29.5% of total FDI) was the most attractive sector in 2014, recording US$1.2 billion with an increase of 42% compared to 2013. It is followed by the manufacturing sector (27.1% of total FDI), which was the first recipient of the FDI sector in 2013 (39.2%). This sector attracted around US$1 billion in foreign investment in 2014. The food industry recorded the most manufacturing FDI (10.1% of total FDI in 2014), followed by the automotive industry (6.4%), despite respective declines of 64% and 13% compared to 2013.

FDI in the tourism sector recorded a share of 9.3%. It experienced a significant growth of around US$0.18 billion in 2014. Almost all of these funds were intended for the hosting infrastructure.
Finally, the trade sector ranks fourth with a share of 7.1% of total FDI, much higher than 5.1% a year earlier.

4.3. Exchange rate and trade

The current exchange rate regime is fixed with the Moroccan dirham (MAD) attached to a basket of currencies, mainly the Euro and the US dollar. In fact, in order to pursue a policy of stabilizing the exchange rate, since 1973 the government has been operating a system of anchoring the domestic currency to a basket of currencies made up from its main trading partners, taking into account their weight in foreign trade. Thus, the current basket is distributed 60% in the Euro and 40% in the US dollar, with a very small effective tolerance. The central bank "Bank Al-Maghrib" then intervenes on the foreign exchange market by setting the buying and selling prices for its operations with the private banks (Ibnoulfassih, 2015).

However, this fixity is not perfect, since the parity of the dirham fluctuates within a lower band of +/- 0.3% on both sides of the central rate (Agueniou, 2016). Moreover, it should be noted that since 2007, a policy of foreign exchange liberalisation has gradually been incorporated, enabling all current operations to be liberalized at present. Table 26 shows the evolution of the nominal exchange rate of the dirham against the Euro and the US dollar between 2008 and 2015.

Table 26: Evolution of Dirham exchange rate

	2008	2009	2010	2011	2012	2013	2014	2015
MAD/USD	7.8	8.1	8.4	8.1	8.6	8.4	8.4	8.6
MAD/EURO	11.4	11.2	11.1	11.2	11.1	11.2	11.2	11.2

Source: **WTO (2015), Bank Al Maghrib (2015)**

Few quantitative studies have examined the relationship between the exchange rate and export performance in Morocco. Among these studies, Achy (2005) estimated the impact of a depreciation of the real effective exchange rate on the export potential of the main textile-apparel and leather industries using a Linearized logarithmic model. The results show that the clothing sector (excluding footwear) is highly sensitive to changes in the exchange rate. Indeed, according to the estimated model, a depreciation of the exchange rate of 10%, *ceteris paribus*, could induce a 16% increase in exports of this sector. . The same author added that modern clothing manufacture, which contributes up to 72% of apparel exports, would be the main beneficiary of such a readjustment.

4.4. Remittances

The Moroccan community abroad amounts to nearly 5 million people. The main destination countries are France, Spain, Italy, Belgium, the Netherlands, Germany, the United States and Canada. The issued remittances of this community play an important economic role, as they are generally considered to be much more effective in fighting poverty than other sources of external financing.

According to Ben Hayoun (2016), who reported the latest *World Bank Migration and Development Note*, total remittances by expatriate citizens from the MENA region to their countries increased by 0.9% in 2015 to reach US$50.3 billion. For the same year, Morocco ranked third among countries receiving migrant funds in this region, behind Egypt and Lebanon. Indeed, transfers from Morocco amounted to nearly US$6.68 billion, compared to US$7.2 billion for Lebanon and US$19.7 billion for Egypt (Table 27).

Table 27: Moroccan Inward remittance flows

Indicators	2010	2011	2012	2013	2014	2015	Average
Value (USD million)	6,423	7,256	6,508	6,882	7,053	6,679	6,800
Nominal GDP (USD million)	90,771	99,211	95,903	103,836	109,128	100,590	100,590
% GDP	7.08	7.31	6.79	6.63	6.46	6.64	6.76

Source: World Bank (2016)

This table shows that, on average between 2010 and 2015, Morocco received almost US$6.8 billion annual transfers from its emigrants. Such remittances represent 6.76% of the average GDP for the same period, which means that they account for the third largest source of foreign exchange, behind tourism and phosphate exports.

However, it should be noted that, despite their importance for the country's economy, inward migration transfers have a small impact on investment. Indeed, only 7.7% of the total funds transferred are allocated to investment, especially in real estate, while the consumption share is 71% (Bencherki, 2015).

The Economic Commission for Africa confirmed this finding in 2016. According to a study carried out in North Africa by this United Nations Commission, transfers by Moroccans living abroad are generally in the form of financial flows that rarely target investment projects aimed at creating jobs and added value. Consequently, the ECA study advocates the development of an offer of expertise and accompaniment of potential investors among Moroccan emigrants. The objective is to better orient the allocation of the funds of these emigrants, by taking advantage of the instruments put in place by the public authorities, in order to encourage them to invest in their country of origin.

4.5. Overview of barriers to trade

4.5.1. Tariff barriers

Morocco has been one of the members of the WTO since 1995. As noted in Table 28, the average tariff applied by Morocco in 2015 was 12.5%. This rate is higher for imported agricultural products (30%) but lower for non-agricultural products (9.5%).

Table 28: Evolution of applied MFN tariffs in Morocco

Tariff rate	2002	2009	2015	%Change 2015/2002	UR bound tariff*
Bound tariff lines	100	100	100	0.0	100
Simple average tariff rate	33.4	20.2	12.5	-62.6	42.2
Agricultural products	50.7	44.5	30	-40.8	58
Non agricultural products	30.7	16.3	9.5	-69.1	39.6
Mining and quarrying	21.8	9.1	4.2	-80.7	36.8
Manufacturing	33.2	19.9	12.3	-63.0	42.3

Source: WTO, Moroccan Policy Review (2009 and 2015)

Note: (*) Based on 2015 tariff

The analysis of the tariff rate evolution shows that Morocco has reduced its MFN applied average tariff by 62.6% between 2002 and 2015 (40.8% for agricultural products, 69.1% for non-agricultural products and 63% for manufactured products). These figures underpine a goodwill policy of openness towards the world markets for all sectors, since the UR bound tariffs are systematically higher than applied tariffs.

Indeed, in 2015, the average UR bound tariff was 42.2%, greatly exceeding the applied tariff (12.5%). The final bound rates of agricultural products amount to 58% (39.6% for non-agricultural). The highest rates apply to live animals, meat, dairy products and cereals. They are the result of the transformation rate of quantitative restrictions in agriculture, following the Uruguay Round agreement on agriculture.

In summary, the lowest rates apply to goods that are not produced in Morocco and are necessary for the production system and upgrading of Moroccan enterprises. Products with a high level of protection are mostly manufactured goods that compete with the Moroccan production, especially in food industry products, plastics, paper, textiles, leather, footwear and metal products.

4.5.2. Non-tariff barriers

According to the International Trade Centre (2012), the main non-tariff barriers in Morocco are linked to technical regulations and standards. Morocco has more than 150 technical regulations and nearly 8000 standards, developed by the Moroccan Service of Industrial Standards (SNIMA) in compliance with international standards, in particular those applied in Europe. Elsewhere, all imports of animals and animal products are subject to health inspection and the import of plant products is subject to phytosanitary inspection. Seasonal prohibitions are also applied to certain agricultural products when sanitary threat is brought to notice by the authorities.

Furthermore, there are a number of taxes and charges that are applied to imports, in addition to tariffs. The main applied tax is the VAT on imported goods and services. A specific internal consumption tax *(Taxe intérieure de consommation)* is also applied especially on tobacco and beverages.

Morocco can also apply safeguard quotas, especially on cereals. Tariff rate quotas (TRQs) are applicable, however, in preferential bilateral agreements including the European Union and the United States.

As a test empirical case, a field study conducted by the International Trade Centre in 2012 covering 256 import companies in Morocco showed that these companies face three very stringent Non-Tariff Measures. The first measure concerns many constraints, including technical inspection and automatic control of imported goods (48% of total reported burdensome NTMs). These procedures are generally considered by importers to be too costly. The second measure is the assessment procedure for quality compliance of imported products (30%) which, in particular, would generate delays. Finally, importers reported suffering royalties and other taxes on imports imposed by customs services (15%).

4.6. Trade and investment agreements

4.6.1. Overview of the existing policies to boost trade and attract FDI

Since the early 1980s, Morocco has committed to a process of liberalisation of its foreign trade, through a significant number of measures promoting exports and imports liberalisation. The main measures include the reform of trade policy on goods and services to comply with applicable regulations (MEF, 2008). The adoption of the Foreign Trade Act in 1993 resulted in the elimination of quantitative restrictions and the use of tariffs as a primary means to protect domestic production.

Since then, Morocco has continued the process of simplification, transparency and rationalization of customs taxation. Of the tariff structure currently in force, the import duty is strictly ad-valorem on the CIF value. Through these measures, the country aims to promote investment and to improve the competitiveness of the national economy. Hereafter, we present a summary of the existing policies that are undertaken to spur trade for the key economic sectors, namely agriculture, industry and services.

Morocco introduced a major tariff reform in 2013, leading to a decline in average tariffs on imported agricultural products by almost a third, from 44.5% in 2009 to 30% in 2015. This new policy seeks to boost the competitiveness of agricultural products, a stated goal of

the PMV. Another objective is to encourage local production using imported inputs, replacing imports of finished products, to reduce the trade deficit. Moreover, the reform favours progressive taxation, starting with inputs (2.5% MFN duty) to finished products (200%) (WTO, 2015).

In addition, Morocco grants tariff preferences to its trading partners involved in free trade or association agreements. The case of almost total exemption from customs duties is noted for agricultural products originating in the country members of the Pan-Arab Free Trade Area and Agadir Free Trade Area involving Morocco, Tunisia, Egypt and Jordan. Also, an average preferential tariff is limited to 16.3% and 10% on imports from the EU and the United States under their respective agreements, much higher than the MFN duty showing a rate of 30% (see table 29)[46].

Table 29: Applied MFN rates and preferential rates (2015)

Partner	Total			Agriculture*			Non agriculture*		
	Simple average%	Range %	Duty free tariff lines (%)**	Simple average%	Range %	Duty free tariff lines (%)**	Simple average%	Range %	Duty free tariff lines (%)**
WTO, MFN	12.5	0 - 200	0.1	30.0	2.5 - 200	0.0	9.5	0 - 50	0.1
Agadir Agreement	0.9	0 - 100	91.5	3.4	0 - 100	90.4	0.5	0 - 25	91.6
Turkey	4.5	0 - 200	85.0	28.5	0 - 200	14.5	0.5	0 - 50	96.8
Greater Arab Free Trade Area	0.9	0 - 100	91.4	3.4	0 - 100	90.3	0.5	0 - 25	91.6
US	1.6	0 - 200	95.5	10.0	0 - 200	75.7	0.2	0 - 40	98.8
EU	2.7	0 - 200	91.1	16.3	0 - 200	58.1	0.5	0 - 35	96.6

Source: **WTO, 2015**
Note: (*): By WTO definition; (**): Percentage of total

On the export side, Morocco has notified the WTO of export subsidies on fruit, vegetables, cut flowers and ornamental plants, and olive oil in order to reduce the cost of freight. The latest available information covered the years 2008 to 2011. According to this notification, Morocco paid the equivalent of US$5 million in export subsidies for olive oil in 2011.

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[46] For more information, see the Moroccan Trade profile in the Annex.

Regarding non-agricultural products, the preferential average tariffs are much lower, ranging from 0.2% for the US to 0.5% for the rest of Morocco's key preferential partners (EU, Great Arab Free Trade Area, Turkey and Agadir FTA) whereas the MFN average tariff is bound at 9.5%. In addition, the openness of the Moroccan market is well known, as more than 90% of total lines are in duty free within FTA/Association agreements. The Moroccan market is most open for non-agricultural products originating in the US and the EU, since the duty free lines are up to 98.8% and 96.6% respectively.

4.6.2. Overview of the existing trade agreements

Morocco was an active participant in the GATT round of multilateral negotiations and currently remains an active player in the Doha round of WTO trade negotiations. In addition, Morocco is engaged in trade agreements with several economic partners, in particular the EU, the US, Turkey and Arab countries. In the context of seeking to boost trade growth, the adopted policy is based on more openness to (Ministry of Foreign Trade, 2015):

- Grant predictability for exporting and importing firms; (joining GATT and then the WTO);
- Engage in an articulated growth momentum around an integrated Euro-Mediterranean area and a privileged partnership with Europe (Barcelona Process);
- Attract FDI, modernize production sectors and create jobs by improving the business environment.

More recently, Morocco has undertaken trade liberalisation initiatives to strengthen its partnership with African and Arab countries and diversify its trade with other partners on the American continent.

EU Association agreement

The links between Morocco and the European Community were strengthened in 1996 by the Association Agreement, which came into force on March 1st, 2000. It is the legal basis of relations between the two partners. According to the Ministry of Economy and Finance (2007), this agreement aims to gradually establish free trade in industrial products, to which the European Union has already granted free access, while Morocco has undertaken to operate   progressive tariff dismantling over a period of 10 years. Regarding agricultural products, new reciprocal trade concessions took effect in January 2004.

The EU is still the largest trading partner of Morocco and the largest foreign investor. Morocco's exports to the EU are dominated by three main product groups; namely clothing,

agricultural and fish products, machinery and transport equipment. Conversely, the key Moroccan imports from the EU are machinery and transport equipment, consumer goods, chemicals and fuels. The implementation of several trade agreements has allowed the definitive abolition of customs duties on trade in industrial products and many agricultural and fisheries' products, which has led to a revitalization of trade. In 2008, Morocco achieved "advanced status" and has made significant progress on the approximation of Moroccan legislation to EU rules, including norms and standards, health requirements and public procurement.

