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Trade Liberalization and Jobs in the Mediterranean

Towards a New Generation of Trade Agreements

International Trade Centre

ECONOMIC RESEARCH FORUM
منتدى البحوث الاقتصادية

FEMISE

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The task team leaders were Patricia Augier (Aix-Marseille University) and Constantin Tsakas (CMI-UNOPS). Additional authors include Maryse Louis (FEMISE), Lilia Hachem-Naas (International Trade Centre), Saoussen Ben Romdhane (International Trade Centre), Chahir Zaki (Economic Research Forum), Neamatallah ElSayed (Economic Research Forum) and Alia Foda (Economic Research Forum).

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Table of contents

Table of abbreviations

AA	Association agreement
ASEAN	Association of Southeast Asian Nations
CBAM	Carbon Border Adjustment Mechanism
CMI	Center for Mediterranean Integration
CTPM	Contingent Trade-protective Measures
DCFTA	Deep and Comprehensive Free Trade Area
EFTA	European Free Trade Association
EIP	Economic and Investment Plan
ENP	European Neighbourhood Policy
EU	European Union
FDI	Foreign direct investment
FEMISE	Euro-Mediterranean Forum of Institutes of Economic Sciences
FTA	Free trade agreement
GAFTA	Greater Arab Free Trade Area
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GDP	Gross domestic product
GPS	Global Positioning System
GSP	Generalised Scheme of Preferences
HS	Harmonized systems
ICT	Information and communication technology
ILO	International Labour Organization
IOC	Indian Ocean Commission
ISIC	International Standard Industrial Classification of All Economic Activities
ISSA	International Social Security Association
ITC	International Trade Centre

MENA	Middle East and North Africa
MFN	Most-favoured nation
NAFTA	North American Free Trade Agreement
NTM	Non-tariff measure
OECD	Organisation for Economic Co-operation and Development
PEM	Pan-Euro-Mediterranean
R&D	Research and development
ROO	Rules of origin and accumulation
RoW	Rest of the world
RTA	Regional trade agreements
SDG	Sustainable Development Goal
SEMC	Southern and Eastern Mediterranean Countries
SPS	Sanitary and phytosanitary
TBT	Technical barriers to trade
TRIMS	Trade-Related Investment Measures
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
VA	Value added
WITS	World Integrated Trade Solution
WTO	World Trade Organization

Introduction

In 1995, policymakers from around the Mediterranean region met in Barcelona and issued a key communiqué, the "Barcelona Declaration". The document defined the framework for initiating renewed dialogue among the nations of Southern Europe, North Africa and the Levant, focusing on their common objectives of economic transformation and trade exchanges. This resulted in the Euro-Mediterranean Partnership. Since then, regional **integration has been pursued primarily in the form of trade agreements**, including the association agreements (AAs) signed between the European Union (EU) and the four countries studied in this report: Egypt, Jordan, Morocco and Tunisia (the Southern and Eastern Mediterranean Countries – SEMCs) as well as Algeria, Israel and Lebanon. **Liberalization has been progressive**, as seen in the SEMCs having reduced customs duties on industrial products from the EU while benefiting from a gradual transition period of 12–15 years. Intermediate goods from the EU were the first to be liberalized, followed by final products at a later stage.

This two-step liberalization was intended to provide SEMCs with time to improve their efficiency and production capacities and to adjust. The economic rationale was that trade would benefit all its partners through the exploitation of each nation's comparative advantages, better access to markets, technological and know-how transfer, economies of scale and increased competition. By cutting tariffs on imported final products ("output tariffs"), a competitive effect was expected, even leading to an increase in productive efficiency. On the other hand, by cutting tariffs on imported intermediate products ("input tariffs"), a productivity increase was expected, attributed to a direct cost reduction effect and an indirect effect through the introduction of new imported products, both of them considered favourable for industry growth. Since then, SEMCs have considerably advanced in reducing import tariffs.

In terms of this liberalization's effects on trade flows, even if the opening/reduction of the SEMCs tariffs has privileged products from the EU, the trade deficit vis-à-vis the latter has not increased as much as the trade deficit vis-à-vis the rest of the world. The evidence presented in this report indeed shows that SEMCs have undoubtedly faced a significant pro-competitive effect, though one probably more pronounced from the rest of the world than from the EU.

In terms of job creation, the implementation of AAs was also expected to have positive effects on SEMCs, although such an objective was not explicitly recognized. The existing theoretical literature and empirical evidence are not unanimous on these issues. Perhaps the most important theoretical finding is that the relationship between trade liberalization and job creation cannot be analysed in isolation from other factors affecting both trade policy and labour markets. Since Melitz (2003), some of the most relevant theoretical frameworks for understanding the effects of openness are those that admit the heterogeneity of firms. The consideration of imperfectly flexible labour markets in these theoretical frameworks has shown that, following openness, one could expect in developing countries in particular: (i) an increase in wage inequality between workers across firms, (ii) an increase in unemployment, and (iii) an increase in the demand of skilled and educated workers.

Globally, the empirical literature focused on developing and emerging countries points to potential negative effects of trade liberalization on overall employment. Empirical studies have specifically shown the following two links. Firstly, **trade liberalization leads to labour reallocation across firms, across industries and less frequently across geographical regions**. These reallocations **not only take time but can also be further slowed down by the presence of market frictions and the costs involved**. The evidence shows that, **in developing and emerging countries, job creation may not offset job losses as a result of trade liberalization**. Secondly, the causal mechanism between trade and jobs, which can lead to sectors being "winners" or "losers", may not be linear and depends on numerous other variables. In any case, **the effects of trade liberalization on employment remain specific to the country and sector**.

As the main change for SEMCs following the introduction of the AAs was the decline in their import tariffs vis-à-vis European countries, the report puts into perspective the changes in the EU's effective preferential margin and the changes in the sectoral shares of total manufacturing employment.

In terms of the employment effects of the AAs signed between SEMCs and the EU, our analysis shows that the sectors in which the shares in total employment have decreased the most ("losers") are: basic metals (for all our SEMCs), textile and tobacco (except for Tunisia), coke and refined petroleum (except for Egypt), food (for Jordan and Tunisia), non-metallic mineral products (for Morocco and Tunisia), and chemicals and furniture (for Tunisia).

In terms of the sectors that experienced employment creation (winners), the electrical machinery and apparatus sector is a clear "double winner" (simultaneously benefited from an increase in value added and an increase in employment following the AAs) in all countries but Jordan. Meanwhile, fabricated metal products are a double winner in Jordan and Morocco. The wearing apparel sector and the leather products sector are also double winners in Jordan and Tunisia. These results would indicate that, in these sectors, an improvement in the preferential margins on imports from the EU went hand in hand with an increase in employment. Nevertheless, a causal link cannot be identified and in no case can it be inferred that better access to the European products explains these variations in the sectoral structure of employment in SEMCs.

> **At the country level, in the case of Egypt and Tunisia we find a concomitance between the improvement in the effective preferential margin in favour of the EU and a decline in industrial employment shares. In Jordan and Morocco, however, this relationship appears to be positive, which means that an increase in the preferential margin for European products has gone hand in hand with an increase in the sectoral share of industrial employment.**

Overall, SEMCs are currently lagging behind peers in non-oil international trade flows, still struggle to attract foreign direct investment (FDI) and, most importantly, face **persistent unemployment, informality and low female labour-force participation**. In view of these outcomes, we try to address the following question: **What have been t he effects of the AAs signed between SEMCs and the EU in terms of trade flows and key labour-market outcomes?**

Overall, it should be noted that there are important limits to available data, which have had considerable implications on the methodology of analysis. Employment data are not available by country at a sufficiently disaggregated level, which hinders empirical measurement of the effects of AAs on employment creation in SEMCs. Given the data limitations, an econometric and descriptive analysis of the causal link between the AAs and the results in the SEMCs, in employment terms, could not be carried out. Nonetheless, the analysis throughout the report is as exhaustive as possible, drawing on theoretical and empirical knowledge from the literature on several determinants affecting the trade and jobs link and making descriptive use of available data.

With this in mind, the report is structured as follows.

Chapter I is about understanding the nature of trade agreements (AAs) and trade reforms and their expectations in terms of results.

Chapter II focuses on the actual results as well as the factors that undermined the potential effects of trade liberalization. This chapter highlights that tariff changes make up only a part of the story. In order to better understand the links between the AAs, trade flows and jobs, there is a need to analyse the role of non-tariff measures (NTMs), the influence of the rules of origin and cumulation and the impact of internal conditions of SEMCs. The chapter shows that:

- The NTMs and rules of origin and cumulation have most likely hindered the potential offered by the reduction in tariffs on intermediate goods provided for in the AAs by making it difficult for SEMCs to access the European products, likely limiting the development of intraregional trade.

- Despite improvements, internal conditions in the SEMCs have not favoured the development of an active private sector capable of providing significant job creation. Moreover, the Mediterranean countries sample still represents labour markets as restrictive and inadequate. Firing regulations are relatively rigid and entail burdensome procedures. Overall, it seems that the SEMCs have relatively strict regulations when it comes to redundancy plans, particularly with the relatively high severance payments

(compared to other countries). This leads to employers, especially in the private sector, becoming reluctant to hire formal and long-term workers and partial to hiring workers informally.

Although some countries have launched important efforts to mainstream women employment policies, gender laws and regulations also tend to be restrictive and discriminatory against women and result in a lower female participation and/or creation of gender wage gaps. Despite the somewhat implemented recent reforms in the region, labour regulations in the SEMCs are still considered restrictive, which is an obstacle to the reallocation process across firms, sectors and countries.

- FDI has had a limited positive effect on growth and employment insofar as these inflows into SEMCs are insufficiently oriented towards the manufacturing sectors and labour-intensive industries. There are also several institutional bottlenecks that governments should address to promote FDI inflows with their expected positive externalities.

Chapter III is a forward-looking chapter that discusses current challenges and opportunities alongside the need to review trade agreements in order to promote growth and job creation. It also examines how conjunctural factors and structural changes may influence commercial relationships between the EU and SEMCs as well as employment creation in SEMCs.

It discusses (i) the opportunities for increasing exports of intermediate goods produced by SEMCs to the EU as a result of the shortening and diversification of global value chains; (ii) the content offered by the EU's new Agenda for the Mediterranean; (iii) the expected effects of the upcoming Carbon Border Adjustment Mechanism (CBAM) for SEMCs and (iv) the consequences of the ongoing war in Ukraine. It further develops some suggestions about the way in which the AAs would need to be amended in order to contribute to enhancing employment in SEMCs. The aim of this chapter is to show that, beyond the link between trade, trade flows and jobs that were analysed in the first two chapters, there are both conjunctural and structural determinants which must be taken into consideration when reviewing trade agreements between the EU and SEMCs.

Chapter IV focuses on recommendations based on the analysis of the previous three chapters. Specific attention is given to the need to upgrade the region's "absorption capacity", improve labour-market conditions and rethink regional cooperation on trade, investment and jobs, especially given current trends and new realities worldwide.

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Chapter I

Understanding the nature of Euro-Mediterranean trade agreements (association agreements), expectations and effects on trade flows

Key takeaways

- We observe **no change regarding tariffs applied to manufactured products exported by Southern and Eastern Mediterranean Countries (SEMCs) to the European Union (EU)**, since these countries already benefited from an exemption from customs duties prior to the entry into force of the association agreements (AAs).

- **On the other hand, the EU has benefited from increased effective preferential margins in the SEMCs' markets**.

- **Changes in access to the European market for SEMCs did not seem to encourage exports to the EU, nor a reallocation of value added (VA) and jobs between sectors**.

- **The sectors that benefited the most from an improvement in the preferential margin vis-à-vis the EU did not experience the strongest growth rate in imports from European countries**.

- **Openness to the rest of world (RoW) has most likely had a greater impact on the imports growth rate than openness to the EU**.

- **Overall, there is not a clearly identified link between the AAs and jobs as a result of trade liberalization. This is probably for several reasons: the effects of openness (depending on whether the fall in tariffs concerns intermediate goods or consumer goods), the internal obstacles that may have prevented the reallocation of resources, and other trade-related factors**.

I.1. Characteristics of Euro-Mediterranean free trade agreements (association agreements)

Within the framework of preferential agreements dating from the 1970s, most SEMCs had already benefited from tariff-free access to European markets in the manufacturing sector.

Since the mid-1990s, Euro-Mediterranean relations have been guided by specific initiatives and programmes. In 1995, policymakers from around the region met in Barcelona to issue a key communiqué, the Barcelona Declaration. The document defined the framework for initiating renewed dialogue among the nations of Southern Europe, North Africa and the Levant, especially dialogue about their common objectives of economic transformation and exchange. The declaration's primary aim was to bring SEMCs closer together to create an economically integrated area of mutual prosperity. A new Euro-Mediterranean Partnership was thus developed, with a plan to increase integration by fostering economic cooperation, promoting investment, driving technology transfer, boosting trade and strengthening historical bonds.

Since then, integration has been pursued primarily in the form of trade agreements. Indeed, despite the EU having already extended preferential or duty-free access to the SEMCs in the mid-1990s, there was still some scope for further trade liberalization on the eve of signing the Barcelona Declaration. This led to the signing of AAs with the four countries studied in this report (Egypt, Jordan, Morocco and Tunisia) in addition to Algeria, Israel and Lebanon. The AAs thus formed a common basis for all SEMCs: although the AAs were not identical, they did share a number of common characteristics. It is worth noting that:

1. **The timing of the signing and enactment of the AAs varied across SEMCs**. While the Tunisia AA entered into force in 1996, the Morocco AA did not enter into force until 2000, followed by Jordan in 2002 and Egypt in 2004.

2. **Liberalization was progressive**, as the SEMCs reduced customs duties on industrial products from the EU, but benefited from a transition period of 12–15 years to do so gradually. Concretely, intermediary goods from the EU were the first to be liberalized, followed by final products at a later stage. This two-step liberalization was intended to provide SEMCs with time to improve their efficiency and production capacities (intermediary goods channel) and to adjust. The economic rationale was that trade can bring benefits to all its participants through the exploitation of each nation's comparative advantages, better access to markets, technological and knowledge transfer, economies of scale and increased competition.

3. Considering how most SEMCs had already benefited from tariff-free access to European markets in the manufacturing sector, **the AAs of the mid-1990s–early 2000s were "asymmetrical"**, consisting essentially in opening SEMC markets to EU exporters. It would therefore be reasonable to expect these agreements to have a significant impact on EU exports to SEMCs, but only a marginal impact – at least in the short term – for SEMC exporters to the EU.

4. **Different provisions were provided for exports of industrial and agricultural commodities**. To benefit from the preferential tariff rates, goods would be expected to have a certificate complying with the rules of bilateral cumulation of origin with the EU. The Agriculture sector remained very protected. Additional agricultural protocols were added at a later stage for Jordan, Egypt and Morocco that would further liberalize trade in agricultural, fish and fishery products. Jordan[1] signed in 2007 and the protocol retroactively entered into force in 2006,

1 Since 2010, all agricultural products originating in Jordan can enter the EU duty-free, with the exception of cut flowers and virgin olive oil. For EU exports to Jordan, some products (such as wine, grape must and other fermented beverages) have not been fully liberalized, but benefit from a 40 per cent reduction compared to Jordan's base rate.

with a full entry into force in 2010; Egypt[2] signed in 2009 and the protocol entered into force in June 2010; and Morocco[3] signed in 2010 and the protocol entered into force in October 2012.

5. The **AAs included some "non-binding" references that could be pursued in future discussions with SEMCs**. AAs were not exhaustive on issues such as public procurement, intellectual property rights and technical barriers to trade. Although the AAs referred to some non-tariff measures, NTMs (such as technical barriers to trade or sanitary and phytosanitary measures), no concrete commitments were actually made. Instead, the AAs highlighted the need for transparency and cooperation on NTMs and to align with the EU's technical rules and standards for industrial and agrifood products and certification procedures. The AAs also contained provisions, albeit limited, for service liberalization following the General Agreement on Trade in Services (GATS) principles for World Trade Organization (WTO) members. Specifically, the AAs included "rendezvous clauses" to further negotiate on the liberalization of services. Negotiations were launched with selected SEMCs, though to this day none have been concluded.

6. **Specific negotiations took place regarding dispute settlement mechanisms**. Between 2009 and 2011, related protocols were signed with the four SEMCs of this study, as well as Lebanon. All countries apart from Egypt ratified the protocols, which have now entered into force, though in the cases of Tunisia and Jordan the protocols still need to be operationalized.

7. One of the Barcelona Process' ultimate objectives, expected to have been achieved by 2010, was **to turn the AAs (the "vertical" North–South agreements) and the free trade agreements among the Mediterranean members (the "horizontal" South–South agreements) into a Euro-Mediterranean Deep and Comprehensive Free Trade Area (DCFTA)**. However, this never actually materialized. Even if a Euro-Mediterranean DCFTA were to be established, the Sustainability Impact Assessment (European Commission 2007) indicated that it could help deliver large economic benefits to both the EU and SEMCs, but only if carried out as part of a comprehensive development strategy in each of the partner countries and in combination with measures to achieve fuller economic integration across the region as a whole. In 2013, the EU started the process of negotiating bilateral DCFTAs with Tunisia and Morocco (which was suspended in 2014 to accommodate Morocco's wish to carry out additional studies) but the discussions are advancing slowly, if at all.

I.1.1. Changes in customs duties to the European market for the Southern and Eastern Mediterranean Countries: insignificant changes in industrial goods, more noticeable changes in agricultural goods

We start by providing an overview of the evolution of tariffs that the EU applies to the four SEMCs, compared to the tariff it applies to the RoW (Figure 1). A number of elements stand out:

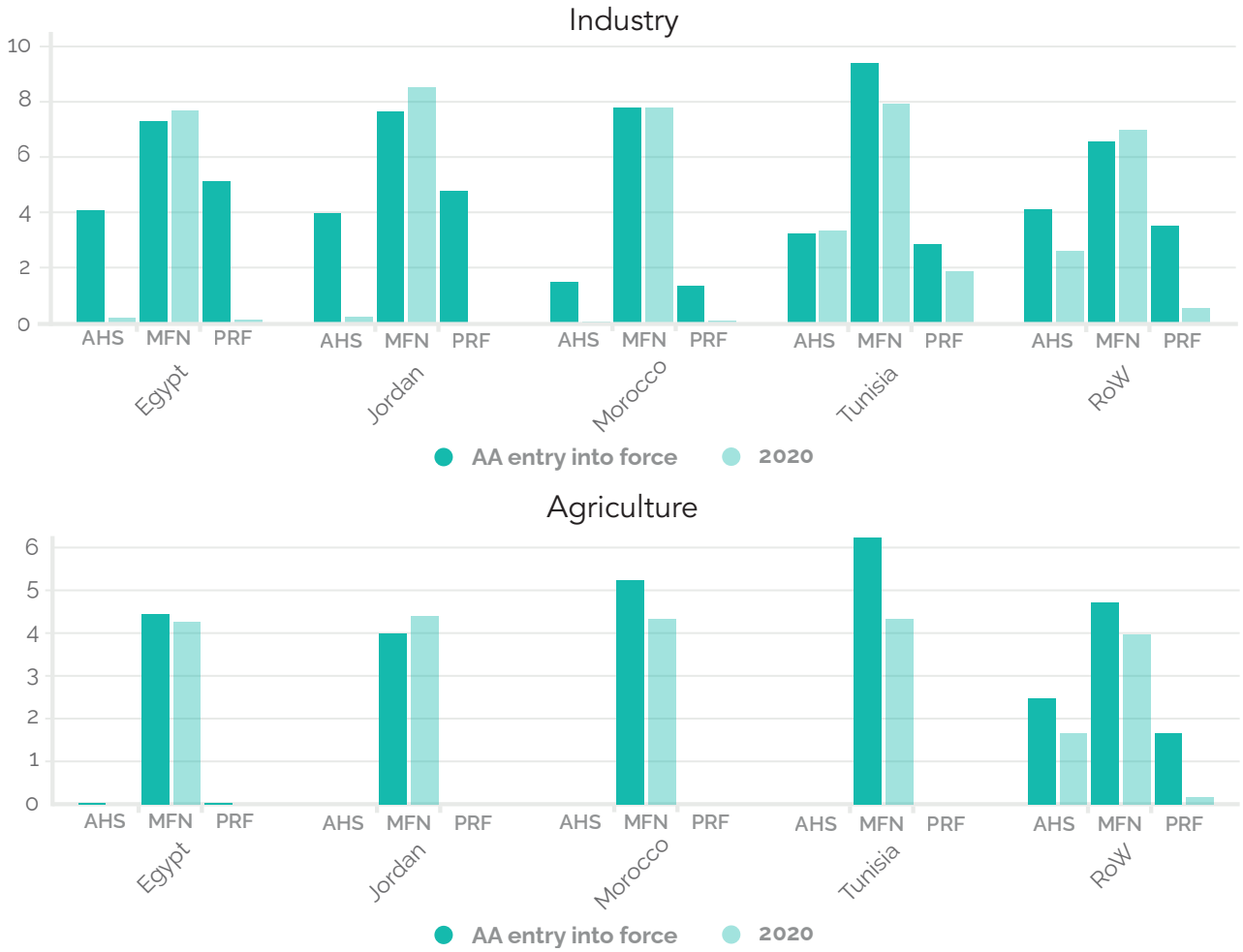
- Firstly, we see **no real change regarding tariffs applied to manufactured products exported from SEMCs to the European market**, since these countries already benefited from an exemption from customs duties prior to the entry into force of the agreements. The effectively applied EU tariffs on SEMCs' industrial goods has been about 0 per cent since the AA came into force. As a result of the implementation of the free trade agreements (FTAs) and of the Additional Protocols on Agricultural Products by the SEMCs, tariffs had practically disappeared by 2020.

2 With the establishment of the Additional Protocol on Agriculture, EU exports benefit from duty-free access to the Egyptian market for almost all agricultural products, with the exception of tobacco, wines and spirits, and pork. Egyptian exports to the EU also benefit from full liberalization, with the exception of the most sensitive products (tomatoes, cucumbers, artichokes, courgette, table grapes, garlic, strawberries, rice, sugar and processed products with a high sugar content).

3 Since 2012, the concessions granted to Moroccan products for import into the EU are presented according to the negative list approach (everything not on the list is liberalized), while the import conditions applicable to EU products destined for the Moroccan market are explicitly stated in the protocol to the agreement.

- **The Euro-Mediterranean FTAs had a tangible impact on agricultural market access only for Egypt, Jordan and Morocco**. For Egypt and Jordan, we observe a reduction in agricultural tariffs applied by the EU of almost 4 percentage points between the date of entry into force of the agreements and today. The 1.4 percentage point fall in tariffs applied to Moroccan agricultural products on the European market is slightly lower than the fall in tariffs applied to agricultural products from the RoW. The Tunisian case is different as the country did not negotiate equivalent additional protocols on agricultural products; therefore tariffs imposed on its agricultural exports to the EU actually slightly increased by 0.12 percentage points since the entry into force of the AA.

Figure 1. Evolution of European Union-tariff association agreements between the year of entry into force* and 2020



Source: Authors' calculations using United Nations Conference on Trade and Development Trade Analysis Information System (UNCTAD TRAINS) data accessed through the World Integrated Trade Solution (WITS)
* The years of AA entry into force are 2004 for Egypt, 2002 for Jordan, 2000 for Morocco and 1996 for Tunisia.

Note 1: Figures present simple average duties calculated across all tariff lines where non-zero trade flows were observed in the given years for agricultural and industrial products according to the WTO definitions of these categories. **Most-favoured nation (MFN)** rates are the average WTO MFN rates, **PRF** are the average preferential rates accounting for all the existing preferential tariff rates within preference schemes such as the Generalised Scheme of Preferences (GSP) or the pre-existing FTAs, **AHS** denotes the effectively applied rates, i.e. a combination of preferential rates and MFN rates whenever imports entered under this treatment even though preferences were available, i.e. accounting in a way for preference utilization.

Note 2: RoW is all countries minus the Mediterranean partner countries (i.e. concerned by the Barcelona Process: Algeria, Egypt, Gaza, Jordan, Lebanon, Morocco and Tunisia).

Note 3: For RoW, instead of the year the AA entered into force, we use the tariff average between 1996 (AA entry into force in Tunisia) and 2004 (AA entry into force in Egypt).

- **When looking at total trade (annex, Figure A1), the implementation of the AAs seems to have hardly changed the average customs duties applied to Mediterranean exports**. At best, we observe a drop of 0.47 percentage points for Egyptian products; at worst, we observe an increase of 0.12 points for Tunisian products, while the fall in tariffs on products from the RoW was slightly more sizeable at 0.86 percentage points.

- SEMCs are still enjoying a positive effective preferential margin[4] on the European market compared to the RoW, but this margin is rather low (around 1.7 percentage points for Egypt, Jordan and Morocco and 1.39 percentage points for Tunisia). Moreover, between the establishment of the AA and today, this margin has increased slightly for Egyptian and Jordanian products and has decreased for Moroccan and Tunisian products (see Figure 2). Ultimately, **the AAs led to little change in SEMCs' preferential margins, with the latter in fact worsening for Morocco and Tunisia**. The evolution of these preferential margins is mainly explained by the changes in tariffs applied by the EU to the RoW. Indeed, it is the RoW that has benefited the most from the reduction in the EU's industrial customs duties since the AAs were established. This can be seen both through the slight reduction in MFN duties, which went from 4.70 per cent to around 4 per cent, and through the implementation of numerous preferential tariffs, which led to a virtual exemption from customs duties for manufactured products from the RoW (0.16 per cent) (For a more detailed explanation, see Box 1).

- At the **sectoral level (two-digit), we can observe a lot of heterogeneities across countries in terms of effective preferential margins** (see annex, Figure A2). Egypt and Jordan record the highest number of sectors where access improved. Meanwhile, Morocco and Tunisia record the highest number of sectors where access deteriorated.

In Tunisia, the effective preferential margin has declined in all sectors. Access to EU markets improved in Agriculture and Food Products for Egypt, Jordan and, to a lesser degree, Morocco.

In the sectors of Mineral Mining, Fuels and Computing Machinery, we do not observe large margin changes.

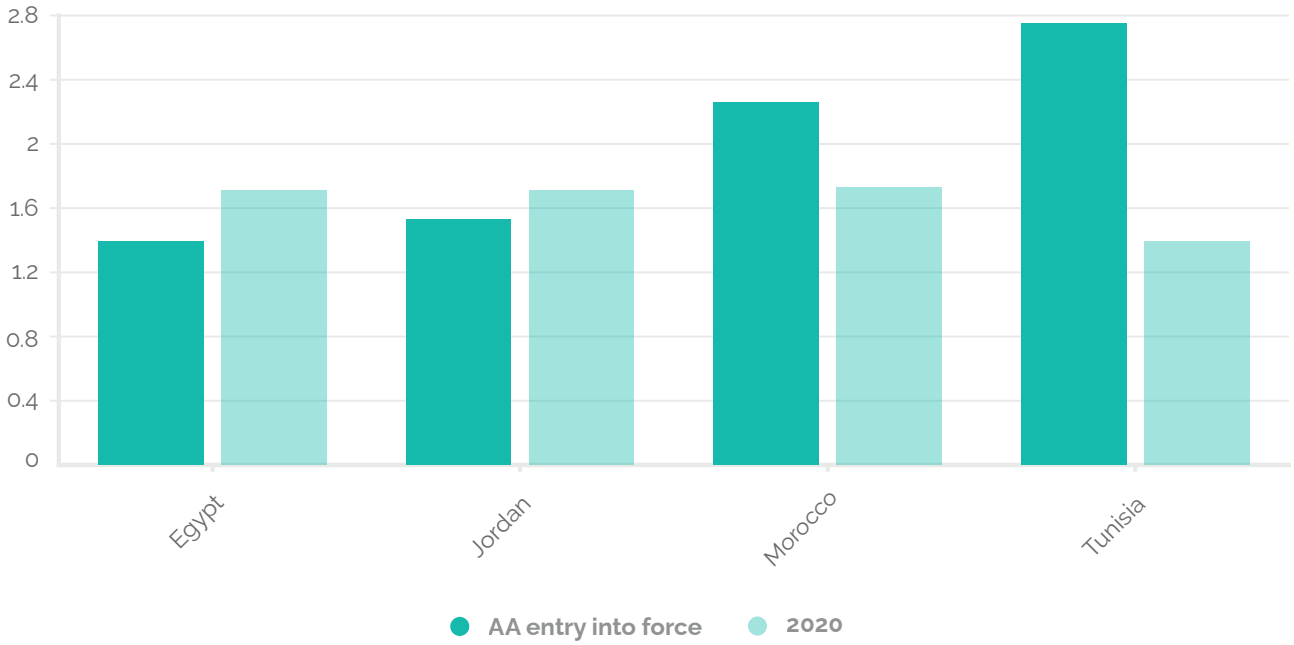
In Egypt and Jordan, the effective preferential margin increases in the following sectors: Chemicals, Plastic and Rubber, Leather, Wood, Fabricated Metals Products, Machinery and Equipment, Electrical Machinery, Motor Vehicles, Other Transport Equipment and Furniture.

In Morocco, in addition to Agriculture and Food Products, only the Wood, Machinery and Equipment, Fabricated Metals Products, Electrical Machinery and Furniture sectors are increasing slightly. All other sectors are declining or remaining constant.

Textiles, Clothing and Radio, Television and Communication Equipment recorded effective preferential margin erosion for all SEMCs.

4 According to the applied trade policy literature, the preference margin refers to the difference between MFN and preferential tariffs. In the case of the SEMC's market access to the EU, both have not varied considerably, hence preference margins have not vastly varied either. However, given that a large proportion of EU imports is happening under FTAs, and thus no longer subject to MFN treatment, a more relevant indicator of market access is the effective preference margin, meaning the difference between the average tariff paid by third countries and the preferential tariff charged on imports from a given Euro-Mediterranean FTA partner.

Figure 2. Change in effective preference margins for Southern and Eastern Mediterranean Country exporters on the European Union market*, comparing the initial year** and 2020: total trade (in percentage points)



Source: Authors' calculations using UNCTAD TRAINS data accessed through the WITS
* The effective preference margin is the difference between the EU simple average tariffs applied on imports from the RoW (all countries apart from SEMCs) and simple average tariff applied on imports from SEMCs.
** The initial year is the year the AA entered into force, i.e. 2004 for Egypt, 2002 for Jordan, 2000 for Morocco and 1996 for Tunisia.

Box 1. Understanding the expected impact of the association agreements on preference margins

In agreements such as the Euro-Mediterranean FTAs, which focus primarily on import tariffs, the magnitude of benefits is expected to reflect the size of effective preference margins to which partner countries are entitled as a result of entering the agreement. These margins in turn depend on the bilateral tariffs and on tariffs applied on imports from third countries (and their evolution). Regarding third countries, market access conditions are determined:

- by the tariffs applied on an MFN basis, in the case of the WTO members with whom the EU and SEMCs do not have FTAs
- by the effectively applied tariffs, which are a combination of preferential rates and MFN rates, in the case of countries with which the EU or SEMCs have FTAs.

We would also expect **bilateral trade between the EU and SEMCs to be indirectly influenced by market access conditions faced by the EU and SEMC when trading with third countries**. The context of the many other FTAs signed by the EU and SEMCs with third countries is particularly important, as these FTAs determine preferential market access conditions for third-country exporters and ultimately shape the attractiveness of preferences granted within the Euro-Mediterranean FTAs

and the balance of trade creation and diversion. Many such agreements were signed by both the EU and SEMCs, both before and after the Euro-Mediterranean FTAs entered into force. In short:

- The EU has signed more agreements with "other" countries since the mid-1990s than with all SEMCs combined.
- EU agreements include those signed with largely advanced and emerging economies, as well as with smaller emerging and developing economies.
- The figure does not reflect EU enlargements with the EU accession (2004–2013) of countries such as Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia. The acceding countries, which often had comparative advantages similar to those of SEMCs, integrated into the European Single Market, and immediately benefited from a wider range of economic freedoms and access. Meanwhile, EU enlargements also expanded the size of the EU market covered by Euro-Mediterranean FTAs, meaning the SEMCs could now access a bigger market.

As a result of (i) the specificity of AA (asymmetric tariff dismantling), (ii) the entry into force of FTAs with third countries, and (ii) the EU enlargements, we might reasonably expect an **erosion of the preferential margins** of the SEMCs on the European market. Our analysis does indeed confirm this.

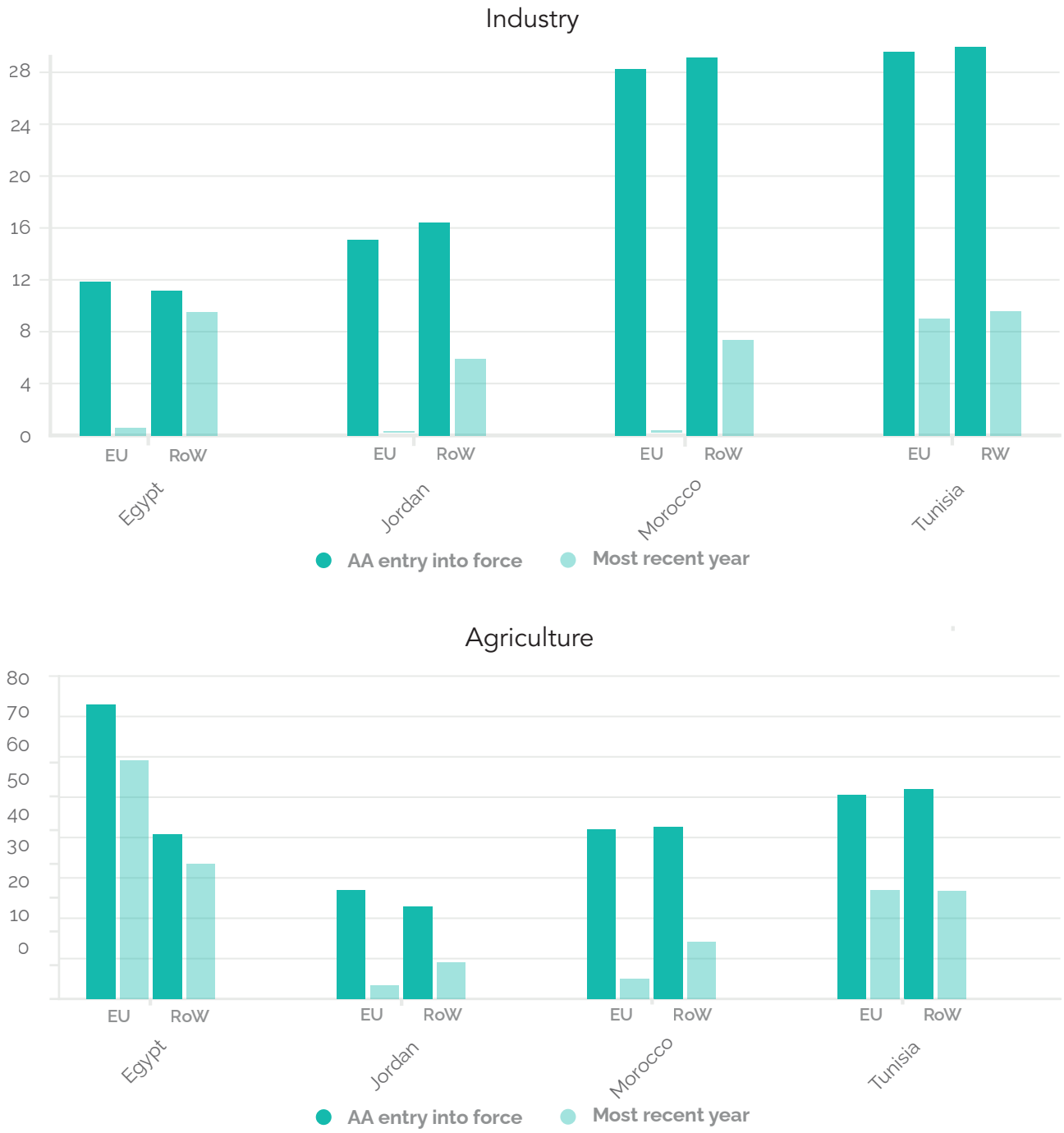
I.1.2. Changes in custom duties in Southern and Eastern Mediterranean Countries' markets for European products: Very significant changes in industrial goods, less noticeable changes in agricultural goods

We now shift our analysis to the evolution of tariffs applied by the SEMCs to the EU and to the RoW (Figure 3). Looking at the evolution of bilateral import tariffs and effective preferential tariff margins, we can make the following observations:

- Firstly, we can safely say that following the AAs, **a reduction in import tariffs did indeed occur in the SEMCs.** In industry, tariffs charged on imports from the EU went from 28.21 per cent to 0.11 per cent for Morocco, 11.82 per cent to 0.58 per cent for Egypt, 15.03 per cent to 0.06 per cent for Jordan, and 29.57 per cent to 8.97 per cent for Tunisia.[5] As a result of the implementation of the AAs, industrial tariffs applied to EU goods had practically disappeared by 2020 in Egypt, Jordan and Morocco. Only Tunisia is maintaining a comparatively high effectively applied tariff to the EU, though this has still reduced by about 20 percentage points compared to its value when the AA entered into force. The decreases in tariffs applied by SEMCs to EU imports also coincided with sizeable reductions in tariffs applied to imports from the RoW, especially in Morocco and Tunisia. As the EU is a comparatively bigger trade partner for SEMCs than the other way around, the substantial tariff liberalization by SEMCs can also be thought of as producing a much-praised trade-related structural adjustment.
- With regards to agriculture, the AAs **improved the EU's agricultural market access towards Jordan and Morocco in particular**. Indeed, Jordan decreased its agricultural custom duties to EU imports by about 23.5 percentage points, while Morocco decreased them by about 37 percentage points. Egypt and Tunisia also decreased their agricultural tariffs on EU products, though the effectively applied rates in 2020 still remain sizeable.

5 For Tunisia, from 2013, the rates applied to the EU were 0.91 per cent. They increased to 8.97 per cent in 2016. Since 2016, the Tunisian rates are not available.

Figure 3. Evolution of Southern and Eastern Mediterranean Countries-tariff association agreements between the year of entry into force* and the most recent year (effectively applied tariffs)



Source: Authors' calculations using UNCTAD TRAINS data accessed through the WITS
* The years of AA entry into force are 2004 for Egypt, 2002 for Jordan, 2000 for Morocco and 1996 for Tunisia.

Note 1: RoW is all countries minus EU countries.

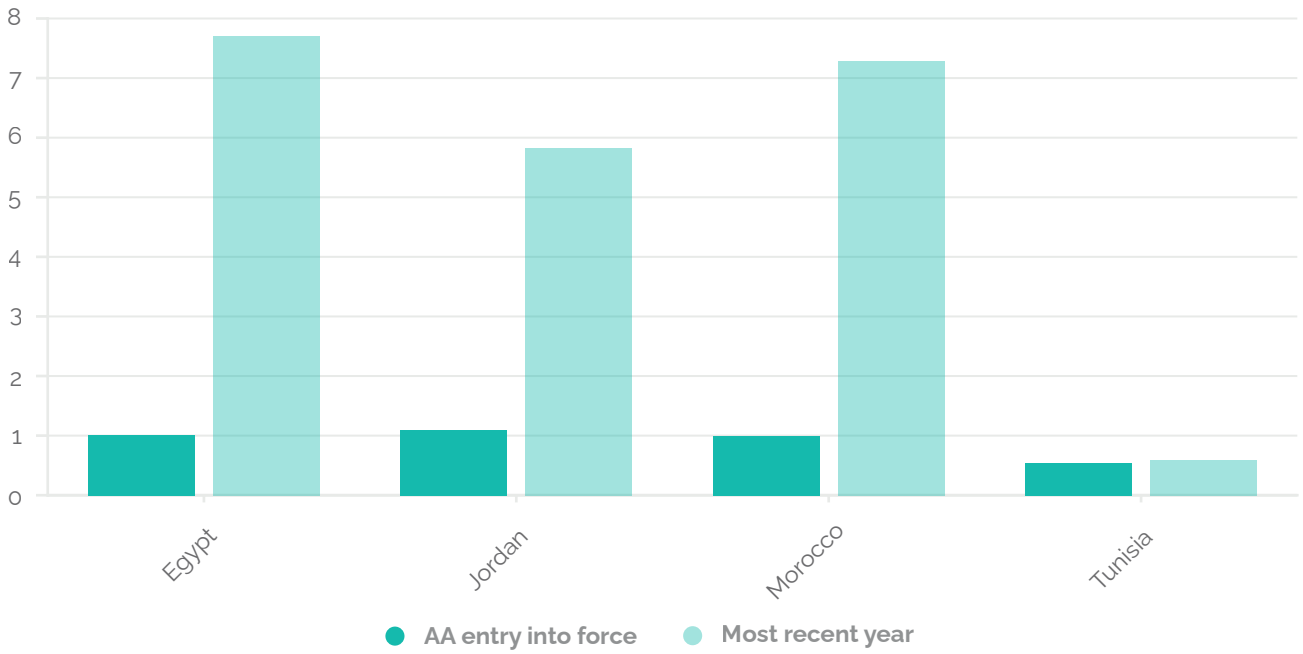
Note 2: For RoW, instead of the year the AA entered into force, we use the tariff average between 1996 (AA entry into force in Tunisia) and 2004 (AA entry into force in Egypt).

- Another striking fact about SEMC trade policy is that, as explained in Box 1, tariffs on imports from the RoW have often fallen significantly. In the industry sector, these reductions are 21.78 percentage points in Morocco, 20.39 percentage points in Tunisia, 10.51 percentage points in Jordan and 1.68 percentage points in Egypt. In agriculture, even though tariffs have generally remained high, the reductions have nevertheless been significant: 28.45 percentage points in Morocco, 25.16 percentage points in Tunisia, 13.79 percentage points in Jordan and 7.37 percentage points in Egypt.

- Even with these tariff reductions applied to the RoW by SEMCs, **the EU has benefited from increased effective preferential margins in the markets of SEMCs**. As Figure 4 shows, the largest increases are observed in Morocco (from 0.5 to 7.6 percentage points), Egypt (from 0.6 to 7.9 percentage points) and Jordan (from 1.09 to 5.82 percentage points). In the case of Tunisia, this effective preferential margin has barely increased (from 0.56 to 0.58 percentage points). However, the tariffs that Tunisia applies to European products fell significantly (they were 0.91 per cent in 2013) and have risen only since 2016. European products have therefore benefited, during a certain period, from a significant increase in their effective preferential margin on the Tunisian market.

- The calculation of effective preferential margins at the sectoral level confirms what emerges at the aggregate level (see annex, Figure A3): with the exception of the Tunisian market, where tariffs have risen since 2016, European exports have benefited from a significant improvement in their effective margins in almost all sectors on the Egyptian, Jordanian and Moroccan markets. This margin declined only in the Food sector in Egypt, in the Fishing sector in Jordan, and in the Other Transport Equipment and Coal Mining sectors in Morocco.

Figure 4. The effective preference margin between tariffs applied by Southern and Eastern Mediterranean Countries on imports from the rest of the world and tariffs applied on imports from the European Union (percentage points, effectively applied tariffs)



Source: Authors' calculations using UNCTAD TRAINS data accessed through the WITS

From this preliminary analysis, one could argue that the EU would most likely be the main beneficiary of the AAs, while SEMCs would not see immediate gains.

I.2. Tariff liberalization: expected results on jobs

The traditional theoretical framework on which economists have long relied to predict the effects of openness on employment is the Heckscher-Ohlin model. This is based on comparative advantages and thus on relative factor endowments. Viewed within this standard theoretical framework, trade liberalization is presumed to be good for developing countries since they are abundant in labour. Openness is also expected to have a favourable effect on the reduction of revenue inequality, since unskilled labour is the most abundant resource and is found among the lowest-paid workers. With trade liberalization, developing countries specialize in unskilled-labour-intensive industries, increasing the relative demand for less-educated workers.

However, there is little evidence to support these theoretical predictions in developing countries. Several empirical studies have shown that, after trade liberalization, the wage of skilled workers increased relative to less-educated workers (see, for example, the survey of Goldberg and Pavcnik 2007). In addition, **there is no clear evidence on the relationship between openness and job creation**.

Why is there such a disconnection between these theoretical predictions and empirical evidence? There are two possible explanations. Firstly, the standard theoretical framework assumes perfect mobility of workers across firms, industries and geographical regions within countries, whereas the evidence highlights workers' lack of mobility in response to trade shocks in developing countries.

Other theoretical frameworks have been developed and have modified and often enriched the theoretical expectations. In the 1980s, models such as Helpman and Krugman (1985) took into account economies of scale and monopolistic competition with homogeneous firms. Import penetration increases the number of firms and the price elasticity of demand, which reduces margins and prices, thus allowing an increase in production volumes. In a situation of increasing returns to scale, this leads to an increase in the firm's productivity (scale effect). Openness is assimilated here to an increase in the size of each economy. The underlying assumption is that trade liberalization takes place between countries with equivalent tastes and technological levels. In this theoretical framework, trade liberalization has no effect on employment.

More recently, firm heterogeneity has been introduced into trade theory following Melitz (2003). The reduction in trade barriers leads to a reallocation of market shares from less-efficient firms to more-efficient ones, and thus to an increase in the average productivity of the economy. In addition, as there are costs to enter export markets (sunk costs), the exporting firms are most productive (which makes them capable of covering these sunk costs). Empirical studies have corroborated this hypothesis and have also found that firms that export are also more productive than those that have no international activity. Following trade liberalization, more firms are expected to export and/or to import. As this theoretical literature assumes no labour-market frictions and costless reallocation across firms, the effect on employment is assumed to be potentially neutral.

To make these theoretical frameworks consistent with the observation of frictions in labour markets, **we need models that pay more attention to labour-market features**. With Helpman and Itskhoki (2010) and Helpman, Itskhoki and Redding (2010), the theoretical literature began to incorporate labour-market frictions into theories of firm heterogeneity and trade. In this new theoretical framework, the opening of trade can:

i. **Increase wage inequality:** Better-performing firms are more likely to survive the selection forces of pro-competitive effects of import competition, as well as more likely to engage in international trade, through exporting or importing of production inputs. Because better-performing firms tend to pay higher wages, which trade further increases, this increases inequality between workers across firms.

ii. **Raise unemployment:** The hiring rate of firms is lower in an open economy that in a closed economy, since the opening of trade reallocates employment within industry towards more-productive exporting and or importing firms,

which screen more intensively and hire a smaller fraction of the workers with whom they are matched. In addition, the declines in industry employment due to import competition should be particularly concentrated in less-productive firms.

iii. **Increase demand for skilled and educated workers:** Exporting gives firms access to larger markets, which makes innovation or technological adoption more profitable, especially for better-performing firms (Yeaple 2005; Bustos 2011). Exporting to richer countries also gives firms access to sophisticated consumers, encouraging product quality upgrading (Verhoogen 2008). As a result, access to export markets encourages more-productive firms to innovate, adopt advanced technology or upgrade the quality of their products, which increases the need for better-educated workers.

What do recent empirical studies say? A large body of literature analyses the effects of trade liberalization on employment, with rather convergent results for developing countries (for reviews of this literature, see Pavcnik (2017) and Goldberg and Pavcnik (2016)). **This literature suggests that the expected effect of trade liberalization on employment is negative**.[6] For example, Erten, Leight and Treganna (2019) find that workers in districts facing larger tariffs reductions experience a significant decline in both formal and informal employment in the tradable sector in South Africa, driven primally by a decline in manufacturing employment relative to workers in districts less exposed to these reductions.

In Brazil, Dix-Carneiro and Kowak (2017a) find that trade liberalization led to a decline in formal sector employment in regions specializing in industries that face larger tariff cuts. In Mexico, the reduction of import tariffs in the context of the North American Free Trade Agreement (NAFTA) reduced informal employment within tradable industries by forcing less-productive informal firms to exit the market (Aleman-Castilla 2006). With macroeconomic modelling technique, Edwards and Jenkins (2015) show that labour-intensive industries exposed to import competition from China suffered a large employment decline. Other less recent papers suggest that import growth has led to an increase in unemployment: Harrison and Reverga (1998) for Czech Republic, Poland, Romania and Slovakia; Edwards and Edwards (1997) for Chile; and Rama (1995) for Uruguay. On other hand, using state and industry-level unemployment data from India, Hasan *et al*. (2012) find no evidence of any unemployment-increasing effect of trade reforms.

Several papers have highlighted the effect of trade shocks on labour reallocation. Better access to the American market for Vietnamese exports led to a reallocation of labour from agricultural to non-agricultural production (McCaig 2011) and a contraction in informal employment as workers transitioned to the formal sector (McCaig and Pavcnik 2018). On the contrary, import tariff cuts in Brazil generated declines in formal employment and a partial shift of displaced workers into the informal sector (Dix-Carneiro and Kowak 2017b). In Botswana, McCaig and McMillan (2017) find the same result: tariff cuts stimulated shifts from formal to informal employment in industries exposed to more import competition.

Overall, the main message that emerges from this literature on trade and labour is as follows:

- Firstly, we know that **trade liberalization leads to labour reallocation across industries, across firms and sometimes across geographical regions**. However, **these reallocations take time, and can be slowed down by the presence of market frictions and the costs involved**. The evidence shows that, overall, **job losses in developing and emerging countries are not offset by job creation**.

- Secondly, the causal mechanism between trade and jobs which can lead to "winners" and "losers" is complex and **the impacts of trade liberalization on employment are context-specific**. For a worker, the probability of keeping a job (or getting one) depends on a range of factors. The main ones are:

6 To the best of our knowledge, the papers that find a negative impact of trade liberalization on unemployment mainly concerns developed countries.

» **The nature of the trade policy changes:** The effects are different depending on whether the cut in the protection is symmetrical or asymmetrical, whether it is a way of obtaining better access to foreign markets, whether the reduction in tariffs concerns intermediate goods or final goods, whether the cuts of trade barriers are sizeable, and so on. Therefore, the nature of trade-policy changes partly shapes the mechanism that can be introduced. For example, if the tariff cuts are applied to imported final products ("output tariffs"), we would expect a competitive effect with maybe an increase in productive efficiency[7] that can be attributed to reduction of X-inefficiencies and adoption of better management practices. If the tariff cuts concern imported intermediate products ("input tariffs"), we would expect a productivity increase attributed to the direct cost-reduction effect and an indirect effect through the introduction of new imported products.

» **The industry:** The extent to which industry could be affected by tariff cuts depends on the relative magnitude of reductions, the level of labour-market flexibility specific to the sector and its positioning in terms of comparative advantage. Carrère *et al.* (2020) develop a model that shows that trade liberalization reduces unemployment in countries with a comparative advantage in sectors that have a more efficient labour market and leads to higher unemployment in countries with a comparative advantage in sectors with a less-efficient labour market.

» **Firms' characteristics:** Within the industry, firms are heterogeneous in terms of size, productivity, export and import status, foreign capital and so on. These characteristics influence a firm's response to trade reform. In particular, the strength of firm-level productivity changes in response to foreign competition, and access to foreign inputs affects the probability of keeping/obtaining the jobs of workers. However, we have to keep in mind that there is no evidence showing that more-productive firms have expanded employment after trade liberalization, so that sales shift to more-productive firms; labour does not seem to move in this direction and remains unallocated.

» **The geographical locality:** Trade liberalization has unequal effects on labour outcome in different regions within a country because the economic activities of certain localities are more closely linked to international trade. Some regions have a high concentration of industries that are sensitive to import competition, while others are specialized in export-oriented sectors. This geographical dimension of the trade effect can be attenuated by interregional labour mobility, but the movement of workers takes time and is not without cost.

» **Workers' individual characteristics:** Workers' characteristics (such as education, experience, age and gender) play an important role in the probability that they will find or keep a job. Thus, at the country level, the quality of human capital and the quality of the education system influence how trade liberalization affects employment. We know that opening of trade may affect male/female, skill/unskilled, less-educated/better-educated workers differently.

7 According to Rodrik (1988), increased competition can also lead to pessimistic expectations among firms about the evolution of their future production, which can lead to them reducing their number of employees.

I.3. Observed results following the trade agreements

This section looks at the evolution of the main variables (**trade, production and employment**) by focusing solely on the four SEMCs and by comparing these developments with those of **peer countries**.

It puts into perspective the variation in the penetration rates of imports from the EU and from the RoW and the variation in VA and in employment by sector for each of the SEMCs. It shows that the contribution of trade liberalization to economic growth and jobs has been positive in some cases, but overall it has been below expectations. Specific sectors seem to have relatively "won" from liberalization, but several others have "lost".

I.3.1. Exports, imports and trade balance

Exports

- **The AAs paradoxically boosted exports to non-EU countries relatively more than to EU countries:** Since the launch of the Barcelona Process and the signing of the AAs, the growth rate of SEMC exports to the European market has never exceeded that of countries with comparable income (see Figure 5). Morocco is an exception, being the only SEMC that saw its exports to the EU grow faster than those of comparable income countries (545 per cent exports growth for Morocco, compared to 524 per cent growth for low- and middle-income countries). Moreover, again with the exception of Morocco, the growth rate of SEMC exports to the RoW has exceeded the growth rate of exports to the EU. We also note that globally, exports from Jordan, Morocco and Tunisia are less dynamic than those of low- and middle-income countries. Only Egypt fares better than low- and middle-income countries, in particular when it comes to exports intended for the RoW (949 per cent exports growth for Egypt, compared to 634 per cent exports growth for low- and middle-income countries).

- The share of exports to the EU has increased throughout the last 25 years for Morocco, but it has tended to decrease for all the other SEMCs (see annex, Figure A4).

- Meanwhile, as seen in Figure A5 in the annex, the share of EU imports from all the Mediterranean countries that have signed an AA, which was already low, has cumulatively fallen since the launch of the Barcelona Process. The share of EU imports from Egypt and Jordan remained unchanged (0.17 per cent and 0.01 per cent respectively), the share of EU imports from Tunisia decreased (from 0.22 per cent to 0.20 per cent), while the share of EU imports from Morocco increased (from 0.26 per cent to 0.33 per cent).

- The sectoral decomposition of SEMC exports, distinguishing between those destined for the European market and those destined for the RoW (annex, Figure A6), shows that exports have strongly increased in a few sectors, which are quite often those that predominate in terms of national exports. These sectors are:

  i. **Chemical, Clothing and Agriculture** for Jordan

  ii. **Electrical Machinery** (mainly to the EU) and, to a much lesser extent, Chemical, Food, Medical instruments, Radio, TV and Communication Equipment, Textile, Motor Vehicles and Other Transport Equipment for Tunisia

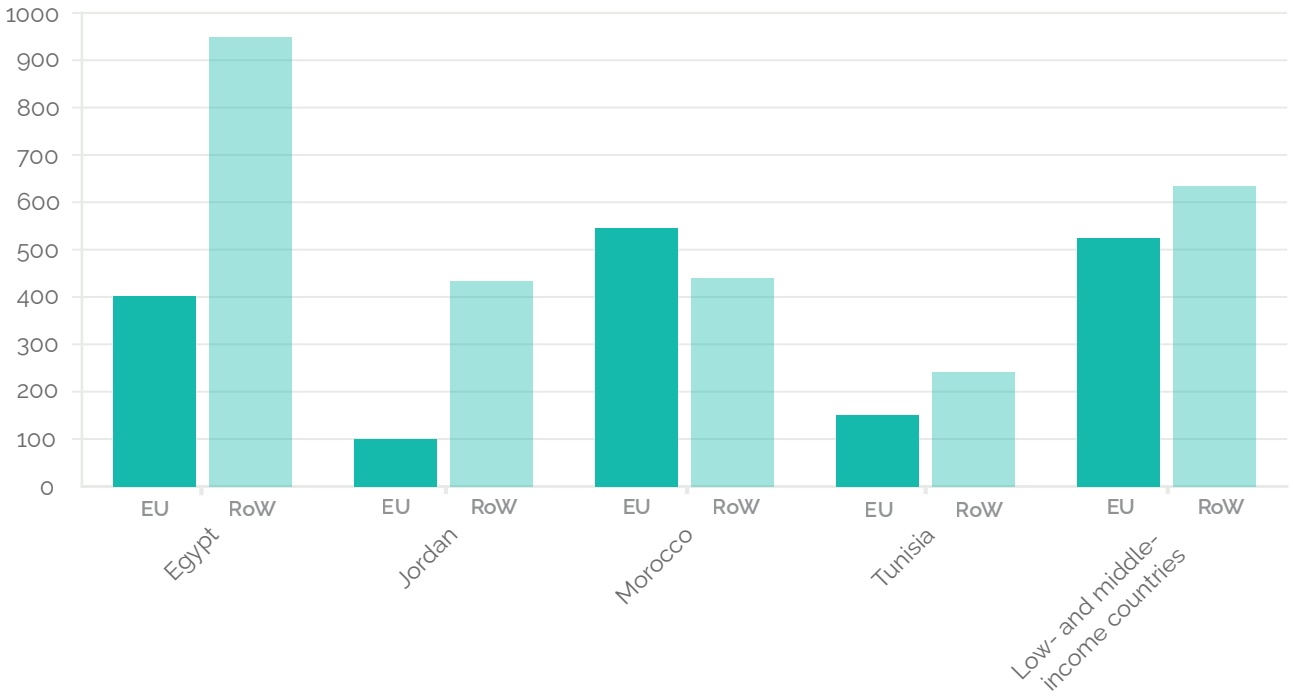
  iii. **Electrical Machinery** (mainly to the EU), **Chemical** (mainly to the RoW), **Motor Vehicles** (mainly to the EU), **Clothing** (only to the EU), **Agriculture** (mainly to the EU), Food and, to a much lesser extent, Other Transport Equipment and Other Mining for Morocco

  iv. **Chemical, Basic Metals, Agriculture** (mainly to the RoW for those three sectors), and, to a much lesser extent, Textile, Clothing, Coke and Refined Petroleum

Products (only to the EU), Radio, TV and Communication Equipment for Egypt.

- In Egypt and Jordan, the increase in exports was more oriented towards the RoW than the European market. The opposite is observed in the cases of Morocco and Tunisia.
- Meanwhile, in the SEMCs, exports in almost every sector have increased, with the exception of some Egyptian sectors (Fabricated Metals, Other Minerals, Other Mining and Fuel & Gas). In Tunisia, there is a noteworthy decline in exports to the EU in the Clothing sector.

Figure 5. Growth rates* of Southern and Eastern Mediterranean Countries' exports to the European Union and rest of the world since the launch of the Barcelona Process, compared to low- and middle-income countries



Source: Authors' calculations using the UN Comtrade database
* Growth rate between average exports in 1995, 1996 and 1997 and average exports for the last three years available (2018, 2019 and 2020 for Egypt, Jordan and Morocco and 2017, 2018 and 2019 for Tunisia).

Imports

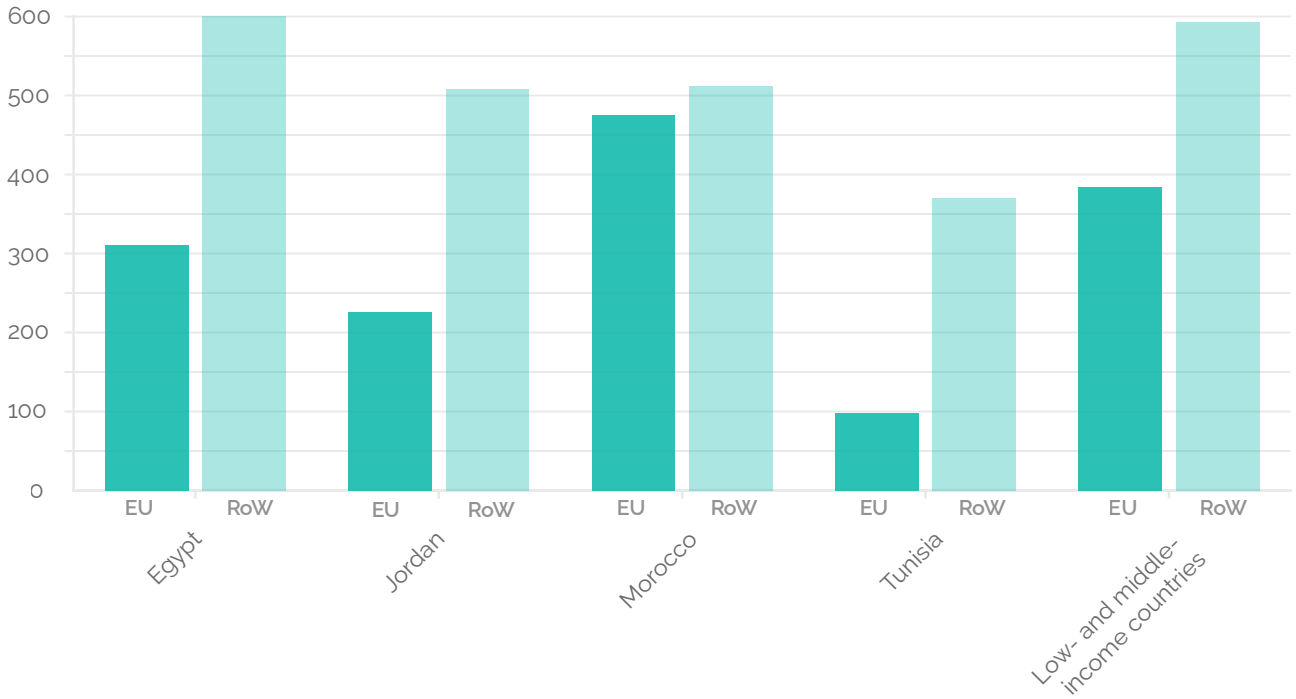
- For all the SEMCs studied, since the launch of the Barcelona Process and the AAs, **imports from the RoW have increased faster than imports from the EU**. As Figure 6 shows, Morocco is the SEMC in which the growth rate of imports from the EU has increased the most (by 475 per cent). The growth rate of imports from the EU is higher in low- and middle-income countries (384 per cent) than in Egypt (310 per cent), Jordan (225 per cent) and Tunisia (98 per cent).
- As shown in Figure A7 (annex), in Egypt and Jordan, **imports from the RoW are much higher than those from the EU and this gap has been increasing**. In Egypt, imports from the EU reached USD 21.5 billion in 2019, which is less than half its imports from the RoW (USD 57.2 billion). Likewise in Jordan, imports from the EU reached USD 3.8 billion, which is about four times less than its imports from the RoW (USD 15.7 billion). Meanwhile, in Morocco, imports from the EU have risen slightly above those from the RoW since 2015. As for Tunisia, imports from the EU have always been above

those from the RoW, but since 2008, imports from the EU have followed a downward trend, while those from the RoW have increased and have almost caught up.

Trade balance

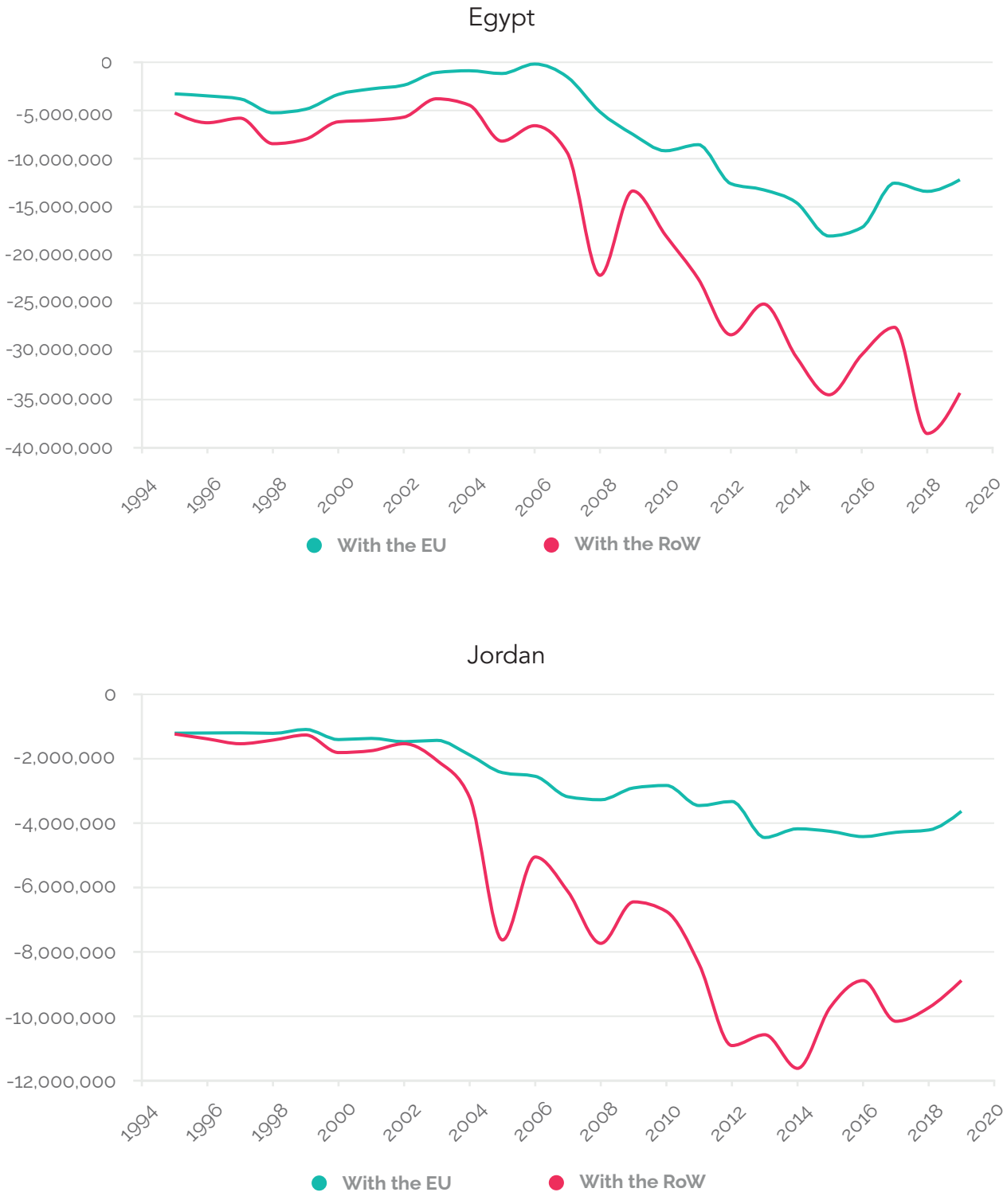
- Figure 7, which presents the evolution of trade balances for each of the SEMCs, shows that **the RoW trade deficit has deteriorated much faster than the EU trade deficit**. In Egypt, the RoW trade deficit reached USD 34,308,252 in 2019, which is almost triple its trade deficit vis-à-vis the EU (USD 12,189,993). In Tunisia and Jordan, the RoW trade deficit is respectively about six times higher and double their EU trade deficit. In Morocco, the RoW trade deficit amounted to USD 14,272,135 in 2019, which is almost double its EU trade deficit of USD 7,332,658.

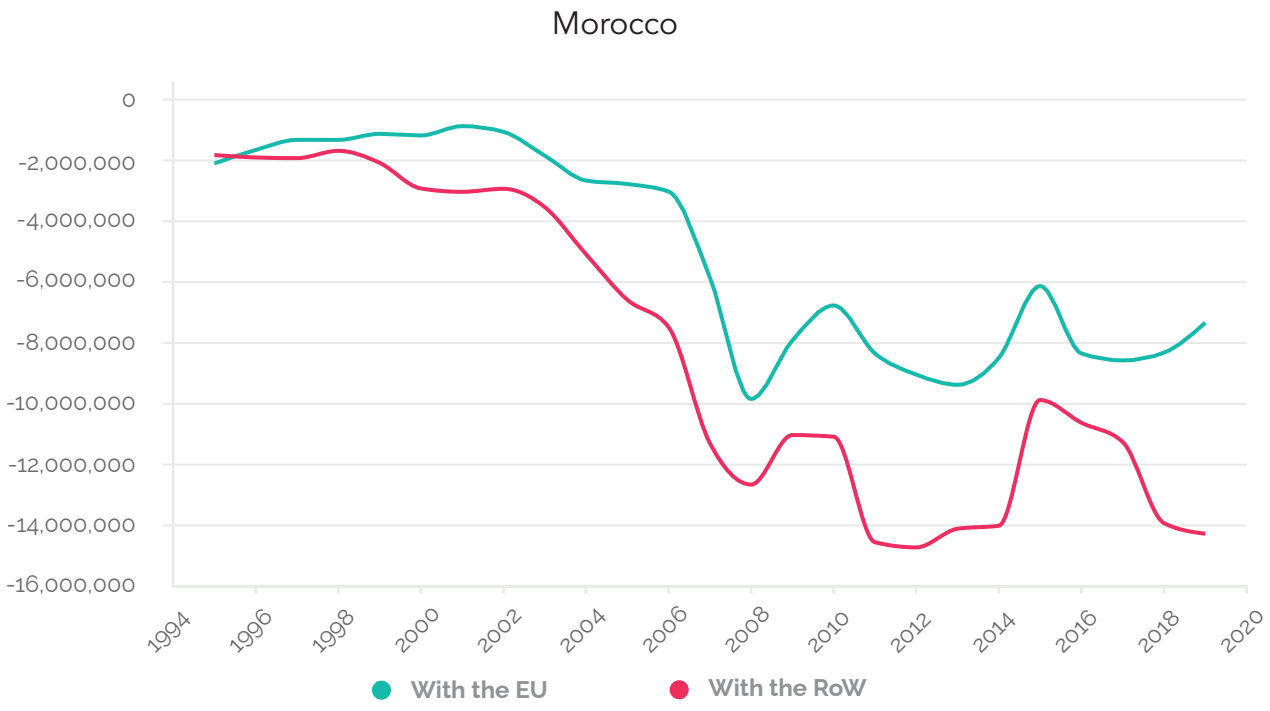
Figure 6. Growth rates* of Southern and Eastern Mediterranean Countries' imports from the European Union and rest of the world since the launch of the Barcelona Process, compared to low- and middle-income countries

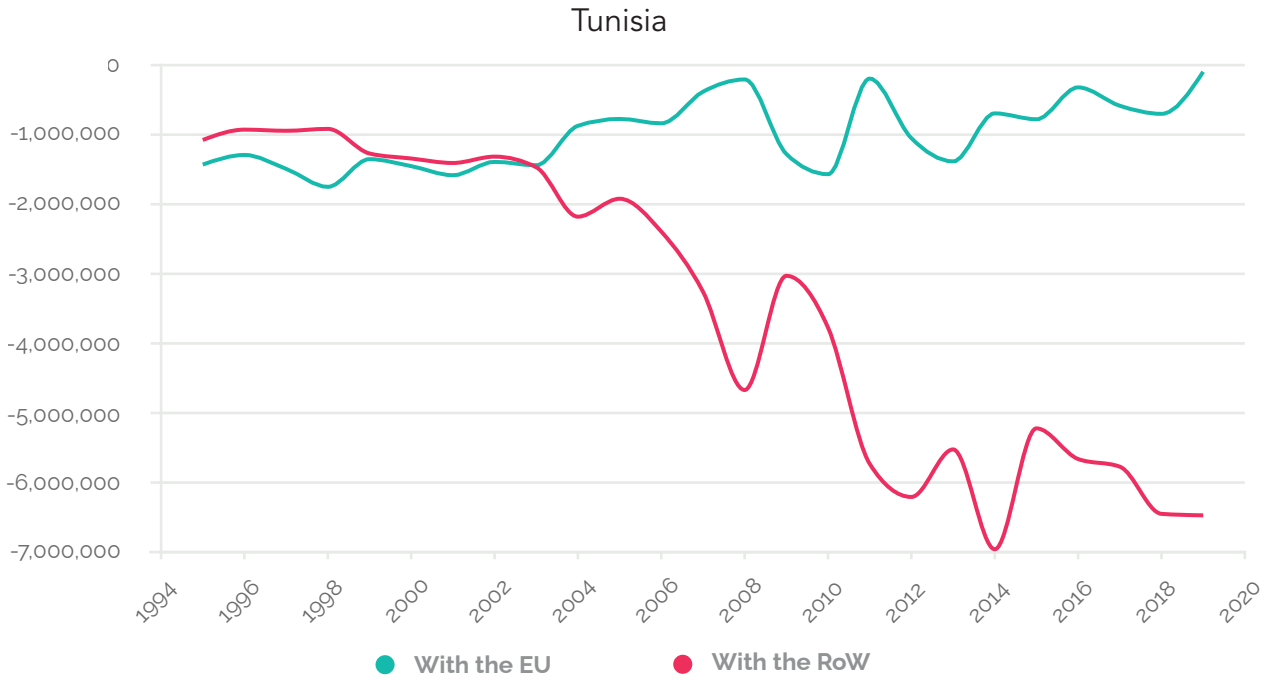


Source: Authors' calculations using the UN Comtrade database
* Growth rate between average exports in 1995, 1996 and 1997 and average exports for the last three years available (2017, 2018 and 2019).

Figure 7. Evolution of the Southern and Eastern Mediterranean Countries' trade balance with the European Union and with the rest of the world since the Barcelona Process (in thousands of USD)







Source: Authors' calculations using the UN Comtrade database

All in all, the aggregate trend in exports, imports and trade balances suggests that:

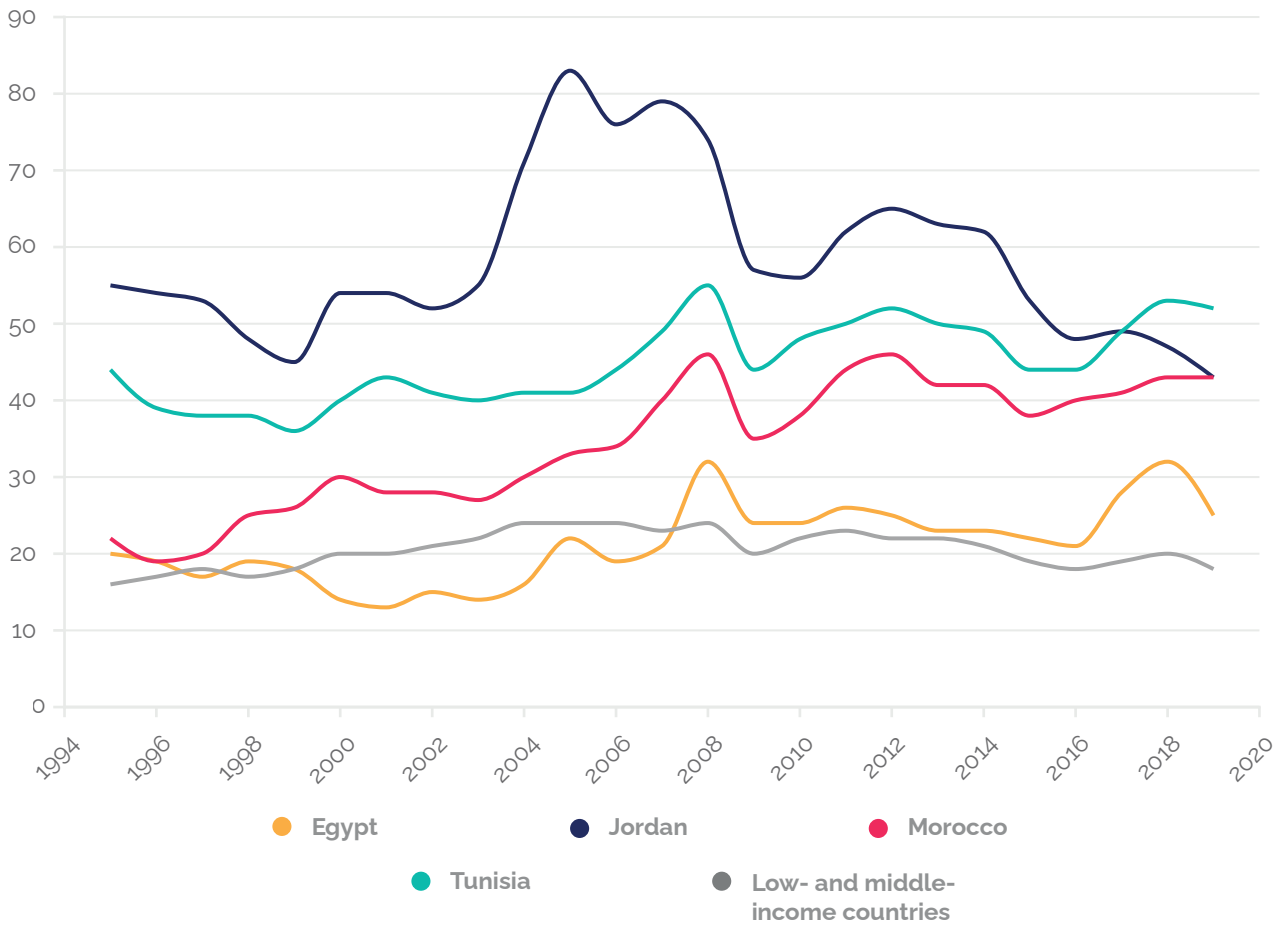
i. The AAs did not go hand in hand with a real acceleration in SEMC exports, either on the European market or on the RoW markets. This is clearly negative, as one of the primary purposes of the AAs for SEMCs was to allow them to increase their exports.

ii. Paradoxically, for SEMCs, imports from the RoW have increased considerably over the last 25 years, much more than imports from the EU.

Import penetration (import/gross domestic product ratio)

- SEMCs' penetration rates are higher than the average rate for low- and middle-income countries (which was 18 per cent in 2019). With the exception of Egypt, these rates are very high.
- Since the launch of the Barcelona Process and the signing of the AAs, these penetration rates have tended to increase for each of the SEMCs except Jordan. They went from 39 per cent to **52 per cent in Tunisia**, from 19 per cent to **43 per cent in Morocco** and from 19 per cent to **25 per cent in Egypt**. In the case of Jordan, they went from 54 per cent in 1996 to a peak 83 per cent in 2005, before falling in subsequent years to reach **43 per cent** in 2019.
- When disaggregating SEMCs' imports by type of goods (Figure 9), we see that imports of consumer goods have increased the most and such goods have become the most imported type, both for imports from the EU and from the RoW. This is with the exception of Egypt, which imports slightly more intermediate products as a share of its imports from the RoW.

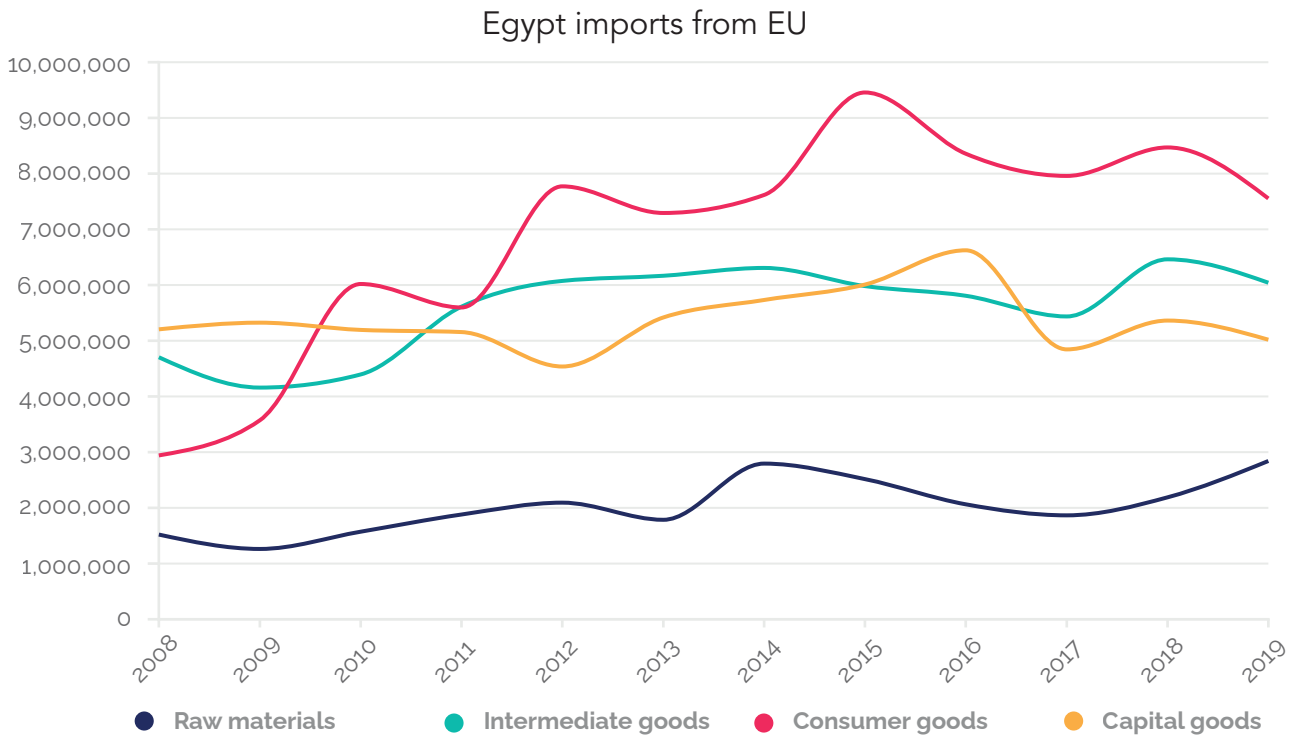
Figure 8. Evolution of the Southern and Eastern Mediterranean Countries' import penetration rate* since the Barcelona Process

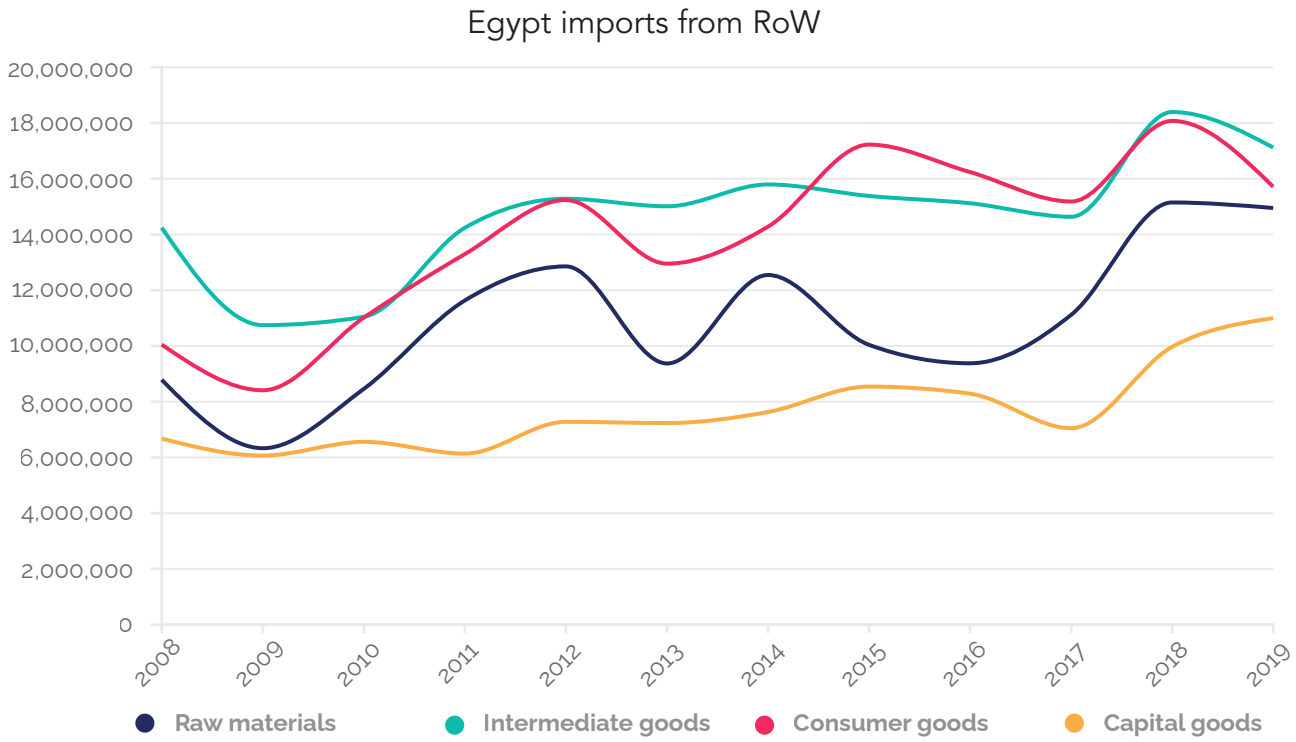


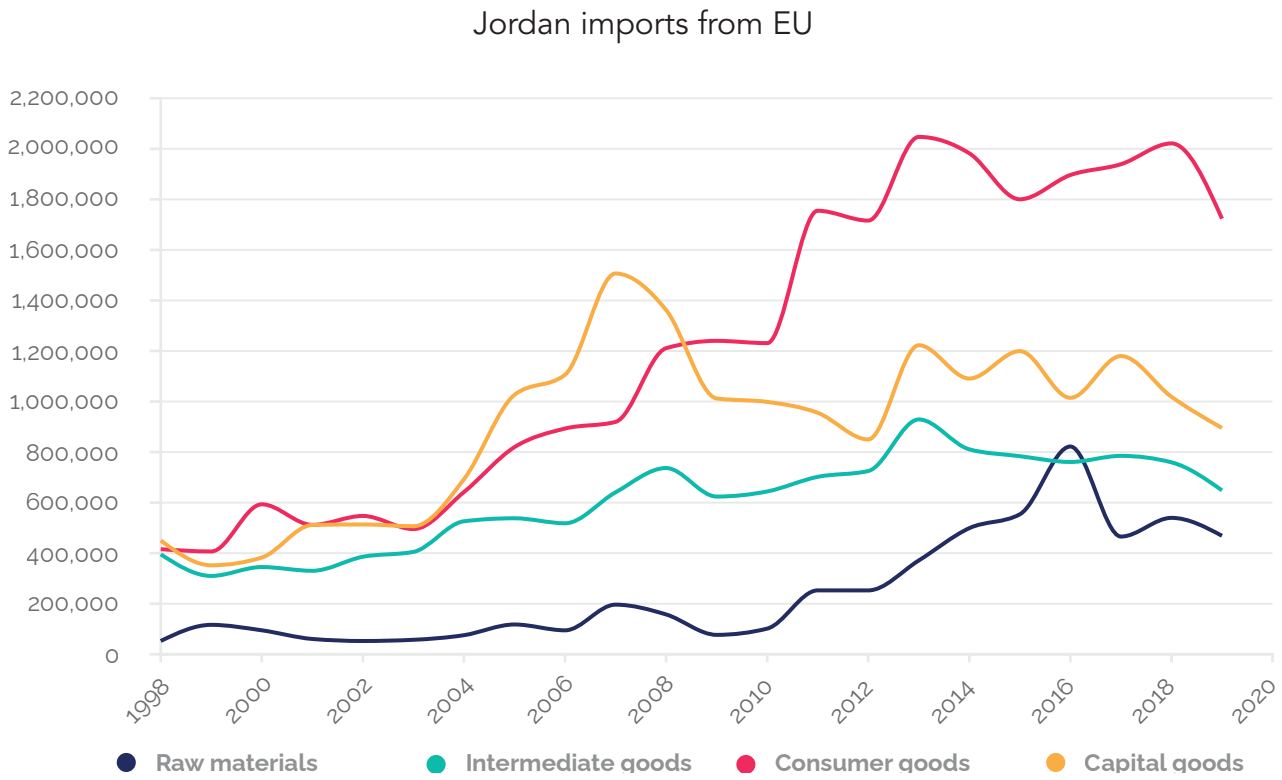
Source: Authors' calculations using the UN Comtrade database
* The penetration rate is calculated by the import/gross domestic product (GDP) ratio.