In March 2013, the EU and Morocco launched negotiations in Rabat for an Agreement on Deep and Comprehensive Free Trade Area (DCFTA). These negotiations cover many areas such as public procurement, technical standards for industrial goods, customs procedures and trade facilitation, sanitary measures, intellectual property rights, competition, trade, energy, commercial aspects of sustainable development, etc.

The decision to negotiate DCFTA shows the importance the EU gives to Morocco as a partner that has a key role in revitalizing the integration process in the Mediterranean region. The purpose of this agreement goes beyond simple enlargement of liberalisation to tackle deeper trade relations. Indeed, the DCFTA complements the existing opening scheme by the further integration of Morocco into the European economy, by reducing non-tariff barriers, simplifying and facilitating customs procedures, liberalizing trade in services, ensuring investment protection and harmonizing regulations in several areas of the business and economic environment.

Compared to the other signed agreements, Morocco would benefit from the following:

- Moroccan products will have easier access to the European market;
- Once Morocco is closer to the EU legislation in all areas covered by DCFTA, its products can be easily exported to other non-EU countries;
- Tthere will be more fluid business participation of both parties in the awarding of public contracts;
- Both Moroccan and European consumers will have a greater guarantee of security as well as better quality and greater choice of products and services;
- The most favourable investment conditions in the country should attract EU investors and other third party countries.

It is also noteworthy that the EU has negotiated CAFTA with other partners in the region. This should increase the opportunities for exchanges between countries that are part

of the Agadir Trade Agreement. Indeed, the fact that four member countries of the Agadir Agreement could engage in a process of economic integration with the EU, can be a positive lever for the facilitation of trade between these countries and improve the business climate. Its whole success depends greatly on the political will of the country to implement reforms and modernization of institutions that might be required to advance the process of economic integration and the anticipated impact of a growth in trade.

However, it should be noted that as of 10 December 2015, the EU Court of First Instance decided to cancel the agreement signed in 2012 between Morocco and the EU on reciprocal liberalisation measures regarding agricultural and fish products. This ruling was made on the pretext that 'Western Sahara' was not part of Morocco and, therefore, products originating in that region should not be included in this agreement. Such a decision caused a major disruption to relations between the two parties, before being annulled by the Court of Justice of the European Union on 21 December 2016, following an appeal filed by the Council of the EU and the Moroccan Confederation of Agriculture and Rural Development (Comader).

Morocco – USA FTA

The Free Trade Agreement between Morocco and the United States came into force on January 1st, 2006. This agreement is intended to be comprehensive, covering all areas, including agricultural products, industrial products and services.

According to the Ministry of Foreign Trade (2012, 2015), for the trade in goods, the Agreement provides:

- For agricultural products: the gradual opening of the Moroccan market with maximum ceilings and transitional periods and decommissioning schemes of up to 25 years. In return, the US market allows free and immediate access to fresh or canned Moroccan products and agro-industrial products, with or without quotas. Access has been granted without customs duties and without quotas for fresh tomatoes, citrus fruits, strawberries and beans and processed (beans, cucumbers, avocado, olive oil, green olives and apricots kernel) which gives an average preferential of 4.7% to Moroccan exports;
- For industrial products: free and immediate access to almost all industrial Moroccan products (98%);
- For textiles: a preferential margin averaging 3.2% for Moroccan exports.

In conclusion, the general pattern of the *Morocco - USA FTA* is that, after the adjustment period, all tariffs and quotas are removed and there is completely free trade in all commodities, so that the FTA would open the door to significantly expanded trade in the future (Ait El Mekki & Tyner, 2004).

Agadir FTA

The *Agadir Agreement* concluded between Morocco, Tunisia, Egypt and Jordan, came into effective implementation in March 2007. It aims to accelerate the process of South-South regional integration through the elimination of tariff and non-tariff barriers on bilateral trade, within the targeted objective of establishing the Euro-Mediterranean free trade area (Ministry of Economy and Finance, 2008).

In the Agadir FTA, industrial products became total exempt from the starting point of the implementation of the Agreement. For agricultural and agro-industrial products, their trade is liberalised in accordance with the executive programme for the establishment of the *Greater Arab Free Trade Area (GAFTA)*. The compromise finally adopted by member countries concluded that only products for which the country is a net importer may be exported without customs tariff. On the other hand, the liberalisation of services has been negotiated under the terms of the WTO GATS.

The *Agadir Agreement* is expected to boost trade between the Agadir FTA partners. It also aims to stimulate attractiveness in the region for international investment, by promoting the removal of certain structural obstacles for the expansion of this new common market with more than 120 million consumers.

Morocco – Turkey FTA

The FTA with Turkey came into force on January 1st 2006. It provides immediate access for industrial products of Moroccan origin to the Turkish market, while customs duties and taxes on the import of Turkish products has to be phased out over a ten year period. The total tariff exemption in the Turkish market allows an average preferential margin of 4.8%. For agricultural products, the agreement provides for an exchange of concessions on product lists, with the possibility of improving those concessions.

As regards the services sector, the two countries are supporting their cooperation in order to further promote bilateral investment flows and to strengthen gradual liberalisation. Anti-dumping and compensatory measures could also be adopted to deal with illegal business practices.

According to the Ministry of Foreign Trade (2008), the FTA with Turkey would be likely to promote accessibility of Moroccan products to EU markets via the Euro-Mediterranean

cumulating of rules of origin system. It would also be an important link in the integration process across the Mediterranean region with significant competitiveness of the Mediterranean market.

4.7. Ex-post and ex-ante impact assessment of trade liberalisation

This assessment has been performed in the case of FTA agreements through i) the estimate of Morocco's preferential trade weight in global trade, ii) the features of the trade balance with every FTA partner and iii) the reported results from recent use of CGE models.

4.7.1. Morocco's preferential trade weight in global trade

Trade between Morocco and its main preferential agreement partners shows asymmetry in terms of preferential margins. The Royal Institute of Strategic Studies (2013) asserts that this asymmetry is due to the imbalance between the relative advantages granted by Morocco to preferential imports, on one hand, and that offered for its exports, on the other hand.

Indeed, according to the aforementioned source, only 25% of Moroccan total exports to the EU enter within the scope of the *Morocco-EU Association Agreement*, against 46% for imports (Table 30). The same findings can be seen for the *Agadir Agreement,* of which the weight of preferential exports amounts to only 21% of Moroccan total exports to other Agadir partner countries, against 52% for imports.

Table 30: Use of preferential tariffs by Morocco (% of total)

Partner	Imports	Exports
EU	46	25
USA	45	61
Turkey	63	76
Agadir FTA	52	21

Source: **Royal Institute of Strategic Studies (2013)**

Conversely, Morocco enjoys more preferential margins under FTAs with the United States and Turkey. The share of this trade regime is 61% for exports to the United States and 76% with Turkey, against 45% and 63% for imports with both countries respectively.

In addition, using Gravity model to assess the effect of key trade variables on Moroccan agricultural exports, many authors (See, for example, Raouf & Ghoufrane, 2007; Ayadi *et al*, 2009; Lamrani, 2013) have showed that the geographical distance between Morocco and its trade partners seems to be the most determinant variable, followed at different degrees by foreign GDP and the existence of a preferential trade agreement. That is why Moroccan agricultural exports to the EU continue to be the most important, compared to those of the other partners, despite the recent increase of exports to Russia.

4.7.2. Effects on Moroccan trade balance

According to the Exchange Office data, in 2014 only 32% of Moroccan total trade was accomplished under the preferential agreements. The trade deficit in this context amounted to almost US$ 6593.8 million, which is about 34% of the overall trade deficit (Table 31).

Table 31: Preferential trade balance (USD million, 2014)

Partner	Imports	Exports	Balance	Deficit (in %)
EU	9895.8	5083.3	-4812.5	-48.6
USA	1083.3	427.1	-656.3	-60.6
Turkey	1104.2	343.8	-760.4	-68.9
Agadir FTA	447.9	114.6	-333.3	-74.4

Source: **Calculations on the Exchange Office Data (2016)**

As should be expected, the most important value deficit has been registered with the EU, reaching US$ 4812.5 million, which means that 48.6% of imports are not covered by exports. The second highest trade deficit was with Turkey (760.4 million, 60.6%), followed by the USA (656.3 million, 69%) and finally by Agadir FTA partners (-333.3 million, 74.4%). Thus, Morocco still has a long way to go before it benefits from the preferential agreements for trade in goods. Indeed, all trade balances with FTA partners are negative because of the importance of imports relative to export values.

4.7.3. Recent reported CGE modelling results

As for the recent use of CGE models to assess the effects of trade liberalisation in Morocco, few studies have been performed. Kavallari *et al* (2013) implemented the MAGNET model through two scenarios representing i) tariff elimination on trade between Morocco and the EU, on one hand, and between Morocco and Middle East and North Africa countries (MENA), on the other hand (S1) and ii) combined tariff elimination and Non-Tariff Measures (NTM) reduction (S2). The results show that all the effects of a combined tariff elimination and NTM reduction (S2) are higher by far than those of S1. Furthermore, the agri-food sector in

Morocco faces significant changes (in comparison to the baseline), while forestry, manufacture, energy and services only experience small effects. Thus, the Moroccan agri-food sector would be particularly affected by trade liberalisation in the context of what is called "Deep and Comprehensive Free Trade Area".

Looking at agri-food exports to the EU, exports of fish and vegetables and fruit increase by 43.4% and 111% under S1 and S2 respectively. Thus, the reduction of NTMs for these sectors would be a determinant for boosting bilateral trade between Morocco and the EU. By the same token, agri-food imports could increase by almost 123% and 271% under S1 and S2 respectively, with the effects (increase) being more important for meat imports (57 and 105 times under S1 and S2 respectively due to the small basic import volume), sugar (3 and 10 times), vegetable oils and fats (2 and 8 times), cereals (1.6 and 3.3 times) and dairy products (1.2 and 1.9 times).

In contrast, trade liberalisation between Morocco and MENA countries shows effects of low magnitude for both S1 for S2. The main reason could be linked to the preference of trade with the EU, given the commercial experience of this destination, the good management of control and logistic issues and the tendency towards the reasoning of trade between Morocco and the EU, on the basis of barter goods (Ben Abdellah *et al*, 2013).

On the production side, the MAGNET results show that, overall, trade liberalisation leads to a decrease in producer prices throughout almost all sectors of the Moroccan economy. The magnitude of the effects, however, remains low for the agri-food sector, with changes in production amounting to -4.1% and -0.8% under S1 and S2 respectively. It should be noted that the production value of fruit and vegetables would increase by 7.3% and 27.9%, while the value of wheat production decreases by about -20% and -47.6%. The decrease is mainly due to the increase of wheat imports from the EU of US$ 1,100 million and US$ 2,200 million under S1 and S2 respectively.

Furthermore, GDP reaches US$ 131,344 million by 2020, compared to almost US$ 100,000 million in 2010. Overall, this is an increase in GDP of 31.3%. With S1, the absolute change in GDP is relatively low, amounting to US$ 145 million, equating to an increase of 0.11% compared to the baseline. Under S2, the effects are much more significant, as GDP increases by US$ 3,321 million or a rate of 2.53% compared to the BaU.

On the employment side, the effects of trade liberalisation appear to have mixed results. However, overall, the agri-food sectors that might experience a significant decline in employment are those where production decreases, such as red meat and wheat. Fruit and vegetables record an increase in employment that could reach 10.5% and 31% under S1 and S2 respectively.

The effects of trade liberalisation on food security indicators in Morocco show that the likely consumption cost could decrease by 5.3% and 8.6% under S1 and S2 respectively. This result counters the increase in consumption volume because of lower food prices (-6.3% for S1 and -15.5% for S2) leading to cheaper food. Positive effects of food security have been noted both for both staple and luxury food.

Besides, Ben Abdellah et al. (2013) implemented the SimSipSam model[47], to assess the effects of trade liberalisation with the EU on key sectors in Morocco. With a scenario that assumes a 10% increase in Moroccan exports, the aggregate effect on the total production and aggregate GDP of all sectors respectively reached almost US$ 767 million (or an 0.44% increase, compared to the data of the 2004 Social Accounting Matrix) and US$ 341 million (0.48%). The key agri-food sectors contribute to these scores with a respective share of around 11.6% and 17.3%. The obtained results of the analysis provide the relevant following insights from the Moroccan perspective:

- Encourage government action towards complete trade liberalisation through the removal of both all tariff and non-tariff trade measures, rather than only reducing tariff barriers , i.e. in negotiations with the EU, focus on removing NTMs on fish, vegetables and fruit imports originating from Morocco;
- Promote food processing in Morocco, since this sector displays a greater impact on aggregate GDP than primary products. Sugar and dairy products seem to be the largest contributing sectors to the production as well as GDP;
- Promote Foreign Direct Investments (FDI) funded by MENA countries in the MENA area to boost intra-industry trade between these countries, in addition to their trade relations with the EU.

4.8. Conclusion

In Morocco, foreign trade and FDI have become a central pillar of economic growth and an undeniable source of employment and wealth. This outcome has been accelerated by Moroccan trade and services liberalisation within the new context of globalization and regional preferential agreements. In addition to the coming into force of the signed agreements, in particular with the EU and the US, a significant share of trade is still performed under WTO provisions.

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[47] SimSipSam Model has been developed by Parra and Wodon (2009).

However, trade made in the context of free trade agreements remains relatively low and disadvantages Morocco. Indeed, despite the implementation of these agreements, only 32% of Moroccan total trade was accomplished under preferential conditions. Moreover, all preferential balances are in deficit, because the various signed agreements have resulted in greater imports, despite the increase in exports.