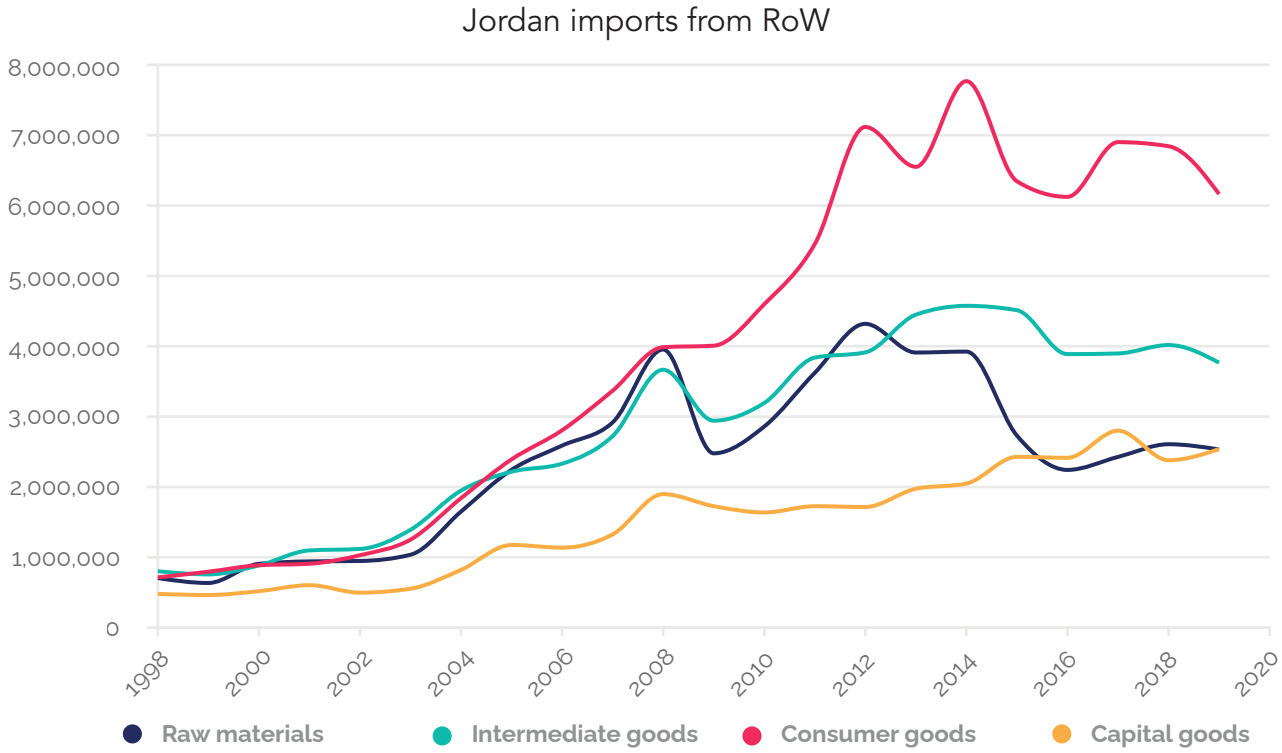
Thus, the increase in penetration rates associated with this predominant rise in imports of consumer goods suggests that **SEMCs have faced a significant pro-competitive effect, probably more pronounced from the RoW than from the EU**.

Figure 9. Type of goods imported by Southern and Eastern Mediterranean Countries from the European Union and from the rest of the world (in thousands of USD)

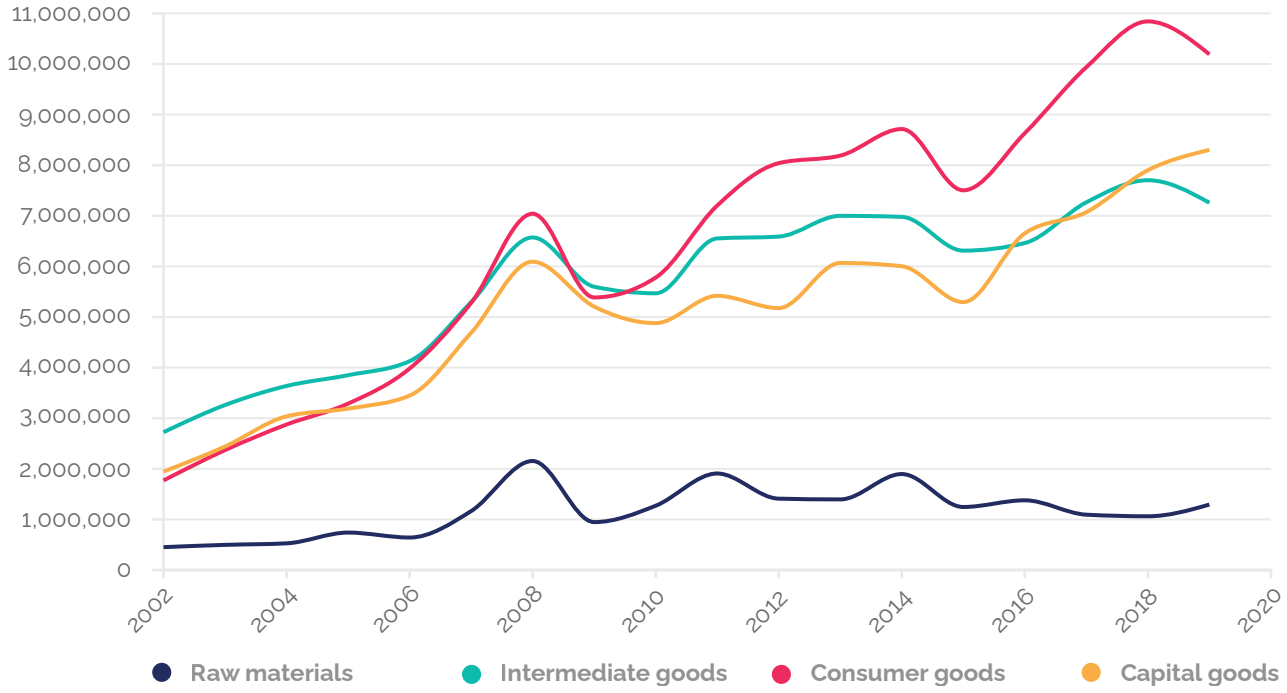




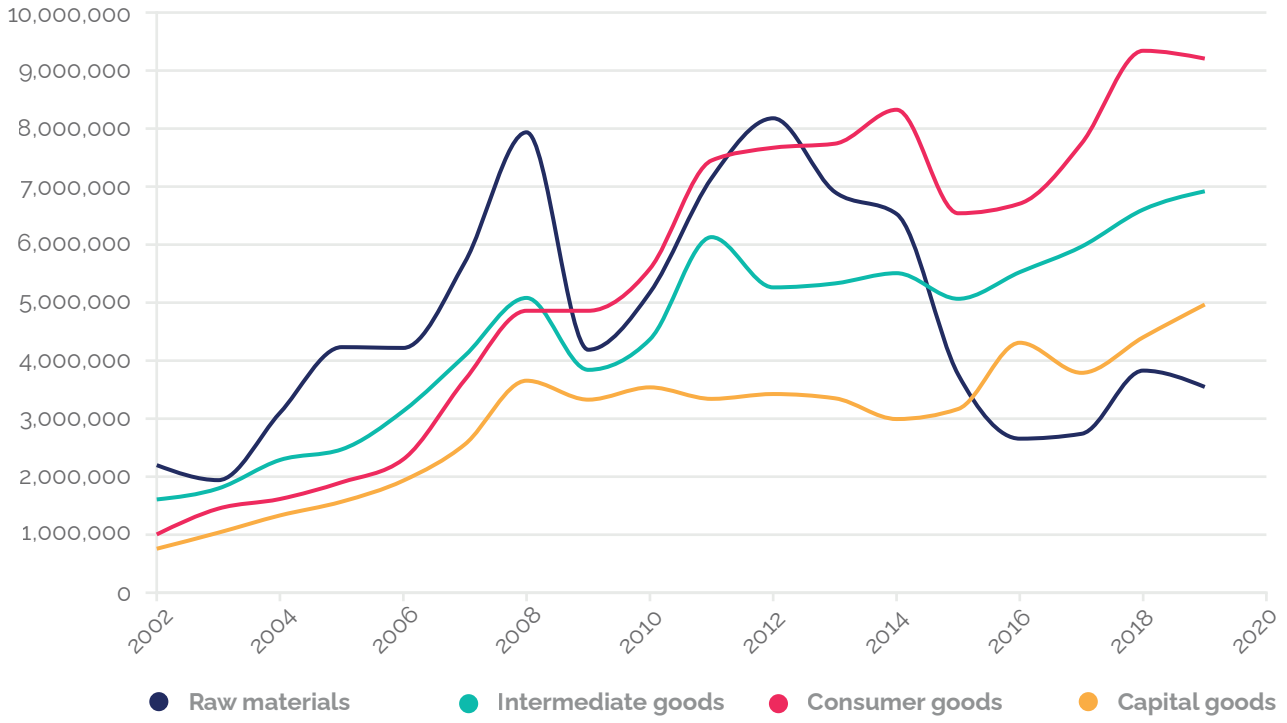

Jordan imports from EU
2,200,000
2,000,000
1,800,000
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
1998
2000
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
Raw materials
Intermediate goods
Consumer goods
Capital goods

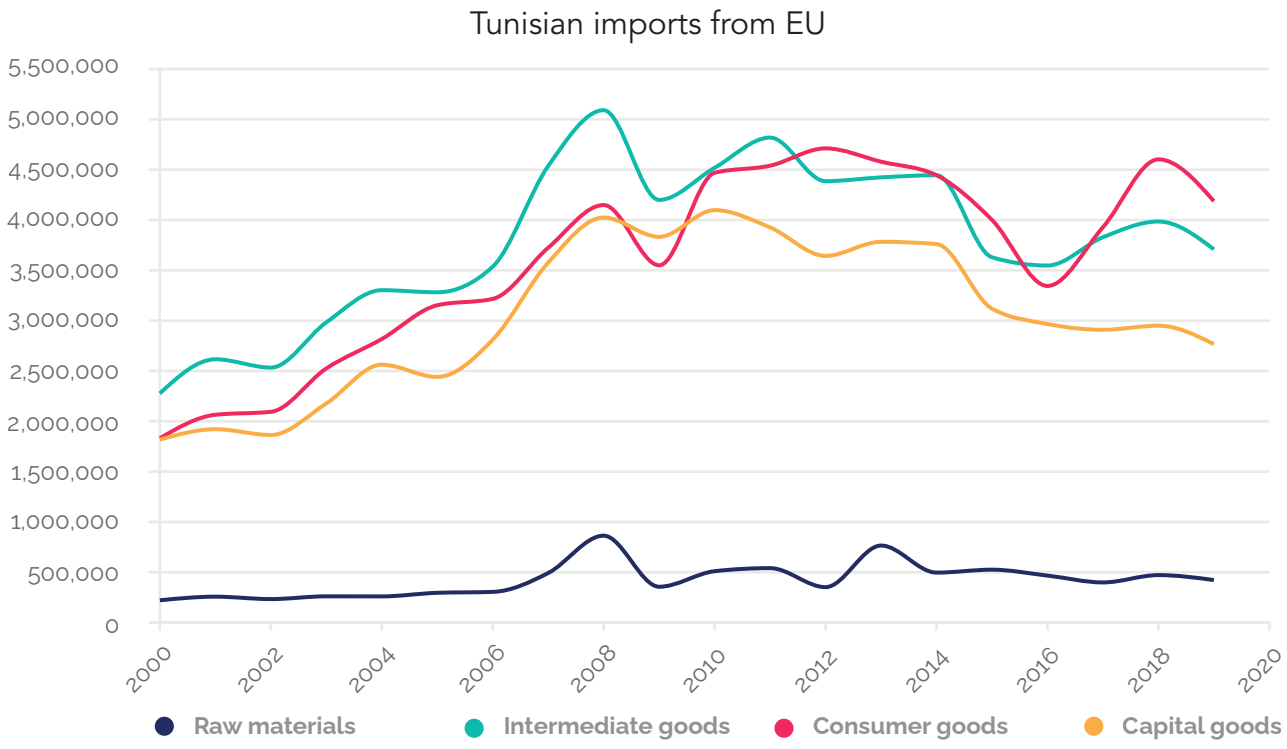

Jordan imports from RoW
8,000,000
7,000,000
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
0
1998
2000
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
Raw materials
Intermediate goods
Consumer goods
Capital goods

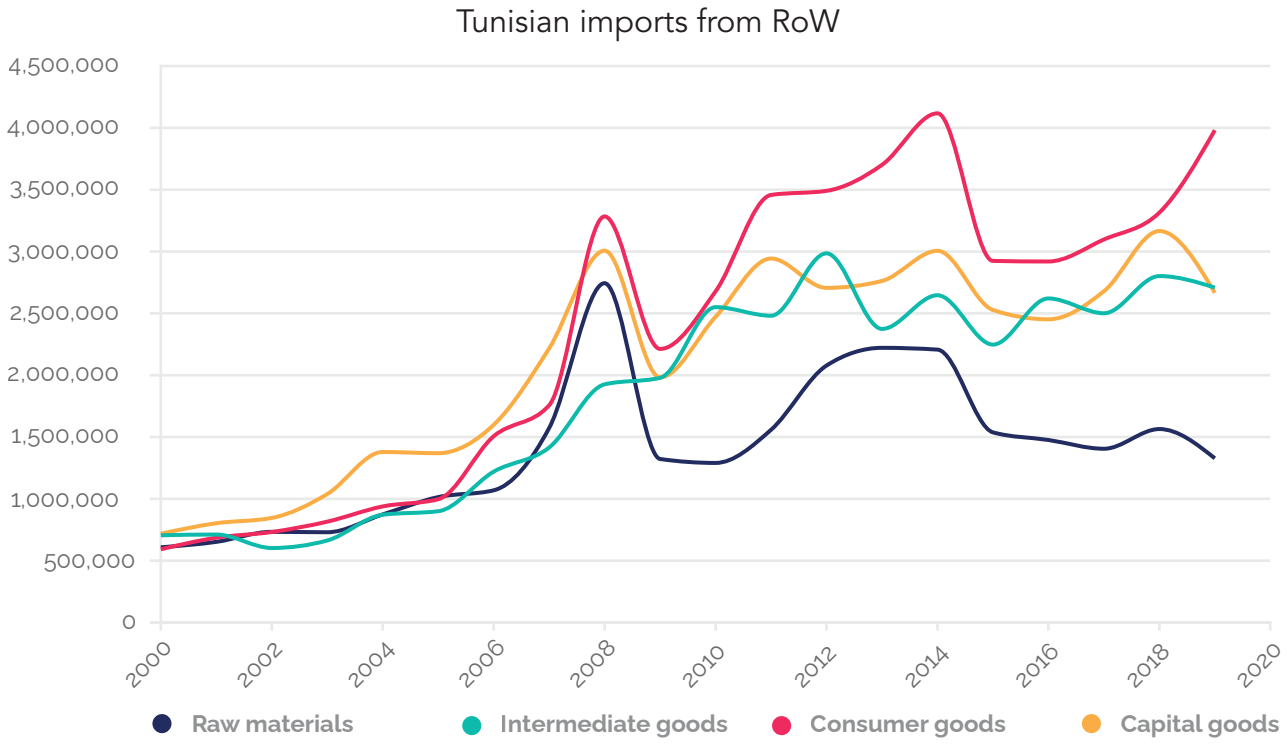
Moroccan imports from EU



Moroccan imports from RoW







Source: Authors' calculations using the UN Comtrade database

Sectoral imports

- Imports to SEMCs have risen sharply in some sectors (Figure 10). Strikingly, the sectors concerned by these sharp increases are, for the most part, common to all SEMCs: these are the Chemical, Cooking and Refined Petroleum Products, Basic Metals, Machinery and Equipment, Motor Vehicles, Foods, Textiles and Agriculture sectors.

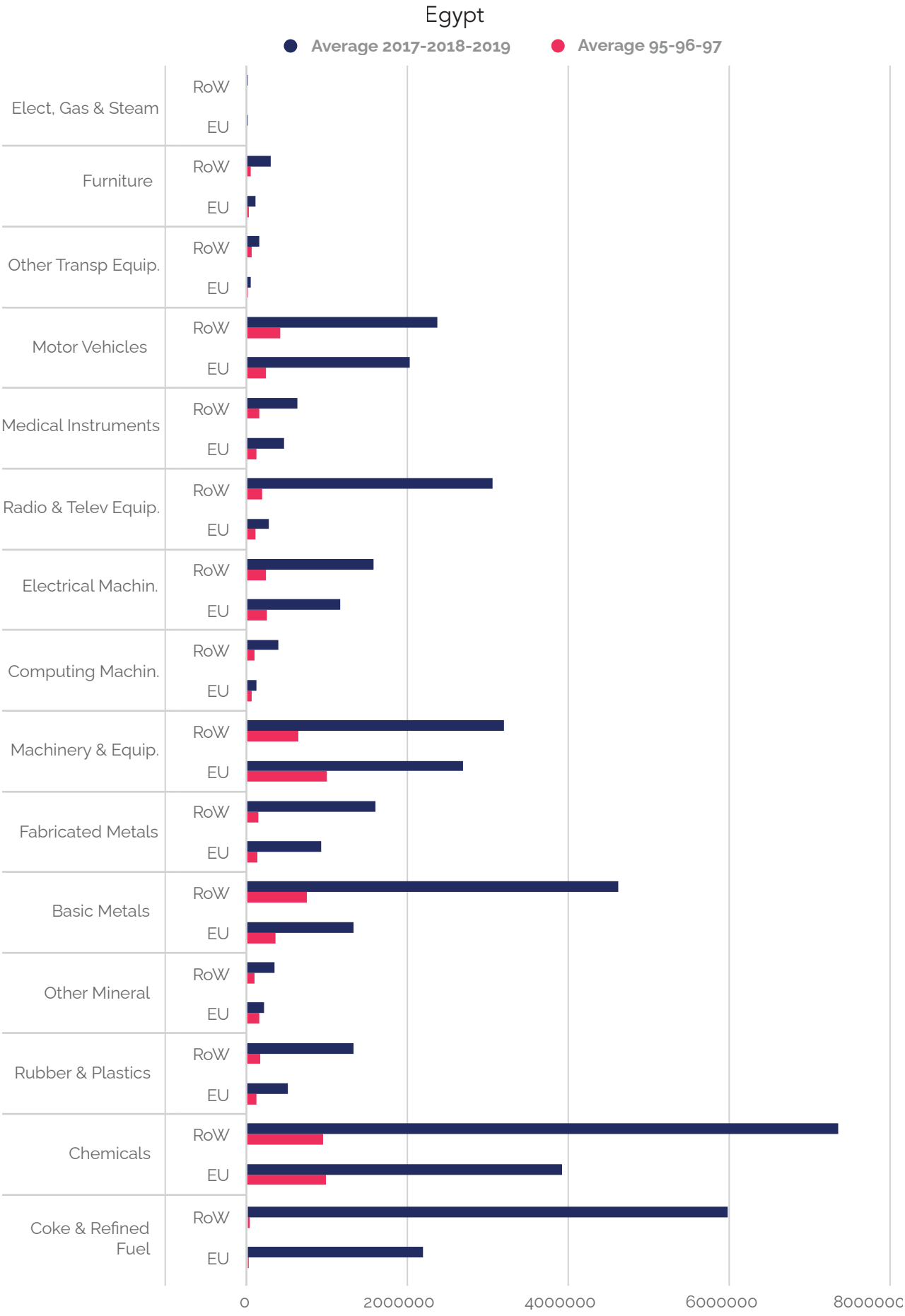
- In these sectors, SEMC imports from the EU and the RoW have increased (or at worst remained constant in some sectors), except in Tunisia where the amount of imports from the EU in the Clothing and Textile sectors has declined (while their amount from the RoW has increased) and in Morocco where in the Fuel & Gas sector, the amount of imports from the RoW has declined (there are no imports from the EU in this sector).

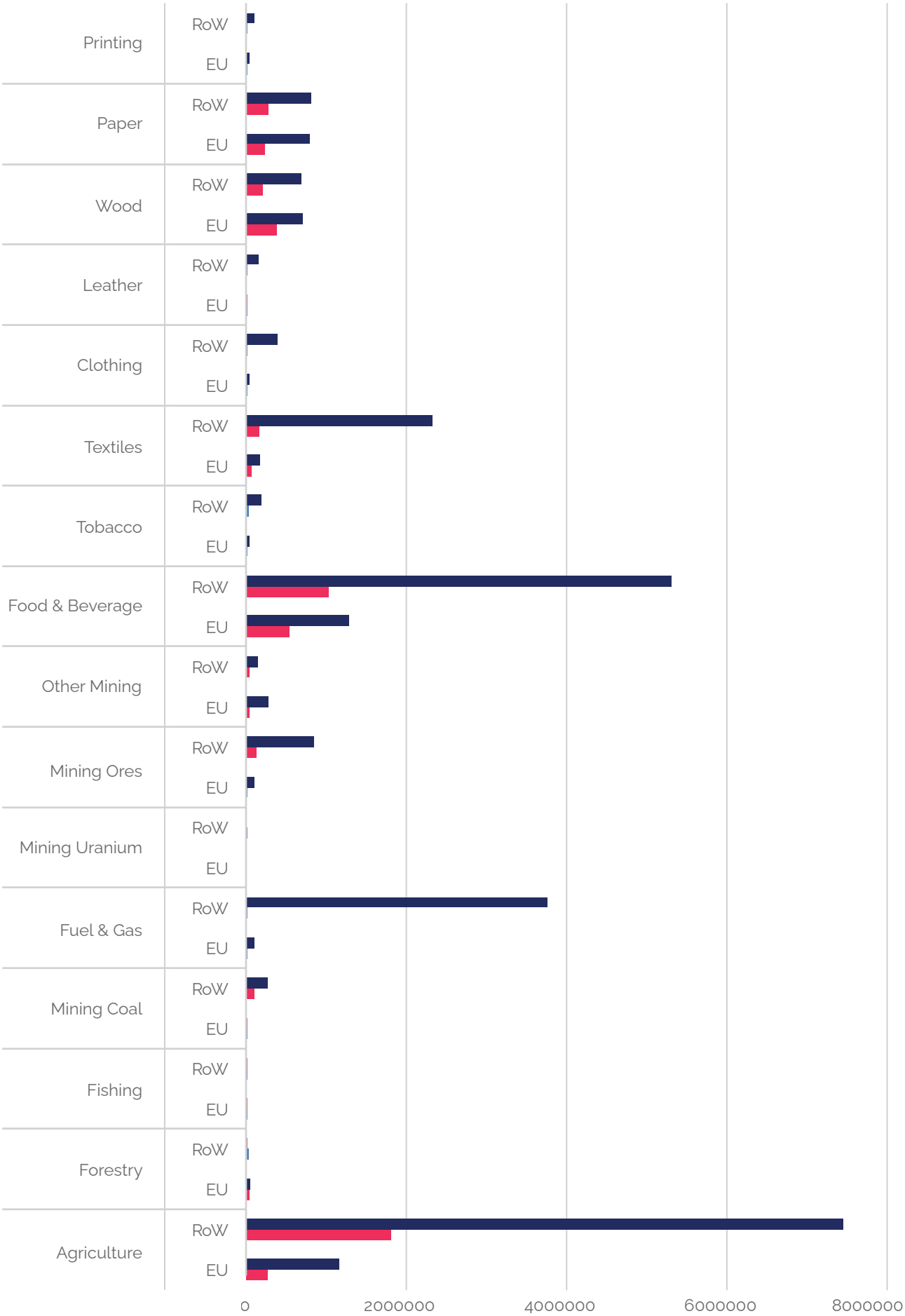
- We also note that in the case of Egypt and Jordan, in almost all sectors, imports from the RoW are higher than those from the EU. In these two countries, the imports from the EU are highest in the Chemical sector. Egyptian imports are dominated by the Chemical sector and Agriculture. Jordanian imports are dominated by the Food and the Fuel & Gas sectors.

- On the other hand, in the case of Morocco and Tunisia, imports from the EU are in a large majority of sectors higher than the amount of imports from the RoW. In Morocco, this is particularly true of the Motor Vehicles sector, which dominates Moroccan imports. In Tunisia, the dominant sector is Chemicals.

- In Morocco and Tunisia, the sectors in which imports from the RoW exceed imports from the EU are Cooking and Refined Petroleum Products, Agriculture, Food, Radio, Television and Other Communication Equipment, Computing Equipment, as well as very slightly in the Other Transport Equipment and Textiles sectors (in this last sector, only in the case of Morocco).

Figure 10. Evolution of Southern and Eastern Mediterranean Countries' imports from the European Union and from the rest of the world, by sector (two-digit, in thousands of USD)




Printing
RoW
EU
Paper
RoW
EU
Wood
RoW
EU
Leather
RoW
EU
Clothing
RoW
EU
Textiles
RoW
EU
Tobacco
RoW
EU
Food & Beverage
RoW
EU
Other Mining
RoW
EU
Mining Ores
RoW
EU
Mining Uranium
RoW
EU
Fuel & Gas
RoW
EU
Mining Coal
RoW
EU
Fishing
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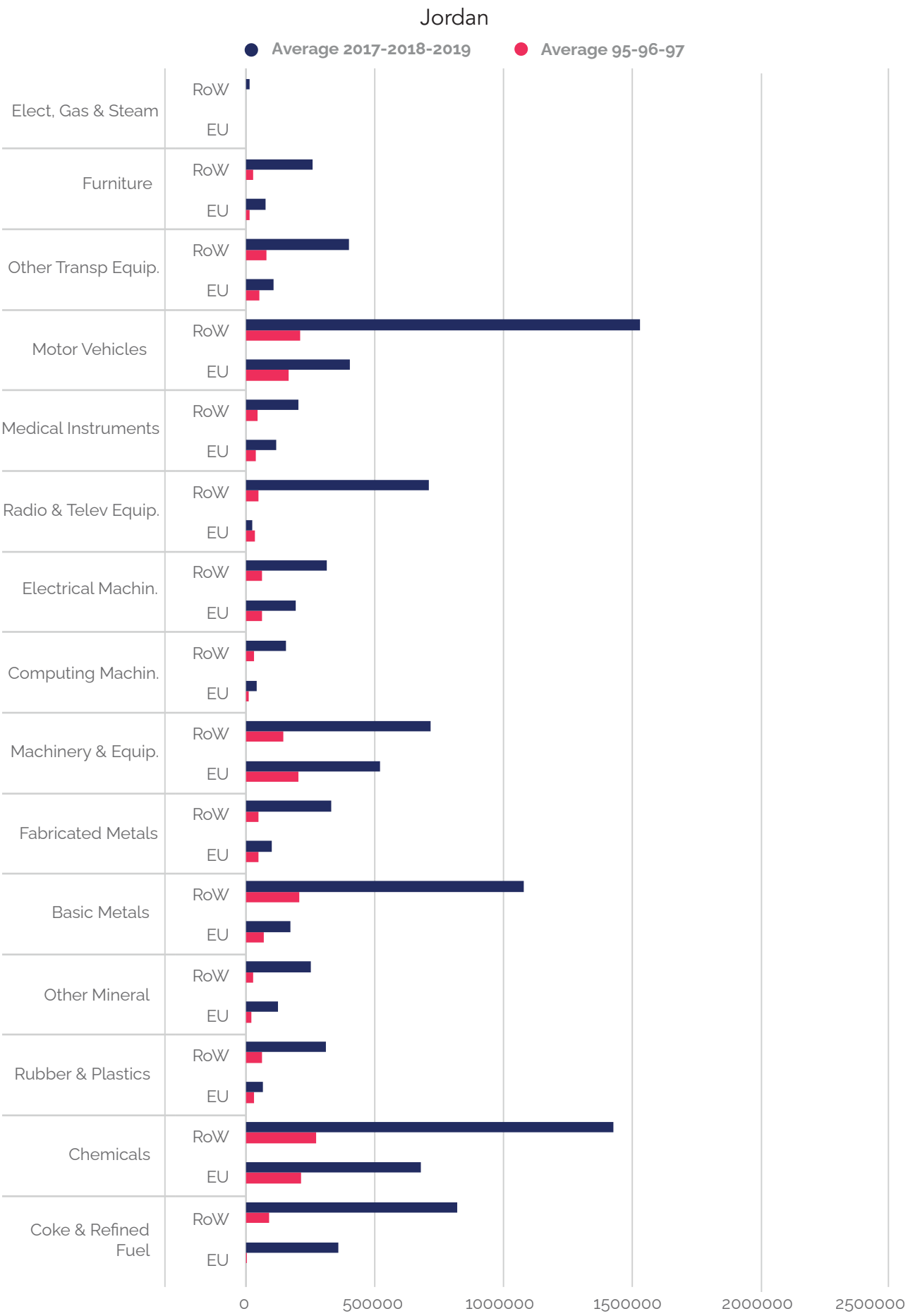
EU
Forestry
RoW
EU
Agriculture
RoW
EU
0
2000000
4000000
6000000
8000000


Jordan
Average 2017-2018-2019
Average 95-96-97
Elect, Gas & Steam
Furniture
Other Transp Equip.
Motor Vehicles
Medical Instruments
Radio & Telev Equip.
Electrical Machin.
Computing Machin.
Machinery & Equip.
Fabricated Metals
Basic Metals
Other Mineral
Rubber & Plastics
Chemicals
Coke & Refined Fuel
RoW
EU
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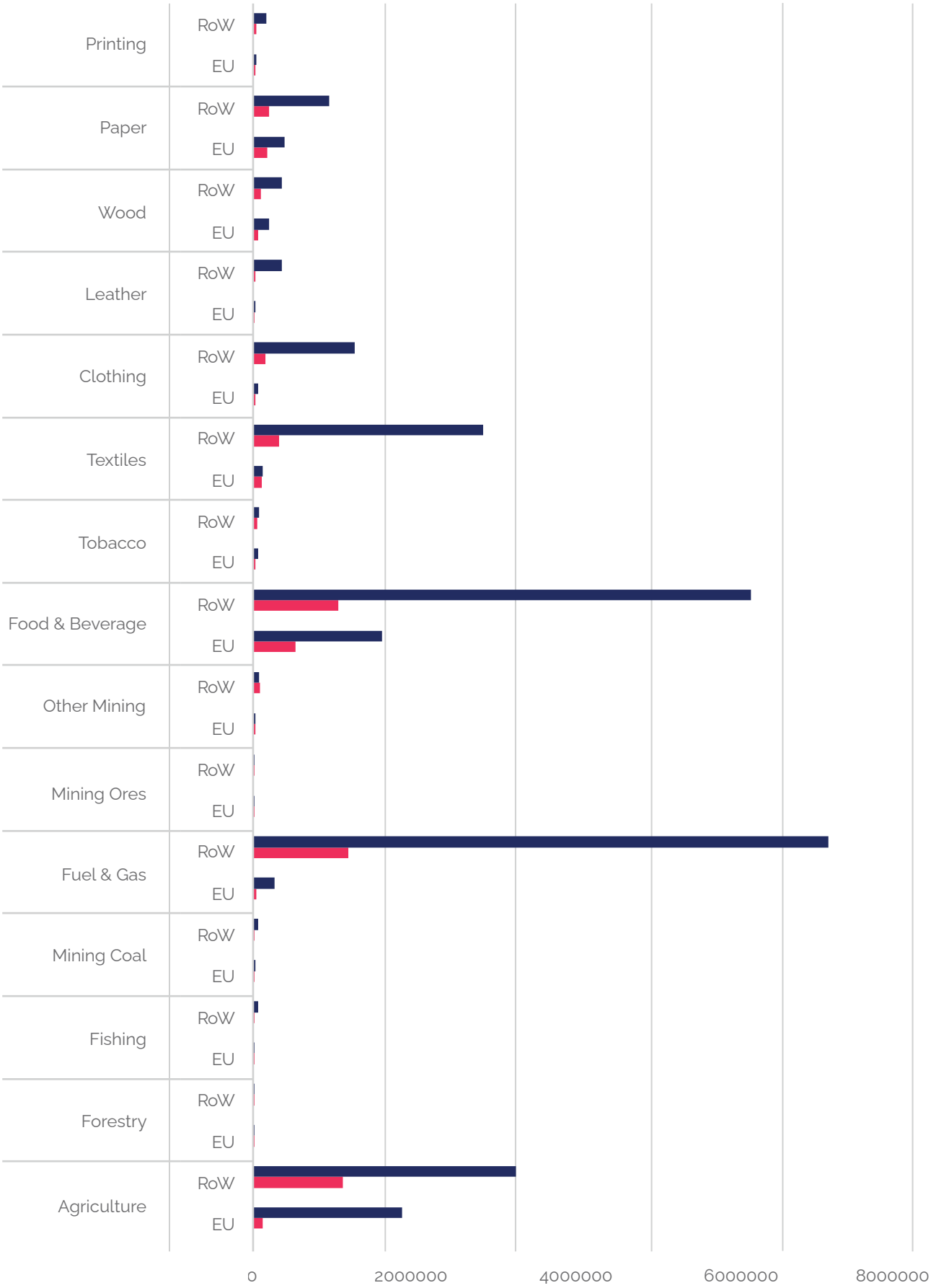
1500000
2000000
2500000