Nevertheless, preferential agreements have boosted FDI which have resulted in a qualitative shift to sectors with high value added such as industry, real estate and tourism. In 2014, Morocco was the sixth African country to benefit from FDI, with a total of almost US$ 4 billion. Meanwhile, no information has so far been given as to the effects of this FDI increase on sectoral employment. This lack of information may be filled by contributions from the current EMNES project.

In order to register a better impact, Morocco has continued its efforts to open up trade through lowering applied tariffs in comparison with WTO bound tariffs, in spite of the existence of some non-tariff barriers. It has also continued to simplify customs clearance procedures and is currently looking to reinforce its trade relations with the EU and diversify its foreign markets, especially with West – African countries. To profit from these efforts, the country must also better orientate the use of remittances, as transferred funds from its emigrants are mostly spent on consumption rather than investment.

5. Country report Tunisia

Abdessalem Abbassi, Raoudha Hadhri, and Hela Ayari

Tunisia is a relatively open economy with trade reaching levels of around 100% of GDP. The trade deficit had been modest over the past decade but has substantially increased over the past five years. The Tunisian economy relies heavily on remittances and foreign direct investment which are on the order of 5% and around 2.5% of GDP respectively. Tunisia has completed a series of regional trade agreements and bilateral agreements with the EU. Liberalisation efforts with the EU have culminated in the current negotations for a DCFTA which should address non-tariff barriers, since tariffs are already comparatively low.

5.1. Introduction

Tunisia's economy depends on phosphates, agri-food products, car parts manufacturing, and tourism. The economy grew by an average of 4.5% a year in the decade before the revolution. After the Arab spring in 2011, Tunisia was distressed by the disruption to the economic activity, the reduction of investment, the fall of foreign direct investment inflows and the reduction of tourism receipts. Indeed, real GDP grew by only 2.3 percent in 2014, after 2.4 percent in 2013. The IMF and World Bank estimate growth rate for 2015 to be 1%. These problems undoubtedly slowed down the process of Tunisia's integration into the world economy, which should resume with a clearer vision and better targets. Tunisia has embarked on its integration policy of preferential openness and attractiveness concerning low added value and labour intensive activities. Furthermore, Tunisia's orientation mainly towards the EU, in its trade policy (in 2015, 71% of Tunisia's exports went to the EU), as well as its focus on manufacturing activities, to the detriment of services activities, has led to the loss of many opportunities offered by certain service activities in the world. Despite these difficulties, Tunisia has demonstrated great resilience and has succeeded in maintaining major macro-economic equilibria.

5.2. Overview on trade and investment patterns

In the last decade and since 2005 Tunisian exports have experienced a number of structural changes reflecting growth in the electrical, electronics and household electrical appliance industries. In Figure 62, exports and imports are reported as a percent of GDP, so that we can evaluate their magnitude relative to the size of the economy. If exports (imports) are about 15 percent or less of GDP, the economy is considered relatively closed. Tunisia is considered increasingly open to international trade because its exports and imports are over 40% of its production. Between 1990 and 2014, the average value of exports and imports as a percent of GDP was 44.04% and 48.44% respectively, with a maximum of 56.17% and 59.22% respectively in 2008. However, the decline in the share of exports in GDP (from 50.48% in 2010 to 44.62% in 2014) coupled with a rise in the share of imports (55.28% to 55.38%) suggest that reforms are needed to revive the competitiveness of Tunisian enterprises.

Figure 62: Exports and imports as percent of GDP
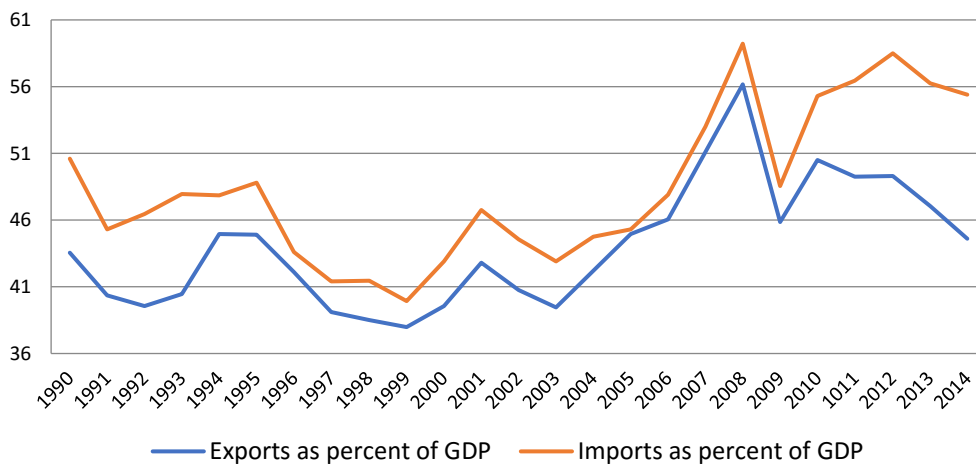
Source: TheGlobalEconomy.com, The World Bank

Compared to the performance of other countries,[48] Tunisia has very mixed results in terms of export development (see Figure 63). Indeed, the ratio of the export of goods and services on GDP has remained constant between 1990 to 2014. This is not the case for all the countries in the study, except Egypt.

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[48] Slovak Republic, Korea, Czech republic, Morocco, Portugal , Turkey and Poland

Figure 63: Export on GDP, index (1990=100)
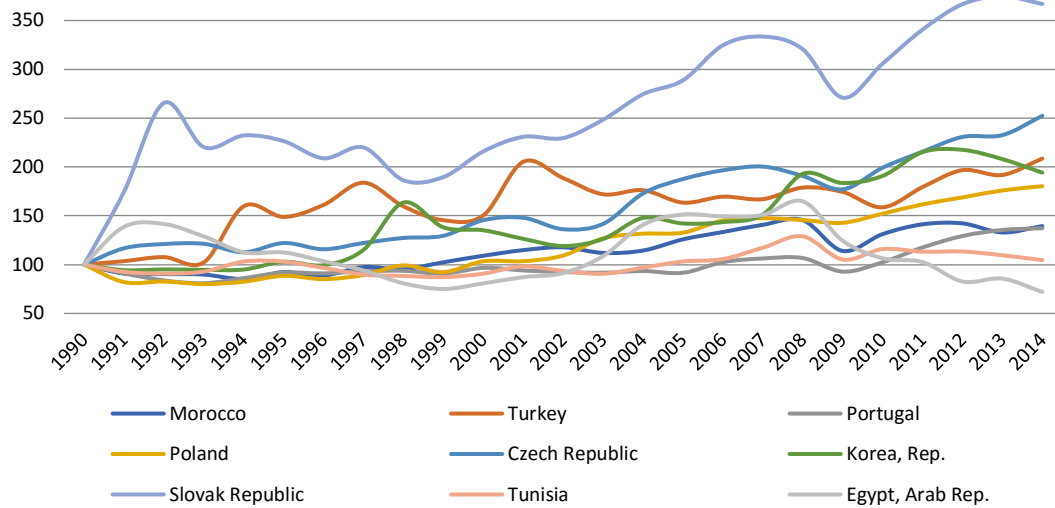
Source: World Development Indicators, The World Bank

Figure 64 shows that from 1990 to 2014 the openness ratio in Tunisia remained stable. Knowing that similar countries have performed better, this performance still remains insufficient. Indeed, the openness ratio for Morocco was around 150% in 2014. As for Poland and Turkey, since 1990, the indicator has more than doubled, reaching around 200%.

Figure 64: Trade openness, index (1990=100)
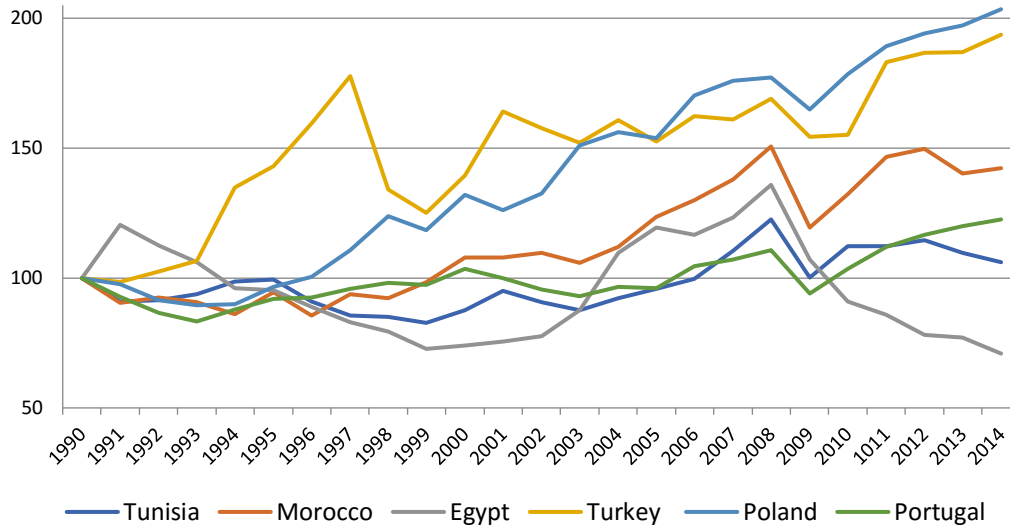
Source: World Development Indicators, The World Bank

5.2.1. Export Diversification

This section contains two indicators that characterize export diversification. The first indicator is the *Herfindahl-Hirschman Product Concentration Index*. This indicator is a measure of the trade value dispersion across an exporter's products. A country with a preponderance of trade value concentrated on a very few products will have an index value close to 1. Thus, it is an indicator of the exporter's vulnerability to trade shocks. In Figure 65, Tunisia remains less diversified compared to its competitors. However, there is a fall in the Index for Tunisia between the years 2002 and 2014. This may be an indication of diversification in the trade profile of Tunisian exporters.

Figure 65: Export diversification by product
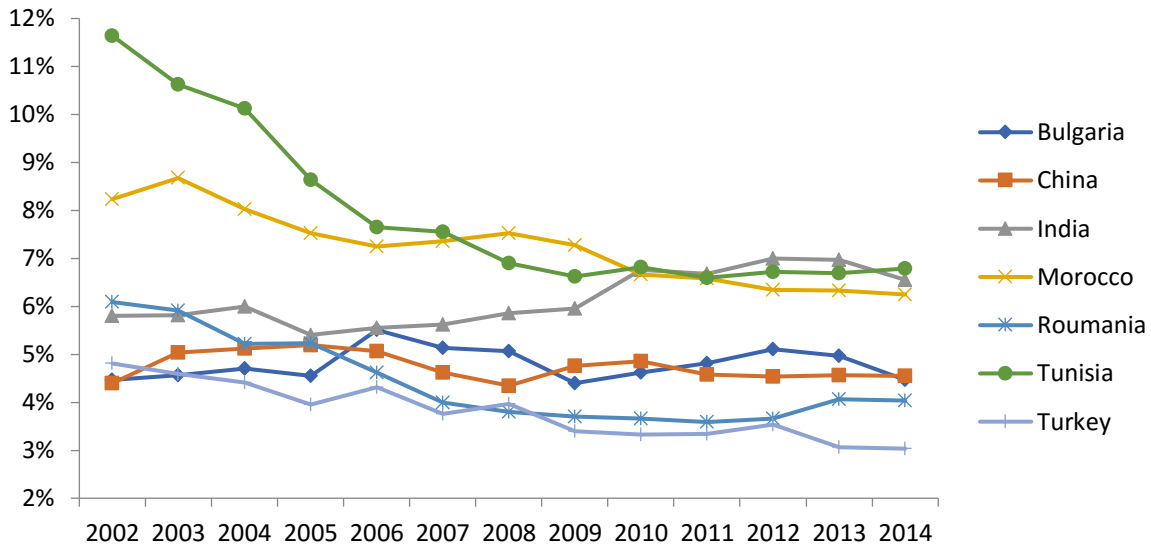
Source: Author's elaboration on Chelem

The next indicator is the Herfindahl-Hirschman Market Concentration Index. This indicator is a measure of the trade value dispersion of the exporter's partners. A country with a preponderance of trade value concentrated in a very few markets will have an index value close to 1. Thus, it is an indicator of the exporter's dependency on its trading partners and the danger it could face should its partners increase trade barriers. In Figure 66, Tunisia remains less diversified compared to its competitors. However, a fall in the index over time may be an indication of diversification in the trade profile of Tunisian exporters.

Figure 66: Export diversification by market
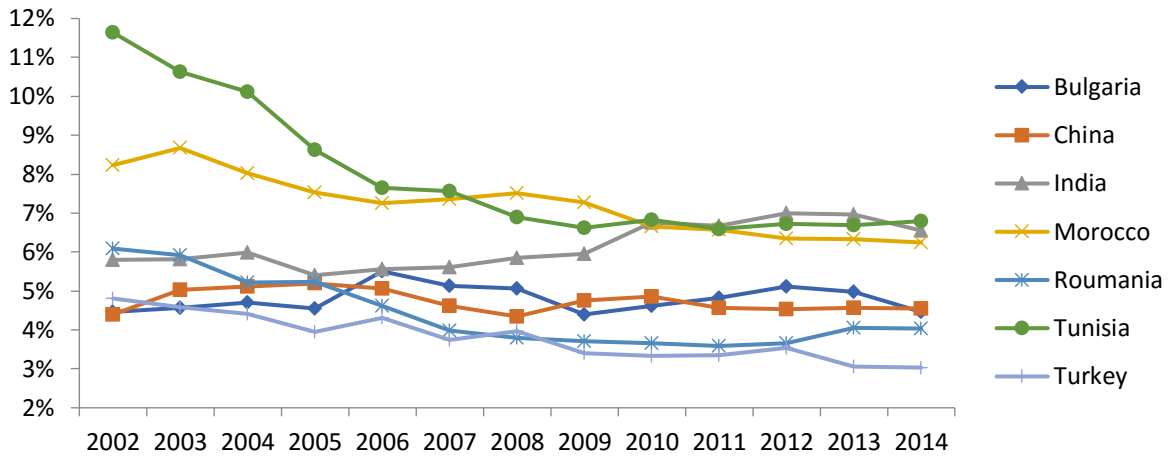
Source: Author's elaboration on Chelem

The next indicator is the Herfindahl-Hirschman Market Concentration Index. This indicator is a measure of the trade value dispersion of an exporter's partners. A country with a preponderance of trade value concentrated in a very few markets will have an index value close to 1. Thus, it is an indicator of the exporter's dependency on its trading partners and the danger it could face should its partners increase trade barriers. In Figure 67, Tunisia remains less diversified compared to its competitors. However, a fall in the index over time may be an indication of diversification in the trade profile of Tunisian exporters.