Printing
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EU
Paper
RoW
EU
Wood
RoW
EU
Leather
RoW
EU
Clothing
RoW
EU
Textiles
RoW
EU
Tobacco
RoW
EU
Food & Beverage
RoW
EU
Other Mining
RoW
EU
Mining Ores
RoW
EU
Fuel & Gas
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Mining Coal
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Forestry
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Agriculture
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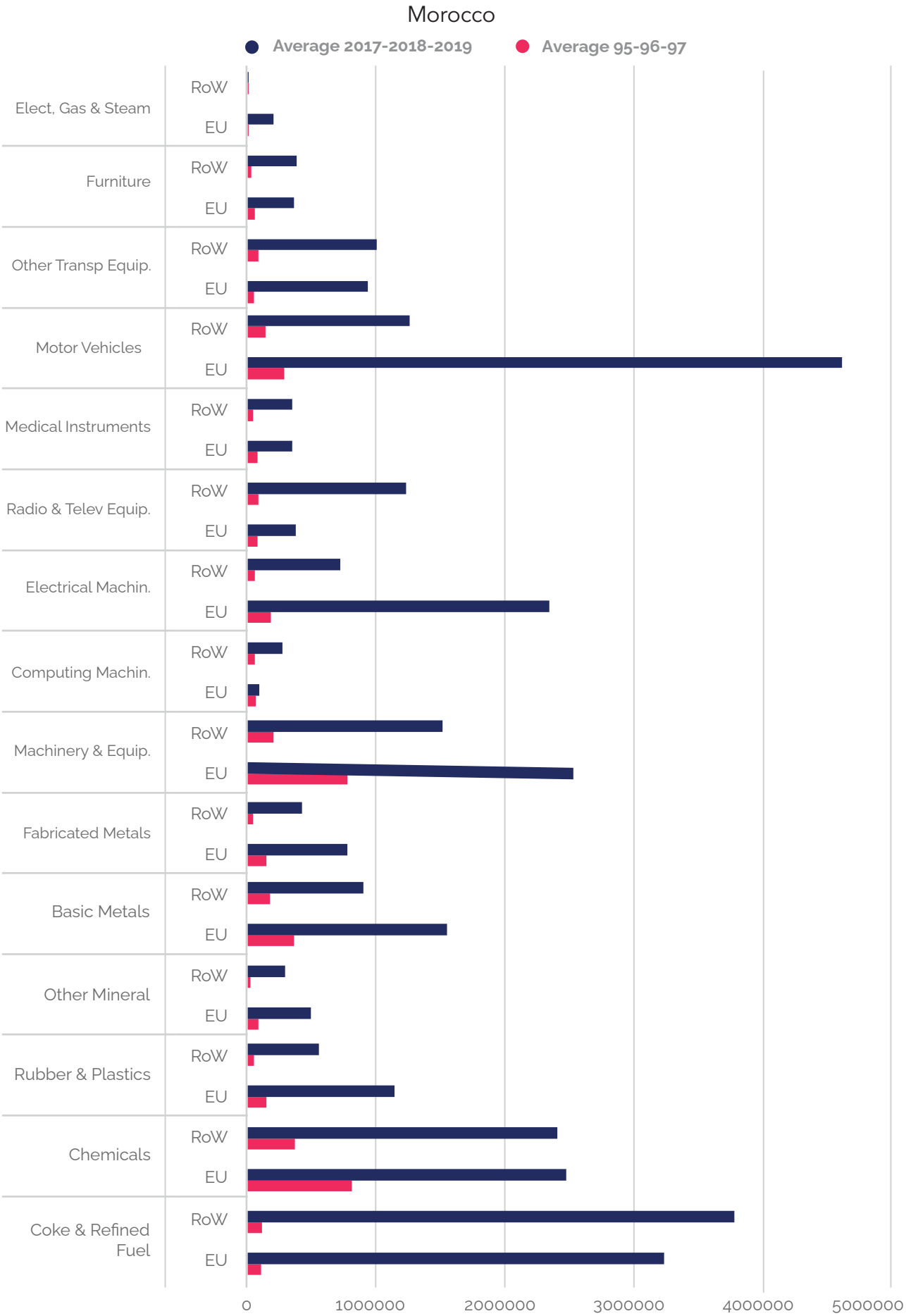
Morocco
Average 2017-2018-2019
Average 95-96-97
Elect, Gas & Steam
Furniture
Other Transp Equip.
Motor Vehicles
Medical Instruments
Radio & Telev Equip.
Electrical Machin.
Computing Machin.
Machinery & Equip.
Fabricated Metals
Basic Metals
Other Mineral
Rubber & Plastics
Chemicals
Coke & Refined Fuel
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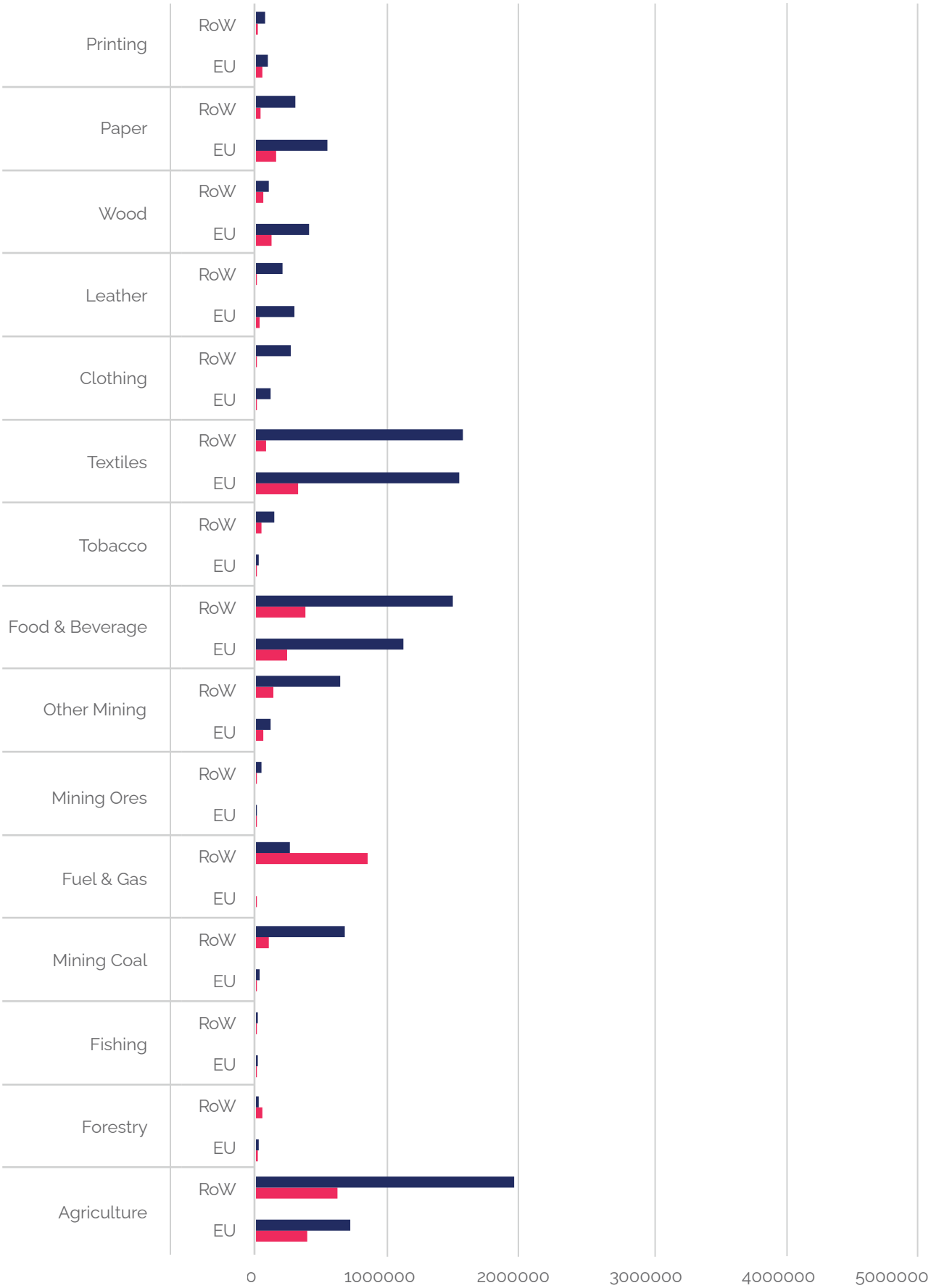
Printing
RoW
EU
Paper
RoW
EU
Wood
RoW
EU
Leather
RoW
EU
Clothing
RoW
EU
Textiles
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EU
Tobacco
RoW
EU
Food & Beverage
RoW
EU
Other Mining
RoW
EU
Mining Ores
RoW
EU
Fuel & Gas
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Mining Coal
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Fishing
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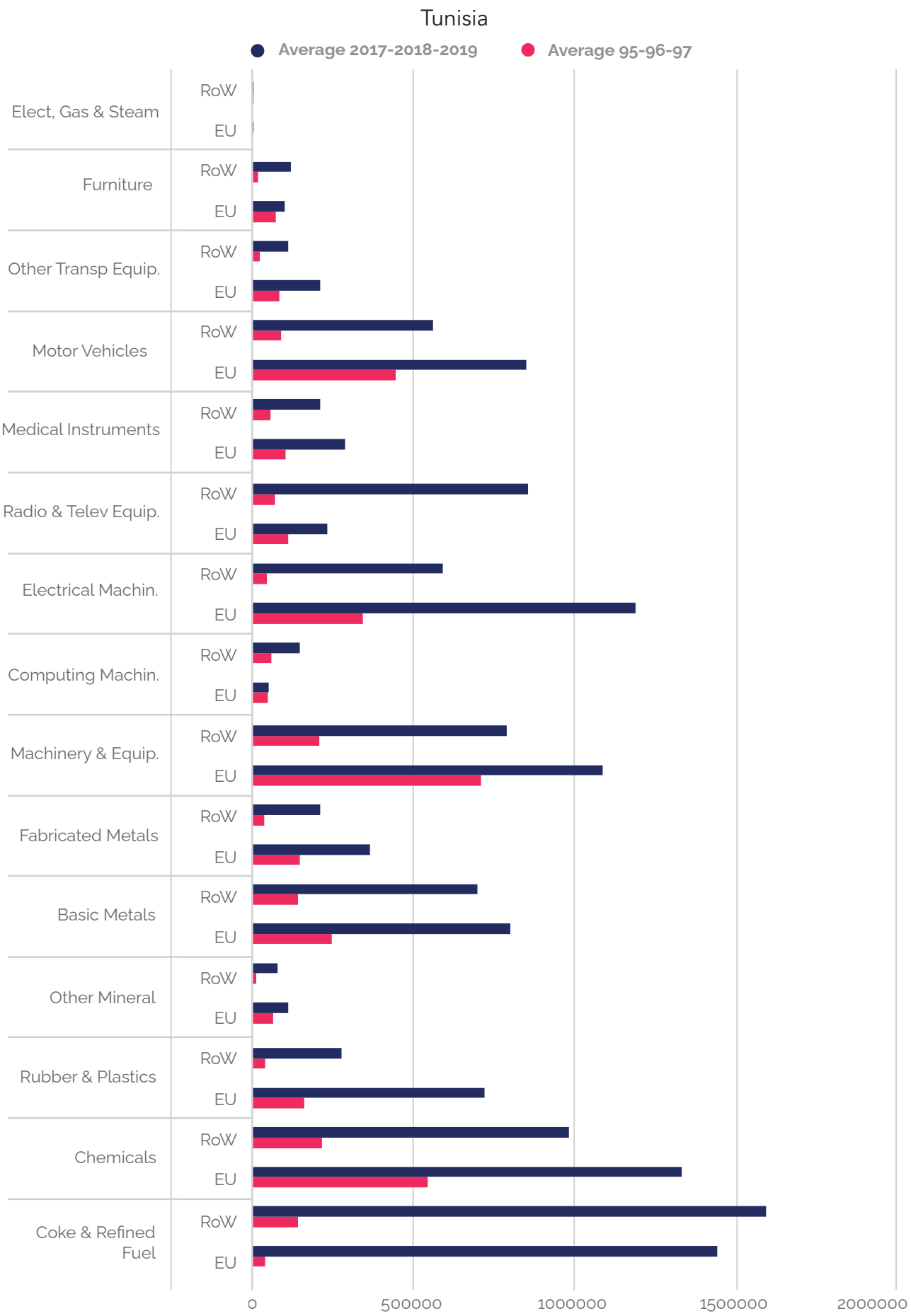
Tunisia
Average 2017-2018-2019
Average 95-96-97
Elect, Gas & Steam
Furniture
Other Transp Equip.
Motor Vehicles
Medical Instruments
Radio & Telev Equip.
Electrical Machin.
Computing Machin.
Machinery & Equip.
Fabricated Metals
Basic Metals
Other Mineral
Rubber & Plastics
Chemicals
Coke & Refined Fuel
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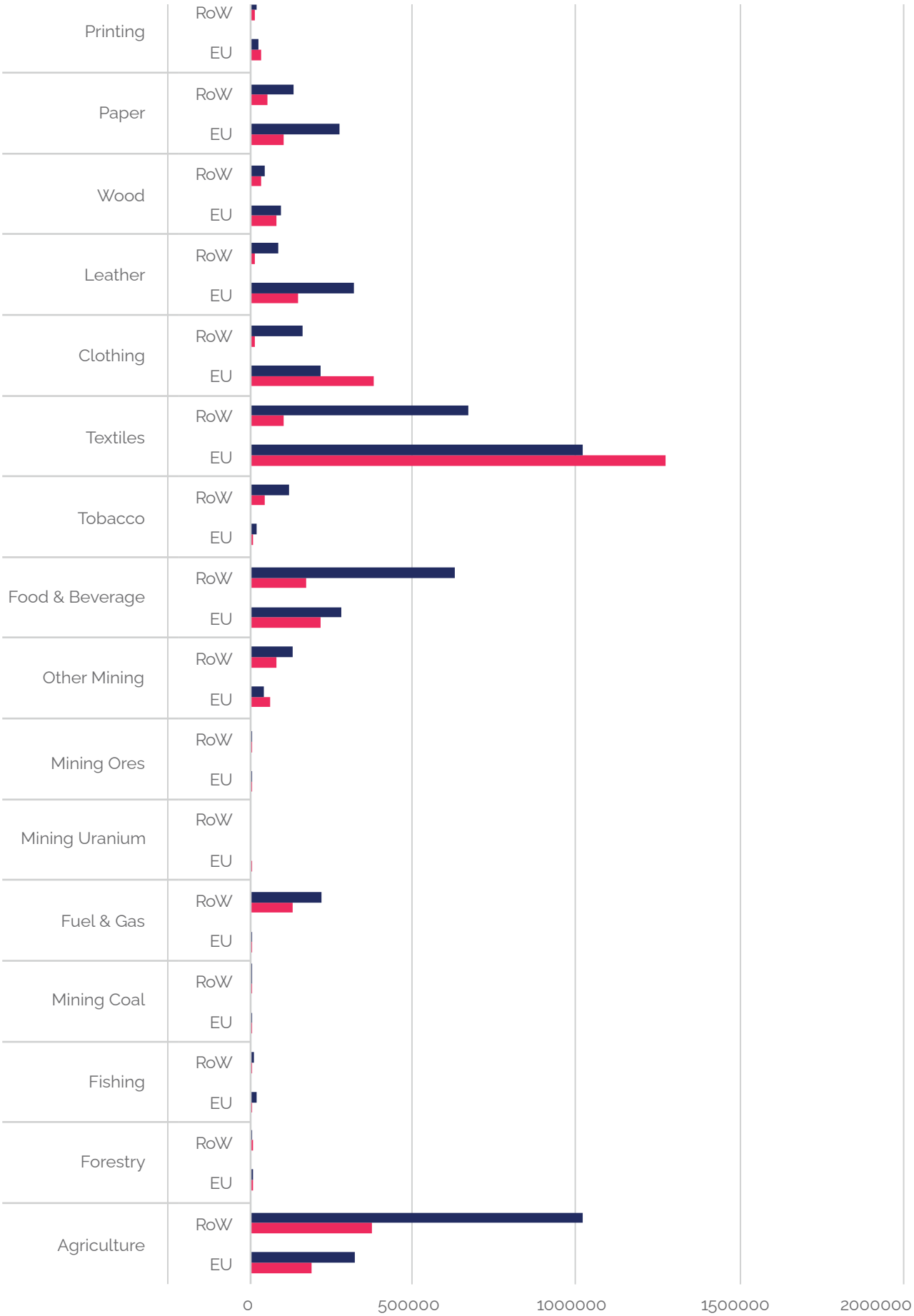


Source: Authors' calculations using the UN Comtrade database
Note: X-axis: Sector number at two-digit level, Y-axis USD 1,000

I.3.2. Value added

We now turn our attention to the evolution of the sectoral value added (VA),[8] meaning the value of labour and capital used in producing gross output, following the implementation of the AAs. We use the latest data from the United Nations Industrial Development Organization (UNIDO)[9] to identify which sectors saw their share in total VA grow ("winners") or shrink ("losers") (Table 1).

Below are some key observations that emerge from the analysis:

- **In terms of VA, there are common "winner" sectors to be found across SEMCs following the entry into force of the AAs**. The Food and Beverages sector together with the Electrical Machinery and Apparatus sector are clear winners, as they saw their share in total VA grow significantly in three of the four countries. For Food and Beverages, the increase is particularly marked in Morocco (4.9 percentage point increase). In the majority of SEMCs, these two sectors have seen a marked improvement in effective preferential tariff margins in access to the EU market since the AAs entered into force (annex, Figure A2). Therefore, **the AAs seem to have contributed to making these two sectors more competitive**. Other notable winners that we find in two of the four SEMCs are Tobacco Products (9.7 percentage point increase in Jordan, 5.9 percentage point increase in Tunisia), Wearing Apparel & Fur (4.9 percentage point increase in Jordan, 4.4 percentage point increase in Tunisia), Chemicals and Chemicals Products (4.4 percentage point increase in Jordan, 0.6 percentage point increase in Morocco) and Non-Metallic Mineral Products (6.9 percentage point increase in Jordan, 0.7 percentage point increase in Tunisia).

- **There are also some common, and clear, "loser" sectors**. Most notably, between the entry into force of the AAs and now, the VA share of Basic Metals contracted by 12.4 percentage points in Egypt, 0.4 percentage points in Jordan and 3.2 percentage points in Tunisia. Other loser sectors that are common to at least three countries include Printing & Publishing, Rubber & Plastics Products, and Motor Vehicles, Trailers & Semi-Trailers.

Table 1. Winners and losers: which sectors saw their share in total value added grow/shrink? Variation of sector's share in total value added (recent year versus entry into force of association agreement)

	Egypt	Jordan	Morocco	Tunisia
15 Food and beverages	-3.7	1.2	4.9	1.3
16 Tobacco products	-1.2	9.7	-4.8	5.9
17 Textiles	-8.0	0.0	-1.0	4.4
18 Wearing apparel, fur	-2.9	4.9	-0.2	4.4
19 Leather, leather products and footwear	-0.2	0.6	-0.3	1.0
20 Wood products (excl. furniture)	-0.1	0.5	-0.1	0.9

8 Value added is the difference between gross output and intermediate inputs.

9 INDSTAT 2 2021, ISIC Revision 3: https://stat.unido.org/database/INDSTAT%202%202021,%20ISIC%20Revision%203

21 Paper and paper products	-1.2	2.0	-0.8	0.5
22 Printing and publishing	-0.7	3.2	-1.1	-1.3
23 Coke, refined petroleum products, nuclear fuel	n.a	n.a	3.3	-6.1
24 Chemicals and chemical products	-3.1	4.4	0.6	-5.2
25 Rubber and plastics products	-1.2	0.9	-0.2	-0.5
26 Non-metallic mineral products	-1.4	6.9	-4.4	0.7
27 Basic metals	-12.4	-0.4	0.9	-3.2
28 Fabricated metal products	-1.0	1.9	1.6	-1.8
29 Machinery and equipment n.e.c.	-0.9	0.0	0.4	-1.6
30 Office, accounting and computing machinery	n.a	-0.7	0.4	-0.4
31 Electrical machinery and apparatus	0.9	-1.4	0.3	1.2
32 Radio, television and communication equipment	n.a	n.a	n.a	n.a
33 Medical, precision and optical instruments	n.a	n.a	n.a	n.a
34 Motor vehicles, trailers, semi-trailers	-1.7	-1.4	-0.7	1.6
35 Other transport equipment	-0.1	-0.4	n.a	n.a
36 Furniture; manufacturing n.e.c.	0.1	2.3	0.6	-2.4

Source: UNIDO, INDSTAT 2 2021, International Standard Industrial Classification of All Economic Activities (ISIC) Revision 3
Note: The initial year is the year the AA entered into force, i.e. 2004 for Egypt, 2002 for Jordan, 2000 for Morocco and 1996 for Tunisia.

I.3.3. Employment

Using the same UNIDO dataset, we will now look at employment trends, to see how employment grew per sector since the entry into force of the AAs (see Figure 11, also Table A1 in the annex). We also compare the share that each sector represented in total employment during the reference year (AA's entry into force) and the latest year, to see which sectors saw their share in total employment grow or shrink (Table A1). This allows us to draw a number of observations:

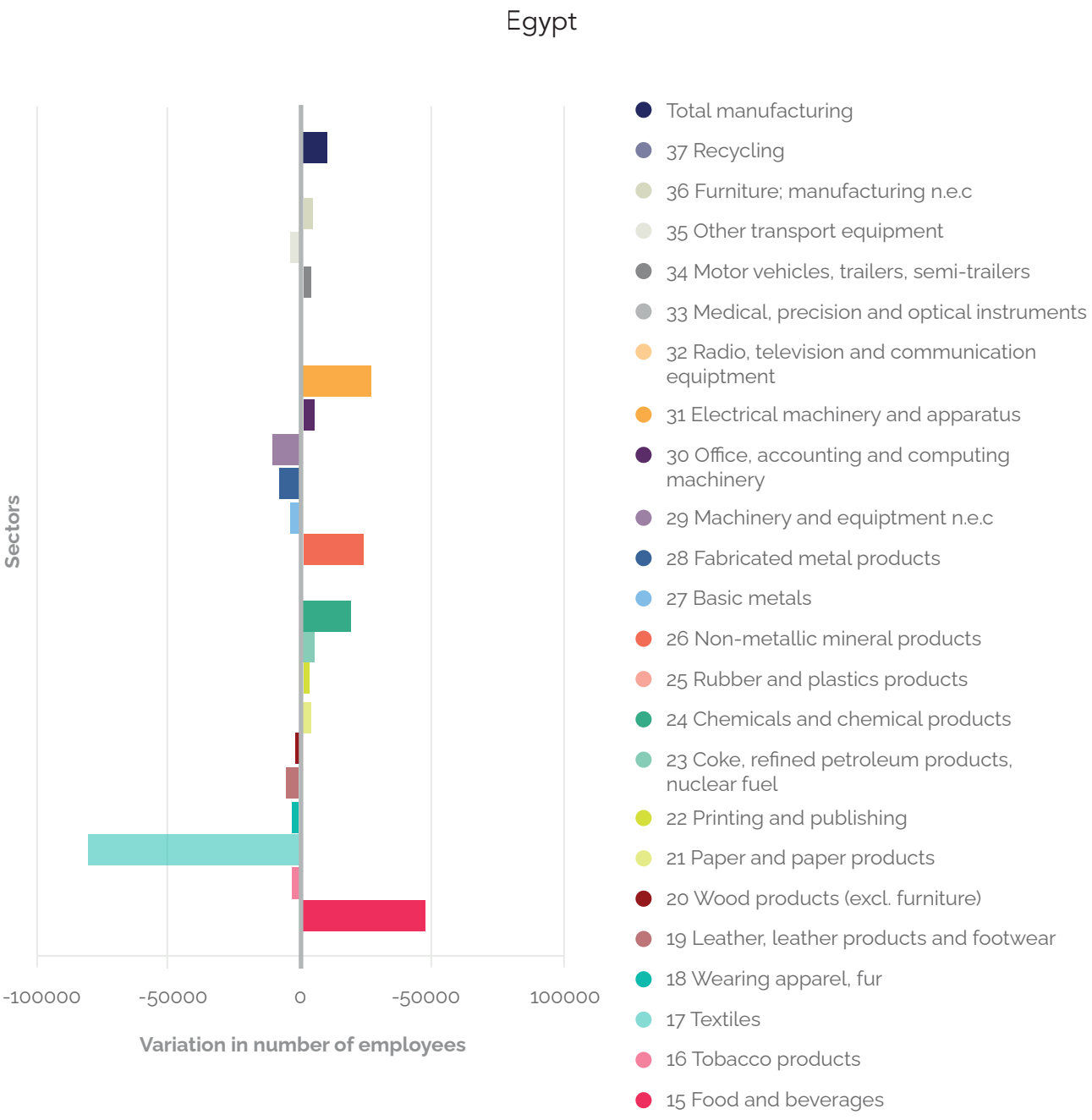
- **In terms of employment, there are common winner sectors to be found across SEMCs following the entry into force of the AAs**. For example, the Wearing Apparel sector saw its share in total employment grow significantly in all countries apart from Egypt (where about 81,000 jobs were lost). The increase is

particularly marked in Tunisia (13.7 percentage point increase) and Morocco (8.8 percentage point increase). Likewise, the Electrical Machinery and Apparatus sector increased its share in total employment in all countries apart from Jordan. This is especially evident in Egypt (2.7 percentage point increase) and Tunisia (1.8 percentage point increase). Lastly, the Furniture sector increased its share in total employment in all countries apart from Tunisia, with the highest increases being found in Jordan (4.6 percentage point increase) and Morocco (2.3 percentage point increase). Other notable country-specific winners include, for Egypt, Non-Metallic Mineral Products (+2.3 percentage points) and Chemicals and Chemical Products (+1.9 percentage points); for Jordan, Printing and Publishing (+2.4 percentage points), Non-Metallic Mineral Products (+2.6 percentage points) and Fabricated Metal Products (+4.0 percentage points); for Tunisia, Leather, Leather Products and Footwear (+2.6 percentage points). Rubber and Plastics Products recorded a modest improvement in the sector's employment share in total manufacturing (0.1 percentage points for Egypt and 1.3 percentage points for Jordan).

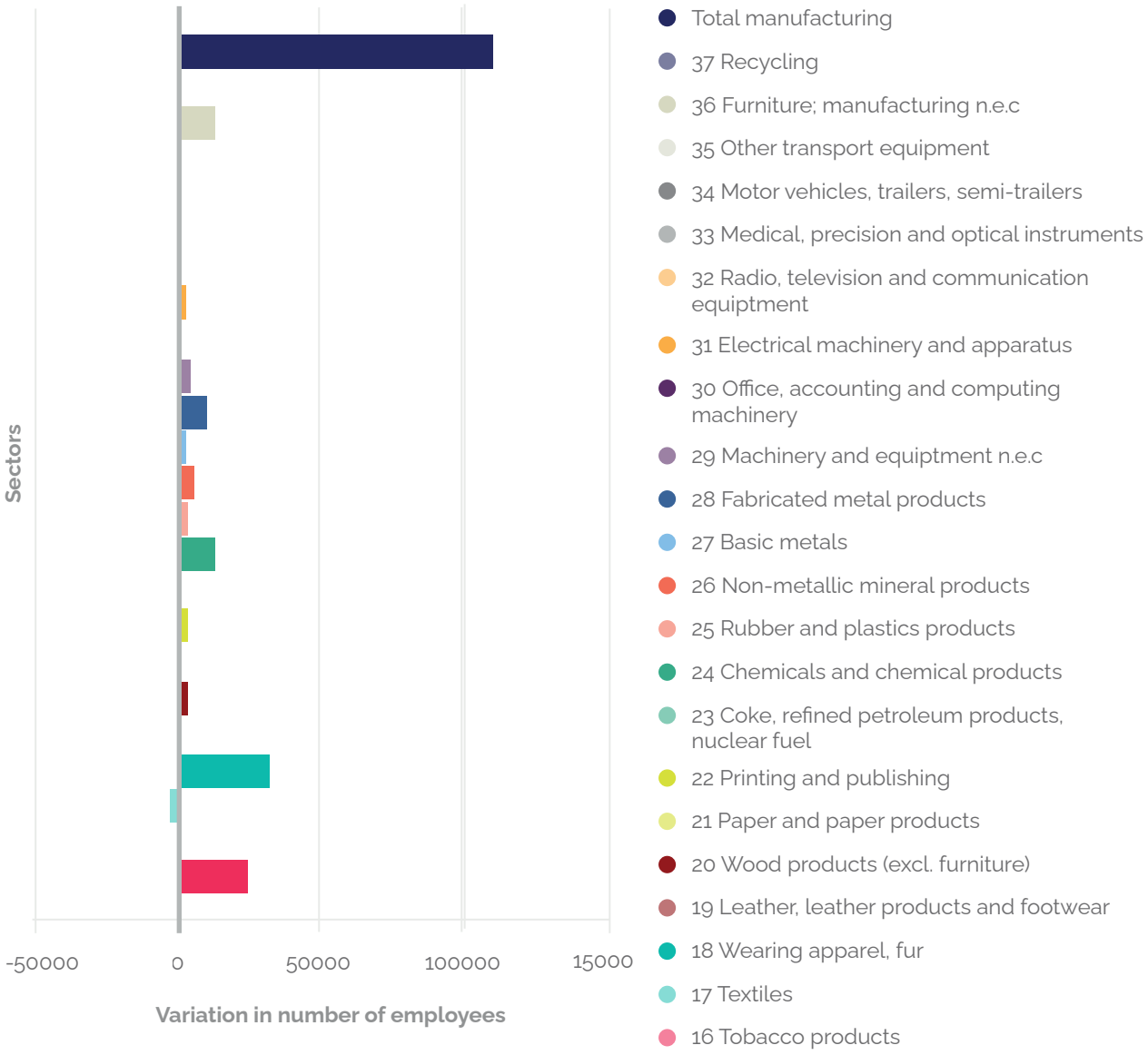
- **There are also some common, and clear, loser sectors.** Most notably, between the entry into force of the AAs and now, the employment share of Textiles contracted by 8.4 percentage points in Egypt, 8.1 percentage points in Jordan and 2.5 percentage points in Morocco. Only Tunisia has seen the share of the Textiles sector grow in total employment, despite the increased global competition facing Tunisian textile producers following the 2005 dismantling of the Multi-Fibre Arrangement. In spite of heightened competition, the country has sought opportunities to diversify its export base and solidify employment in the sector. Basic Metals, Tobacco Products, as well as Cooking and Refined Petroleum Products have also seen their employment share shrink in at least three of the four SEMCs.

- As already noted, the AAs had a tangible impact on agricultural market access for Egypt, Jordan and Morocco. This may explain the marked growth in jobs in the Food and Beverages sector (+24.3 percentage points in Egypt, +117.7 percentage points in Jordan and +108.6 percentage points in Morocco), though ultimately only Egypt saw the share of the sector in total employment grow considerably (+4.6 percentage points).

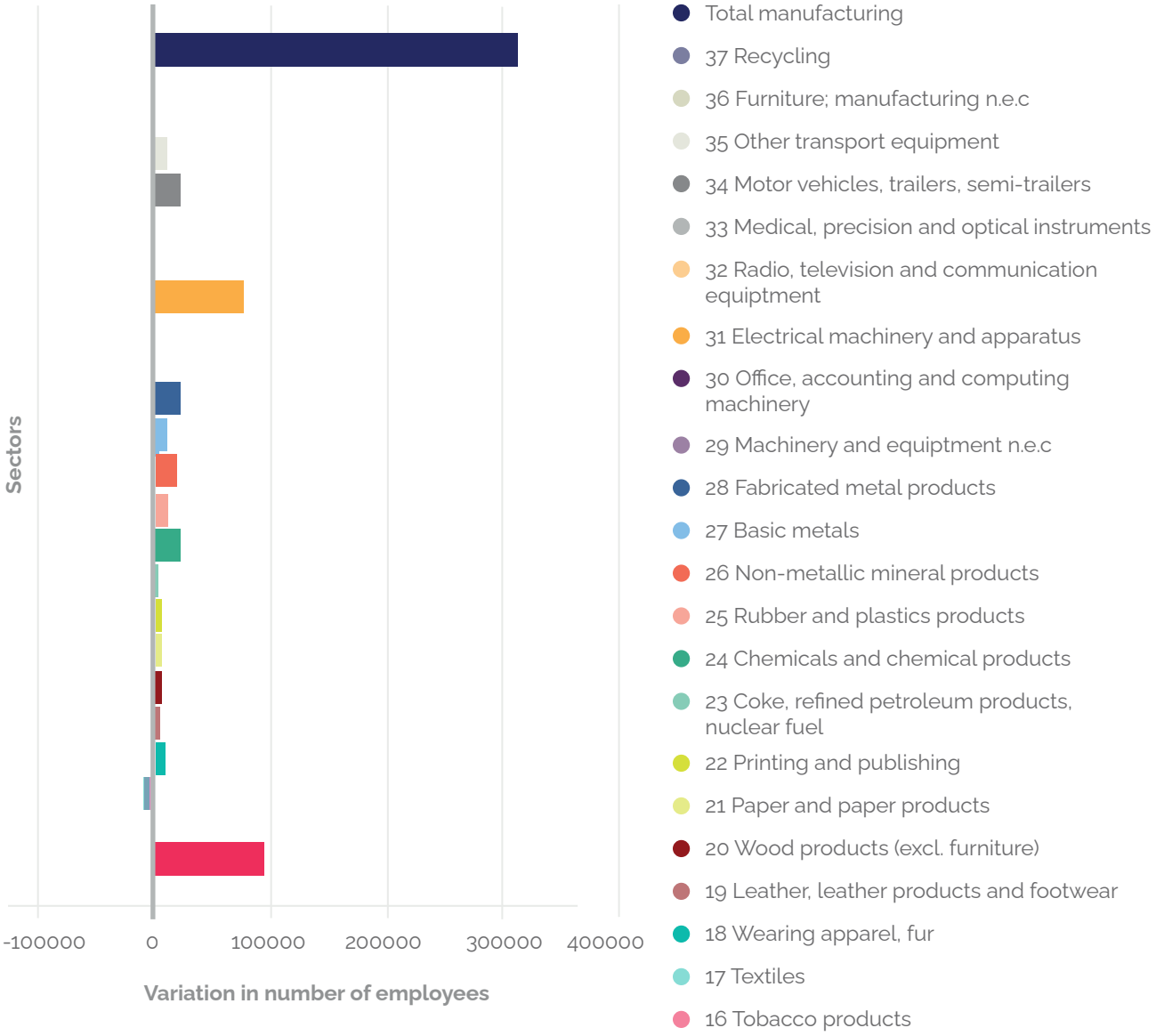
Figure 11. Winners and losers: which sector saw the highest number of jobs created/lost? (Variation in number of employees, recent year versus entry into force of association agreement, by country)

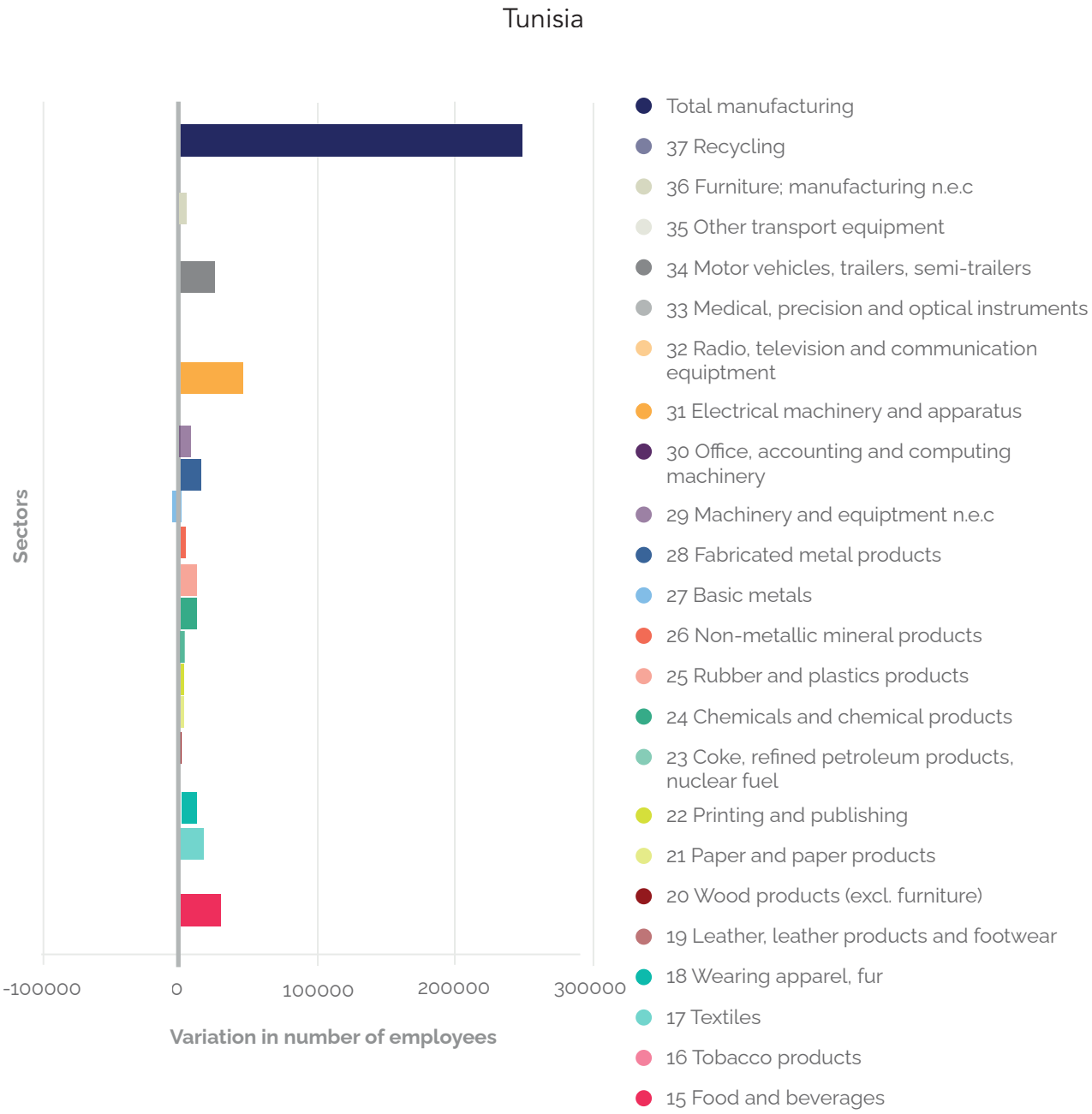


Jordan


Sectors
-50000
0
50000
100000
15000
Variation in number of employees
Total manufacturing
37 Recycling
36 Furniture; manufacturing n.e.c
35 Other transport equipment
34 Motor vehicles, trailers, semi-trailers
33 Medical, precision and optical instruments
32 Radio, television and communication equiptment
31 Electrical machinery and apparatus
30 Office, accounting and computing machinery
29 Machinery and equiptment n.e.c
28 Fabricated metal products
27 Basic metals
26 Non-metallic mineral products
25 Rubber and plastics products
24 Chemicals and chemical products
23 Coke, refined petroleum products, nuclear fuel
22 Printing and publishing
21 Paper and paper products
20 Wood products (excl. furniture)
19 Leather, leather products and footwear
18 Wearing apparel, fur
17 Textiles
16 Tobacco products

Morocco


Sectors
-100000
0
100000
200000
300000
400000
Variation in number of employees
Total manufacturing
37 Recycling
36 Furniture; manufacturing n.e.c
35 Other transport equipment
34 Motor vehicles, trailers, semi-trailers
33 Medical, precision and optical instruments
32 Radio, television and communication equiptment
31 Electrical machinery and apparatus
30 Office, accounting and computing machinery
29 Machinery and equiptment n.e.c
28 Fabricated metal products
27 Basic metals
26 Non-metallic mineral products
25 Rubber and plastics products
24 Chemicals and chemical products
23 Coke, refined petroleum products, nuclear fuel
22 Printing and publishing
21 Paper and paper products
20 Wood products (excl. furniture)
19 Leather, leather products and footwear
18 Wearing apparel, fur
17 Textiles
16 Tobacco products



Source: UNIDO, INDSTAT 2 2021, ISIC Revision 3
Note: The initial year is the year the AA entered into force, i.e. 2004 for Egypt, 2002 for Jordan, 2000 for Morocco and 1996 for Tunisia.

Table 2. Winners and losers: which sectors saw their share in total employment grow/shrink?
Variation of sector's share in total manufacturing employment (recent year versus entry into force of association agreement)

	Egypt	Jordan	Morocco	Tunisia
15 Food and beverages	4.6	-3.4	0.2	-3.1
16 Tobacco products	-0.2	-0.5	-0.5	0.0
17 Textiles	-8.4	-8.1	-2.5	7.7
18 Wearing apparel, fur	-0.4	3.1	8.8	13.7
19 Leather, leather products and footwear	-0.5	0.9	-0.5	2.6
20 Wood products (excl. furniture)	-0.2	1.0	1.0	-0.4
21 Paper and paper products	0.4	1.8	-2.1	-0.7
22 Printing and publishing	0.2	2.4	-1.0	-1.4
23 Coke, refined petroleum products, nuclear fuel	0.4	-0.2	-2.3	-0.7
24 Chemicals and chemical products	1.9	-1.7	0.6	-5.3
25 Rubber and plastics products	0.1	1.3	-0.9	-1.0
26 Non-metallic mineral products	2.3	2.6	-4.0	-0.5
27 Basic metals	-0.4	-2.8	-0.4	-1.2
28 Fabricated metal products	-0.9	4.0	0.9	-3.2
29 Machinery and equipment n.e.c.	-1.1	0.0	0.7	-2.3
30 Office, accounting and computing machinery	0.5	-0.6	0.4	-0.4
31 Electrical machinery and apparatus	2.7	-3.9	0.5	1.8
32 Radio, television and communication equipment	n.a	n.a	n.a	n.a
33 Medical, precision and optical instruments	n.a	n.a	n.a	n.a
34 Motor vehicles, trailers, semi-trailers	0.3	-1.2	-0.5	0.7
35 Other transport equipment	-0.3	-0.8	n.a	n.a
36 Furniture; manufacturing n.e.c.	0.4	4.6	2.3	-7.5

Source: UNIDO, INDSTAT 2 2021, ISIC Revision 3
Note: The initial year is the year the AA entered into force, i.e. 2004 for Egypt, 2002 for Jordan, 2000 for Morocco and 1996 for Tunisia.

Our next question is: **are there "double winners", i.e. sectors that simultaneously benefited from an increase in VA and an increase in employment following the AAs?** Table 3 shows that the Electrical Machinery and Apparatus sector is a clear double winner in all countries apart from Jordan. Meanwhile, Fabricated Metal Products are a double winner in Jordan and Morocco. This sector – which is usually linked to components of the value chain that show a higher level of investment intensity and an intermediate level of skills complexity – has seen its development influenced by an important demand from the car industry, mechanical engineering and construction. Both Jordan and Morocco have been able to keep up the pace and count on a sufficient number of human resources. Meanwhile, the Wearing Apparel sector and the Leather Products sector are also double winners in Jordan and Tunisia.

However, there are also "double losers", meaning sectors that saw both their VA share and employment share decline. These include Basic Metals (all countries apart from Morocco), Textiles (Egypt and Morocco) and Motor Vehicles (Jordan and Morocco). Finally, Table 3 also allows us to identify the sectors that most probably primarily benefited from increased capital, registering an increase in the share of VA but a decrease in the share of employment. These include Food and Beverages in Jordan and Tunisia, Tobacco Products, Textiles and Chemicals in Jordan and Coke & Refined Petroleum Products and Basic Metals in Morocco.

Table 3. (Double) winners and losers: which sectors saw their share in total value added and total employment grow/shrink?
Variation of sector's share in total value added and in total employment (recent year versus entry into force of association agreement)

	Egypt		Jordan		Morocco		Tunisia	
	Value added	Employment	Value added	Employment	Value addeed	Employment	Value added	Employment
15 Food and beverages	-3.7	4.6	1.2	-3.4	4.9	0.2	1.3	-3.1
16 Tobacco products	-1.2	-0.2	9.7	-0.5	-4.8	-0.5	5.9	0.0
17 Textiles	-8.0	-8.4	0.0	-8.1	-1.0	-2.5	4.4	7.7
18 Wearing apparel, fur	-2.9	-0.4	4.9	3.1	-0.2	8.8	4.4	13.7
19 Leather, leather products and footwear	-0.2	-0.5	0.6	0.9	-0.3	-0.5	1.0	2.6
20 Wood products (excl. furniture)	-0.1	-0.2	0.5	1.0	-0.1	1.0	0.9	-0.4
21 Paper and paper products	-1.2	0.4	2.0	1.8	-0.8	-2.1	0.5	-0.7
22 Printing and publishing	-0.7	0.2	3.2	2.4	-1.1	-1.0	-1.3	-1.4
23 Coke, refined petroleum products, nuclear fuel	n.a	0.4	n.a	-0.2	3.3	-2.3	-6.1	-0.7
24 Chemicals and chemical products	-3.1	1.9	4.4	-1.7	0.6	0.6	-5.2	-5.3

25 Rubber and plastics products	-1.2	0.1	0.9	1.3	-0.2	-0.9	-0.5	-1.0
26 Non-metallic mineral products	-1.4	2.3	6.9	2.6	-4.4	-4.0	0.7	-0.5
27 Basic metals	-12.4	-0.4	-0.4	-2.8	0.9	-0.4	-3.2	-1.2
28 Fabricated metal products	-1.0	-0.9	1.9	4.0	1.6	0.9	-1.8	-3.2
29 Machinery and equipment n.e.c.	-0.9	-1.1	0.0	0.0	0.4	0.7	-1.6	-2.3
30 Office, accounting and computing machinery	n.a	0.5	-0.7	-0.6	0.4	0.4	-0.4	-0.4
31 Electrical machinery and apparatus	0.9	2.7	-1.4	-3.9	0.3	0.5	1.2	1.8
32 Radio, television and communication equipment	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
33 Medical, precision and optical instruments	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
34 Motor vehicles, trailers, semi-trailers	-1.7	0.3	-1.4	-1.2	-0.7	-0.5	1.6	0.7
35 Other transport equipment	-0.1	-0.3	-0.4	-0.8	n.a	n.a	n.a	n.a
36 Furniture; manufacturing n.e.c.	0.1	0.4	2.3	4.6	0.6	2.3	-2.4	-7.5
37 Recycling	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a

Source: UNIDO, INDSTAT 2 2021, ISIC Revision 3

I.3.4. A potential link between Euro-Mediterranean association agreements and Southern and Eastern Mediterranean Countries' main outputs

The AAs have had a twofold impact on the SEMCs. Firstly, because the conditions of access to the European market for these countries have changed, as we saw at the beginning of this paper. Secondly, because the SEMCs have drastically reduced their customs duties, as we have also shown. In this section, we will put each of these two types of shocks into perspective with the main outputs of SEMCs, particularly employment.

Change in the conditions of access to the European Union market and trade, value added and employment

> **When a trading partner offers a country better access to its market, we can expect an increase in its exports and most likely a positive effect on VA and employment. The question then arose as to whether a presumably positive correlation could be found between changes in the conditions of access to the European market for SEMCs and the main outputs of this trade reform.**

The change in the conditions of access to the European market is measured by the variation in effective preferential margin between the year the AA entered into force and the most recent year. Yet, in the case of the AAs, we have seen that their application has not resulted in a general improvement in access to the European market for Mediterranean products. In Egypt and Jordan, about half of the sectors have seen their effective preferential margin improve (often only very slightly), while in Morocco and Tunisia, sectors with a deterioration of their effective preferential margin are by far the majority.

As main outputs, we used the growth rate of exports between the average of the three years closest to the implementation of the agreements and the average of the three recent years,[10] the variation of sector's share in total VA and the variation of sector's share in total manufacturing employment between the year the AA entered into force and the most recent year.

Figures 12, 13 and 14 verify this positive correlation in only four cases out of 12: **Tunisia** for the correlation between change in SEMCs' effective preferential margin on the EU market and growth rate of exports in the EU market (Figure 12), **Morocco** for the correlation between change in SEMCs' effective preferential margin on the EU market and change in share of sectoral VA (Figure 13), **Egypt and Jordan** for the correlation between change in SEMCs' effective preferential margin on the EU market and change in the share of sectoral employment (Figure 14).

In the case of Egypt, for the sectors whose effective preferential margin increased the most (Food, Agriculture and Fisheries), the country recorded only very small increases in exports (and even a slight decrease for Fisheries). The sector that has experienced the greatest growth in exports to the European market (Radio, Television and Communication Equipment, although still in small amounts) has seen, at the same time, its preferential margin decrease. In terms of VA, a large proportion of the sectors are in the upper right-hand box in the figure, indicating that for these sectors an improvement in the effective preferential margin has gone hand in hand with an increase in the sector's share of Egyptian VA, but overall there is no positive correlation. In contrast, the correlation between the change in the effective preferential margin in the EU market and the change in the sector's employment share is positive. The share of employment has thus declined in sectors where Egypt's margin in the EU has deteriorated, notably in the traditional Textile and Clothing sectors (where the share of VA has also declined).