Figure 67: Export diversification by market
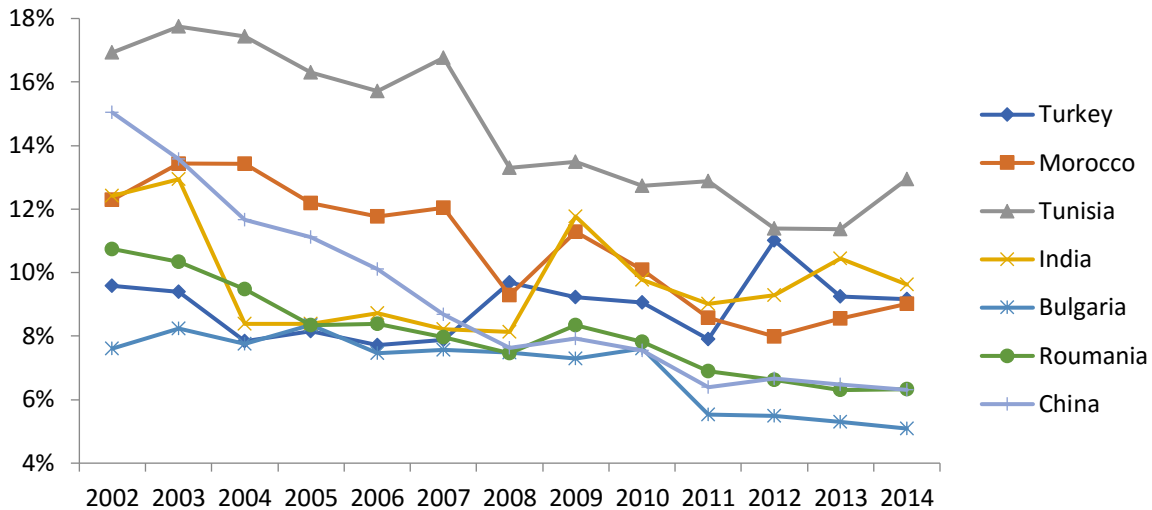
Source: **Author's elaboration on Chelem**

Concentration of Tunisian exports in the world's least dynamic products and markets

Tunisian exports are concentrated among the least dynamic products in the world.

Table 32: Sectoral structure of Tunisia's exports over the period 2002-2013 (in %)

	Growth in world imports	Structure of Tunisian exports
Construction materials	7.8	1.2
Iron and steel industry	10.2	1.3
Leather textiles	**6.9**	**34.5**
Paper Wood	6.4	3.0
Electrical Mechanics	**7.6**	**26.8**
Chemistry	10.5	10.4
Ore	16.2	1.7
Energy	15.1	11.9
Agriculture	9.9	1.8
Agri-food	10.0	7.0
Rest of products	9.2	0.5
Total of goods	**9.5**	**100**

Source: **Author's elaboration on Chelem**

Similarly, Tunisian exports are, mainly, oriented towards the EU, a market characterized by a lack of dynamism in its demand compared to other geographical areas in the world, except North America.

Table 33: Geographical structure of Tunisian exports over the period 2002-2013 (in %)

	Growth in import demand	Geographical structure of Tunisia's exports
NAFTA	6.1	3.0
European Union	**7.6**	**74.7**
North Africa	12.5	8.6
Sub-Saharan Africa	14.4	1.9
Near and Middle East	13.5	1.5
Asia and Oceania	12.5	3.7
Rest of the world	12.9	6.5
World	**9.5**	**100.0**

Source: **Author's elaboration on Chelem**

5.2.2. Intensive and extensive margin

In order to shed more light on the dynamics of diversification of Tunisia's exports by product, which was previously treated solely on the basis of the traditional Herfindhal indicator, it would be more interesting to refine the analysis, in order to find out if Tunisia has been able to improve its exports by the creation of new products (extensive margin) or by the development of traditional products (intensive margin). Moreover, the latter margin could be further refined to see to what extent Tunisia has relied on its traditional export base of flagship products (having a significant share) or on emerging products that have improved their exports.

Methodological framed: intensive margin and extensive margin

The notion of an intensive and extensive margin can reflect the dynamism of a country's exports. The concepts of intensive and extensive margins are measured using different methods in the literature. The method used in our case appreciates the extensive margin by measuring the extension of the panel of exported goods and the intensive margin through the intensification of exports of existing goods. It is inspired by the publication of the French Development Agency MacroDév n ° 3 on the diversification of exports in the franc zone: degree, sophistication and dynamics.

The breakdown of export growth into extensive and intensive margins is as follows:

$$\frac{x_t - x_{t-1}}{x_{t-1}} = \underbrace{\frac{t_t - t_{t-1}}{x_{t-1}}}_{\text{intensive margin}} + \underbrace{\frac{n_t - d_{t-1}}{x_{t-1}}}_{\text{extensive margin}}$$

Where x_{t-1} and x_t are the total exports of goods respectively at period t-1 and period t.

• The intensive margin is measured by the growth in exports due to the so-called traditional (t) products that were exported during both periods.

• The extensive margin is due to the growth of exports of named products (n) minus those of extinct products named d but which existed at period t-1.

To avoid possible erratic changes in exports from one period to the next, annual data has been smoothed over for three years by a single moving average. Thus the values given for the period t-1 and t are, in fact, the arithmetic mean of the data relating respectively to the period 2003-2005 and the period 2011-2013.

• The intensive margin is, in turn, decomposed in order to appreciate the contribution to growth, in particular of the export of nascent and flagship products in the period t-1. There are three types of products:

1 / Low-exported products (tF) at period t-1 are those whose share of total exports of goods is less than or equal to 0.1%.

2 / Medium-exported products (tM) in period t-1, which occupy between 0.1 and 1% of total exports.

3/ The flagship products (tP) in period t-1 whose share of the total export of goods is greater than or equal to 1%.

Hence, the intensive margin breaks down as follows:

$$\frac{t_t - t_{t-1}}{x_{t-1}} = \underbrace{\frac{t_{Ft} - t_{Ft-1}}{x_{t-1}}}_{\substack{\text{Growth of slightly} \\ \text{exported products}}} + \underbrace{\frac{t_{nt} - t_{nt-1}}{x_{t-1}}}_{\substack{\text{Growth of moderately} \\ \text{exported products}}} + \underbrace{\frac{t_{Pt} - t_{Pt-1}}{x_{t-1}}}_{\text{Growth of flagship products}}$$

This decomposition makes it possible to determine, among traditional products, whether flagship products, or rather nascent products, have favoured the growth of exports.

The investigations carried out in this direction show that the intensive margin contributes most to the growth of Tunisian exports, which is fully explained by the increase in exports of the products that already constitute the exporting base. Indeed, the decomposition of Tunisian export growth, between the periods 2003-2005 and 2011-2013, reveals that, given an increase in exports of 84%, the extensive margin of new export products contributed weakly at 0.16%, while that of the traditional base (intensive margin) is remarkably dominant (84.1%).

To summarize, the intensive margin is a source for growth in Tunisia, contributing to more than 100% of growth, that is to say the extensive margin was negative. The significant proportion of the intensive margin went to the emergent products (34.8%) (product low exported) and the rest was allocated between products extensively exported (32.1%) and products moderately exported (17.2%).

Table 34: Decomposition of exports growth by type of margin

	% change	Structure exports	
	(2011-2013)/(2003-2005)	2003-2005	2011-2013
Total export	84.06	**100.0**	**100.0**
Intensive margin	**84.14**	**99.8**	**99.9**
Products low exported	34.85	10.3	24.5
Products moderately exported	17.16	23.2	21.9
Products extensively exported	32.13	66.2	53.4
Extensive margin	**-0.08**	**0.2**	**0.1**
New products	0.16	0.0	0.1
Extinct products	-0.24	0.2	0.0

Source: Comtrade

5.2.3. Economic complexity index

The Economic Complexity Index (ECI) is a measure of the production characteristics of large economic systems, usually whole countries. ECI is a scale that uses the calculations for economic complexity to rank countries according to their level of complexity. It ranks how diversified and complex a country's export basket is. When a country produces complex goods, in addition to a high number of products, it is typically more economically developed.

Table 35: International ranking of North African countries based on the ECI between 2010 and 2014

	Rank				
	2010	2011	2012	2013	2014
Tunisia	54	48	43	46	47
Egypt	72	69	67	64	61
Morocco	84	83	81	82	78
Algeria	106	96	121	110	112
Libya	112	115	124	120	118

Source: **The Atlas of Economic Complexity, 2016**

Table 35 shows that Tunisia is ranked as the best in the North African region followed, respectively, by Egypt, Morocco, Algeria and Libya. The international ranking of Tunisia had improved from 2010 to 2012. After 2012, Tunisia was distressed by the disruption to

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economic activity, the reduction of investment, the fall of foreign direct investment inflows and the reduction of tourism receipts. These explain why Tunisia's ranking has collapsed.

5.2.4. Trade in services

Despite the important contribution of the services sector in value added (62%), investment (52%), exports (22%) and employment (51%), the competitive performance of this sector remains modest and below its potential.

The comparative analysis of Tunisia's trade, with a sample of competing countries, during 2013 shows that all countries, with the exception of Indonesia and Malaysia, had a positive balance contributing to the reduction of current account deficits.

Figure 68: Services balance for Tunisia and other countries, percent of GDP, 2013
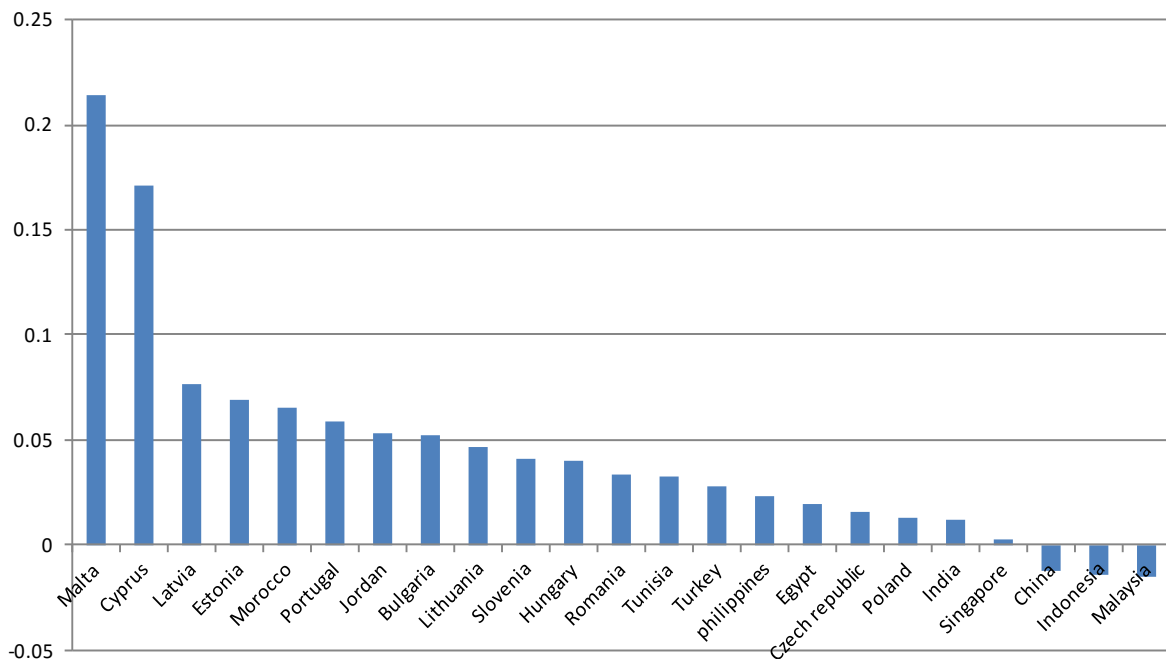
Source: **Author's elaboration on Chelem**

Besides, the part of this sector in the total exports of goods and services remains relatively low compared with certain competitors - only 22% - compared to 74% for Cyprus, 56% for Malta and 44% for Morocco.

Figure 69: Share of services in total exports of goods and services for Tunisia and its competitors in 2013
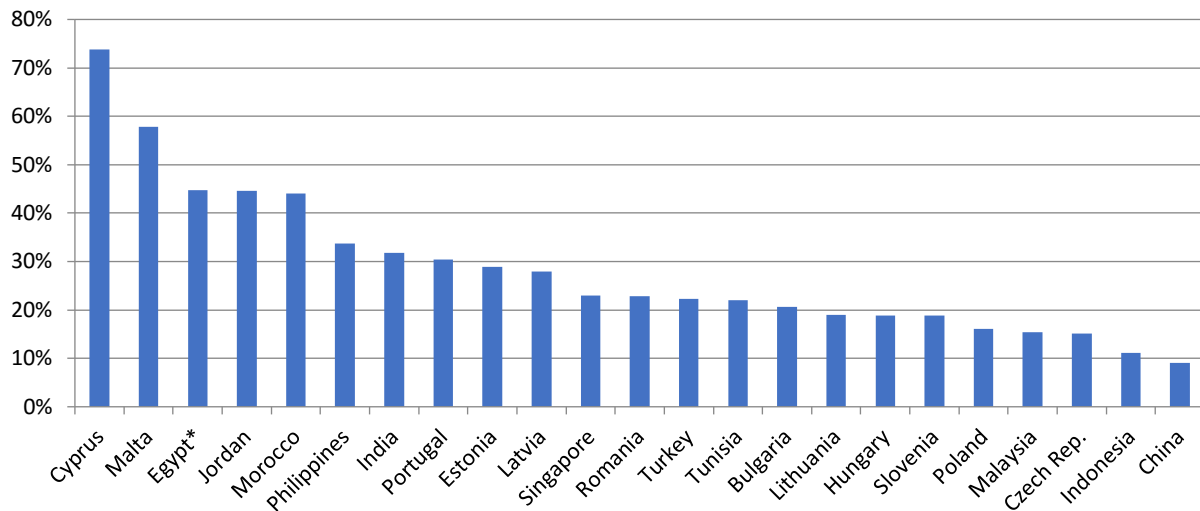
Source: **Author's elaboration on Chelem**

Furthermore, the analysis of the exports structure of the services sector, according to three major categories: journeys, the services of transport and other services. The Baltic countries, Latvia and Lithuania, have the highest share of transport services; Asian countries and some Central and Eastern European countries (CEE), such as Romania, Hungary, the Czech Republic and Estonia have the largest share in the "other services" category.

Finally, the Mediterranean countries have the most dominant share in travel services, which mainly includes tourism. More specifically, in Tunisia, its exports of services are characterized by a high dependence on travel and transport services, which together accounted for 72% in 2013 of the total and, more specifically, those relating to travel. Such dependence weakens the Tunisian economy and prevents it from reacting easily to external shocks, as evidenced by the continued decline in the share of travel services, which reached 45.4% in 2013, compared with 65.2% in 1999. While the share of transport services increased between 1990 and 2008, reaching 21.4% and 32.5% successively, it then decreased in recent years to 26.4% in 2013. However, the category "other services" was characterized by a sustained evolution of its share (about 29%) with the exception of the year 2012 when it decreased slightly (27%).

Figure 70: Exports structure of the services sector in 2013
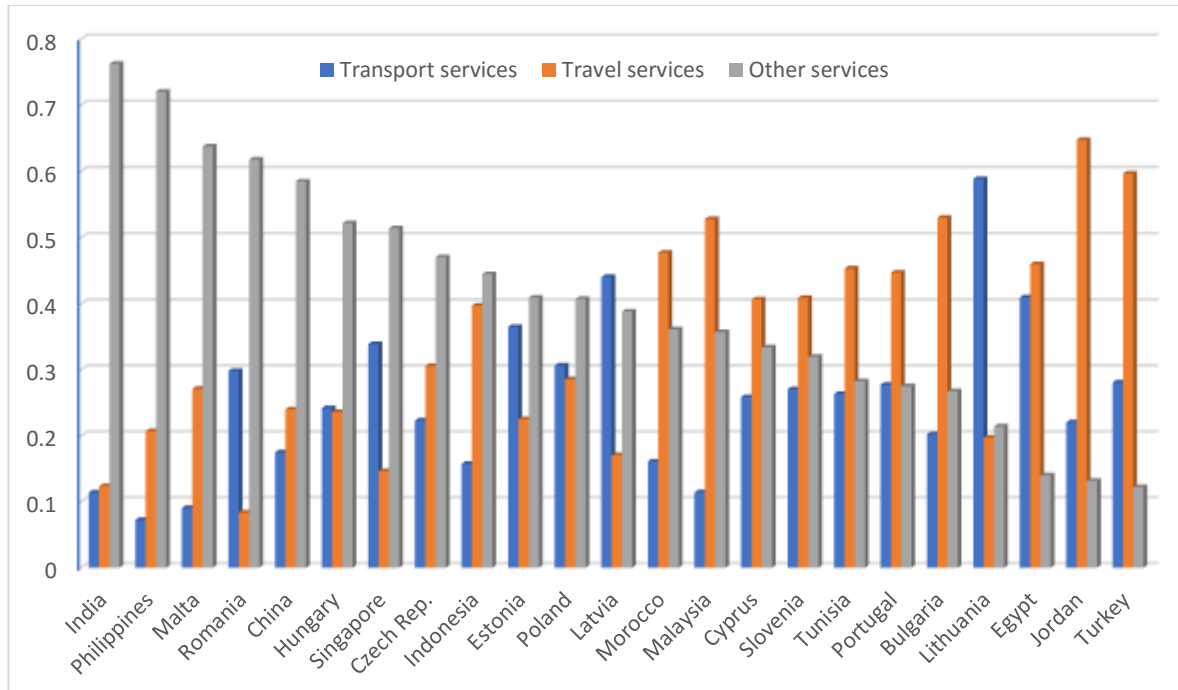
Source: **Author's elaboration on Chelem**

It is relevant to develop a competitive positioning matrix covering the period 2000-2013, based on the growth in world import demand and Tunisian exports. Indeed, this matrix makes it possible to identify, on one hand, dynamic services whose growth in imports is above average (growth of all services) and, on the other hand, it distinguishes, according to the dynamism of Tunisian exports, between so-called leaders of services and unexploited opportunities.

Figure 71: Competitive positioning of Tunisia in exports of services over the period 2000-2013
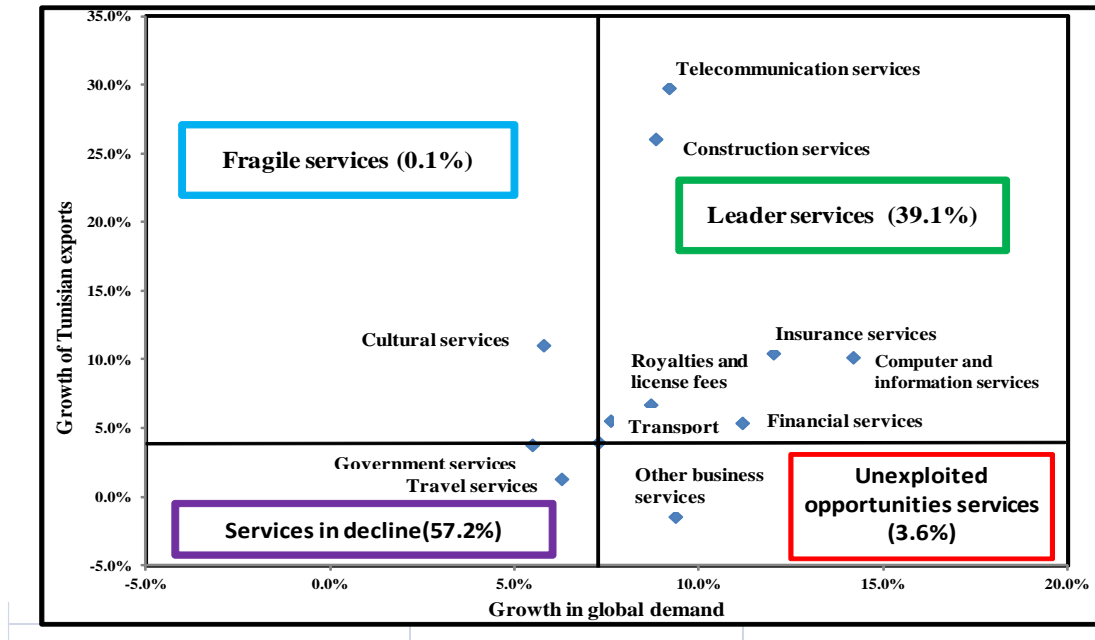
Source: **Author's elaboration on Chelem**

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Figure 71 shows that Tunisia adapts to foreign demand in seven categories of services. In 2013, 47.1% of total exports are defined as leaders, because they are dynamic worldwide and have experienced above-average export. These include, for example, transport, construction and telecommunication services. It should be noted that Tunisia has not ceased improving exports of these service activities to adapt to global dynamism. However, it should make greater efforts to capitalize on these strengths and to improve its competitive performance.

Tunisia is not yet in a position to respond to foreign demand and to exploit the opportunities offered by certain service activities on the world market and, for this reason,

these categories are defined as "unexploited opportunities services". Indeed, the latter, are dynamic on a global scale, but not in terms of Tunisian exports, as their growth is below average (growth in total services exports). This is the only category of "other business services" whose negative export growth does not allow them to improve their small share in the total exports of services which has not exceeded 2.1. Moreover, these activities are not yet competitive, since they not only do not have a comparative advantage but also they are losing market share.

Table 36: Competitive positioning of Tunisia: degree of adaptation of exports to demand (2000-2013)

2000-2013	Global demand		Exports from Tunisia		Market shares of Tunisia		Comparative advantage of Tunisia	
	growth	Structure	growth	Structure	growth	level	growth	level
Total services	**7.3**	**100**	**4**	**100**	**-3.1**	**0.1**	**-**	**-**
Leader services								
Transport services	7.6	24.3	5.5	27.2	-1.9	0.2	1.21	1.1
Construction services	8.8	1.6	26.1	5.3	15.8	0.4	19.5	3.12
Insurance services	12	3.8	10.5	1	-1.4	0	1.7	0.26
Financial services	11.2	3.2	5.4	1.5	-5.2	0.1	-2.2	0.48
Royalties and license fees	8.7	5.7	6.7	0.6	-1.8	0	1.3	0.1
Telecommunication services	9.2	1.1	29.8	3	18.2	0.3	21.1	2.48
Computer and information services	14.2	2.8	10.2	0.7	-3.5	0	-0.4	0.27
Unexploited opportunities services								
- Other business services	9.4	20.9	-1.4	3.6	-9.9	0.03	-7	0.18

Source: **Author's elaboration on Chelem**

To sum up, Tunisia has relatively improved its competitive export performance, but it is not yet in a position to exploit all its capacities.

5.2.5. Foreign Direct Investment

Between 2010 and 2015, the average value of foreign direct investment (FDI) for Tunisia was 1.24 billion U.S. dollars with a minimum of 1.0 billion U.S. dollars in 2015 and a maximum of 1.6 billion U.S. dollars in 2012. However, FDI flows declined between 2013 and

2015, due to the deterioration in the country's security situation and the lack of a medium and long term economic vision. FDI flows are concentrated in the energy, manufacturing, tourism and real estate sectors.

Figure 72: Tunisia Foreign Direct Investment, billion dollars
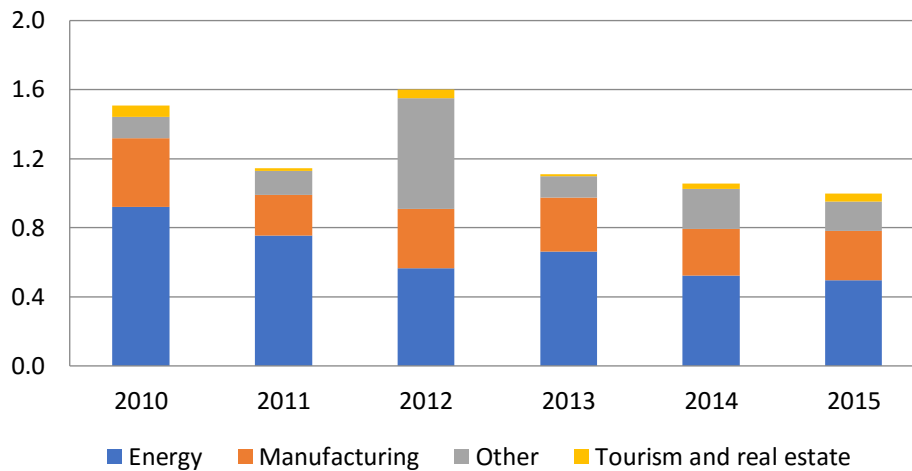
Source: **Central Bank of Tunisia, 2017**

Figure 73 shows the changes in FDI as a percentage of GDP between the years 2010 and 2015. For this indicator, the average value for Tunisia during that period was 2.73% with a minimum of 2.2% in 2014 and a maximum of 3.6 % in 2012.

Figure 73: Tunisia Foreign Direct Investment, percent of GDP
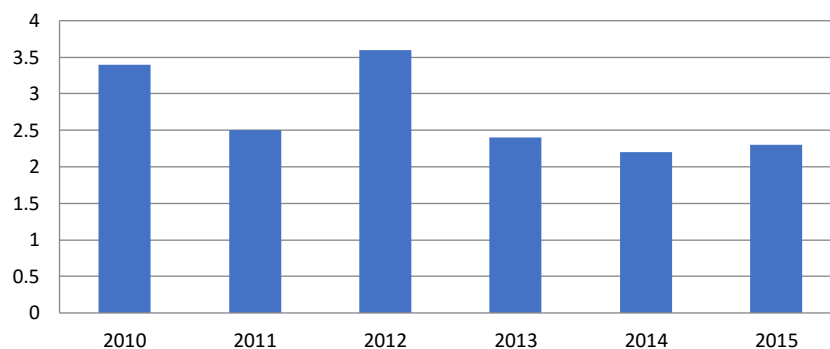
Source: **Central Bank of Tunisia, 2017**

5.3. Exchange rate policy

Like other countries, Tunisia is faced with the problem of exchange rate determination. The Central Bank of Tunisia (BCT) has the power to issue the national currency and to determine the value of the Tunisian dinar in relation to other foreign currencies. To this end, it takes into account the level of foreign exchange reserves in its foreign currencies (the amount of its liquidity in euros, dollars and other international currencies) and its monetary and economic strategies. Tunisia's currency, the dinar, is not traded outside Tunisia. However, partial convertibility exists for bona fide commercial and investment transactions. Certain restrictions still limit operations carried out by Tunisian residents.