10 To mitigate the volatility of trade flows, the growth rates are calculated by taking the average of the three years closest to the implementation of the agreements (depending on the availability of data in the ISIC Rev 3 nomenclature) as the amount of initial exports and taking the average of the years 2017, 2018 and 2019 as the amount of recent exports. We have deliberately excluded the year 2020, even when it is available, so as not to bias our results by the effect of the COVID-19 crisis.

For Jordan, although for all sectors there is no positive correlation between the change in effective preferential margin on the EU market and the growth rate of exports in the EU market, in the sector for which the margin has improved the most (Agriculture and Food), exports to the European market have increased. However, many of the sectors that saw their margins fall (Tobacco, Textiles, Clothing, Basic Metals, Radio, TV and Communication Equipment) have, at the same time, increased their exports to the EU. It should also be noted that the sectors with the highest growth rates in the European market (Radio, Television and Communication Equipment, Medical Instruments and Forestry) are not significant in terms of amounts and shares in the country's total exports. This is because the initial amounts were extremely low.

For Jordan, there is also no positive correlation between the change in effective preferential margins and the change in sectoral shares in Jordanian industry's VA. Among the four sectors whose share in terms of VA has increased the most, for two of them (Other Minerals and Chemical), this increase is concomitant with an increase in the margin. For the other two (Clothing and Tobacco), this increase has gone hand in hand with a decrease in the effective preferential margin. It should be noted that in these two sectors, exports to the EU have increased.

In terms of employment, there is a **positive (albeit weak) correlation between change in effective preferential margin on the EU market and change in share of sectoral employment**. For example, in Egypt, an improvement in the preferential margin went hand in hand with an increase in employment. On the other hand, **a causal link cannot be deduced**: in no case can it be deduced that better access to the European market explains these variations in the sectoral structure of employment in Egypt or Jordan.

For Morocco, there is no positive correlation between change in effective preferential margin on the EU market and growth rate of exports in the EU market. In fact, the sectors with the highest growth rates of exports to the EU (Motor Vehicles, Other Transport Equipment, Tobacco, Rubber & Plastic) have seen their preferential margins deteriorate, albeit only very slightly. This suggests that, as we shall see in the next chapter, many other factors play a role in the dynamics of exports to the European market and hence in changes in VA and employment in the SEMCs.

In the case of Morocco, however, there is a positive correlation between change in effective preferential margin on the EU market and change in share of sectoral VA. Moreover, the traditional and employment-intensive sectors (Textiles, Clothing, Leather) have seen their preferential margin deteriorate quite severely on the European market, especially for Textiles (-2.58 per cent) and Clothing (-3.19 per cent), and their share in the total VA of Moroccan industry has fallen. We also note that for the Motor Vehicles sector, the sharp increase in exports to the EU was not associated with an increase in the share of this sector in the VA. This is probably due to the large amount of foreign direct investment (FDI) in this sector by European enterprises. In fact, the production segments carried out in Morocco do not yet generate a consequent VA. It follows that exports from Morocco contain little Moroccan VA.

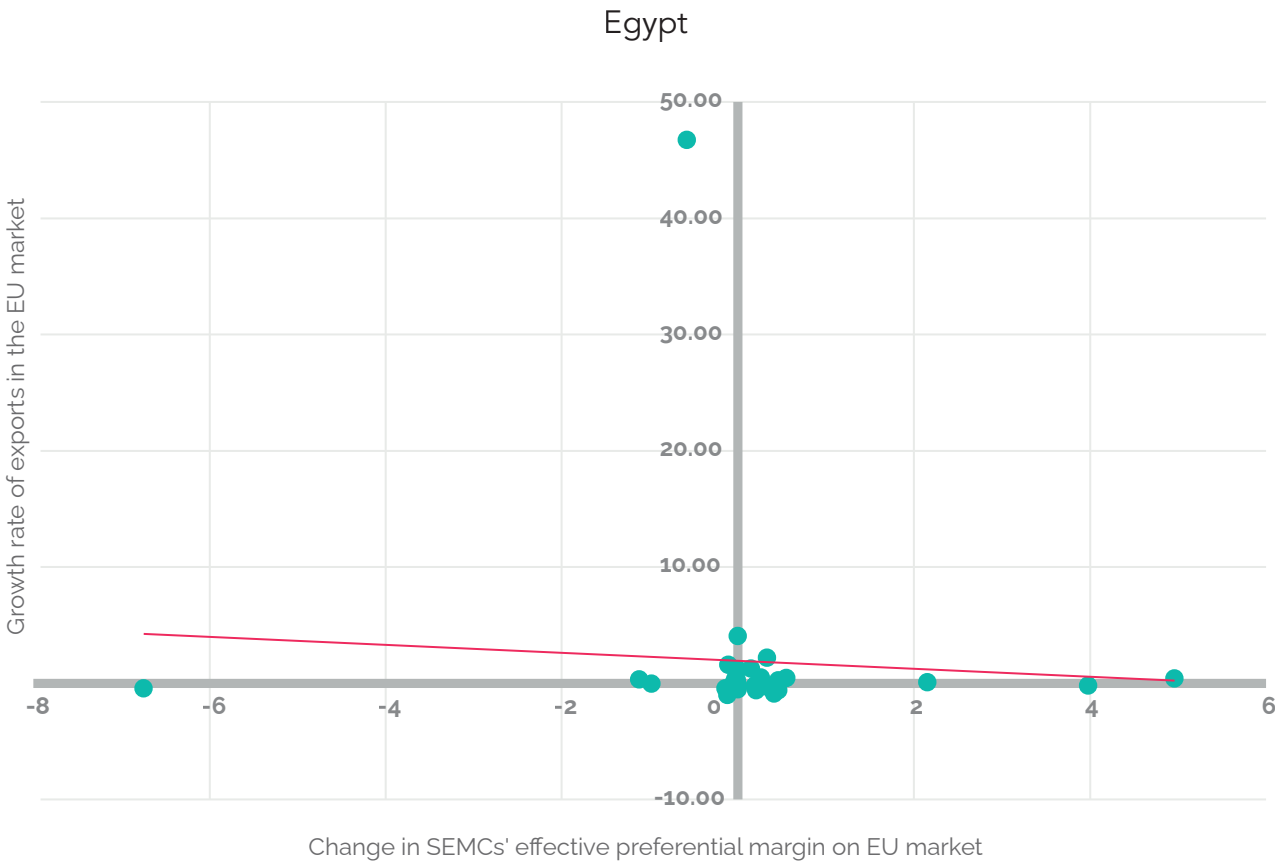
On the other hand, the strong progression in terms of VA of the Food sector is closely associated with an improvement of the preferential margin on the European market. Finally, **unlike Egypt and Jordan, there is no positive correlation between change in effective preferential margin on the EU market and change in share of sectoral employment in Morocco**. It may be noted that the sector that has increased its share of total industrial employment the most (the Clothing sector) is also, as already mentioned, the sector whose margin has deteriorated the most on the European market.

Tunisia is the only SEMC for which there is a positive correlation between change in effective preferential margin on the EU market and growth rate of exports in the EU market. This means that the deterioration of the preferential margin in almost all sectors has tended to translate into a slowdown in the growth of Tunisian exports. Note that in the traditional sectors (Textile, Clothing, Leather) where the preferential margin has declined, only the Clothing sector has seen its exports to the EU reduced. It should also be noted that in the Agricultural sector and especially in the Food sector, the deterioration of the preferential margin was accompanied by an increase in exports.

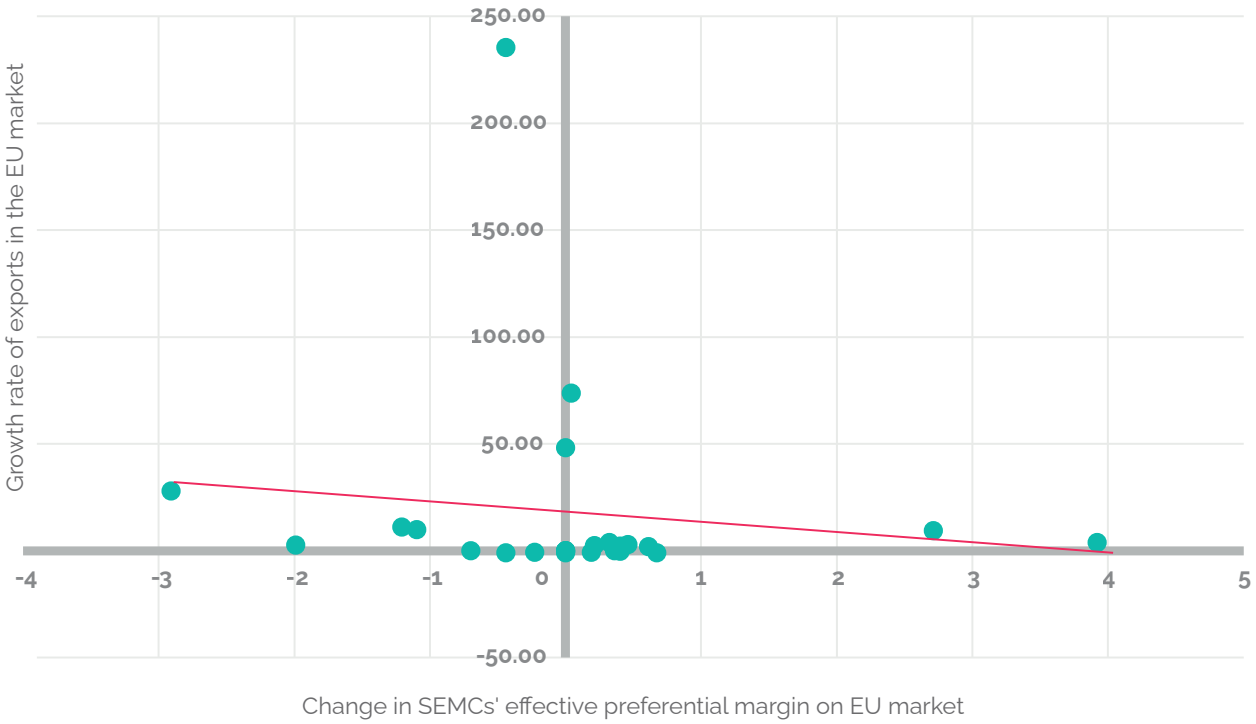
However, this positive correlation is not found with the change in share of sectoral VA, nor with the change in share of sectoral employment. In the traditional sectors (Textile, Clothing, Leather), the share in total manufacturing employment has increased. The Food sector, whose preferential margin has fallen the most on the European market, has recorded an increase in its exports, an increase in its share of VA and, at the same time, a decline in its share of employment in Tunisian industry.

These results show that the changes in the conditions of access to the European market – which were sometimes positive and sometimes negative for Egypt and Jordan, and most often negative for Morocco and Tunisia – do not seem to be linked to variations in the rate of growth in exports to the EU, nor with a reallocation of shares of VA and jobs between sectors. There are many reasons for this. Firstly, the changes in the effective preferential margins were generally small, which was probably not sufficient to change the behaviour of exporting companies in the South. Secondly, other factors condition access to the European market, in particular NTMs and rules of origin, which play a major role in export dynamics. Thirdly, we know that national contexts have a decisive role in the way the private sector can adapt and adjust its behaviour to changes in the conditions of access to the European market.

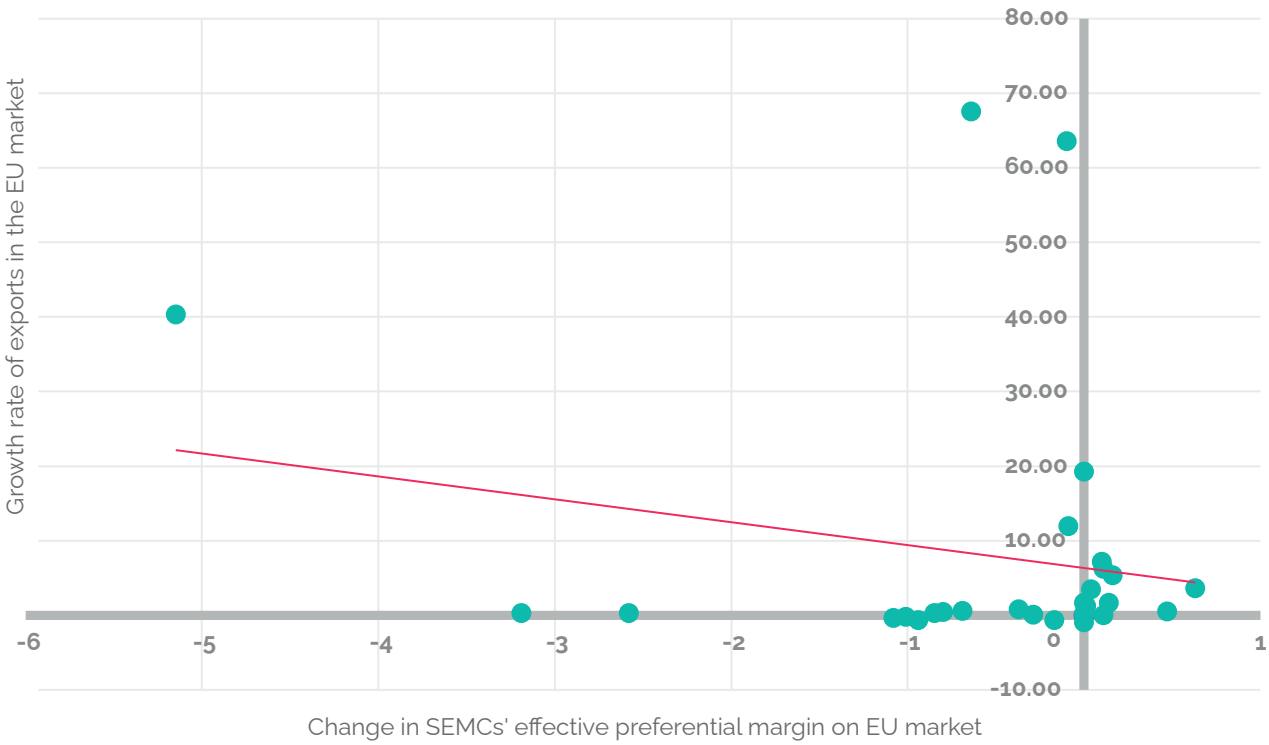
Figure 12. Correlation between change in Southern and Eastern Mediterranean Countries' effective preferential margin on the European Union market and growth rate of exports in the European Union market

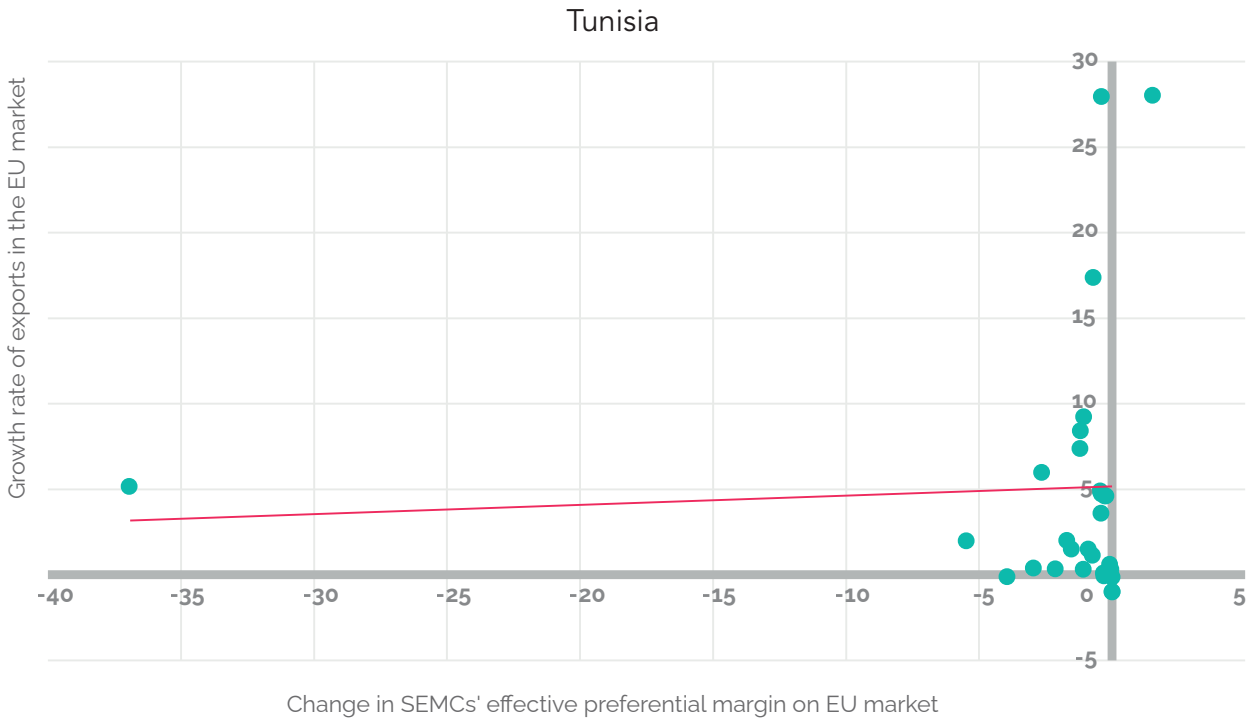


Jordan



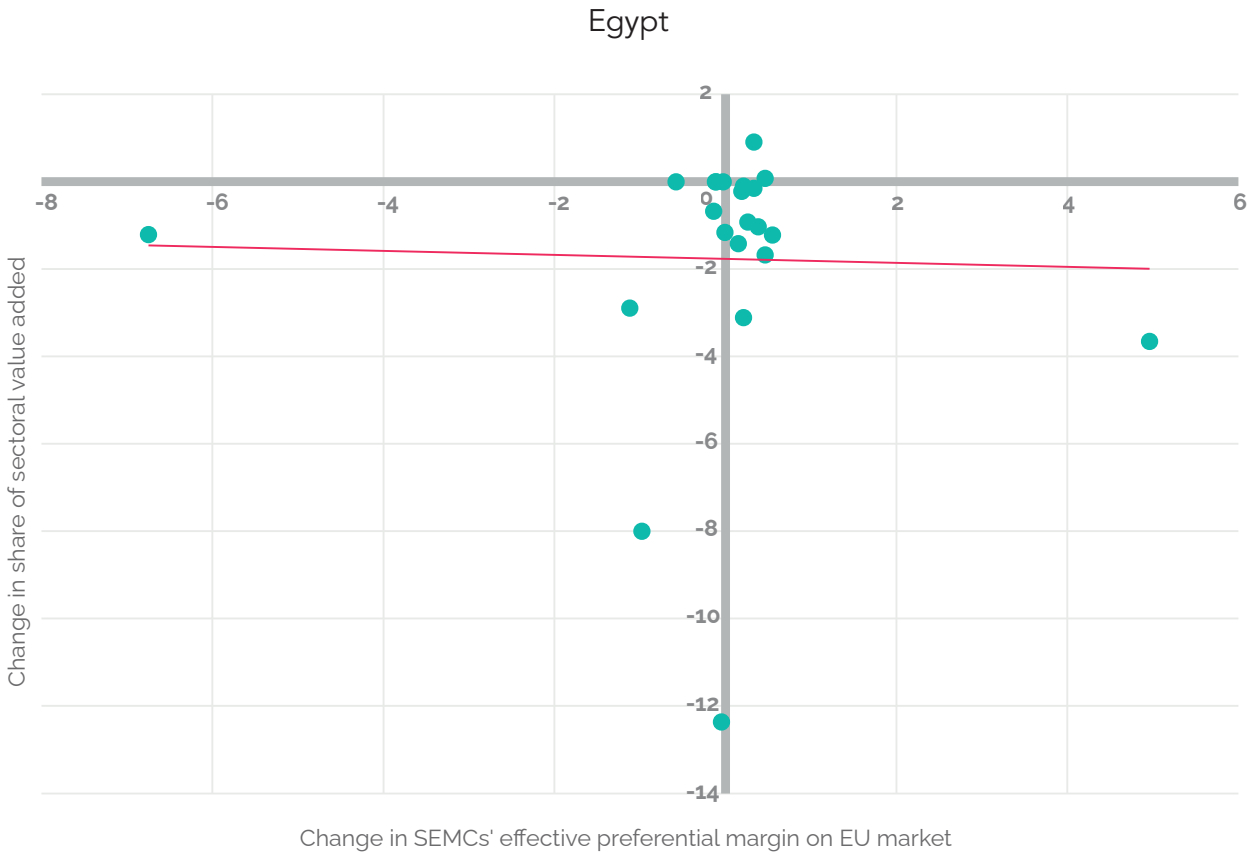
Morocco



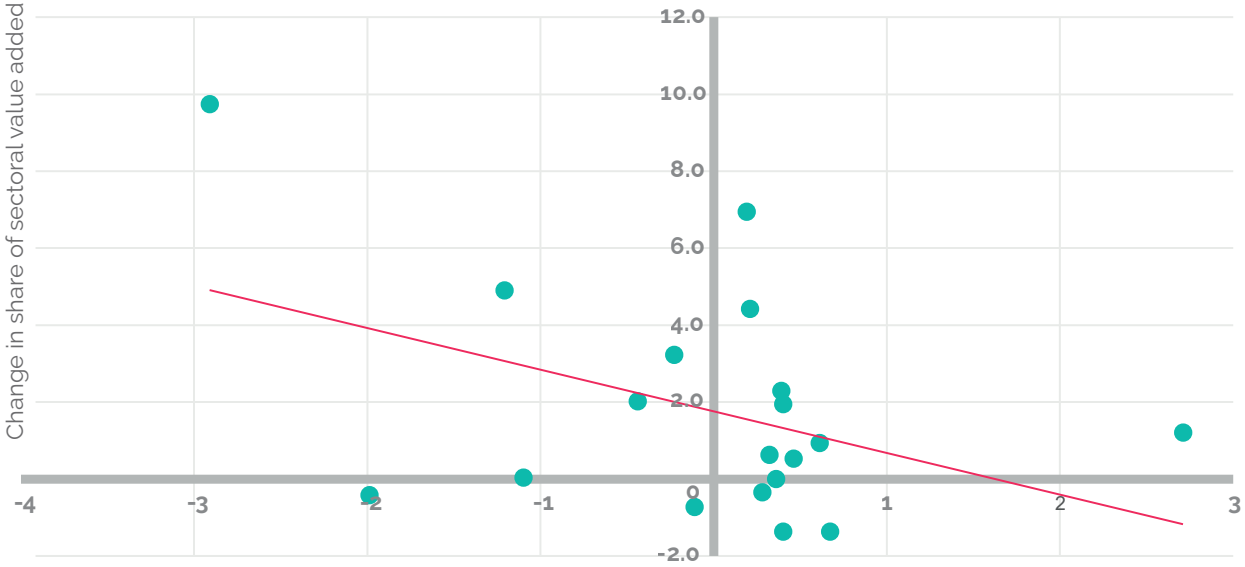


Source: Authors' calculations using the UN Comtrade database and UNIDO, INDSTAT 2 2021, ISIC Revision 3

Figure 13. Correlation between change in Southern and Eastern Mediterranean Countries' effective preferential margin on the European Union market and change in share of sectoral value added

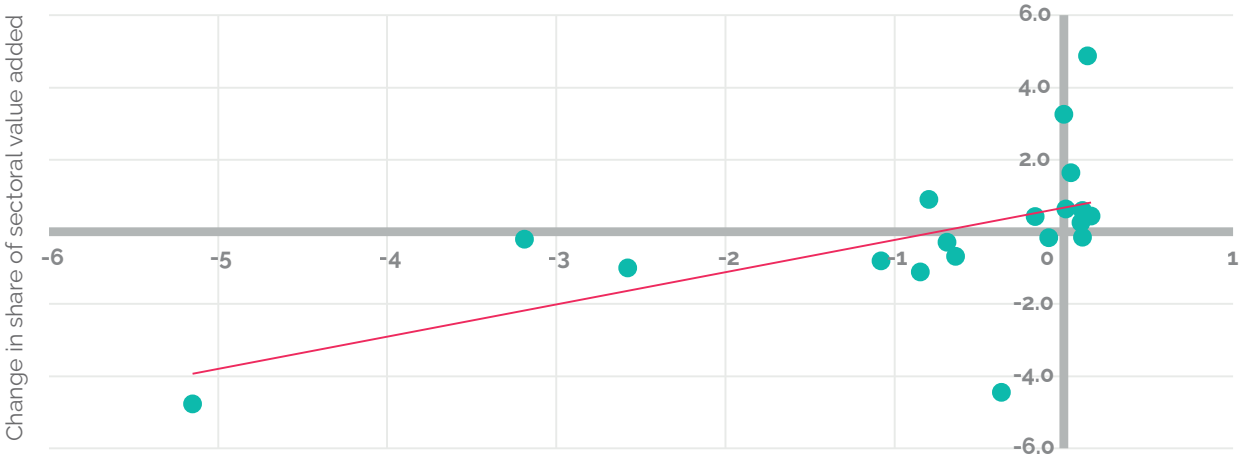


Jordan

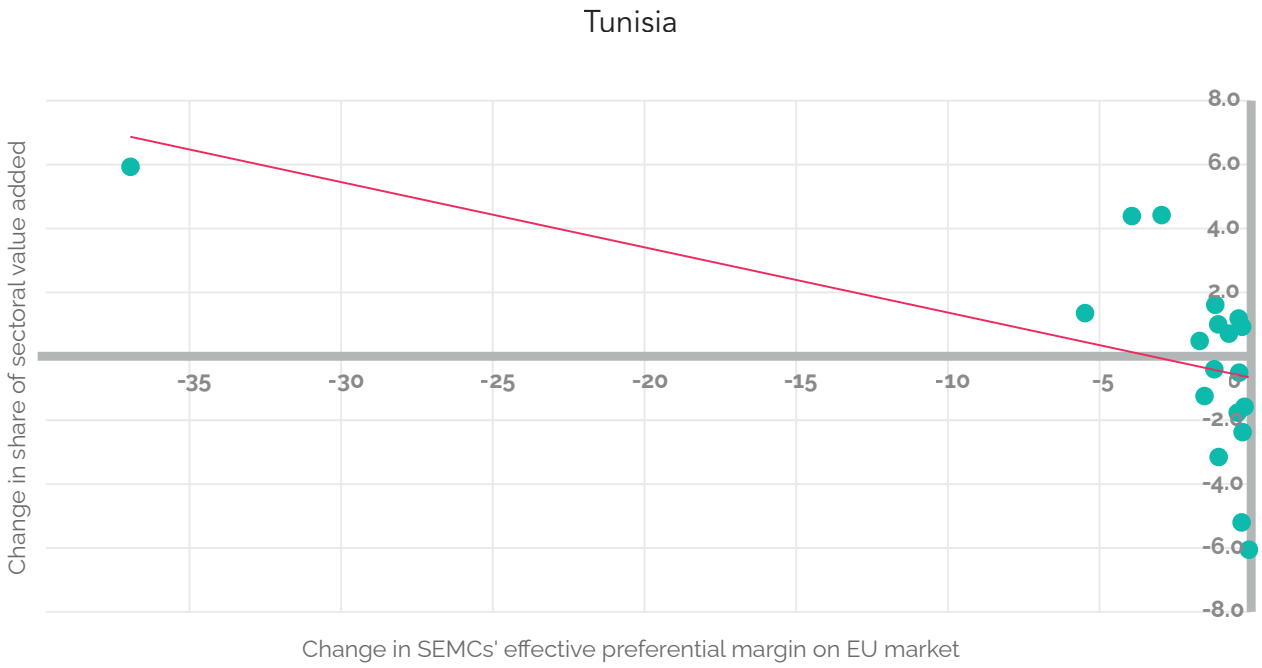


Change in SEMCs' effective preferential margin on EU market

Morocco

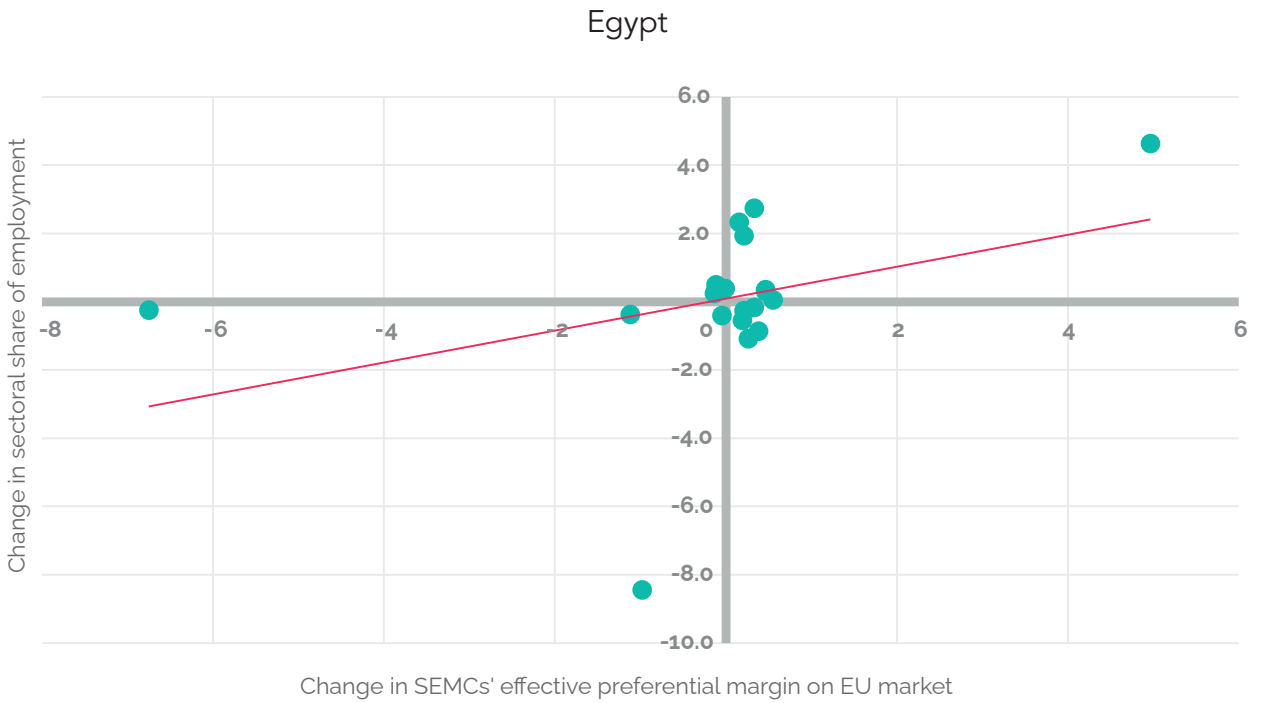


Change in SEMCs' effective preferential margin on EU market

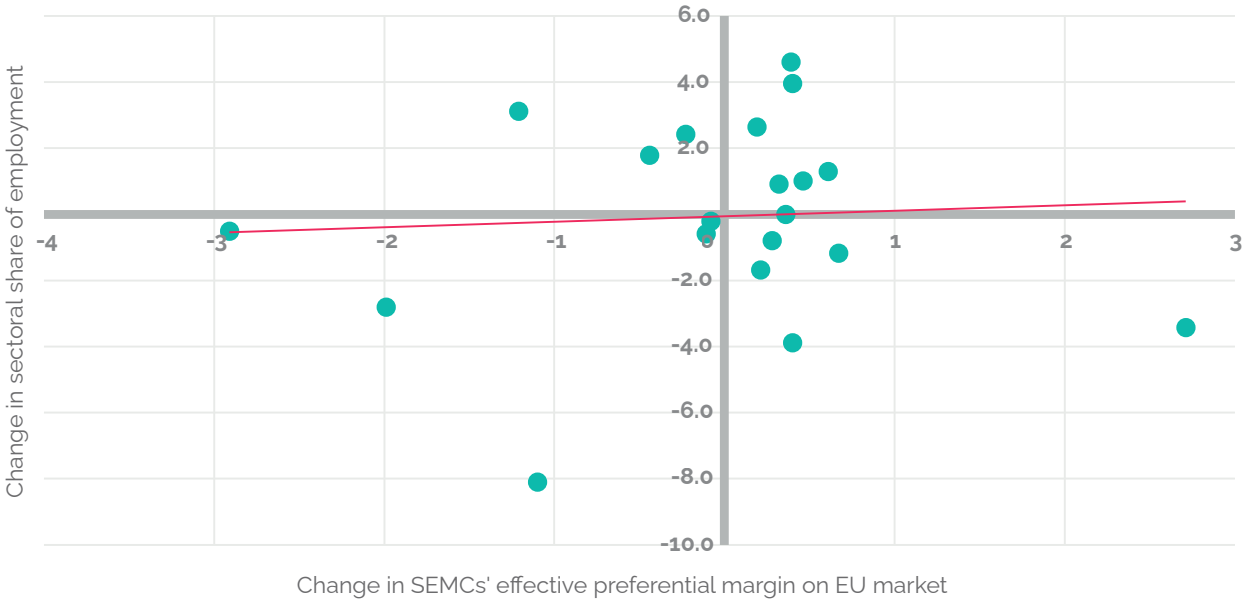


Source: Authors' calculations using the UN Comtrade database and UNIDO, INDSTAT 2 2021, ISIC Revision 3

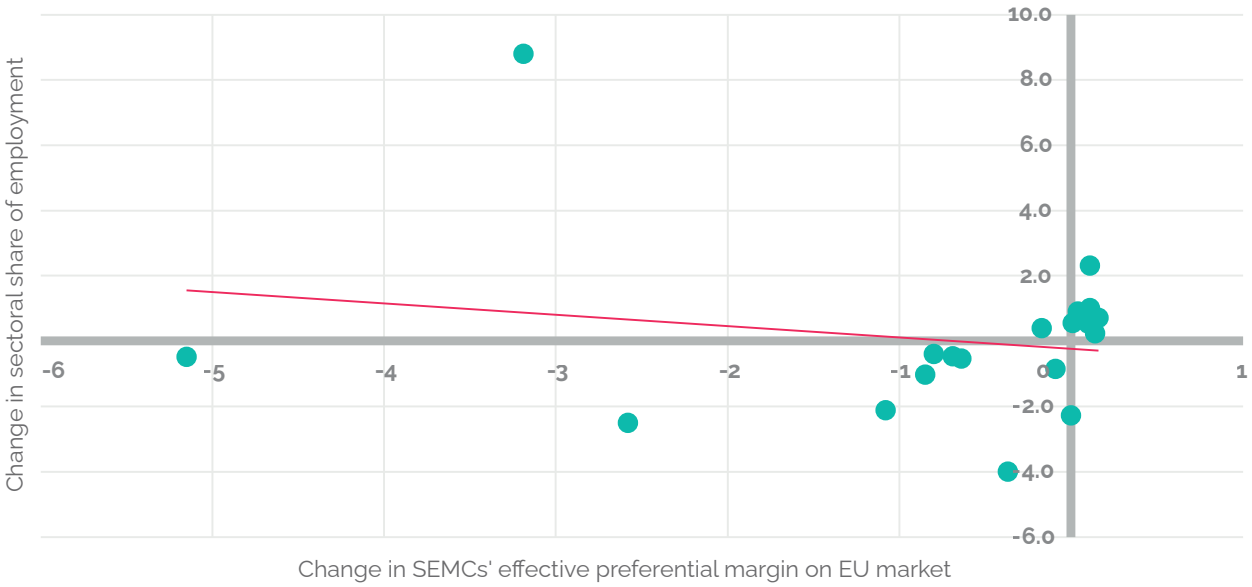
Figure 14. Correlation between change in Southern and Eastern Mediterranean Countries' effective preferential margin on the European Union market and change in share of sectoral employment

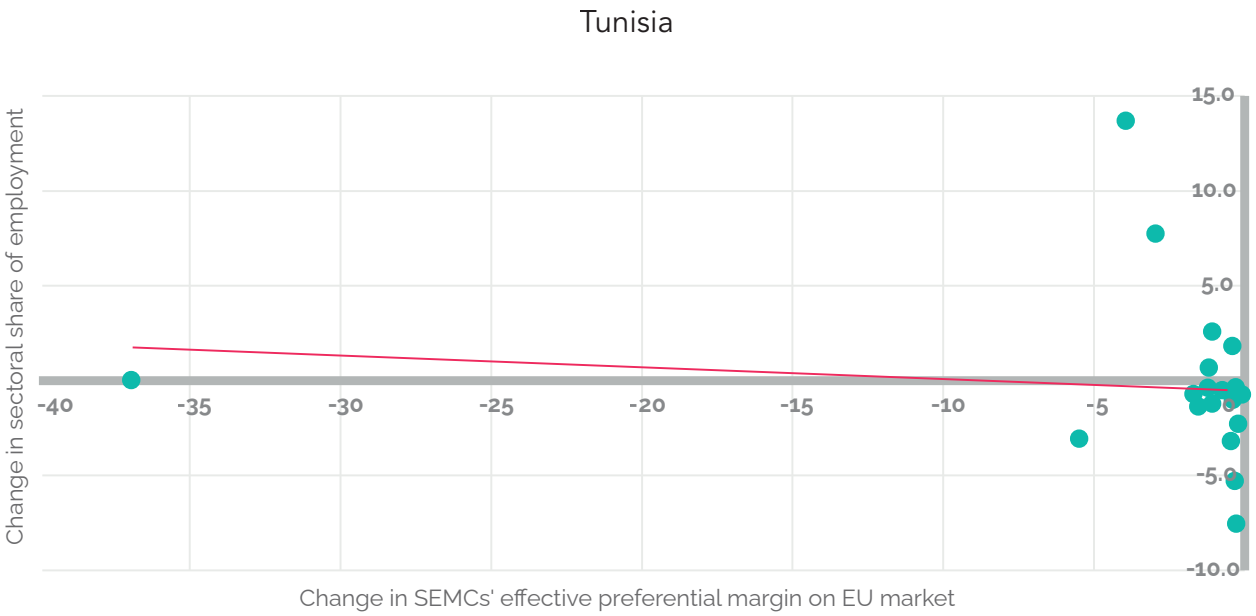


Jordan



Morocco





Source: Authors' calculations using the UN Comtrade database and UNIDO, INDSTAT 2 2021, ISIC Revision 3

Southern and Eastern Mediterranean Countries' import duty reduction and main outputs

The main change for SEMCs following the introduction of the AA is, as already noted, the decline in their tariffs vis-à-vis European countries. Even though SEMCs reduced their tariffs on imports from the RoW over the same period, the first section of this chapter shows that the effective preferential margin for European products in each of the four SEMCs has improved in almost all sectors. We therefore put into perspective here the changes in the EU's effective preferential margin and the changes in the main SEMC outcomes (imports, VA and employment) at the sectoral level.

Figure 15 shows a negative correlation between the change in the EU's effective preferential margin and the growth rate of imports, which means that **the sectors in which the EU has benefited most from an improvement in the preferential margin are not those in which the growth rate of imports from European countries has been strongest**.[11] The exception to this observation is Egypt, where we find a positive but very weak correlation rate. On the other hand, when we put the variation in customs duties applied by SEMCs on imports from the RoW and the growth rate of these same imports into perspective (Figure 16), we find, at the sectoral level, a correlation between the fall in tariffs and the growth rate of imports from the RoW. This observation tends to confirm, once again, that **openness to the RoW has most likely had a greater impact than openness to the EU**.

For Morocco only, the sectors in which we observe an increase in the effective preferential margin for EU products are also the sectors in which the share of VA has fallen. For the other three SEMCs, the correlation is positive, which means that at the sectoral level, there is both an improvement in the effective preferential margin and an increase in the industry's share of VA (Figure 17). As for the link with the change in sectoral shares of total manufacturing employment (Figure 18), there is a negative correlation, i.e. a concomitance between the improvement in the effective preferential margin, in favour of the EU, and a decline in employment shares, in the case of Egypt and Tunisia. In Jordan and Morocco, the correlation is positive, meaning that an increase in the preferential margin for European products goes hand in hand

11 The correlation between the change in the effective preferential margin of European products in SEMC markets and the growth rate of imports from the RoW to these countries was also considered. The results suggest that there has been no deviation of trade flows away from the RoW and in favour of European countries.

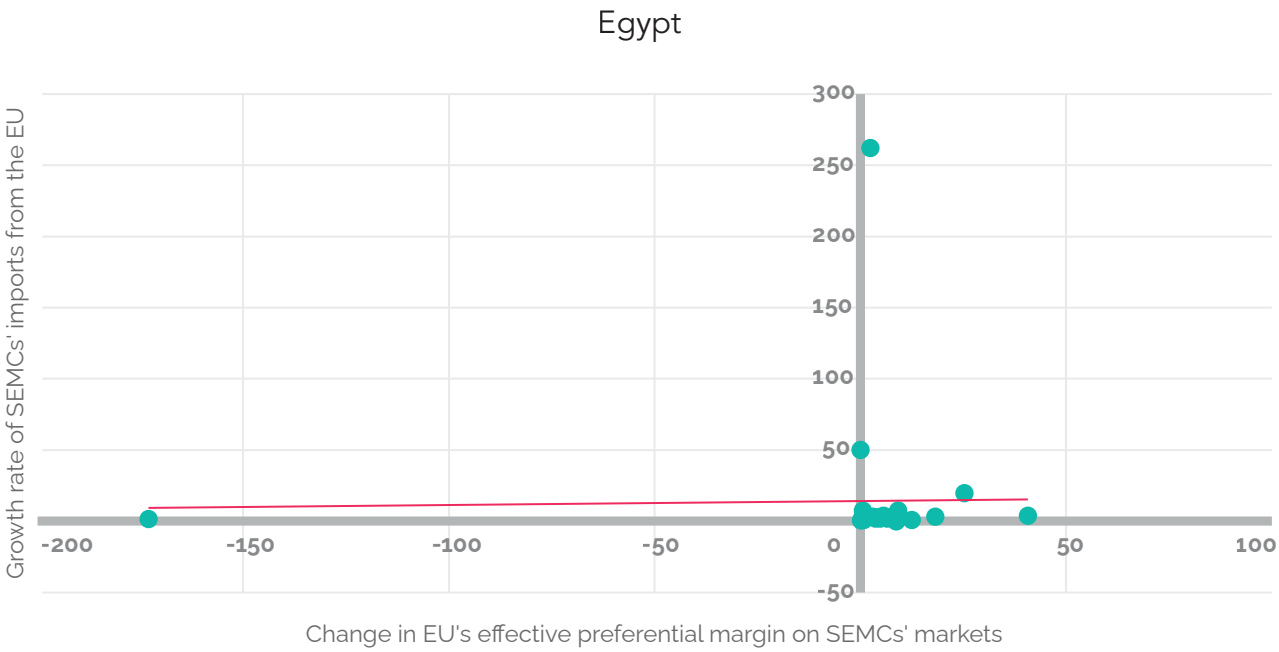
with an increase in the sectoral share of industrial employment.