In 2012, reference to a basket of currencies was replaced by the average of the rates quoted by banks. In 2014, the BCT established market maker status, which gives its holder the exclusive privilege of being a BCT market counterparty, in exchange for a number of obligations. Market-makers must also comply with a limit to their internal foreign exchange position that is at least equal to two thirds of the regulatory limit. These reforms should help to ensure more efficient market liquidity, make currencies more available and reduce the prevalence of parallel markets.

Figure 74 shows the evolution of the euro against the Tunisian dinar between the years 2000 and 2016. Since the 2000s, after the creation of the euro currency, the value of the Tunisian dinar seems to be falling in terms of parity. In 2006, it was 1.67 Tunisian dinar to 1 euro. In 2016, it was 2.37 Tunisian dinars to 1 euro. Between those two dates, a period of one decade passed, during which the depreciation of the Tunisian dinar against the euro was almost 42%. The magnitude of fiscal and commercial deficits added to those of public companies which explains the fall in the value of the dinar.

Figure 74: Euro (EUR) to Tunisian Dinar (TND) exchange rate from 2000 to 2016
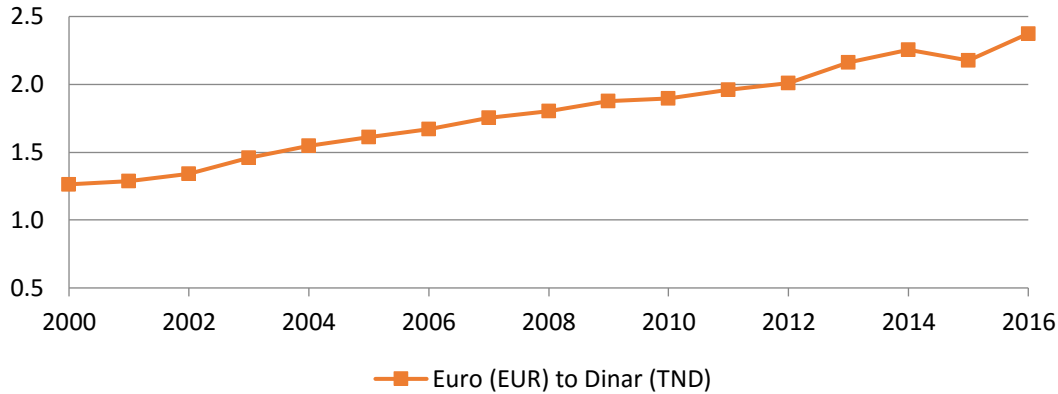
Source: Central Bank of Tunisia, 2017

5.4. Remittances

Remittances are the monies sent home by Tunisian citizens who work in a foreign country. The World Bank provides data for Tunisian remittances over the period 2005 to 2015. The annual average value during that period was 1659.1 million U.S. dollars with a minimum of 1195.13 million U.S. dollars in 2005 and a maximum of 1961.33 million U.S. dollars in 2014.

Figure 75: Tunisia remittances (in million U.S dollars)
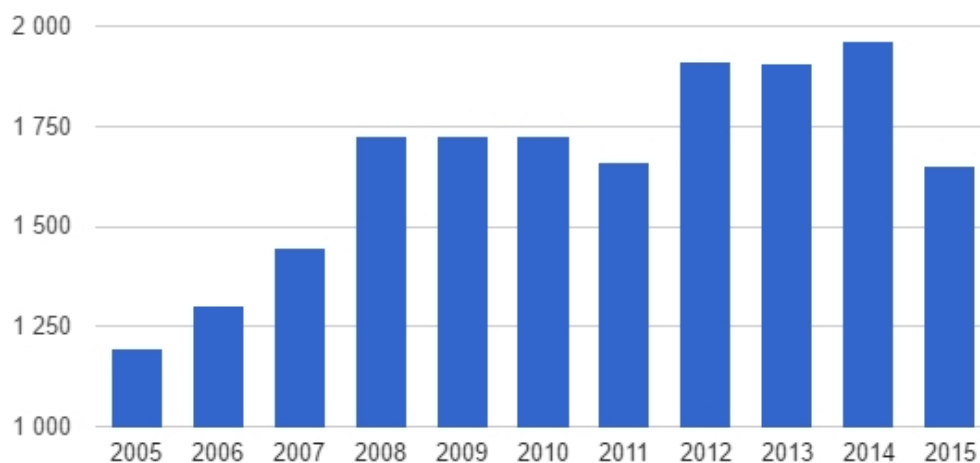
Source: TheGlobalEconomy.com, the World Bank

Figure 75 shows the changes in Tunisia remittances as a percentage of GDP covering the years from 2005 and 2015. For that indicator, the average value for Tunisia during that period was 4.6% with a minimum of 4.31% in 2005 and a maximum of 5.03 % in 2012.

5.5. Trade barriers

5.5.1. Tariff barriers

Since 2005, the main trade policy change has been the drastic decision, since 2009, to reduce import tariffs to a maximum rate of 36%. The main features of Tunisia's MFN tariff are shown in Table 37. The rates are exclusively ad valorem.

Table 37: Structure of MFN duties, 2005, 2015 and 2016

	2005	2015	2016	Bound rate[a]
1.Bound tariff lines (% of all tariff lines)	n.a	n.a	n.a	59.2
2. Simple average of MFN applied rates	31.3	18.2	14.1	66.7
Agricultural products (WTO definition)	66.8	34.2	32.1	120.8
Non-agricultural products (WTO definition)	22.6	14.2	9.6	39.2
Agriculture, hunting, forestry and fishing (ISIC 1)	63.0	32.4	30.5	123.5
Mining and quarrying (ISIC 2)	12.7	2.4	2.9	24.5
Manufacturing (ISIC 3)	30.0	17.4	13.1	61.6
3. Duty-free tariff lines (% of all tariff lines)	15.0	26.9	46.6	0.0
4. Simple average rate (dutiable lines)	37.3	24.9	26.4	66.7
5. Non-ad valorem tariffs (% of all tariff lines)	0.0	0.0	0.0	0.0

Source: **WTO Secretariat calculations based on data provided by the authorities.**
Note: The 2016 tariff is composed of 11,502 tariff lines (9-digit level, according to the HS12 nomenclature). The 2015 tariff is composed of 11,499 tariff lines (9-digit level, according to the HS12 nomenclature). The 2005 tariff is composed of 16,232 tariff lines (11-digit level, according to the HS02 nomenclature). The calculations are based on the national tariff line level, with ex-quota rates where applicable. a The final bound rates have been provided by the authorities (9-digit level, according to the HS12 nomenclature).

The average tariff on agricultural products (WTO definition) was 32.1% in 2016. Tunisia has substantially lowered its MFN agricultural duties since its trade policy was last reviewed in 2005. The average rate applicable to non-agricultural products (9.6%) has also dropped in comparison with 2005. This reduction is mainly a reflection of lower tariffs on all categories of products, particularly those on wood and paper, clothing, leather and footwear. The significant drop in tariffs is the result of the integration of the Tunisian economy into the global

economy by the implementation of free trade agreements with the EU, EFTA, the Greater Arab Free Trade Area, Turkey, Egypt, Jordan and Morocco.

5.5.2. Non-tariff barriers

Major burdensome NTMs for exports

According to the International Trade Centre survey (ITC) on NTMS in Tunisia, the largest proportion of those companies interviewed export to the European Union (40%), followed by the Maghreb countries (21%) and Asia (15%). Only 13% of companies reported exports to African countries other than those of the Maghreb. The EU is the primary partner of Tunisia and received 74% of the value of Tunisian exports in 2011, followed by the Maghreb countries (10%).

About two thirds of exporters faced non-tariff measures (NTMs) and other trade barriers. The obstacles to trade are mainly from the rigour of foreign regulations. These include technical regulations and requirements relating to conformity assessment, which together account for 56% of cases of burdensome NTMs reported by foreign exporters. The technical requirements involve the specific properties of the products or the production process. They are legally set by the country to which a product is exported (or from which it is imported). The conformity assessment procedures are designed to determine whether the product or production process corresponds to specifications. Among the most commonly mentioned binding technical measures include the certification of the product (30% of cases of binding foreign MNT) and test requirements (15%). Regarding non-technical measures, rules of origin account for 20% of binding foreign NTMs. It should also be noted that the quantitative control measures and, more specifically, the seasonal quotas affecting mostly agricultural products, are cited among foreign barriers frequently encountered during export operations (11% of cases). Over a third (36%) of reported burdensome NTMs were observed in the case of companies exporting to the EU. It is the highest proportion of barriers to trade.

As for national measures affecting exports, inspections, certifications and other technical specifications represent more than half of the trade barriers applied by Tunisia. Quantitative measures for export, mainly export registration requirements, are also considered by many companies as a factor limiting their exports. Moreover, 14% of burdensome NTMs applied by Tunisia correspond to taxes and charges on exports.

Major burdensome NTMs for imports

Tunisian imports are mainly hindered by local authority regulations. The constraints related to   financial measures are the most frequently mentioned by importers (27%),

particularly the conditions for payment of imports and obtaining credits, the prepayment of duties, and prior import deposits. Nearly a quarter of MNTs (22%) relate to the conformity assessment and, more specifically, the requirements regarding testing and product inspection, the materials origin, product certification, and quarantine agricultural products and animals. Levies, taxes and other para-tariff measures were mentioned in over 16% of cases of burdensome NTMs. These are mainly customs duties on inspection and handling or storage costs. Finally, a quarter of obstacles related to pre-shipment inspections and, more specifically, import control and monitoring requirements.

Tunisian Importing companies also face some NTMs implemented by partner countries. These are mainly quotas, licenses and constraints related to payment terms of imported goods.

5.6. Trade and investment agreements

5.6.1. Multilateral trade agreements

In November 1959, Tunisia was provisionally admitted to the GATT. In 1987, trade negotiations were initiated with the other contracting parties for Tunisia's accession to the GATT. This process culminated in July 1990. At that date, Tunisia consolidated 909 tariff items out of a total of 6052 of the Harmonized System Nomenclature (NSH). Consolidations of industrial products (832) accounted for almost 14% of the NSH, and those of agricultural products (77) accounted for almost 2%. In January 1995, the World Trade Organization (WTO) replaced the GATT. It has worked to liberalize certain sectors of the world economy, which are still highly protected; agriculture, textiles and clothing, services and public procurement. However, protectionism has not completely disappeared, but its forms have evolved considerably. The free trade/protection debate is still relevant; It is continuing in the WTO round of negotiations to discuss modalities for strengthening opening up measures, already agreed upon at the previous round of negotiations, and reaching a consensus on the changes to be made about the rules and commitments currently in force.

In parallel with the WTO agreement, some member countries, including Tunisia, have signed other bilateral and regional agreements.

Regional trade agreements

Tunisia has signed trade agreements with about 60 countries in order to create new trade opportunities and to bring about the better integration of Tunisia's economy around the world. In 1995, Tunisia concluded an Association Agreement with the EU (the EU is Tunisia's largest trading partner, accounting for 62.8% of its trade in 2015). This Agreement established a Free Trade Area, under which all two-way trade in industrial products takes place free from any trade tariffs. Regarding agricultural, agro-food and fisheries products, the EU and Tunisia agreed to a progressive opening of their respective markets for selected products. A Deep and Comprehensive Free Trade Area (DCFTA) between the EU and Tunisia took place in April 2016. Discussions covered a wide range of issues including agriculture and services. The aim of these negotiations was to build on the existing EU-Tunisia Association Agreement. Otherwise, Tunisia has concluded bilateral agreements with other partners. For example, trade agreements with Iran (2008), Turkey (2005), Syria (2003), Libya (2001), Iraq (2001), Morocco (1999), Jordan (1998) and Egypt (1998). Other agreements exist, but are not being implemented.

Table 38: Regional Trade agreements of Tunisia

Agreement	Date of entry into force	Coverage of the Agreement	Notification to the WTO	
			Year	Legal provision
Tunisia – Turkey	01.07.05	Goods	2005	GATT Article XXIV
Tunisia - European Free Trade Association (EFTA)	01.06.05	Goods	2005	GATT Article XXIV
Tunisia - European Union	01.03.98	Goods	1999	GATT Article XXIV
Agreement establishing the Greater Arab Free Trade Area (GAFTA)	01.01.98	Goods	2006	GATT Article XXIV
Global System of Trade Preferences among Developing Countries (GSTP)	19.04.89 Not applied	Goods	1989	Enabling clause
Protocol relating to Trade Negotiations among Developing Countries (PTN)	11.02.73 Not applied	Goods	1971	Enabling clause
Tunisia - Iran	26.05.08	Goods	Not notified	
Agadir Agreement (Egypt, Jordan, Morocco, Tunisia)	06.07.06	Goods	Not notified	
Tunisia - Syria	10.03.05	Goods	Not notified	
Tunisia - Libya	19.02.02	Goods	Not notified	
Tunisia - Iraq	31.12.99	Goods	Not notified	
Tunisia – Morocco	16.03.99	Goods	Not notified	

Tunisia - Jordan	1999	Goods	Not notified	
Tunisia - Egypt	1998	Goods	Not notified	
Tunisia - Algeria	2008	Goods	Not notified	
Tunisia - Mauritania	..	Goods	Not notified	
Community of Sahel-Saharan States	..	Goods	Not notified	
Arab Maghreb Union (AMU)	..	Goods	Not notified	

Source: WTO 2017

Tunisia's trade policy reflects its commitment to trade liberalisation, in order to improve export capacity and generate more growth. The main aims of Tunisia's trade policy are to:

- improve the performance of exports and reduce the trade deficit ;
- enrich and diversify exports through the production of new products with a higher value added;
- diversify export destinations.