There are several possible explanations for this heterogeneity in the correlations obtained across SEMCs. The first is that, as we saw in section I.2. on expected results, the effects of openness depend on whether the fall in tariffs and the ensuing increase in imports concern intermediate goods or consumer goods. In the context of our results, a positive correlation between improved tariff conditions for EU products in SEMC markets and an increase in sectoral shares in terms of VA and/or employment might suggest that SEMC imports from the EU are more likely to be intermediate goods than final goods.

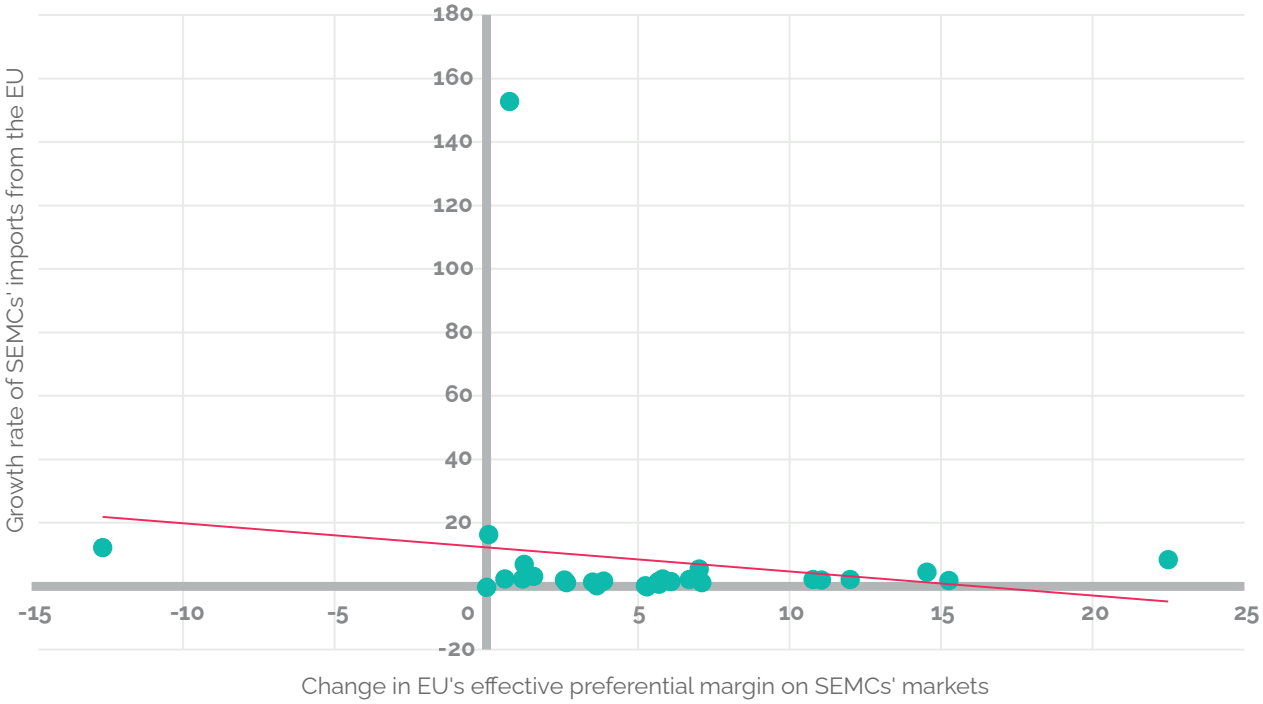
The second possible explanation (which was also mentioned in section I.2. on expected results) for this heterogeneity, and sometimes for the lack of consistency in the results obtained (such as a negative correlation with VA and a positive correlation with employment, or vice versa), is the presence of obstacles that may prevent the reallocation of resources (and in particular of employment) across sectors.

A third possible explanation is that changes in tariffs are only part of the story and that, as has already been pointed out, other trade-related factors have most likely played an important role in the sectoral reallocations of VA and employment in SEMCs.

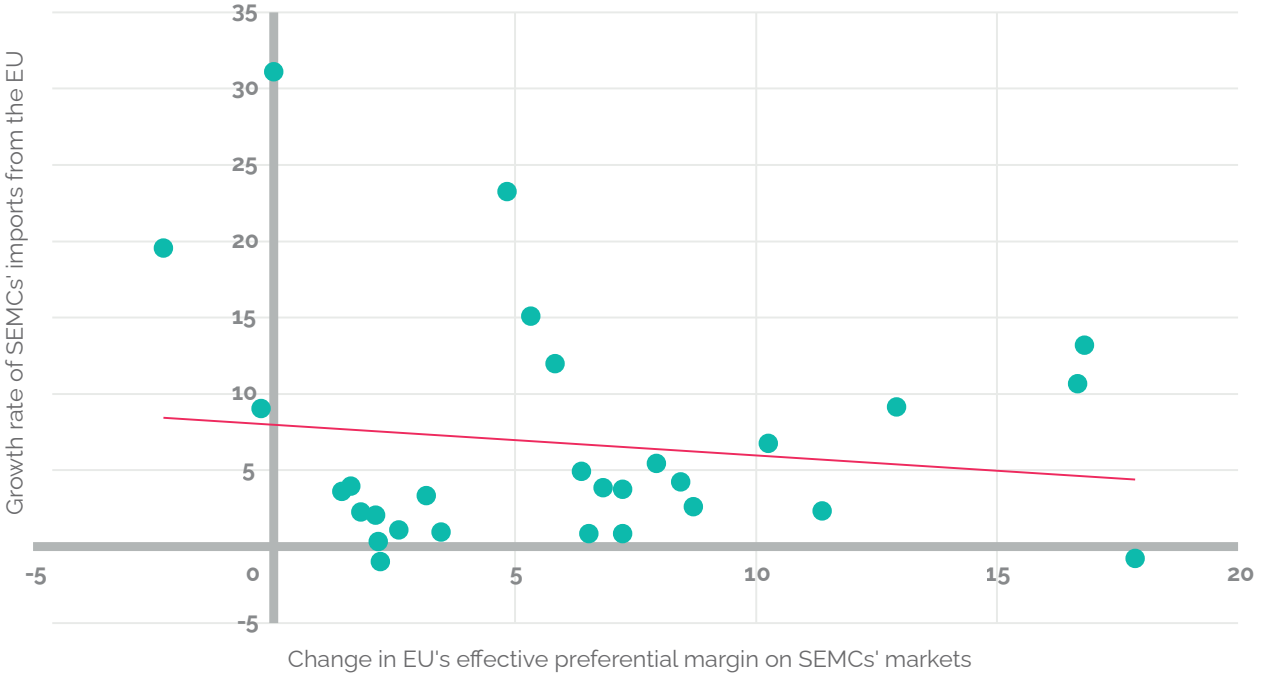
Figure 15. Correlation between change in the European Union effective preferential margin on Southern and Eastern Mediterranean Countries' markets and growth rate of these countries' imports from the European Union

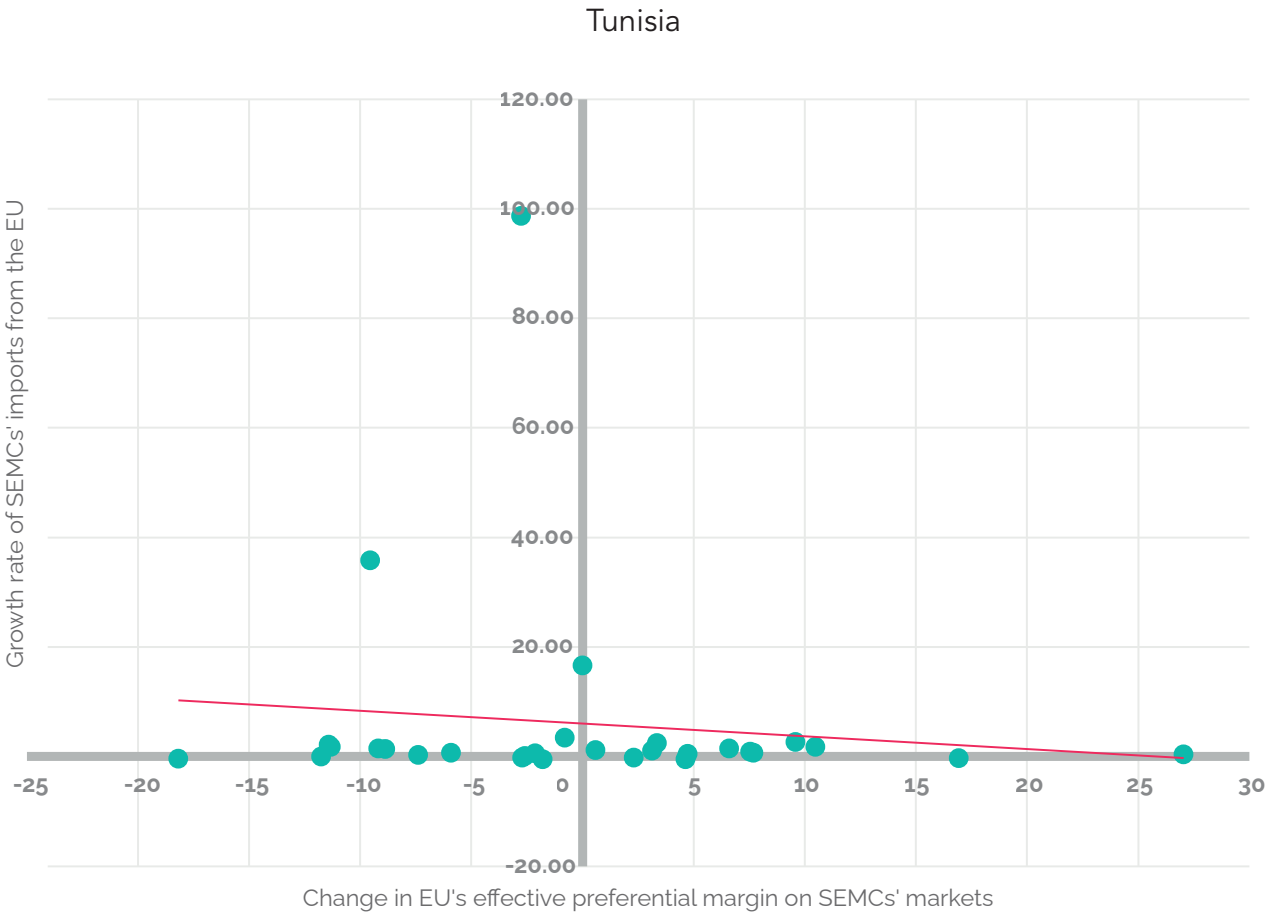


Jordan



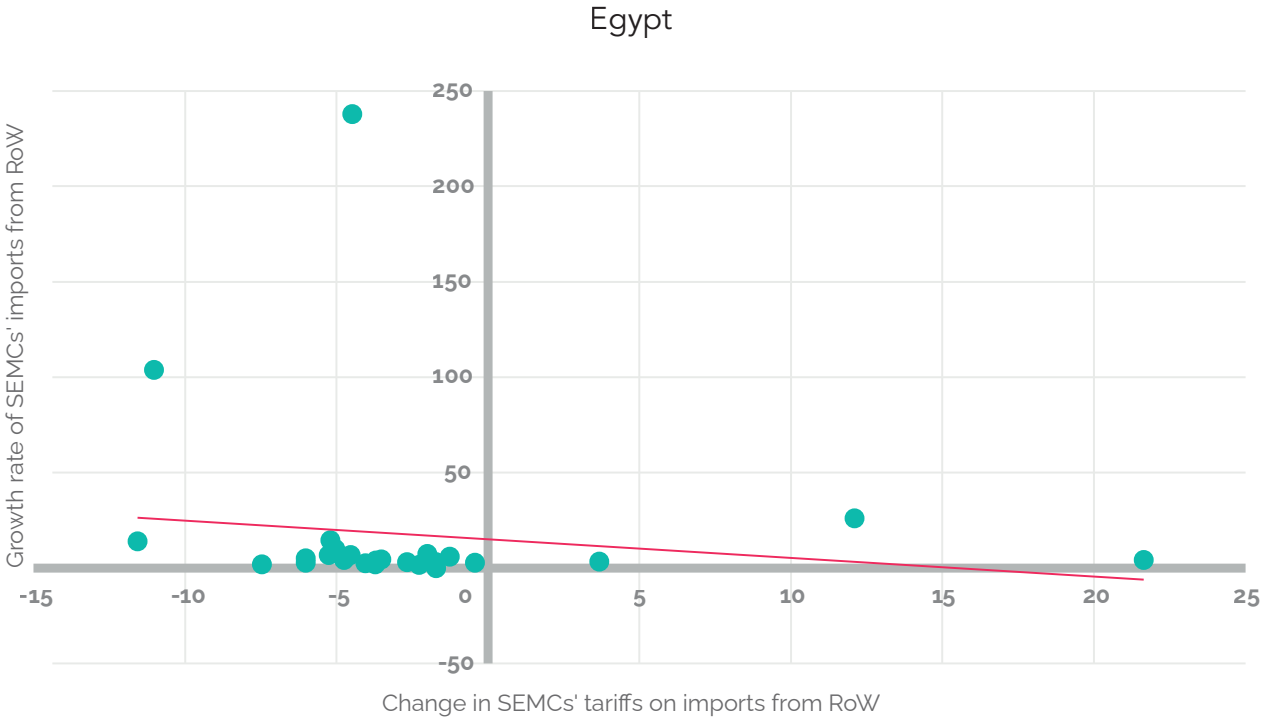
Morocco



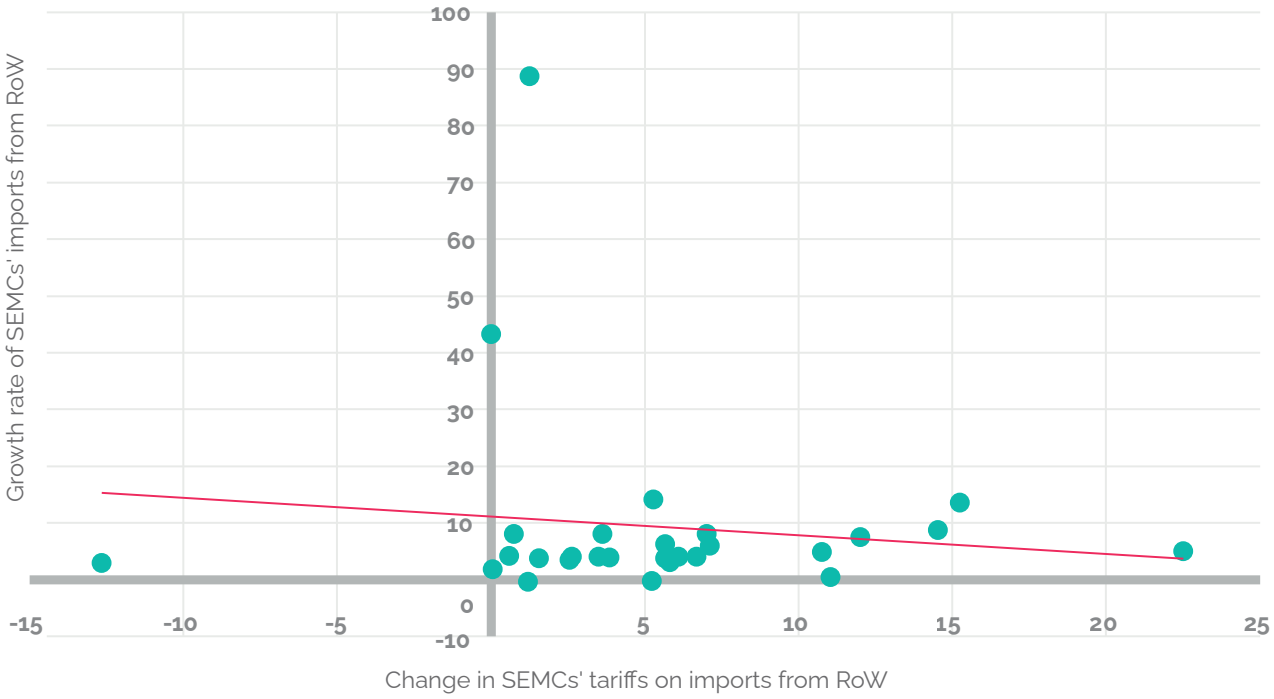


Source: Authors' calculations using the UN Comtrade database and UNIDO, INDSTAT 2 2021, ISIC Revision 3

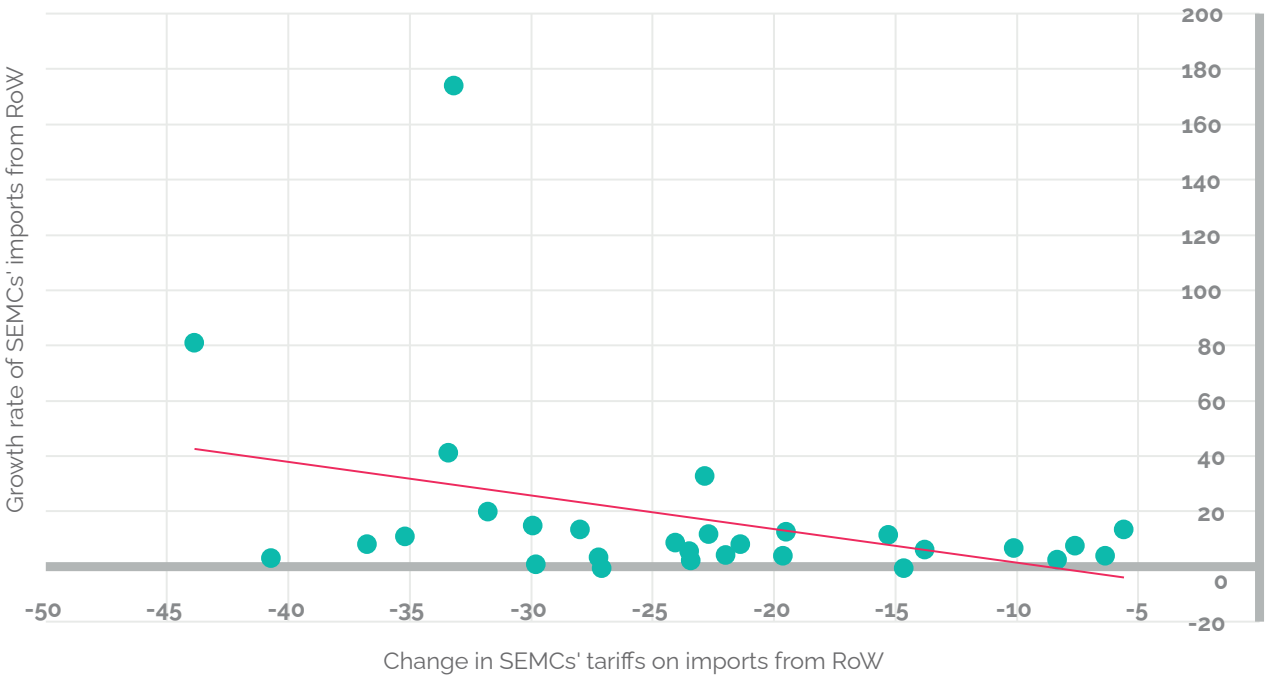
Figure 16. Correlation between change in Southern and Eastern Mediterranean Countries' tariffs on imports from the rest of the world and growth rate of these countries' imports from the rest of the world

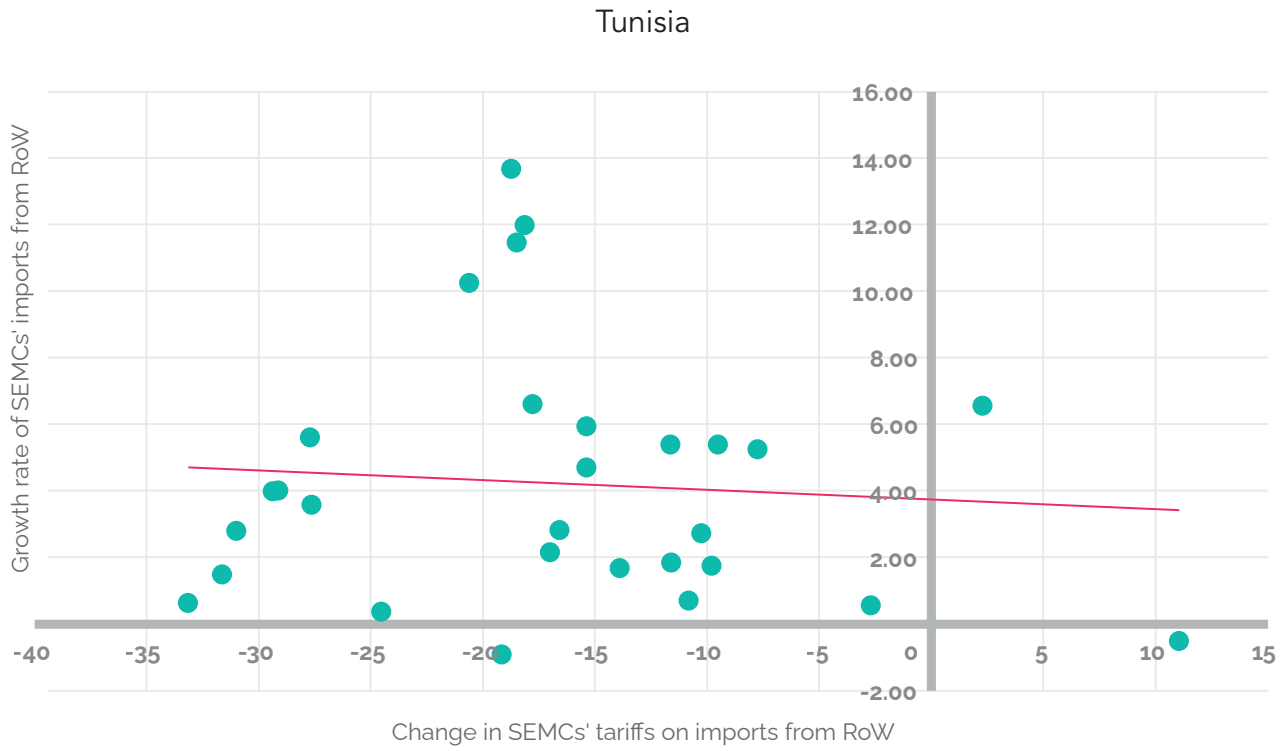


Jordan



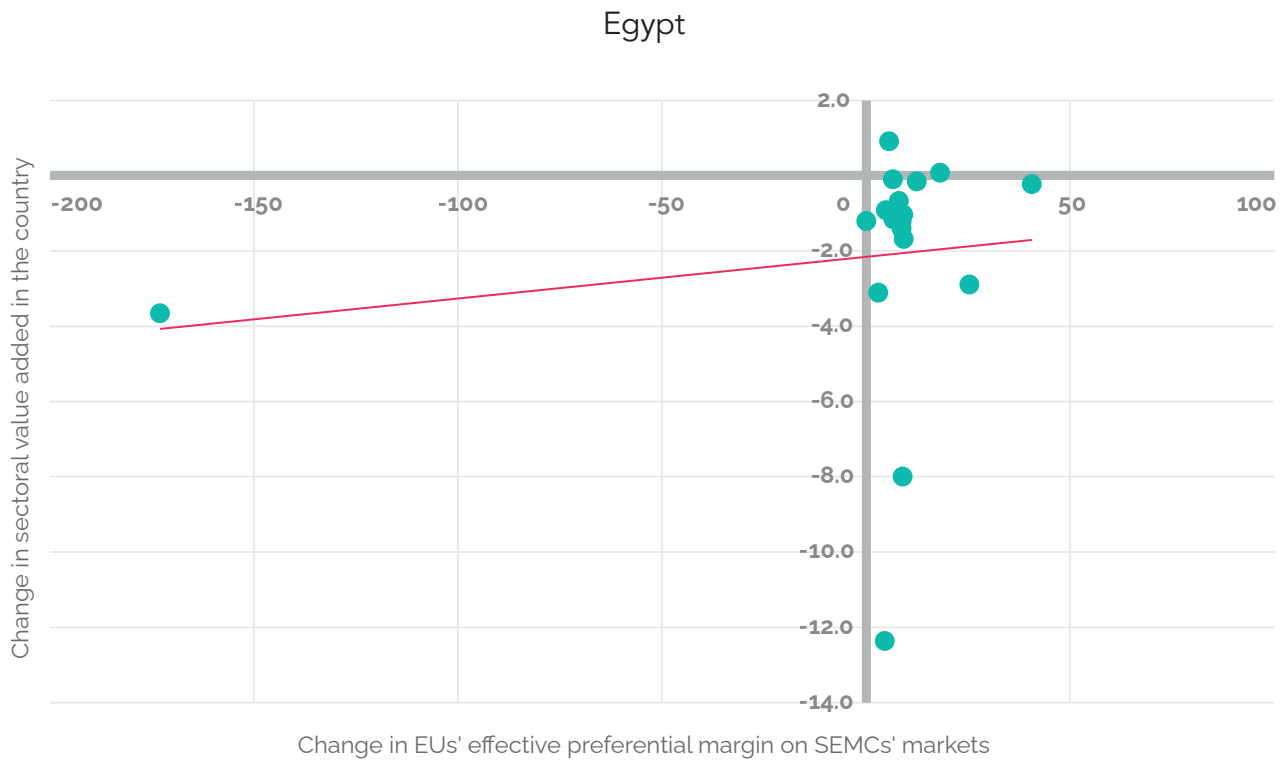
Morocco



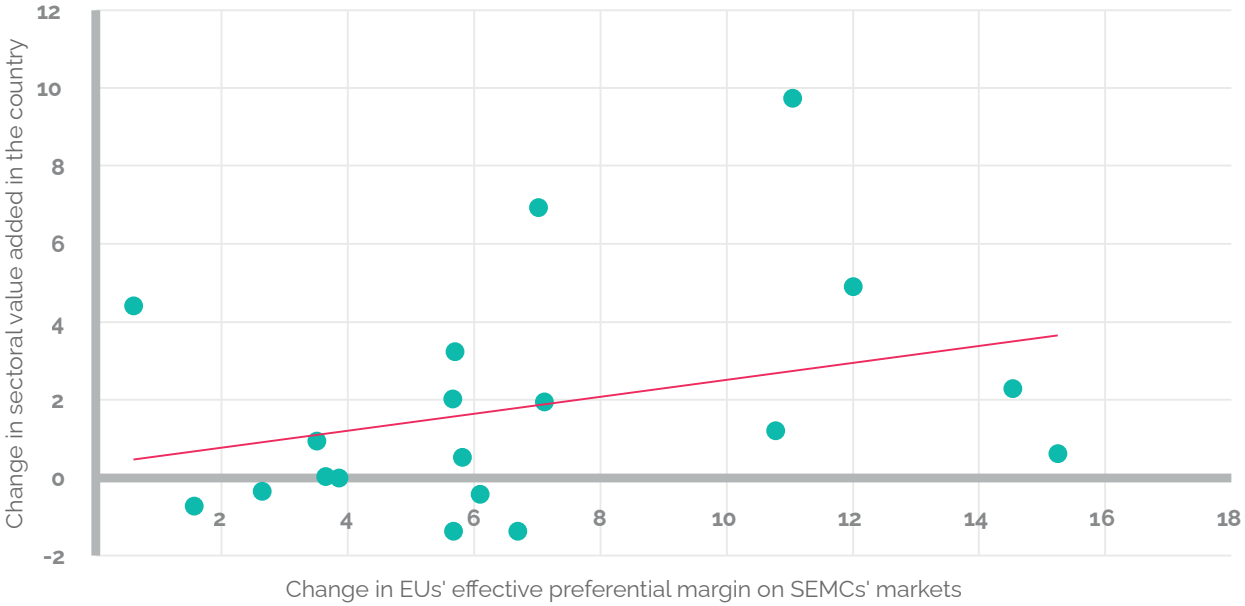


Source: Authors' calculations using the UN Comtrade database and UNIDO, INDSTAT 2 2021, ISIC Revision 3

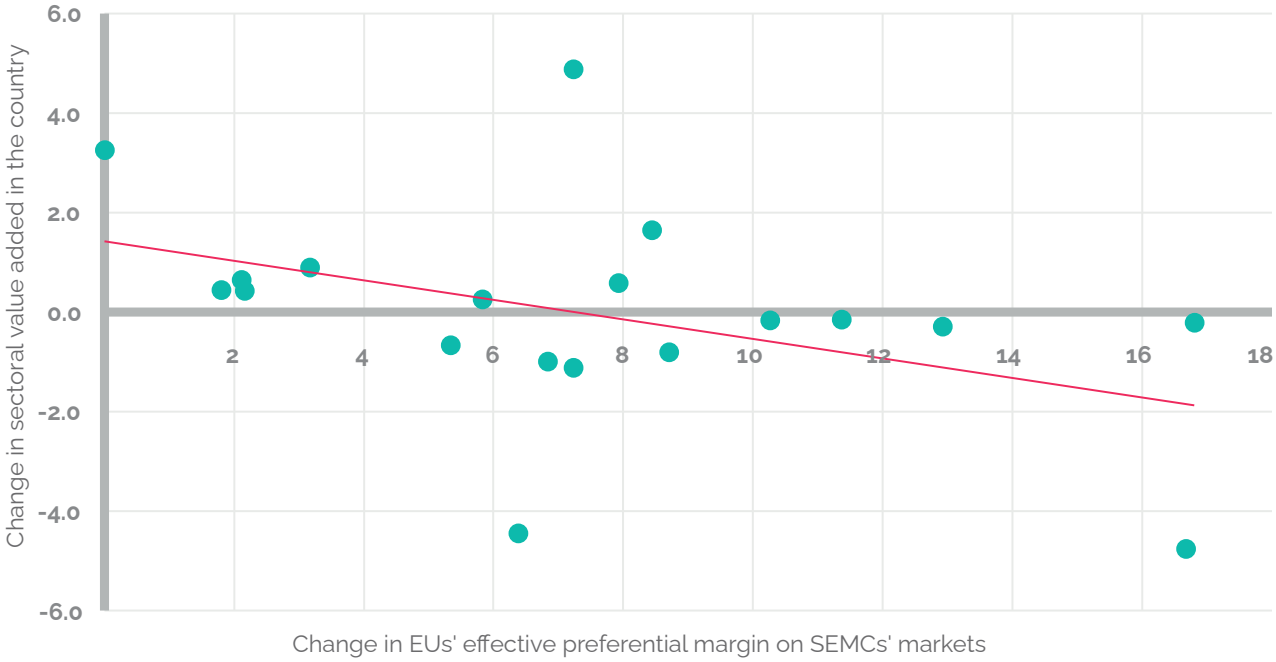
Figure 17. Correlation between change in the European Union effective preferential margin on Southern and Eastern Mediterranean Countries' markets and change in share of sectoral value added in each of these countries

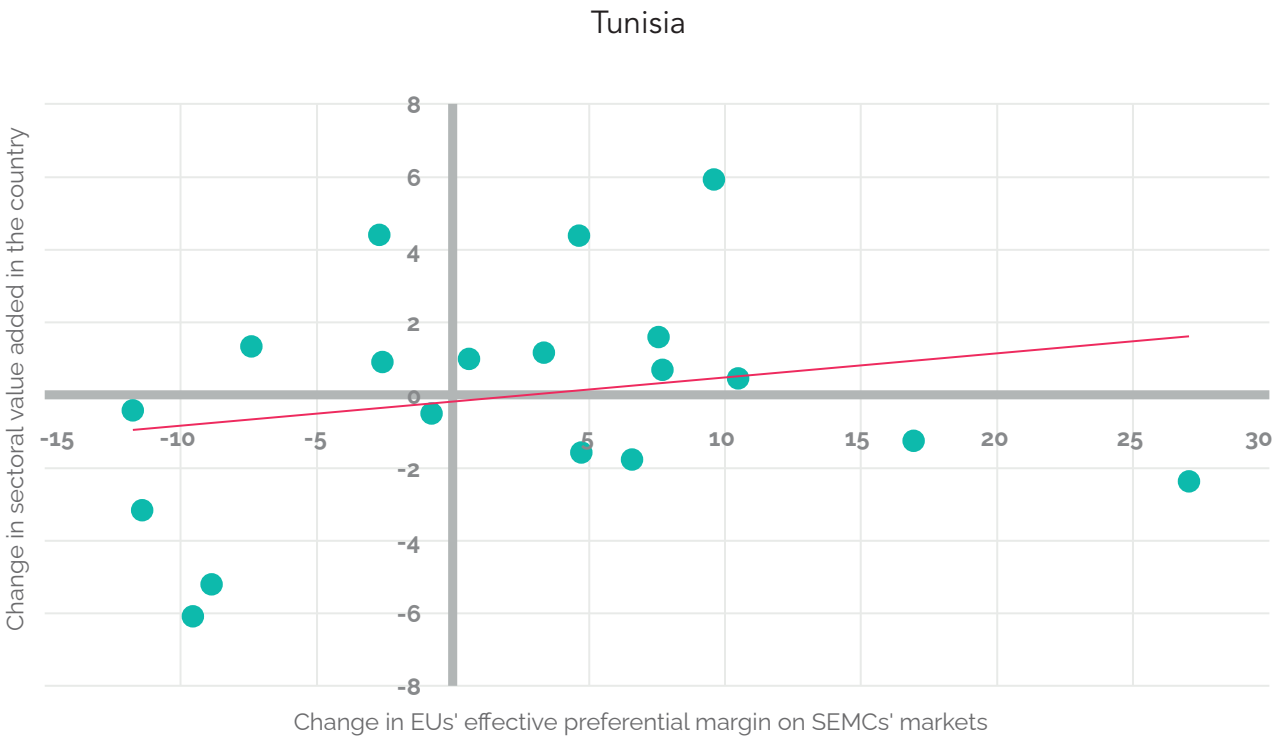


Jordan



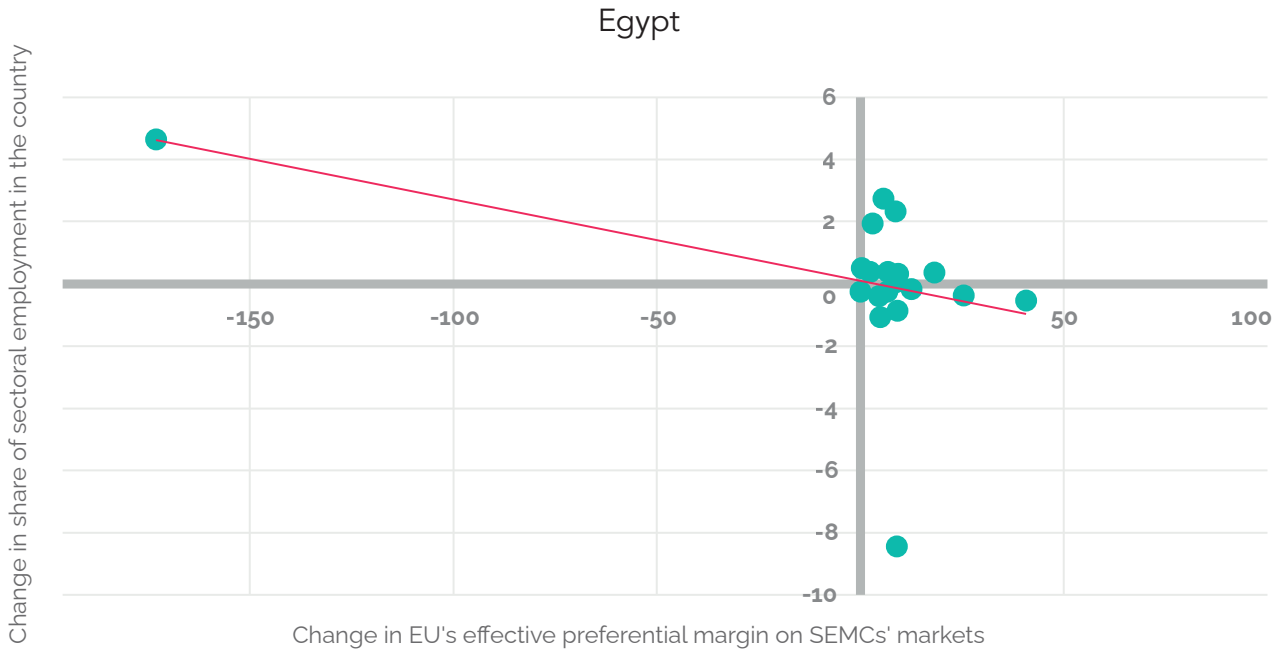
Morocco



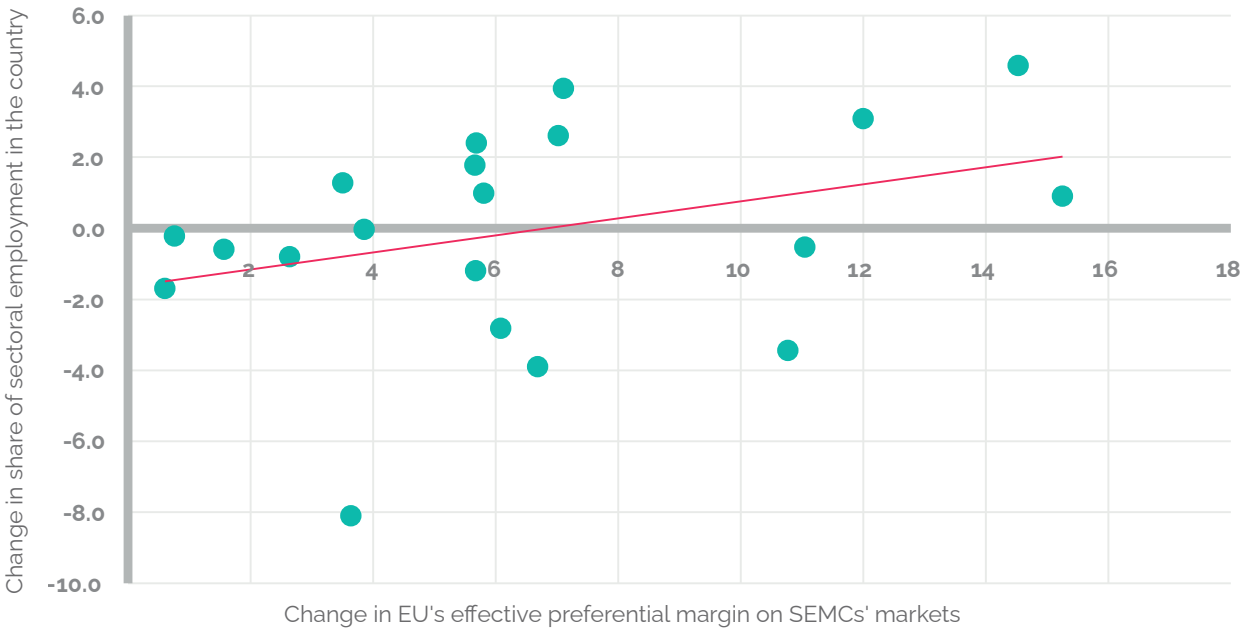


Source: Authors' calculations using the UN Comtrade database and UNIDO, INDSTAT 2 2021, ISIC Revision 3

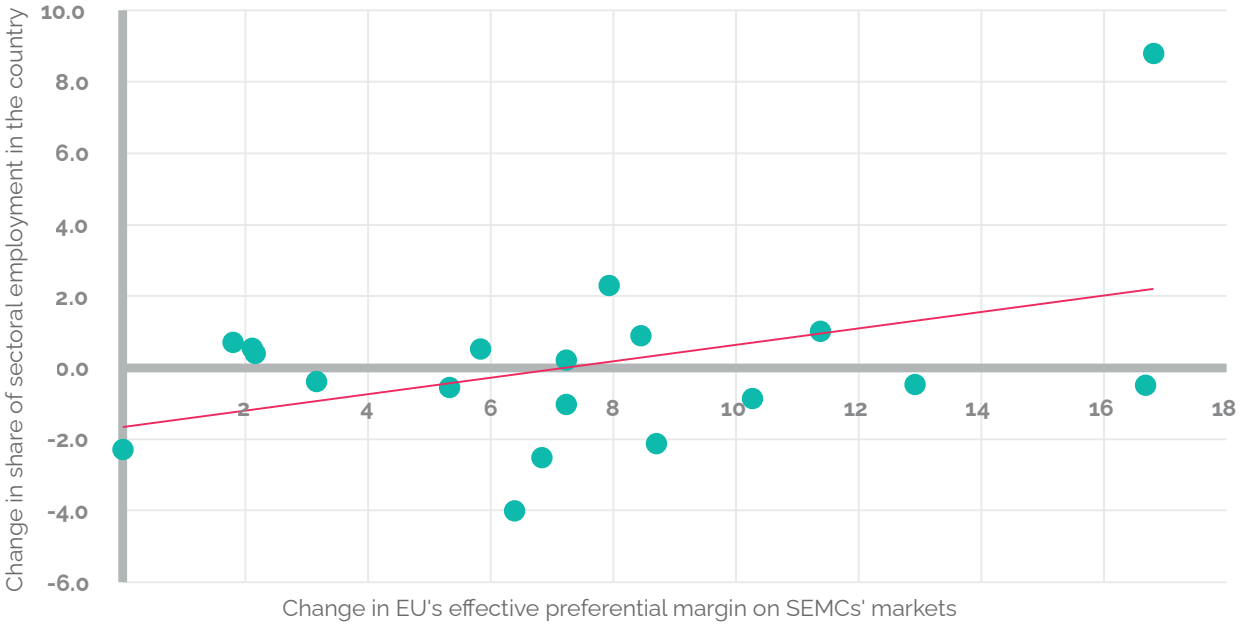
Figure 18. Correlation between change in the European Union effective preferential margin on Southern and Eastern Mediterranean Countries' markets and change in share of sectoral employment in each of these countries

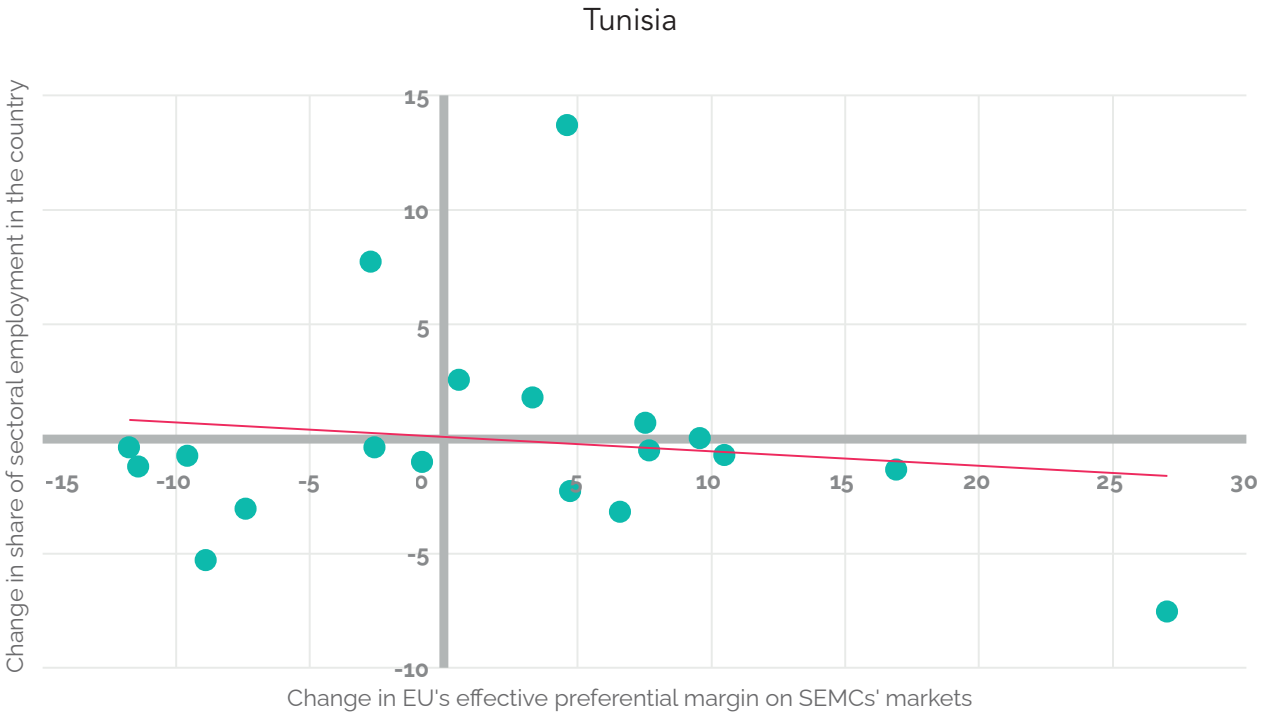


Jordan



Morocco





Source: Authors' calculations using the UN Comtrade database and UNIDO, INDSTAT 2 2021, ISIC Revision 3

Conclusions

The analysis in this chapter shows that there is not a clearly identified link between the AAs and job creation. However, as expected, we have identified which sectors could be potential winners and losers. Specific sectors, such as Electrical Machinery and Metal Products, seem to have relatively "won" during this period in most SEMCs when looking at VA and employment figures. At the same time, other sectors have "lost", including Textiles and Motor Vehicles in several SEMCs. However, these sectoral reallocations are not necessarily caused by the AAs alone.

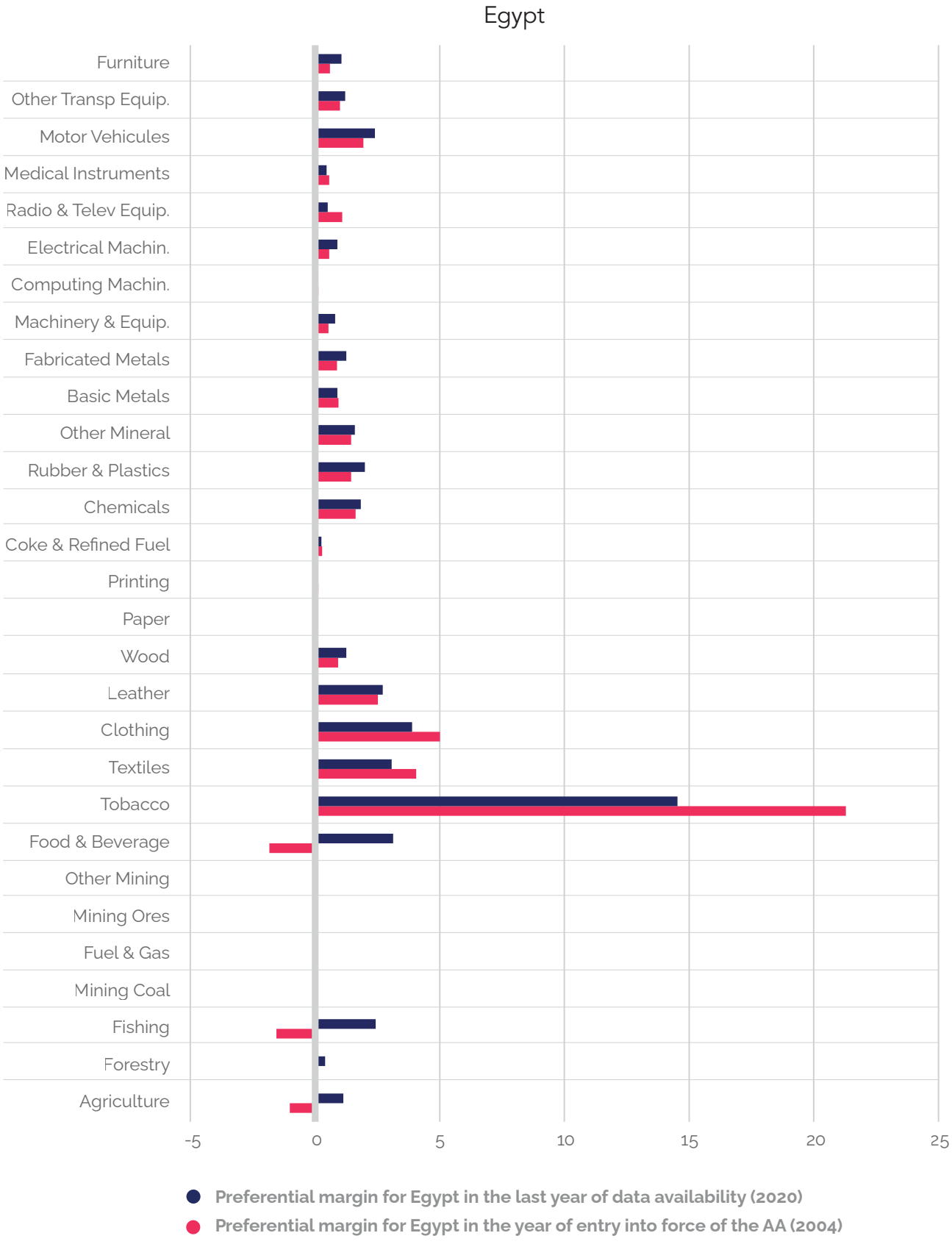
To ensure that future AAs and trade-related policies are more effective, we need to understand why their potential expected results did not fully manifest themselves in the four SEMCs. It is very likely that specific other factors affecting trade were not improved and thus undermined the effects of trade liberalization. For example, tariff reforms might not have changed trade patterns, because other policies kept trade attenuated. Meanwhile, the effects of tariff reductions might have been outweighed by the effects of NTMs. In addition, rules of origin may have been restrictive and led to significant costs and reduction in trade volumes. Lastly, internal factors in SEMCs might also have hindered the expected positive effects of trade on their national economies. Labour-market restrictions may also have affected the effects of trade on employment creation. All these issues will be analysed and discussed in the next chapter.

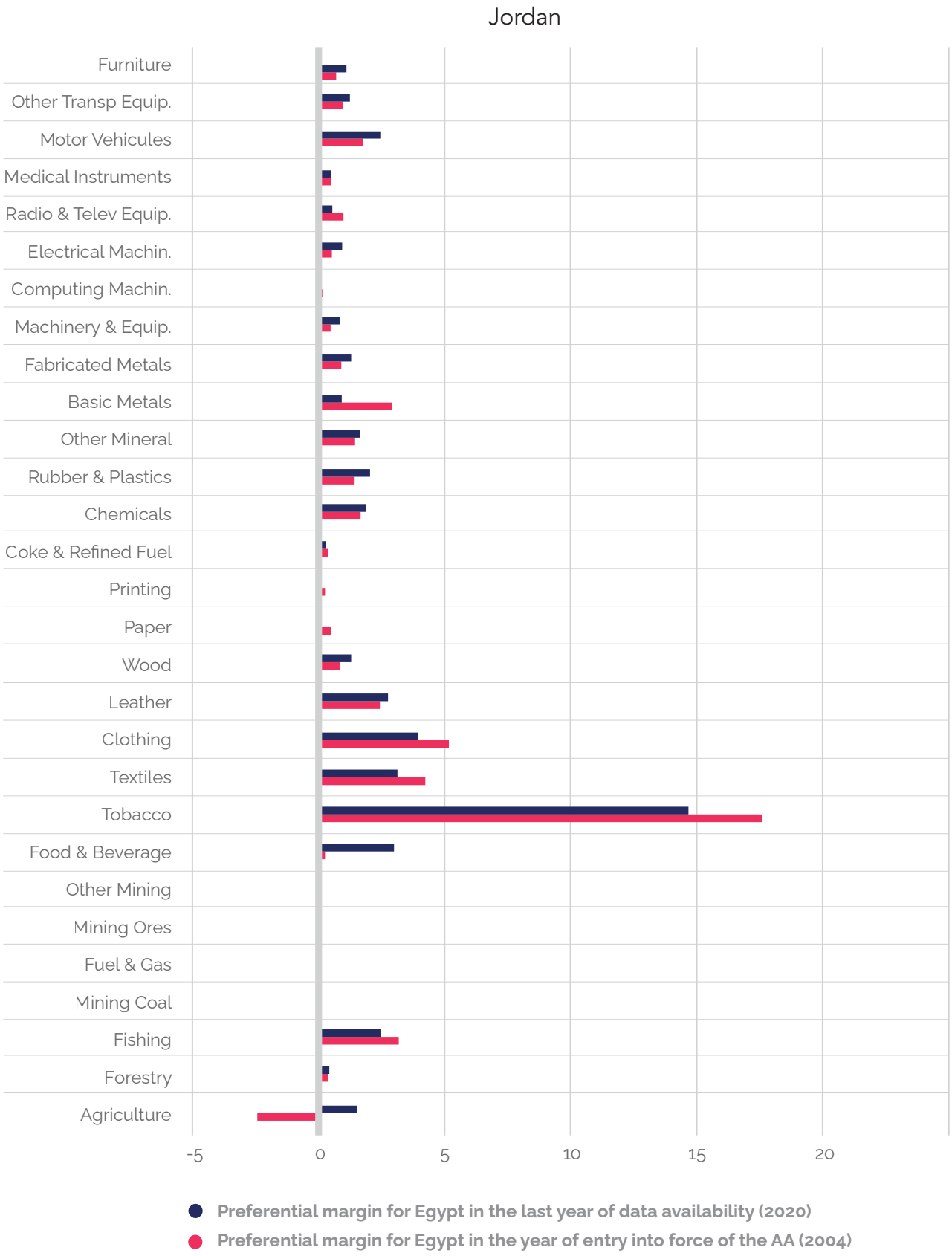
Annex

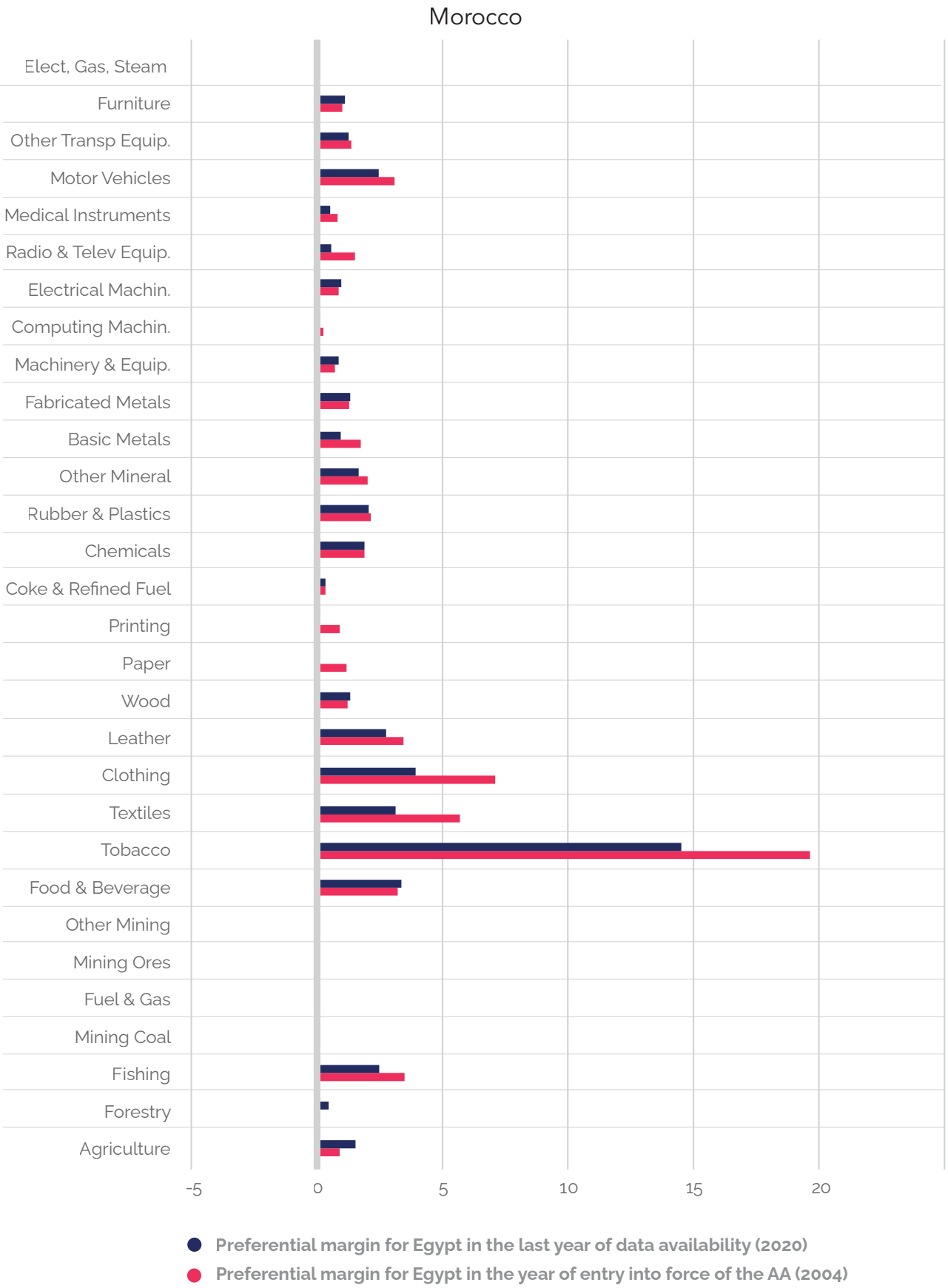
Figure A1. Change in European Union tariffs between year the association agreement entered into force and 2020 (effectively applied tariffs)

Source: Authors' calculations using UNCTAD TRAINS data accessed through the WITS

Figure A2. Changes in effective preferential tariff margins in access to the European Union market since the entry into force of Euro-Mediterranean free trade agreements, by sector at two-digit level (ISIC Rev3, percentage points)




Jordan
Furniture
Other Transp Equip.
Motor Vehicules
Medical Instruments
Radio & Telev Equip.
Electrical Machin.
Computing Machin.
Machinery & Equip.
Fabricated Metals
Basic Metals
Other Mineral
Rubber & Plastics
Chemicals
Coke & Refined Fuel
Printing
Paper
Wood
Leather
Clothing
Textiles
Tobacco
Food & Beverage
Other Mining
Mining Ores
Fuel & Gas
Mining Coal
Fishing
Forestry
Agriculture
-5
0
5
10
15
20
Preferential margin for Egypt in the last year of data availability (2020)
Preferential margin for Egypt in the year of entry into force of the AA (2004)


Morocco
Elect, Gas, Steam
Furniture
Other Transp Equip.
Motor Vehicles
Medical Instruments
Radio & Telev Equip.
Electrical Machin.
Computing Machin.
Machinery & Equip.
Fabricated Metals
Basic Metals
Other Mineral
Rubber & Plastics
Chemicals
Coke & Refined Fuel
Printing
Paper
Wood
Leather
Clothing
Textiles
Tobacco
Food & Beverage
Other Mining
Mining Ores
Fuel & Gas
Mining Coal
Fishing
Forestry
Agriculture
-5
0
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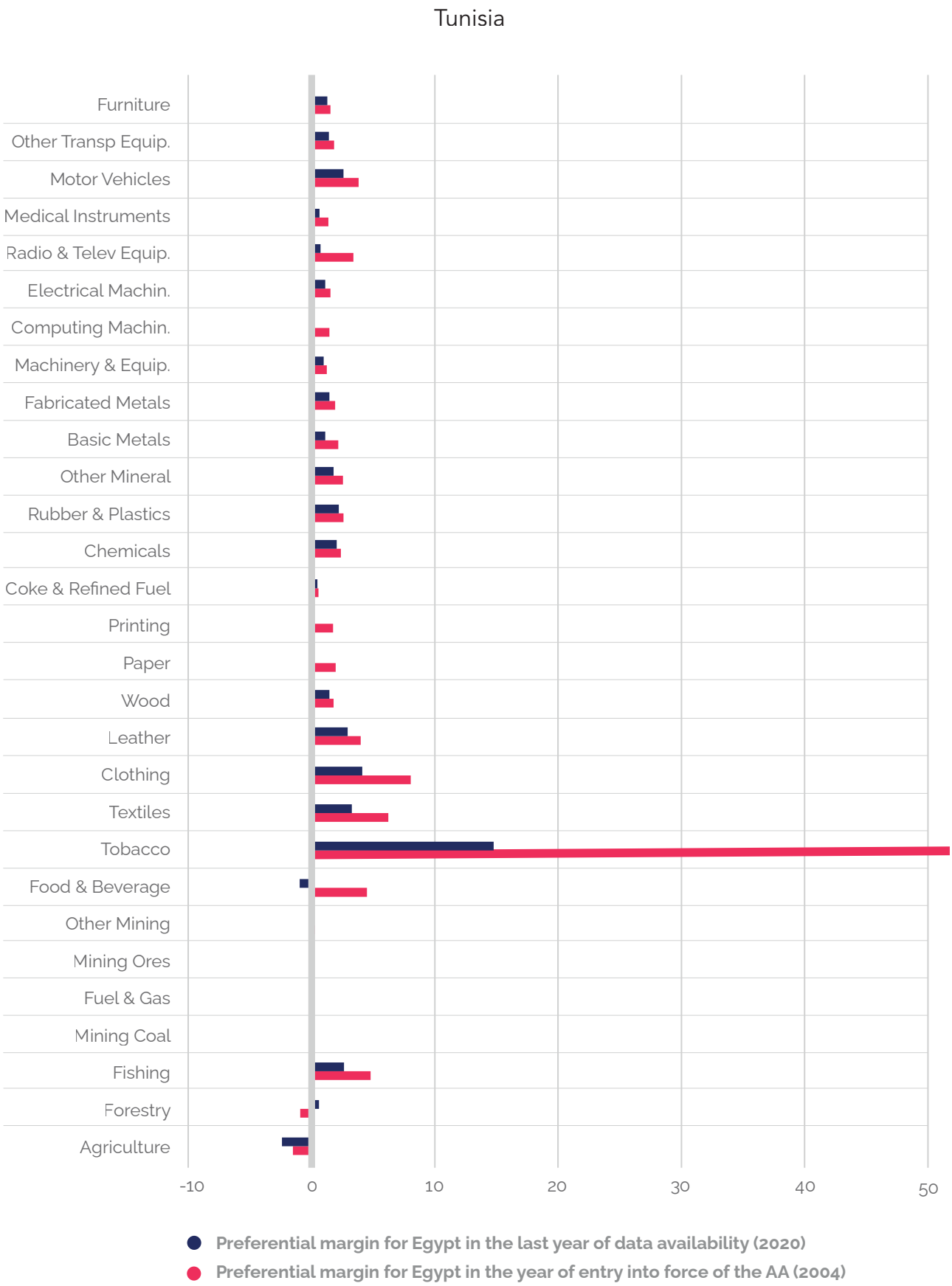
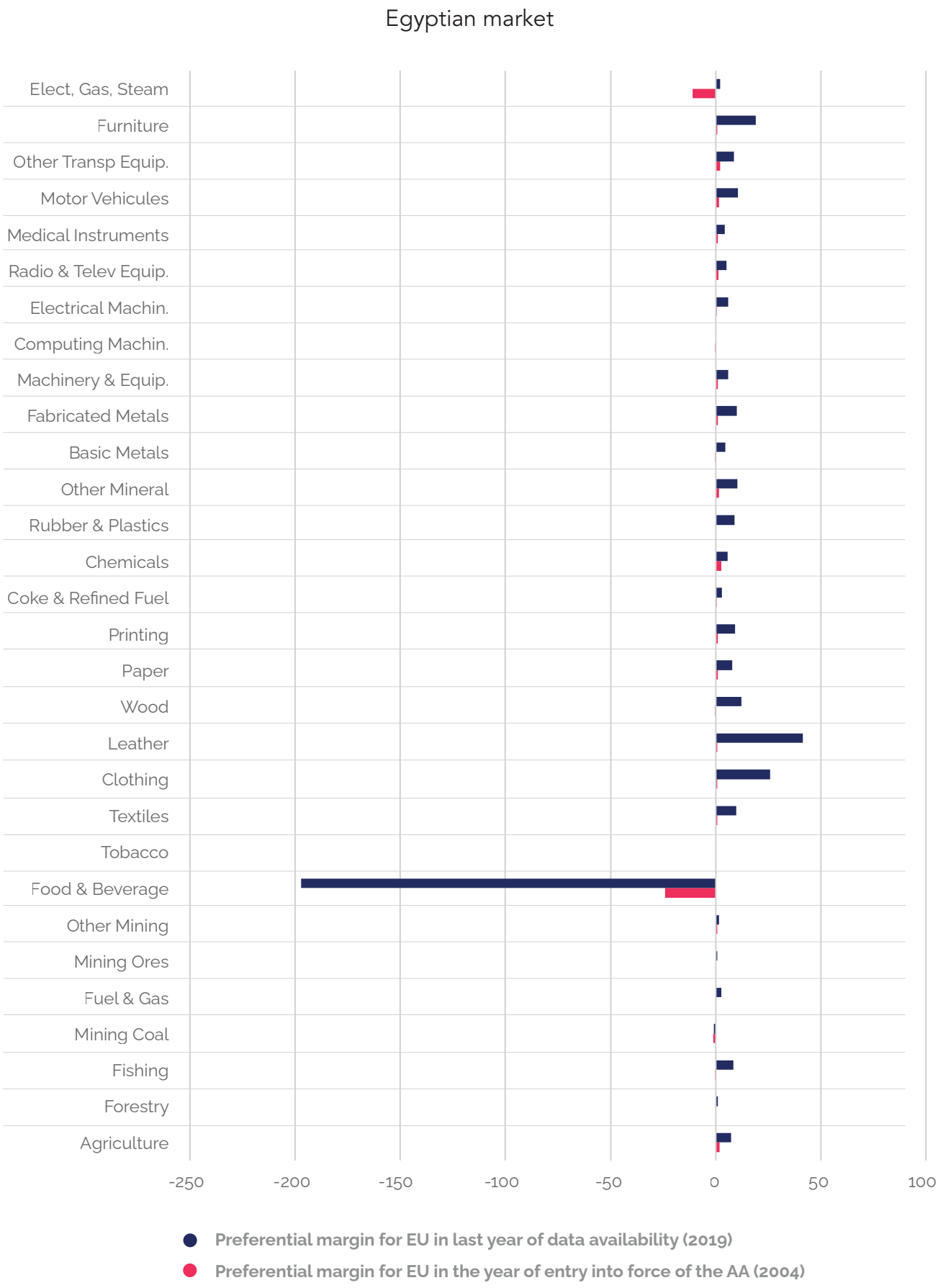
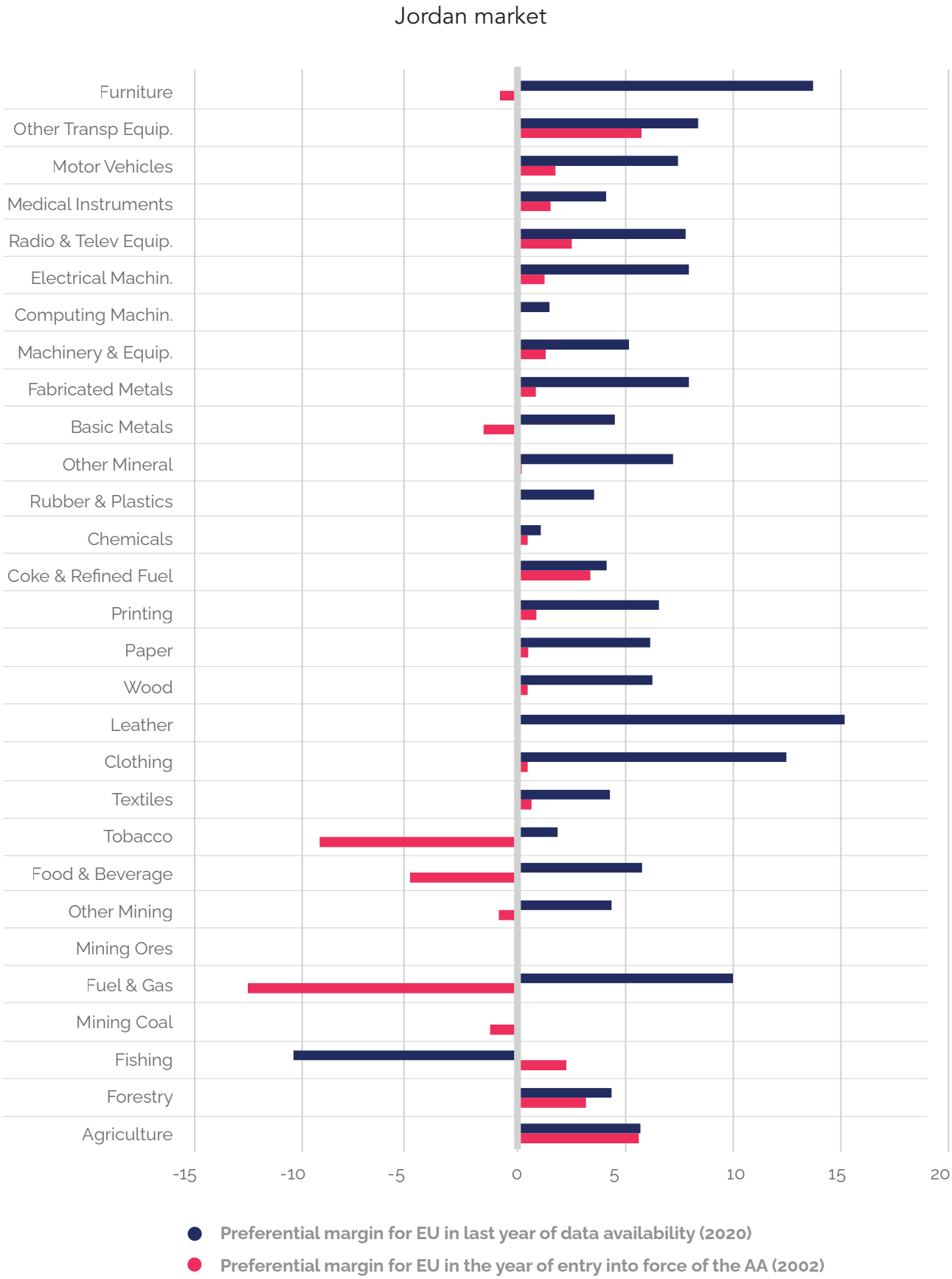
10
15
20
Preferential margin for Egypt in the last year of data availability (2020)
Preferential margin for Egypt in the year of entry into force of the AA (2004)

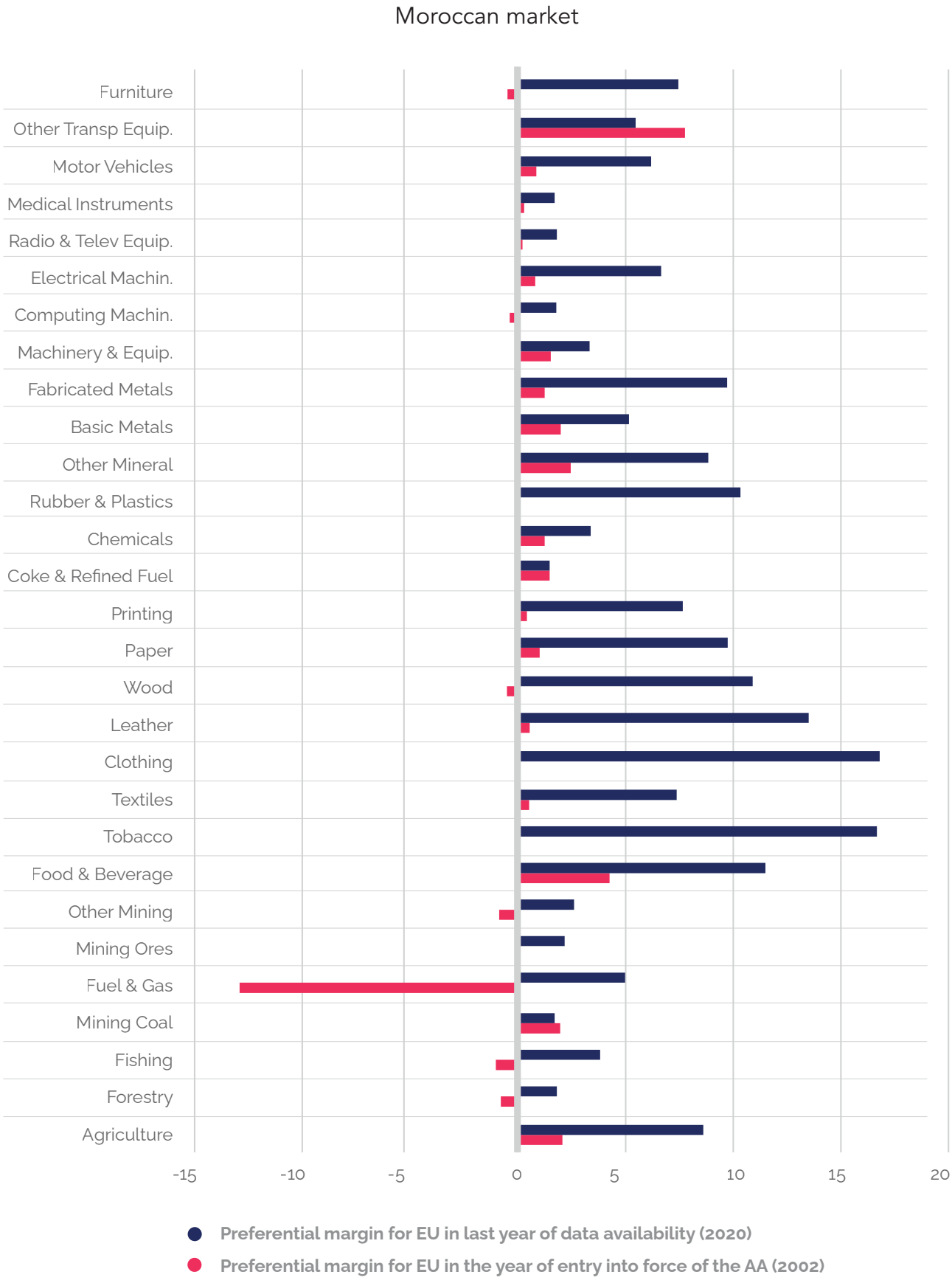


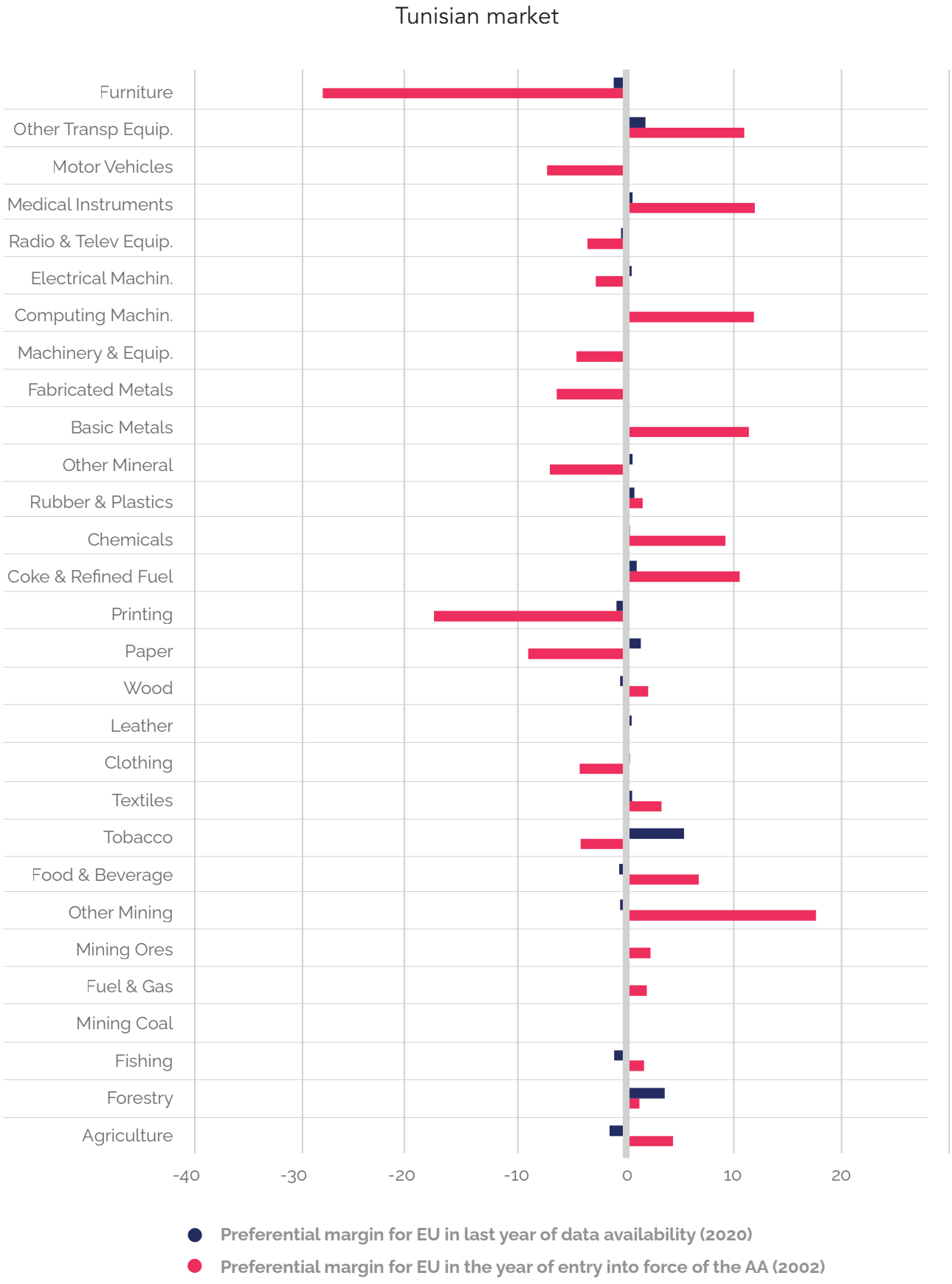
Source: Authors' calculations using UNCTAD TRAINS data accessed through the WITS

Figure A3. Changes in effective preferential tariff margins in access to Southern and Eastern Mediterranean Countries' markets since the entry into force of Euro-Mediterranean free trade agreements, by sector at two-digit level (ISIC Rev3, percentage points)



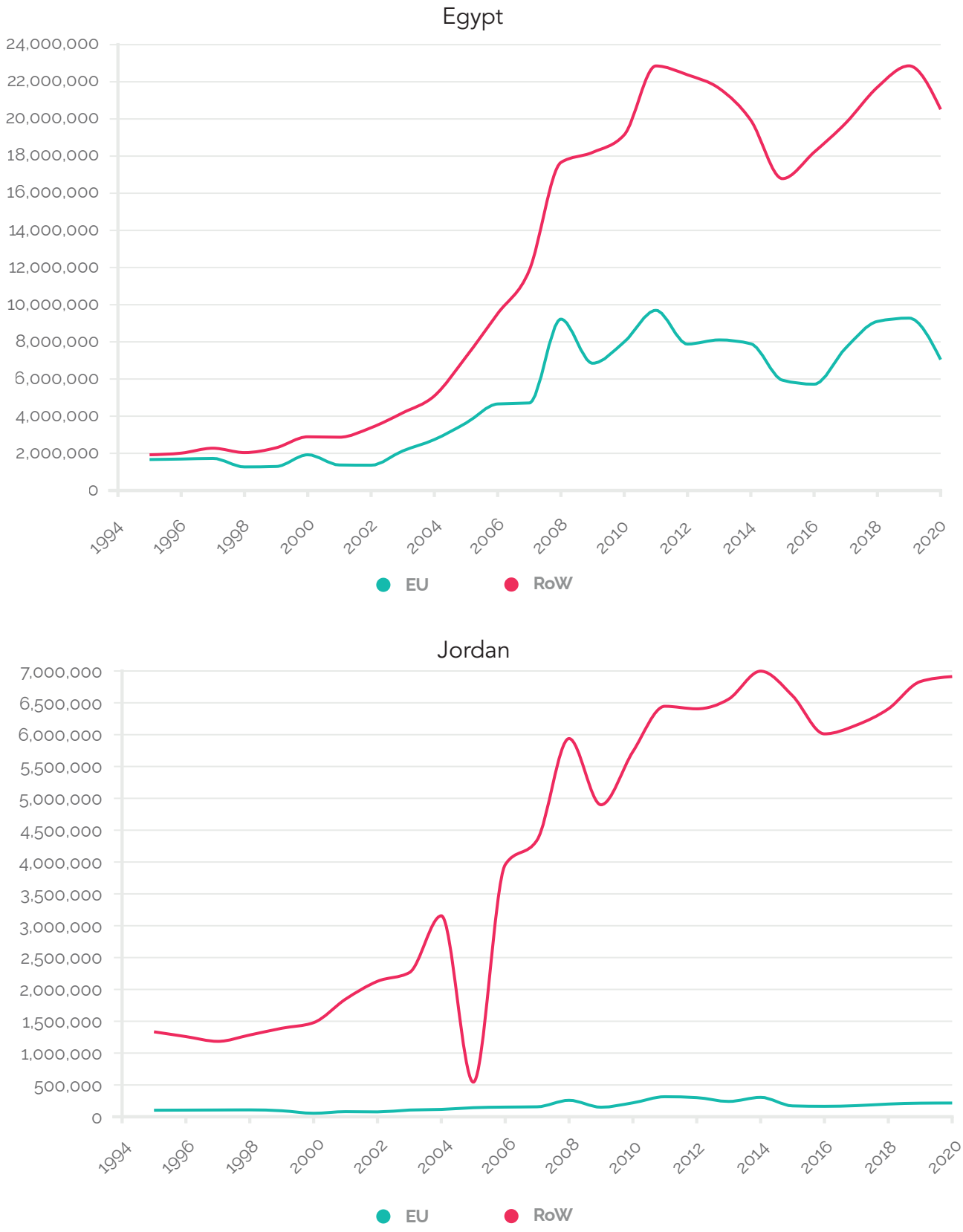

Jordan market
Furniture
Other Transp Equip.
Motor Vehicles
Medical Instruments
Radio & Telev Equip.
Electrical Machin.
Computing Machin.
Machinery & Equip.
Fabricated Metals
Basic Metals
Other Mineral
Rubber & Plastics
Chemicals
Coke & Refined Fuel
Printing
Paper
Wood
Leather
Clothing
Textiles
Tobacco
Food & Beverage
Other Mining
Mining Ores
Fuel & Gas
Mining Coal
Fishing
Forestry
Agriculture
-15
-10
-5
0
5
10
15
20
Preferential margin for EU in last year of data availability (2020)
Preferential margin for EU in the year of entry into force of the AA (2002)

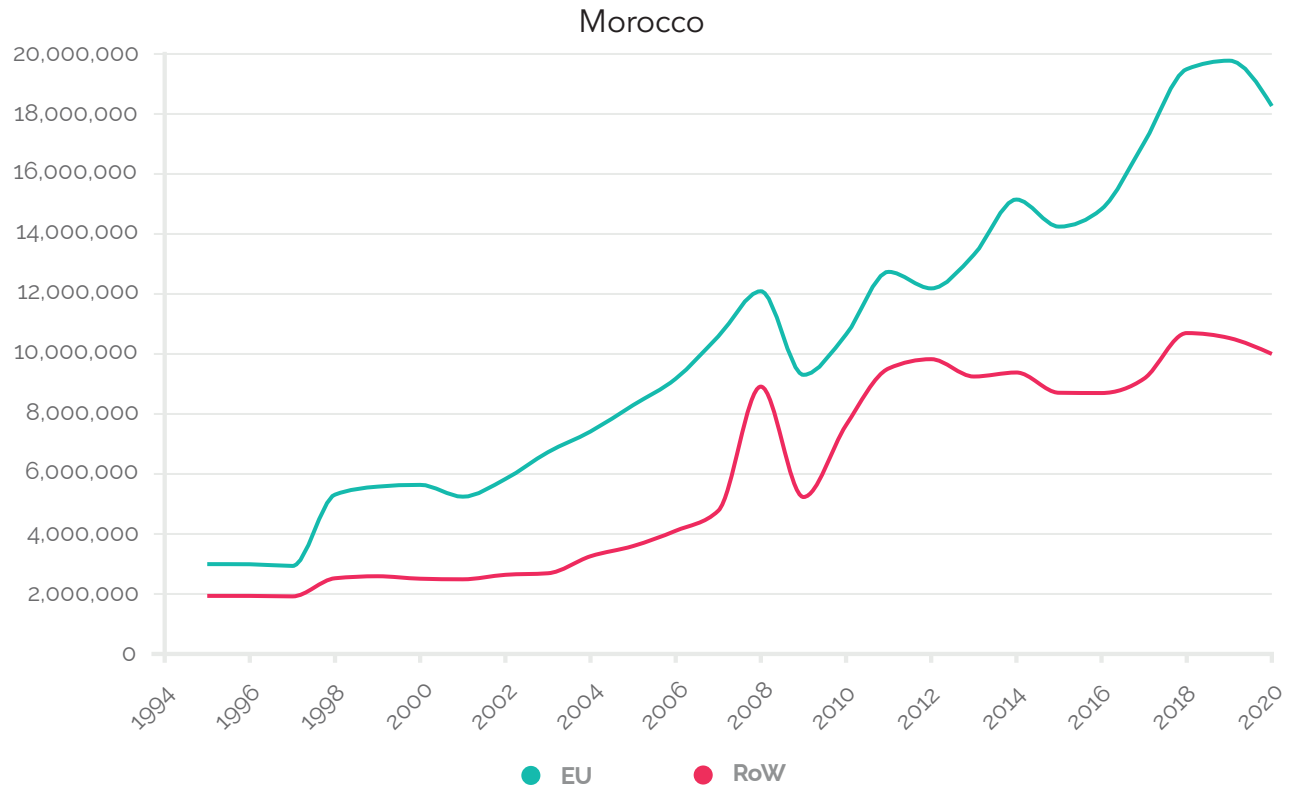

Moroccan market
Furniture
Other Transp Equip.
Motor Vehicles
Medical Instruments
Radio & Telev Equip.
Electrical Machin.
Computing Machin.
Machinery & Equip.
Fabricated Metals
Basic Metals
Other Mineral
Rubber & Plastics
Chemicals
Coke & Refined Fuel
Printing
Paper
Wood
Leather
Clothing
Textiles
Tobacco
Food & Beverage
Other Mining
Mining Ores
Fuel & Gas
Mining Coal
Fishing
Forestry
Agriculture
-15
-10
-5
0
5
10
15
20
Preferential margin for EU in last year of data availability (2020)
Preferential margin for EU in the year of entry into force of the AA (2002)