New trade measures have been introduced with the aim of:

- making customs clearance paperless;
- Streamlining import procedures;
- modernization of control techniques;
- Improving the regulatory framework for financing imports of goods;
- fighting against smuggling.

5.7. Ex post assessment of trade liberalisation

A computable general equilibrium model of the Tunisian economy was developed by ITCEQ (2016). It aims to explore and measure some of the economic implications for a potential Tunisia-European Union Deep and Comprehensive Free Trade Area (DCFTA). The model focused on the impact of lifting investment barriers and the elimination of hurdles to cross-border trade in services. The results of this study indicate that DCFTA would benefit both parties.

Gains are estimated on average of between 0.3 and 0.4 points of GDP annual growth between 2015 and 2030 and an estimated drop from 2.7 to 4.3 points in the expected unemployment rate at the end of the period (2030). The magnitude of the gains from lifting investment barriers suggests that the DCFTA is an additional opportunity for Tunisia to accelerate pro-competitive reforms in services. The results of the simulations also show that the more Tunisian exports of services benefit from better access to the European market, the better the answer to the problem of unemployment in Tunisia. Moreover, the performance in terms of employment is more nuanced by sectors and by simulated policy. As a result, some sectors would increase the growth of their employees in comparison with the reference situation, such as in business services, computer services, telecommunications or international transport. Other sectors, such as postal and courier services, especially trade services, will experience lower employment growth.

5.8. Conclusion

After 2011, Tunisia faced unique circumstances which have had important repercussions on the growth and development of its economy. Despite these circumstances, Tunisia's overall performance has improved, especially in relation to cross-border trade. However, unemployment is still one of the major issues, totalling 15.2% of the labour force in 2014. This situation would be aggravated by a rapidly growing work force.

Actually, Tunisia is in the process of economic reform and liberalisation in order to boost economic growth, reduce unemployment, reverse falling living standards and to develop underprivileged interior regions. These reforms are, therefore, essential for achieving social and political stability, but their effects will not be rapidly noticeable.

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6. Conclusions

From the point of view of the EU, deepening economic ties with the Southern Mediterranean region has always been considered a priority, in order to enhance good relationships, favour economic growth and, most importantly, contribute to the stability of the region. In 1995, the Barcelona Declaration set in motion liberalisation processes via Association Agreements, lowering tariff barriers for industrial products and sector specific agreements on agriculture and fisheries. For the Southern Mediterranean countries, repercussions of such trade liberalisation agreements, vis-à-vis the EU, have been sizable and have contributed to increasing ties with the EU, which has become the most important trading partner for some of them.

For about 15 years, the four case study countries in this report, namely Egypt, Jordan, Morocco and Tunisia, have been integrated into the global economy by acceding to the WTO and by liberalising trade via preferential trade agreements. And, indeed during this period, trade and FDI inflows received a notable boost, not only vis-à-vis the EU but also with the rest of the world.

However, this positive trend has been disrupted by two large shocks: the global financial crisis of 2008/09 and the commodity crisis, followed by the euro area crisis, which had a profound impact on the EU's neighbouring region, due to the fact that its trade relies heavily on the 'crisis countries' in the Euro Area periphery. The second, and even larger, shock was the Arab uprising. Economic activity, trade and, ultimately employment in the Southern Mediterranean region, took another severe hit. This was particularly the case for countries that did not have a very diversified export sector but rather relied on a combination of a few sectors, such as tourism, transport or the petroleum industry. Due to security concerns, combined with the fall in commodity prices and global production, positive trends were broken and much of the previous progress was literally undermined. Seven years after the start of the first movements of revolt, the hoped for positive effects have not yet fully materialized and only Tunisia experienced a full transition towards a democratic state. As a consequence, most countries have been able to return to previous positive developments.

The EU remains devoted to the notion of the Euro-Med FTA and, in recent years, has channelled its efforts into Deep and Comprehensive Free Trade Agreements which would go well beyond mere tariff reduction but, instead, would focus on non-tariff barriers, service trade and investment. This is expected to have a potentially large impact on the SM countries,

which already have close ties with the EU markets and have an eye on further penetration of the EU single market. For the EU, the potential economic gains of such agreements are limited, owing to the small size of SM countries relative to other EU partners. For both sides, the agreements would lead to some sectoral employment shifts, driven by competitiveness and comparative advantages.

For the Southern Mediterranean region, the EU is the most important trade partner, though a large difference in their exposure to the EU exists. Egypt and Jordan are far less reliant on the EU market as an export destination. Their trade relations with the rest of the world are much more diversified, with the United States and regional partners such as Saudi Arabia taking a large share in total trade volume. Capital flows (in particular remittances) largely originate among their wealthy regional partners. The EU is still one of their major trading partners but the dependence is not as pronounced as that of Morocco and Tunisia. For the latter, the EU dominates over all other economic ties; 70% of Morocco's and 84% of Tunisia's trade is conducted with the EU. This dependence is also reflected in keen interest to engage in a process of intensifying trade and investment relations with the EU. Indeed, Tunisia and Morocco were the first Southern Mediterranean countries to enter into negotiations of a DCFTA.

The TSIA reports estimate the impact of such DCFTAs, assuming certain parameters of reduction in tariff and non-tariff barriers as a result, on the local economies. For the four case study countries, the TSIAs predict long-term gains in the order of 1.6 – 7.4 percent increase in GDP and an overall positive impact on wages[49]. Moreover the analyses forecast that exports would increase more than imports, while overall trade increases by between 5-25%. However, the report emphasises that there would be profound sectoral shifts in production and employment. The latter has contributed to a resurgent debate over the desirability of a DCFTA and, in particular, with regard to the appropriate sequencing. Are domestic firms sufficiently well-equipped to withstand fiercer and more direct EU competition, or do they need a longer period of transition to prepare accordingly? Morocco has recently put the negotiation on ice, as it tries to evaluate this precise question (combined with a dispute over the applicability of the DCFTA on West-Sahara). The Moroccan country report asserts that past trade agreements have boosted trade, albeit asymmetrically. Imports benefited more from preferential treatment than Moroccan exports, thus aggravating the trade deficit. This, thereby, indirectly and adversely impacts employment. At the same time, liberalisation has led to a boost for high-value added industries, such as the automobile and aerospace industries and the high-

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[49] With the sole exception of low-wage workers in Egypt which are expected to lose 2%.

tech agricultural sector. This, in turn, has created growth, high-end jobs, thereby boosting aggregated demand and creating positive spill-overs.

The DCFTA dialogue between the EU and Egypt has been put on hold before they really started and the Jordan negotiations have not yet taken off. Indeed, Egypt and Jordan may turn their attention first to other partners, such as the Arab countries or the United States.

Tunisia, on the other hand, is still in negotiations with the EU and the formal commitment of the government remains clear. This is notably driven by the potential economic gains for Tunisia (as calculated in the TSIA reports) which appear higher than the gains of the other three SM countries combined (in % of GDP). A similar CGE model applied to Tunisia (see country report) even predicts a drop in the unemployment rate of 1.3 percentage points by 2030, if a DCFTA is implemented.

However, a DCFTA, which implies integration into the EU single market (without being part of the EU) in the same way as current EU member states, also implies that certain conditions are met. The main one is to undergo a complex preparatory procedure, to assure that production processes and outcomes meet certain standards and that regulatory and administrative standards are respected. This has resulted in quite a high cost in terms of making changes to local legislation and in the overview of production procedures, which often yield delays in production and in the commercialization of products. Such a process of convergence in standards is currently perceived as burdensome and has become an obstacle, or at least a delaying factor, to the advancement of the negotiations. Moreover, the perception and the understanding of the different national stakeholders and civil society at large of the impact of such agreements have shifted from support to a more uncertain position. The awareness that small producers will be unable to compete in this new landscape have generated waves of opposition to further integration. Such concerns are being amplified by a more general shift, compared to the mid-1990s, towards assessing the effects of liberalization policies at a global level. Such concerns are likely to be important in fledgling democracies.

Overall, these reasons for concern set against potentially large gains, point to a slower than expected process of negotiation. It is too early to determine whether the current state is only a temporary forestalment, or a permanent break in the liberalisation approach, with a return towards sectoral agreements. DCFTAs have not lost all their appeal but it is vital to shape them in a way that can provide an opportunity to boost exports and channel investment into employment creating sectors and, possibly, to facilitate the establishment of higher value-added industries in the Southern Mediterranean region. Last, but not least, the EU

should not neglect the importance of fostering intra-regional trade which can help stabilize diplomatic relations between countries, build growth networks and increase the capability to compete.

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Annex 1: Merchandise trade, vis-à-vis the EU15, taken as the log of combined EU15+SM4 GDP*
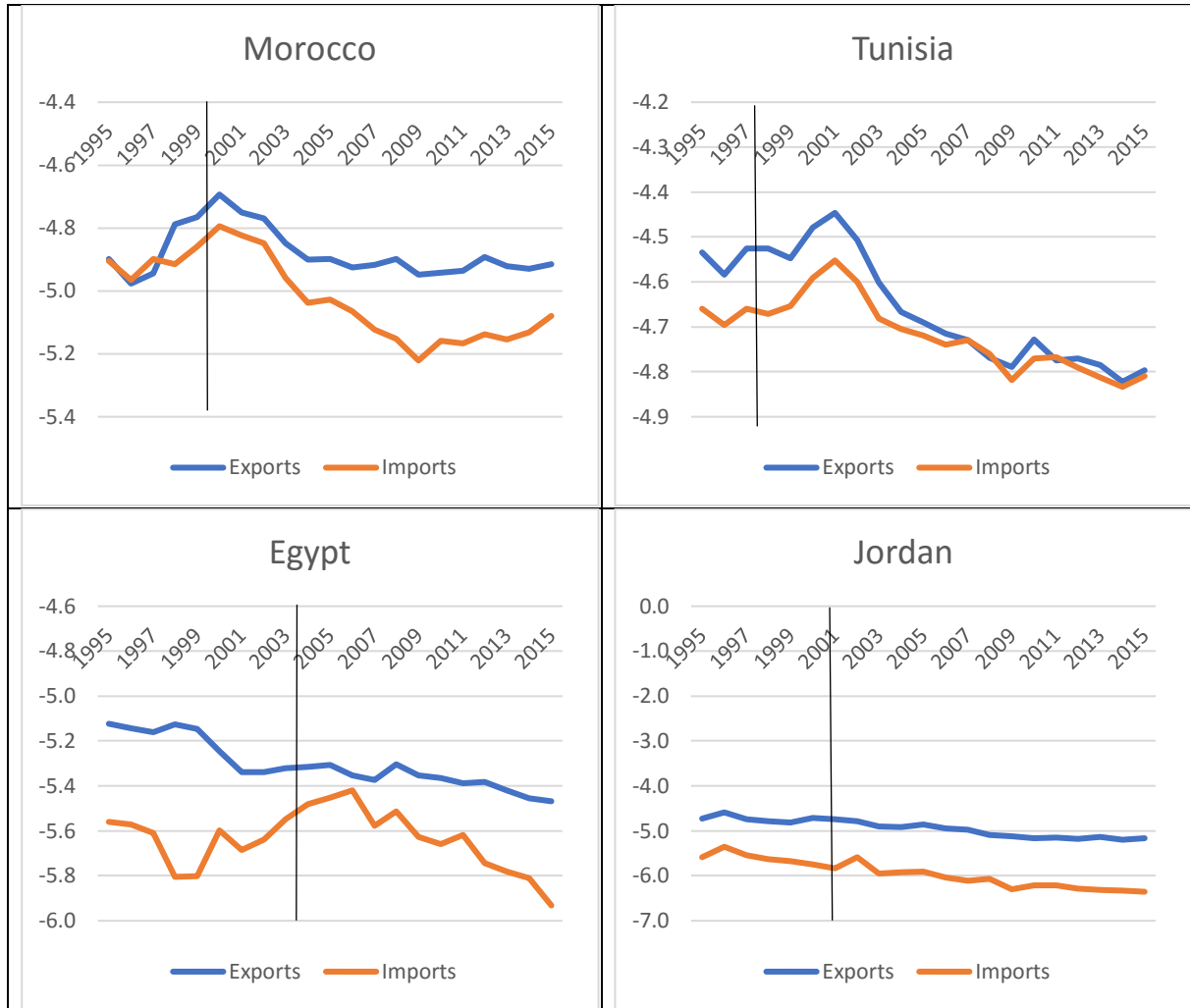
Source : UNCTAD and IMF

Note : $*Log(Exports/(GDP_{EU15} \times GDP_{SM\ country})$

Annex 2 : Share of the EU in total trade of the SM country

Annex 3: Jordan Balance of Payment, standard presentation
(Data source: Central Bank of Jordan, 2015)

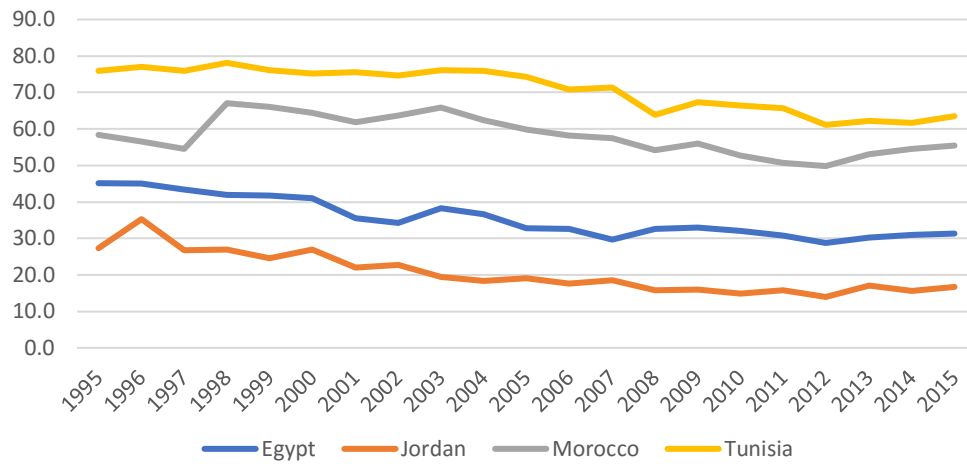|	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Current Account	-1784.3	-2384.6	-3345.3	-2098.8	-1336.3	-882.9	-1457.2	-2038.0	-1223.8	-1610.6	27.7	849.8	355.7	-17.7	19.5
Trade Balance (Net)	-8495.6	-8143.6	-7486.6	-6261.7	-4823.8	-4448.8	-5084.4	-4574.2	-3584.7	-3556.3	-2395.1	-1415.3	-1227.1	-1423.0	-1541.7
Exports, f.o.b., o/w:	5953.6	5616.7	5599.5	5684.5	4990.1	4526.3	5633.0	4063.6	3689.9	3049.7	2753.0	2184.9	1963.9	1626.7	1346.6
Non-Monetary Gold	0.7	10.8	101.3	186.7	142.1	168.3	58.2	32.9	196.3	2.7	36.2	149.2	124.3	7.3	2.0
Imports, f.o.b., o/w:	14449.2	13760.3	13086.1	11946.2	9813.9	8975.1	10717.4	8637.8	7274.6	6606.0	5148.1	3600.2	3191.0	3049.7	2888.3
Non-Monetary Gold	386.5	370.9	32.0	22.2	10.1	16.2	108.9	66.8	25.9	48.7	72.3	50.6	22.9	27.5	20.0
Services Account	1836.3	1265.7	1332.3	896.0	926.2	616.6	451.1	98.4	18.6	-91.9	-21.4	-100.0	-71.4	-169.0	-58.4
Travel (Net)*	2295.9	2154.7	2071.7	1607.5	1429.5	1311.4	1376.2	1012.5	867.4	606.5	571.4	432.2	422.0	228.4	264.5
Receipts	3106.6	2923.0	2883.6	2431.5	2545.3	2066.8	2088.5	1638.3	1460.8	1021.4	942.8	752.6	743.3	496.1	512.4
Payments	810.7	768.3	811.9	824.0	1115.8	755.4	712.3	625.8	593.4	414.9	371.4	320.4	321.3	267.7	247.9
Transportation (Net)	-763.7	-881.6	-817.5	-868.2	-714.9	-817.5	-996.6	-817.7	-714.9	-618.1	-482.6	-370.6	-339.7	-339.5	-279.4
Receipts	1137	995.5	1028.0	907.0	794.2	564.5	593.1	468.4	374.1	333.1	302.0	215.0	207.2	184.5	212.4
Payments, o/w**:	1900.7	1877.1	1845.5	1775.2	1509.1	1382.0	1589.7	1286.1	1089.0	951.2	784.6	585.6	546.9	524.0	491.8
Freight	1461.2	1391.5	1323.2	1208.0	992.5	907.7	1083.8	873.6	735.6	668.0	520.6	364.1	322.7	308.3	292.0
Government Services (Net)	385	155.3	221.3	261.8	281.2	244.3	147.9	41.7	21.3	68.2	-77.6	-119.1	-153.2	-81.1	-156.9
Receipts	442.8	235.2	277.6	346.1	357.1	347.5	290.1	156.0	104.0	122.9	45.4	22.4	28.0	64.6	26.9
Payments	57.8	79.9	56.3	84.3	75.9	103.2	142.2	114.3	82.7	54.7	123.0	141.5	181.2	145.7	183.8
Other Services (Net)	-80.9	-162.7	-143.2	-105.1	-69.6	-121.6	-76.4	-138.1	-155.2	-148.5	-32.6	-42.5	-0.5	23.2	113.4
Receipts	440.1	360.3	369.6	389.0	367.1	348.3	408.0	329.5	185.9	233.0	209.8	249.5	285.1	309.4	410.8
Payments	521	523.0	512.8	494.1	436.7	469.9	484.4	467.6	341.1	381.5	242.4	292.0	285.6	286.2	297.4
Income Account	-295.9	-240.4	-275.9	-187.8	-152.4	266.6	292.1	408.2	257.8	182.6	164.0	92.1	48.9	114.6	71.2
Compensation of Employees (Net)	223.6	220.3	209.3	202.4	208.3	204.1	209.6	195.7	164.6	142.4	139.4	137.1	135.2	126.5	114.5
Receipts	265.4	258.6	247.8	239.2	249.8	246.1	249.1	235.9	198.2	171.6	162.2	156.1	151.4	142.7	130.9
Payments	41.8	38.3	38.5	36.8	41.5	42.0	39.5	40.2	33.6	29.2	22.8	19.0	16.2	16.2	16.4
Investment Income (Net)**	-519.5	-460.7	-485.2	-390.2	-360.7	62.5	82.5	212.5	93.2	40.2	24.6	-45.0	-86.3	-11.9	-43.3
Receipts	359.4	305.0	241.8	265.3	380.2	436.2	497.3	683.1	470.0	333.5	267.7	234.2	191.5	319.9	342.7
Payments	878.9	765.7	727.0	655.5	740.9	373.7	414.8	470.6	376.8	293.3	243.1	279.2	277.8	331.8	386.0
Current Transfers (Net)	5160.9	4733.7	3084.9	3454.7	2713.7	2682.7	2884.0	2029.6	2084.5	1855.0	2280.2	2273.0	1605.3	1459.7	1548.4
Public (Net)	1341.4	1620.0	1048.1	1431.9	779.4	671.4	938.3	324.4	574.6	528.5	939.6	995.8	361.5	327.0	286.9
Inflows	1342.3	1620.8	1049.6	1433.1	782.0	684.1	940.1	327.9	598.8	533.2	945.9	997.2	362.5	330.0	291.3
Outflows	0.9	0.8	1.5	1.2	2.6	12.7	1.8	3.5	24.2	4.7	6.3	1.4	1.0	3.0	4.4
Other Sectors (Net)	3819.5	3113.7	2036.8	2022.8	1934.3	2011.3	1945.7	1705.2	1509.9	1326.5	1340.6	1277.2	1243.8	1132.7	1261.5
Inflows, o/w:	4257.1	3455.2	2484.5	2376.4	2322.5	2463.9	2394.1	2220.8	1796.8	1615.0	1579.8	1485.0	1427.2	1347.3	1560.1
Workers' Remittances	2388.0	2327.7	2229.8	2152.1	2247.3	2214.2	2242.0	2122.5	1782.7	1544.8	1459.6	1404.5	1362.3	1283.3	1177.3
UN Compensations	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	56.2	106.9	70.2	53.9	47.9	375.3
Outflows, o/w:	437.6	341.5	447.7	353.6	388.2	452.6	448.4	515.6	286.9	288.5	239.2	207.8	183.4	214.6	298.6
Workers' Remittances	312.5	285.9	287.9	275.2	309.8	314.6	295.3	299.6	251.1	218.4	170.1	141.9	121.3	120.8	123.6
Capital and Financial Account	763.4	1976.3	3813.9	2329.5	772.6	605.6	1301.7	1658.9	1369.9	1131.9	-114.0	-912.4	-261.9	126.2	-176.6
Capital Account	3.1	1.7	1.8	0.0	0.2	0.4	201.3	9.1	44.5	6.0	1.5	66.3	48.8	15.3	46.0
Financial Account	760.3	1974.6	3812.1	2329.5	772.4	605.2	1100.4	1649.8	1325.4	1125.9	-115.5	-978.7	-310.7	110.9	-222.6
Direct Investment	1289.4	1265.8	1059.3	1024.3	1151.9	1661.9	1996.6	1825.0	2610.6	1291.3	651.3	390.4	159.1	171.6	641.4
Portfolio Investment	828.5	1133.6	326.8	208.5	547.0	-447.0	406.8	595.5	-26.1	221.7	-204.8	-334.4	-291.2	-201.6	-127.1
Other Investment	320.4	3288.7	100.4	-75.6	104.2	1599.5	-494.2	-194.1	-299.5	-257.0	-503.9	-200.3	464.3	-48.3	-250.7
Reserve Assets	-1678	-3713.5	2325.6	1172.3	-1030.7	-2209.2	-808.8	-576.9	-959.6	-130.1	-58.1	-834.4	-642.9	189.2	-486.2
Monetary Gold	110	-55.0	-42.4	0.0	0.0	0.0	28.2	-28.8	0.7	0.0	0.0	-0.3	-0.9	-0.8	14.8
Special Drawing Rights	24.6	4.8	4.0	-0.9	3.1	-160.2	-0.8	-0.7	-0.5	0.6	-0.5	-0.1	0.2	-0.5	-0.3
Foreign Exchange	-1589.2	-3664.1	2375.7	1173.2	-1033.8	-2049.0	-836.2	-547.4	-959.8	-130.7	-57.6	-834.0	-642.2	190.5	-500.7
Net Errors and Omissions	1030.8	408.3	-468.6	-230.7	563.7	277.2	155.5	379.1	-146.1	478.7	86.3	62.6	-93.8	-108.5	157.1

Data entries are in JD millions (1 JD=1.41044 US$)

Annex 4: Morocco country overview

Morocco

BASIC INDICATORS

		Rank in world trade, 2014	Exports	Imports
Population (thousands, 2014)	33 493	Merchandise	70	55
GDP (million current US$, 2014)	107 005	excluding intra-EU trade	49	37
GDP (million current PPP US$, 2014)	251 468	Commercial services	45	66
Current account balance (million US$, 2013)	- 7 844	excluding intra-EU trade	27	46
Trade per capita (US$, 2012-2014)	2 443			
Trade to GDP ratio (2012-2014)	78.8			

		Annual percentage change		
	2014	2010-2014	2013	2014
Real GDP (2010=100)	115	4	4	3
Exports of goods and services (volume, 2010=100)	116	4	2	8
Imports of goods and services (volume, 2010=100)	110	2	-1	5

TRADE POLICY

WTO accession	1 January 1995	Contribution to WTO budget (%, 2015)	0.190
Trade Policy Review	24, 26 June 2009	Import duties collected (%, 2010-2012)	
GPA accession	-	in total tax revenue	5.3
Tariffs and duty free imports		to total imports	3.0
Tariff binding coverage (%)	100	Number of notifications to WTO and measures in force	

MFN tariffs	Final bound	Applied 2014	Outstanding notifications in WTO Central Registry	23
Simple average of import duties			Goods RTAs - services EIAs notified to WTO	6 - 1
All goods	41.3	11.2	Anti-dumping (30 June 2015)	1
Agricultural goods (AOA)	54.4	27.4	Countervailing duties (30 June 2015)	..
Non-agricultural goods	39.3	8.7	Safeguards	3
Non ad-valorem duties (% total tariff lines)	0.0	0.0	Number of disputes (complainant - defendant)	
MFN duty free imports (%, 2013)			Requests for consultation	0 - 0
in agricultural goods (AOA)		0.0	Original panel / Appellate Body (AB) reports	0 - 0
in non-agricultural goods		1.3	Compliance panel / AB reports (Article 21.5 DSU)	0 - 0
Services sectors with GATS commitments		45	Arbitration awards (Article 22.6 DSU)	0 - 0

MERCHANDISE TRADE

	Value	*Annual percentage change*		
	2014	2010-2014	2013	2014
Merchandise exports, f.o.b. (million US$)	23 663	7	2	8
Merchandise imports, c.i.f. (million US$)	45 832	7	1	1

	2014 a			2014 a
Share in world total exports	0.12	Share in world total imports		0.24
Breakdown in economy's total exports		Breakdown in economy's total imports		
By main commodity group (ITS)		By main commodity group (ITS)		
Agricultural products	19.5	Agricultural products		14.0
Fuels and mining products	12.8	Fuels and mining products		27.7
Manufactures	67.0	Manufactures		57.7
By main destination		By main origin		
1. European Union (28)	60.6	1. European Union (28)		50.2
2. Brazil	6.0	2. United States		7.5
3. United States	4.2	3. China		6.9
4. India	3.7	4. Saudi Arabia, Kingdom of		6.2
5. Turkey	1.9	5. Russian Federation		4.2

COMMERCIAL SERVICES TRADE

	Value	*Annual percentage change*		
	2014	2010-2014	2013	2014
Commercial services exports (million US$)	15 946	3	-7	14
Commercial services imports (million US$)	7 983	9	-2	24

	2014			2014
Share in world total exports	0.32	Share in world total imports		0.17
Breakdown in economy's total exports		Breakdown in economy's total imports		
By principal services item		By principal services item		
Goods-related services	10.8	Goods-related services		1.5
Transportation	19.8	Transportation		45.7
Travel	45.4	Travel		18.4
Other commercial services	24.1	Other commercial services		34.5

INDUSTRIAL PROPERTY

Patent grants by patent office, 2013			Trademark registrations by office, 2013			
Residents	Non-residents	Total	Direct residents	Direct non-residents	Madrid	Total
145	792	937	5 131	1 478	3 898	10 507

a Breakdowns by destination/origin refer to 2013.

Source : WTO (2016)

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