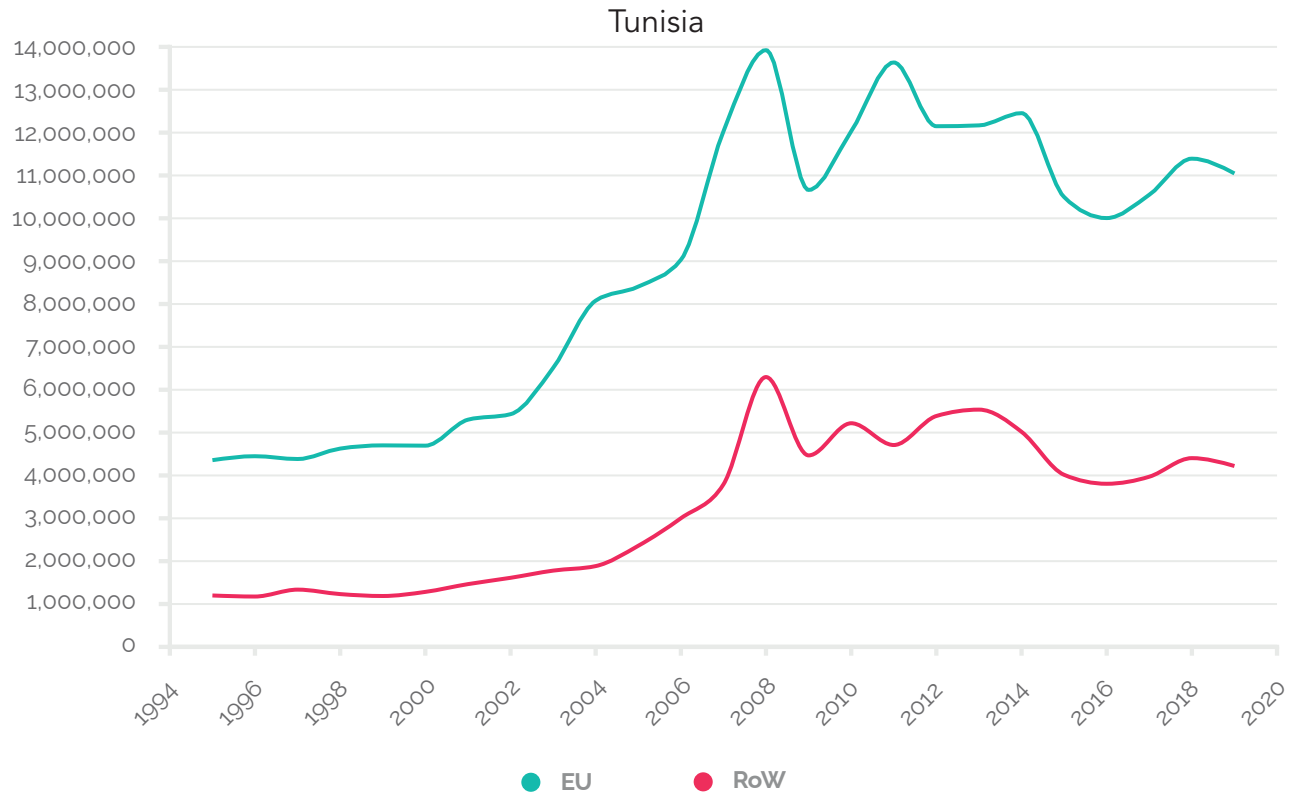


Source: Authors' calculations using UNCTAD TRAINS data accessed through the WITS

Figure A4. Evolution of Southern and Eastern Mediterranean Countries' exports to the European Union and the rest of the world (in thousands of USD)

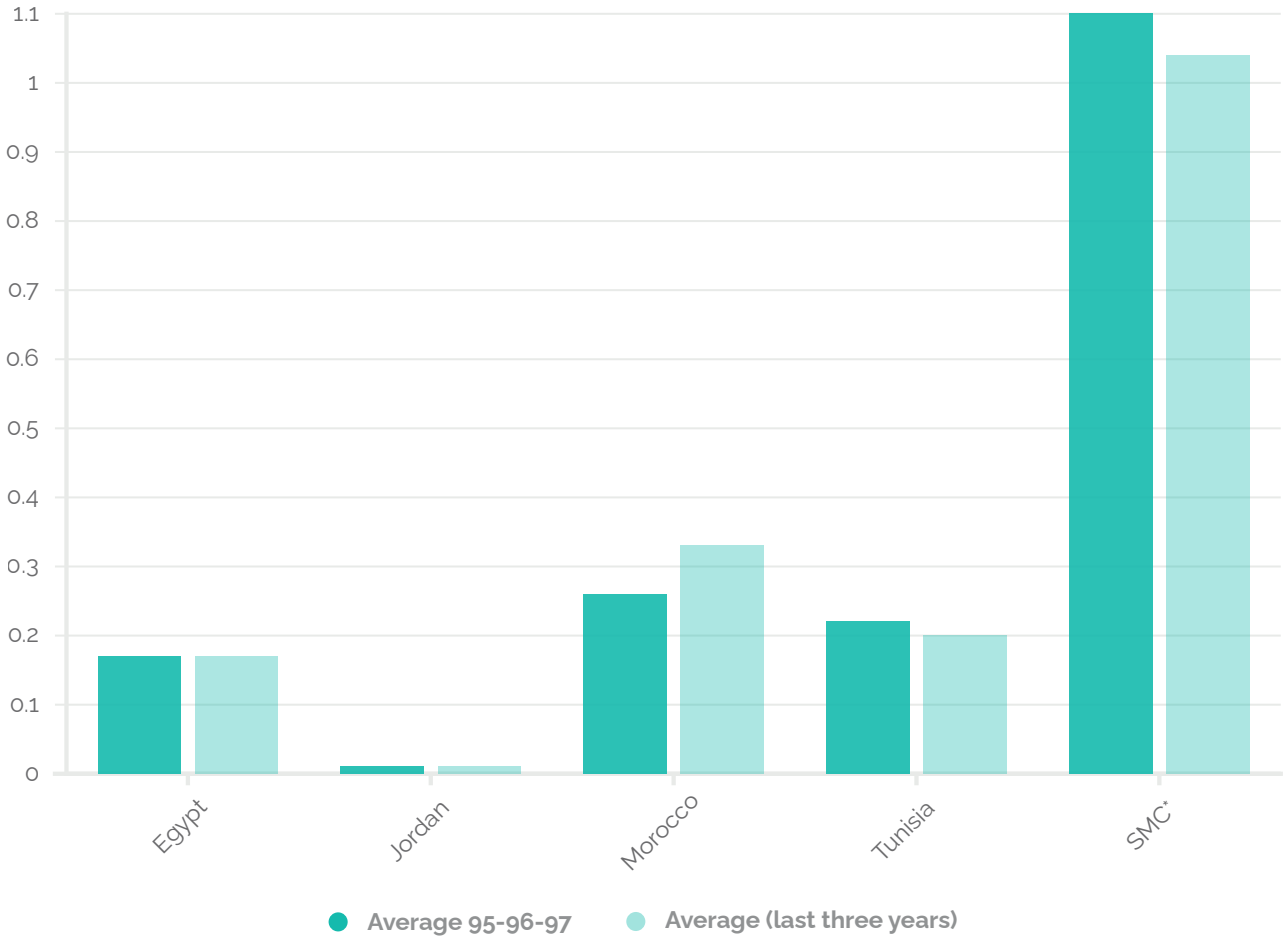






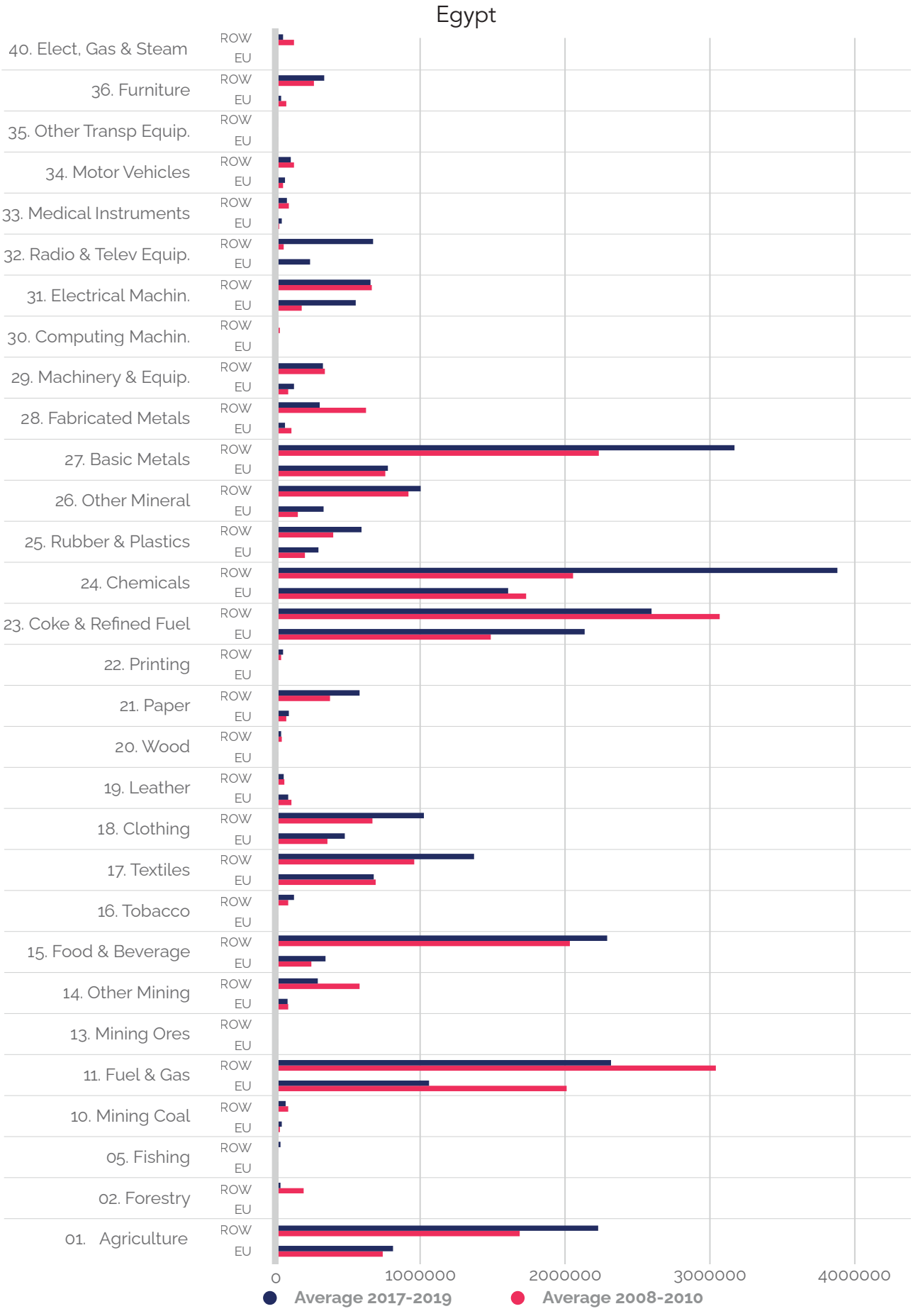
Source: UN Comtrade database

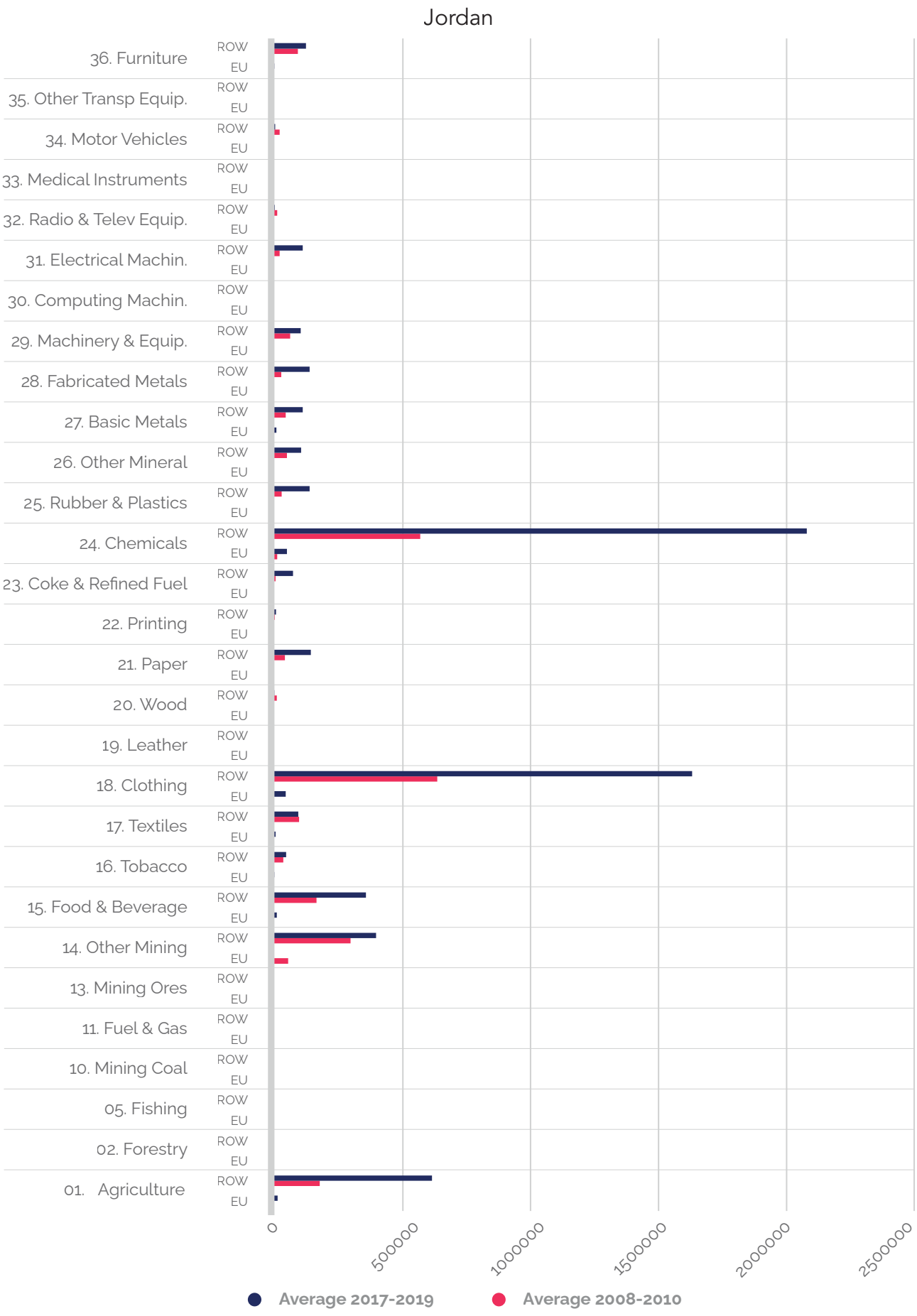
Figure A5. Share of European imports from Southern and Eastern Mediterranean Countries

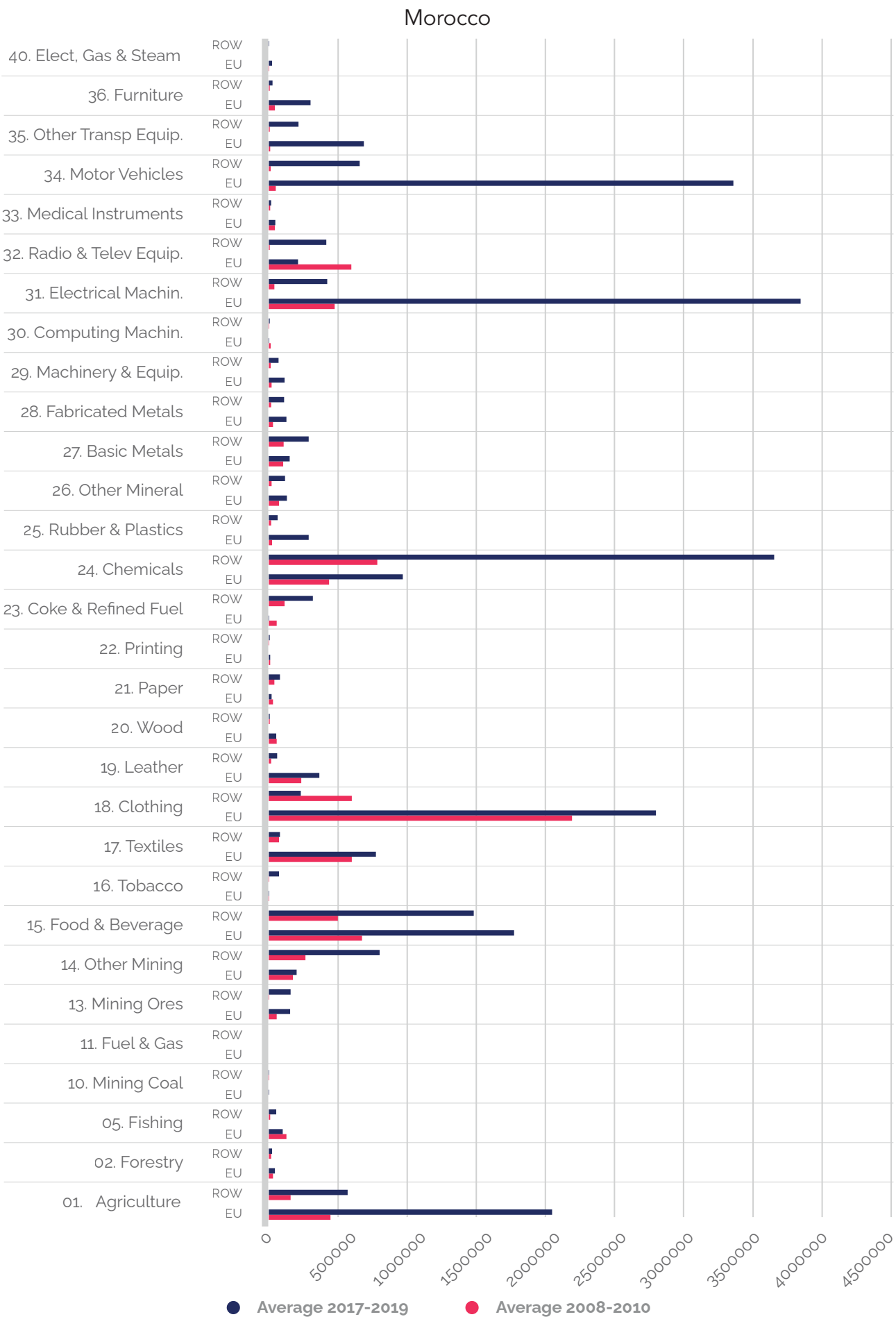


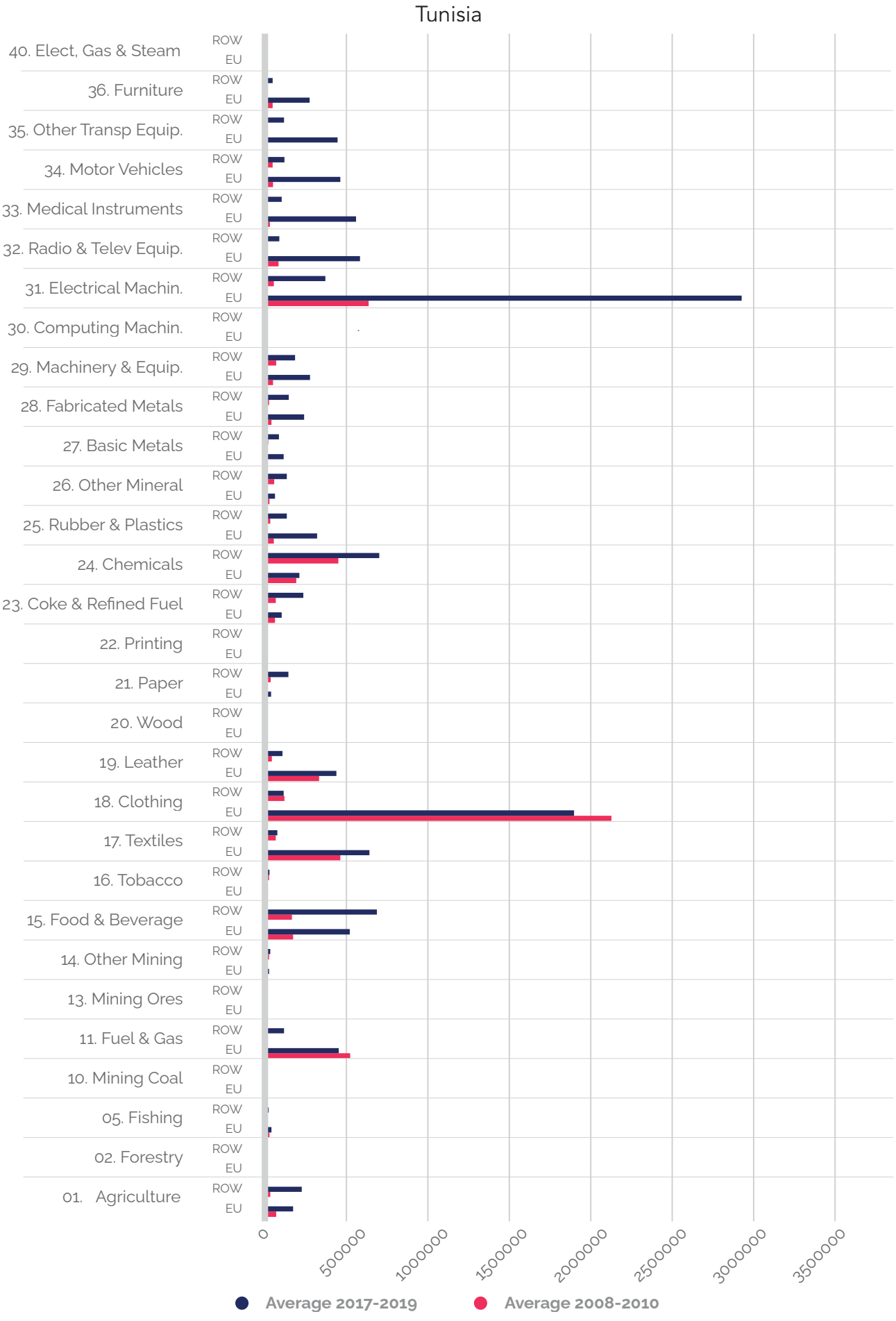
Source: Authors' calculations using the UN Comtrade database
* SEMC: Mediterranean countries with which the EU has signed an AA (Algeria, Egypt, Jordan, Lebanon, Morocco, State of Palestine and Tunisia).

Figure A6. Evolution of Southern and Eastern Mediterranean Countries' exports to the European Union and to the rest of the world, by sector (two-digit level, in thousands of USD)



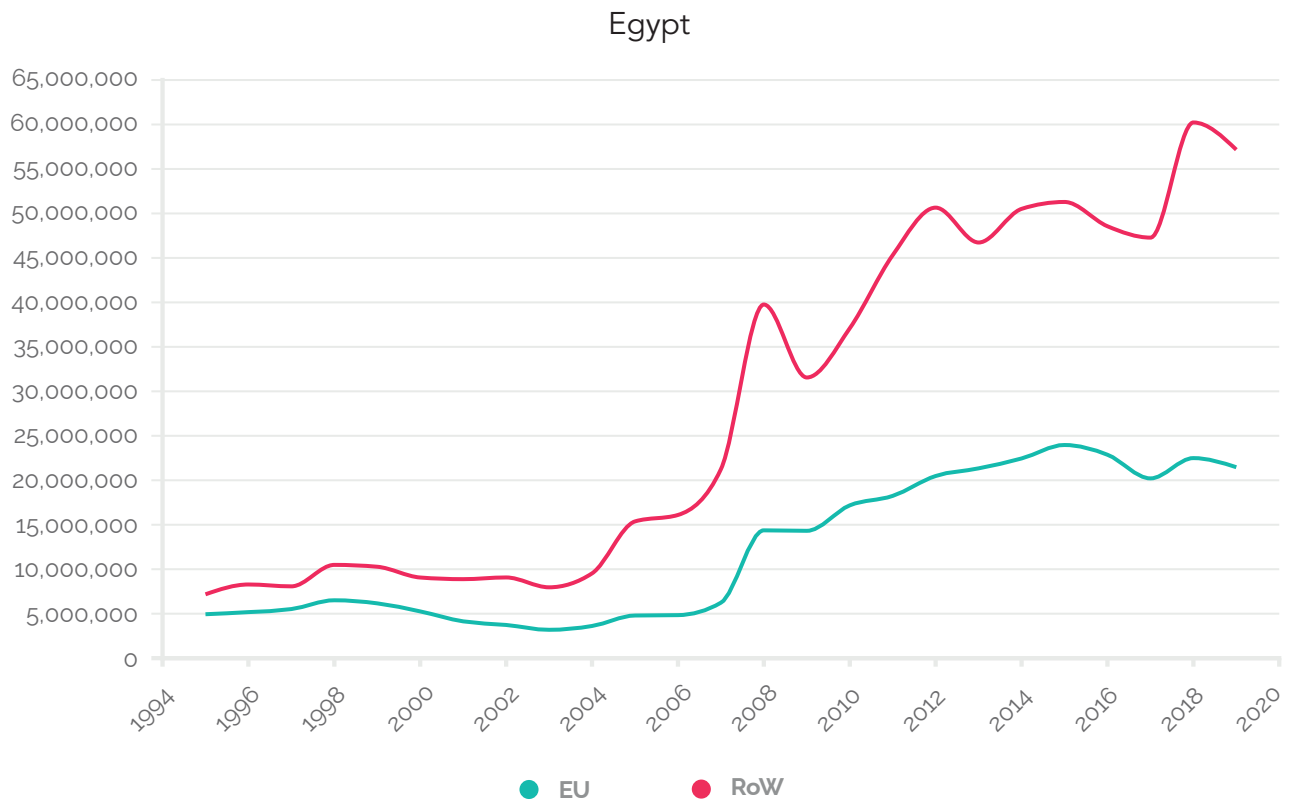

Jordan
36. Furniture
35. Other Transp Equip.
34. Motor Vehicles
33. Medical Instruments
32. Radio & Telev Equip.
31. Electrical Machin.
30. Computing Machin.
29. Machinery & Equip.
28. Fabricated Metals
27. Basic Metals
26. Other Mineral
25. Rubber & Plastics
24. Chemicals
23. Coke & Refined Fuel
22. Printing
21. Paper
20. Wood
19. Leather
18. Clothing
17. Textiles
16. Tobacco
15. Food & Beverage
14. Other Mining
13. Mining Ores
11. Fuel & Gas
10. Mining Coal
05. Fishing
02. Forestry
01. Agriculture
ROW
EU
0
500000
1000000
1500000
2000000
2500000
Average 2017-2019
Average 2008-2010

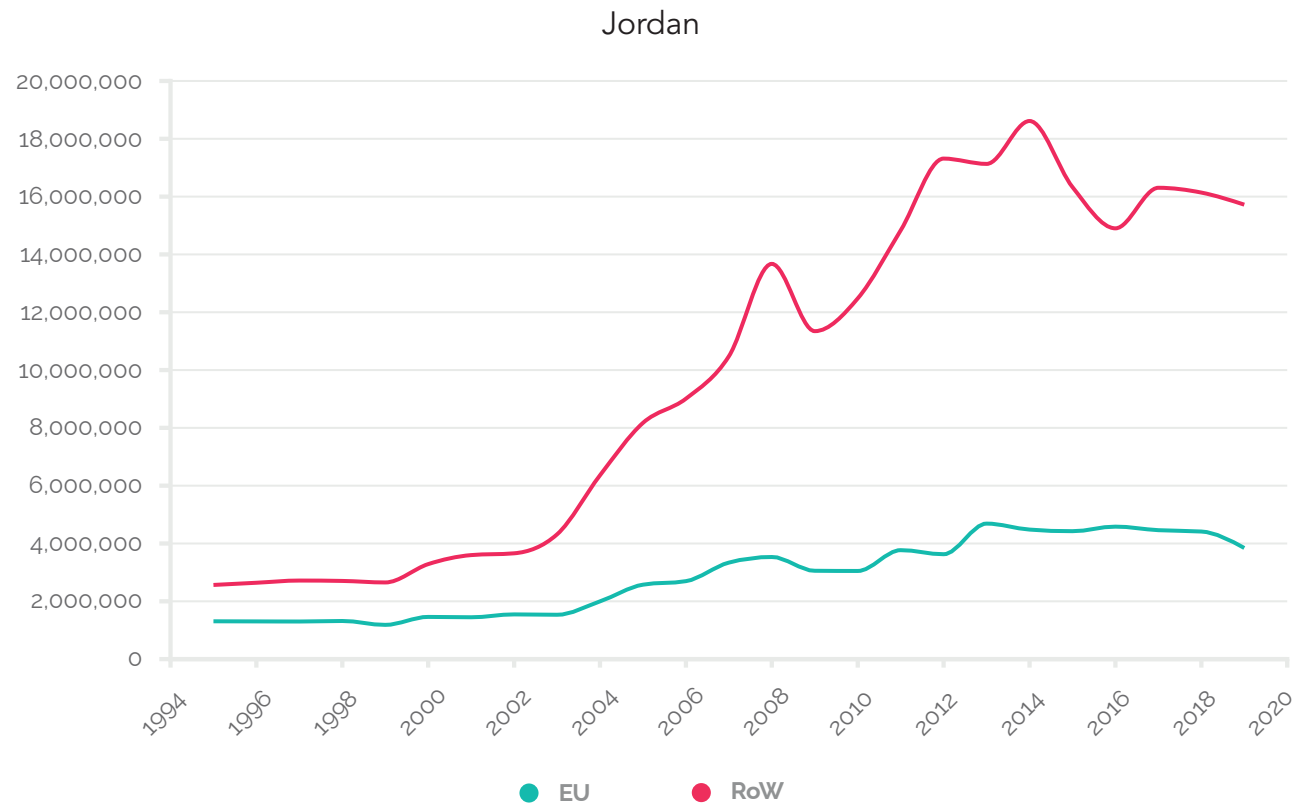

Morocco
40. Elect, Gas & Steam
36. Furniture
35. Other Transp Equip.
34. Motor Vehicles
33. Medical Instruments
32. Radio & Telev Equip.
31. Electrical Machin.
30. Computing Machin.
29. Machinery & Equip.
28. Fabricated Metals
27. Basic Metals
26. Other Mineral
25. Rubber & Plastics
24. Chemicals
23. Coke & Refined Fuel
22. Printing
21. Paper
20. Wood
19. Leather
18. Clothing
17. Textiles
16. Tobacco
15. Food & Beverage
14. Other Mining
13. Mining Ores
11. Fuel & Gas
10. Mining Coal
05. Fishing
02. Forestry
01. Agriculture
ROW
EU
0
500000
1000000
1500000
2000000
2500000
3000000
3500000
4000000
4500000
Average 2017-2019
Average 2008-2010

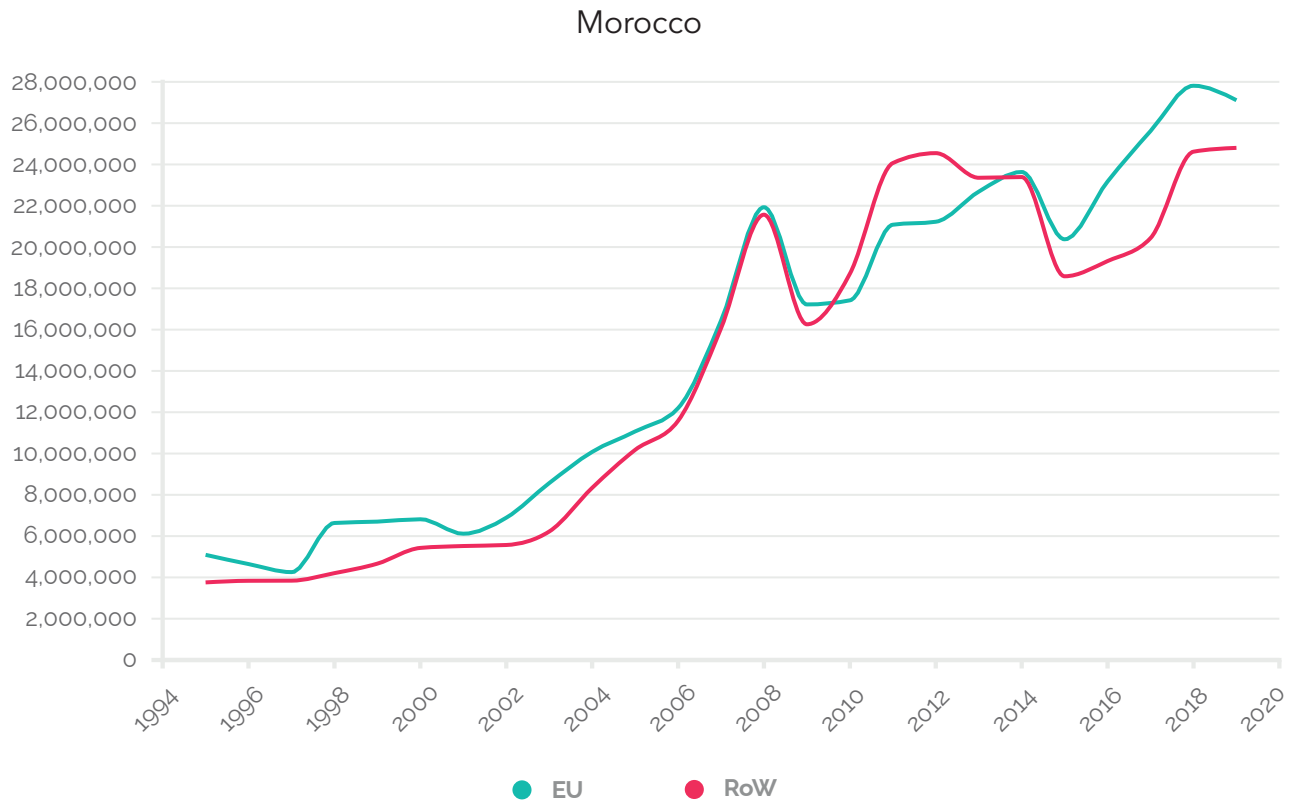


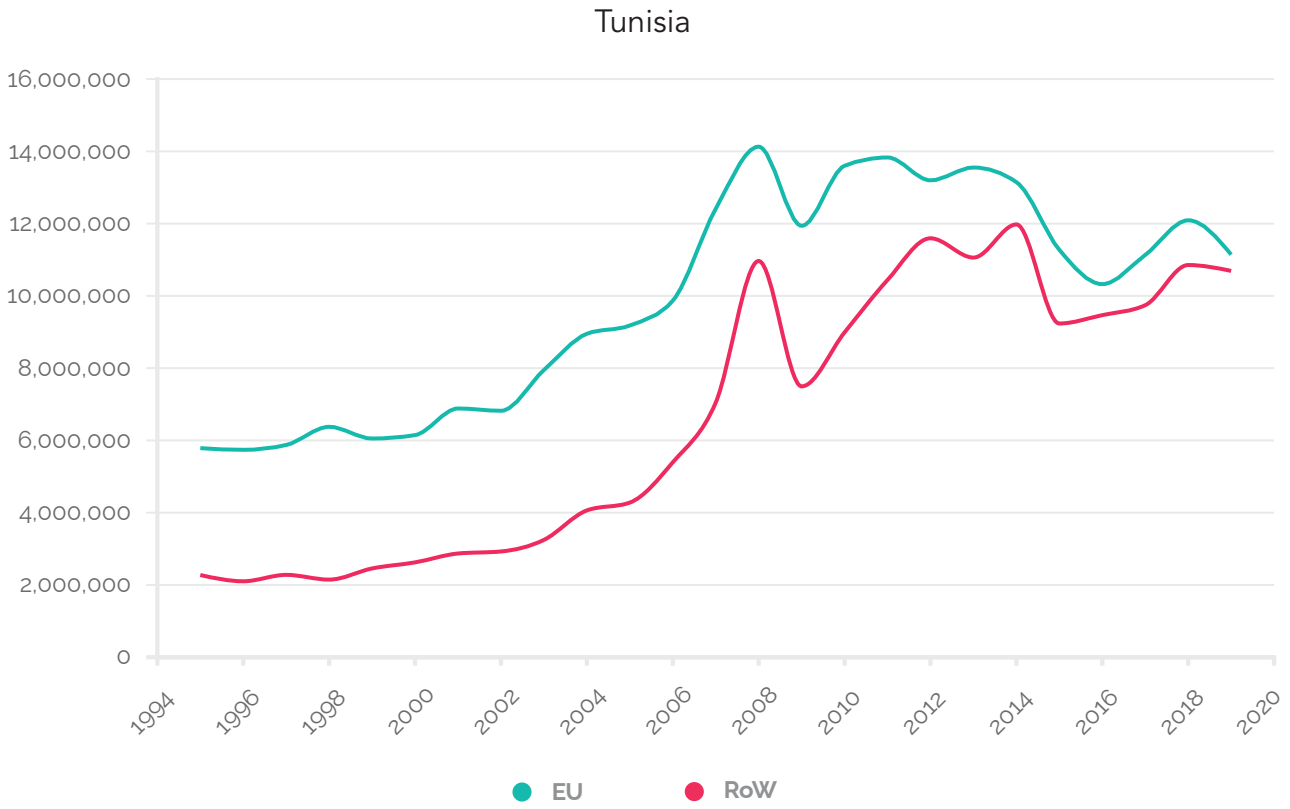
Source: Authors' calculations using the UN Comtrade database

Figure A7. Evolution of Southern and Eastern Mediterranean Countries' imports from the European Union and from the rest of the world (in thousands of USD)









Source: UN Comtrade database

Table A1. Winners and losers: where did employment grow faster?
Percentage growth of sectoral jobs: recent year versus entry into force of AA

	Egypt	Jordan	Morocco	Tunisia
15 Food and beverages	24.3	117.7	108.6	78.2
16 Tobacco products	-13.4	7.0	-46.2	-89.9
17 Textiles	-41.6	-37.8	-3.7	91.0
18 Wearing apparel, fur	-3.5	284.9	4.6	11.2
19 Leather, leather products and footwear	-68.1	28.8	36.6	n.a
20 Wood products (excl. furniture)	-38.3	287.1	37.7	75.9
21 Paper and paper products	20.1	7.1	33.2	86.6
22 Printing and publishing	17.6	61.6	39.8	5.1
23 Coke, refined petroleum products, nuclear fuel	12.5	-24.9	25.0	-8.3
24 Chemicals and chemical products	21.8	127.9	95.2	118.6
25 Rubber and plastics products	2.6	76.0	74.7	121.4
26 Non-metallic mineral products	33.7	44.6	49.4	20.8
27 Basic metals	-6.0	83.5	194.0	-53.7
28 Fabricated metal products	-19.6	142.1	81.2	146.9
29 Machinery and equipment n.e.c.	-28.7	175.3	59.6	153.3
30 Office, accounting and computing machinery	571.9	n.a	114.6	n.a
31 Electrical machinery and apparatus	124.8	222.0	466.4	373.7
32 Radio, television and communication equipment	n.a	n.a	21.9	n.a
33 Medical, precision and optical instruments	n.a	n.a	423.8	n.a
34 Motor vehicles, trailers, semi-trailers	16.8	12.4	367.8	312.0

35 Other transport equipment	-23.5	n.a	592.3	n.a
36 Furniture; manufacturing n.e.c.	28.4	194.4	97.6	33.3
37 Recycling	n.a	n.a	114.3	n.a
Total manufacturing	**0.9**	**115.4**	**65.9**	**85.9**

Source: UNIDO, INDSTAT 2 2021, ISIC Revision 3
Note: The initial year is the year the AA entered into force, i.e. 2004 for Egypt, 2002 for Jordan, 2000 for Morocco and 1996 for Tunisia.

Table A2. ISIC Rev3 nomenclature

ISIC Revision 3 product code	ISIC Revision 3 product description
01	Agriculture, hunting and related service activities
02	Forestry, logging and related service activities
05	Fishing, operation of fish hatcheries and fish farms; service activities incidental to fishing
10	Mining of coal and lignite; extraction of peat
11	Extraction of crude petroleum and natural gas; service activities incidental to oil and gas extraction
12	Mining of uranium and thorium ores
13	Mining of metal ores
14	Other mining and quarrying
15	Manufacture of food products and beverages
16	Manufacture of tobacco products
17	Manufacture of textiles
18	Manufacture of wearing apparel; dressing and dyeing of fur
19	Tanning and dressing of leather; manufacture of luggage, handbags, saddlery, harness and footwear
20	Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials
21	Manufacture of paper and paper products

22	Publishing, printing and reproduction of recorded media
23	Manufacture of coke, refined petroleum products and nuclear fuel
24	Manufacture of chemicals and chemical products
25	Manufacture of rubber and plastics products
26	Manufacture of other non-metallic mineral products
27	Manufacture of basic metals
28	Manufacture of fabricated metal products, except machinery and equipment
29	Manufacture of machinery and equipment n.e.c.
30	Manufacture of office, accounting and computing machinery
31	Manufacture of electrical machinery and apparatus n.e.c.
32	Manufacture of radio, television and communication equipment and apparatus
33	Manufacture of medical, precision and optical instruments, watches and clocks
34	Manufacture of motor vehicles, trailers and semi-trailers
35	Manufacture of other transport equipment
36	Manufacture of furniture; manufacturing n.e.c.
37	Recycling
40	Electricity, gas, steam and hot water supply

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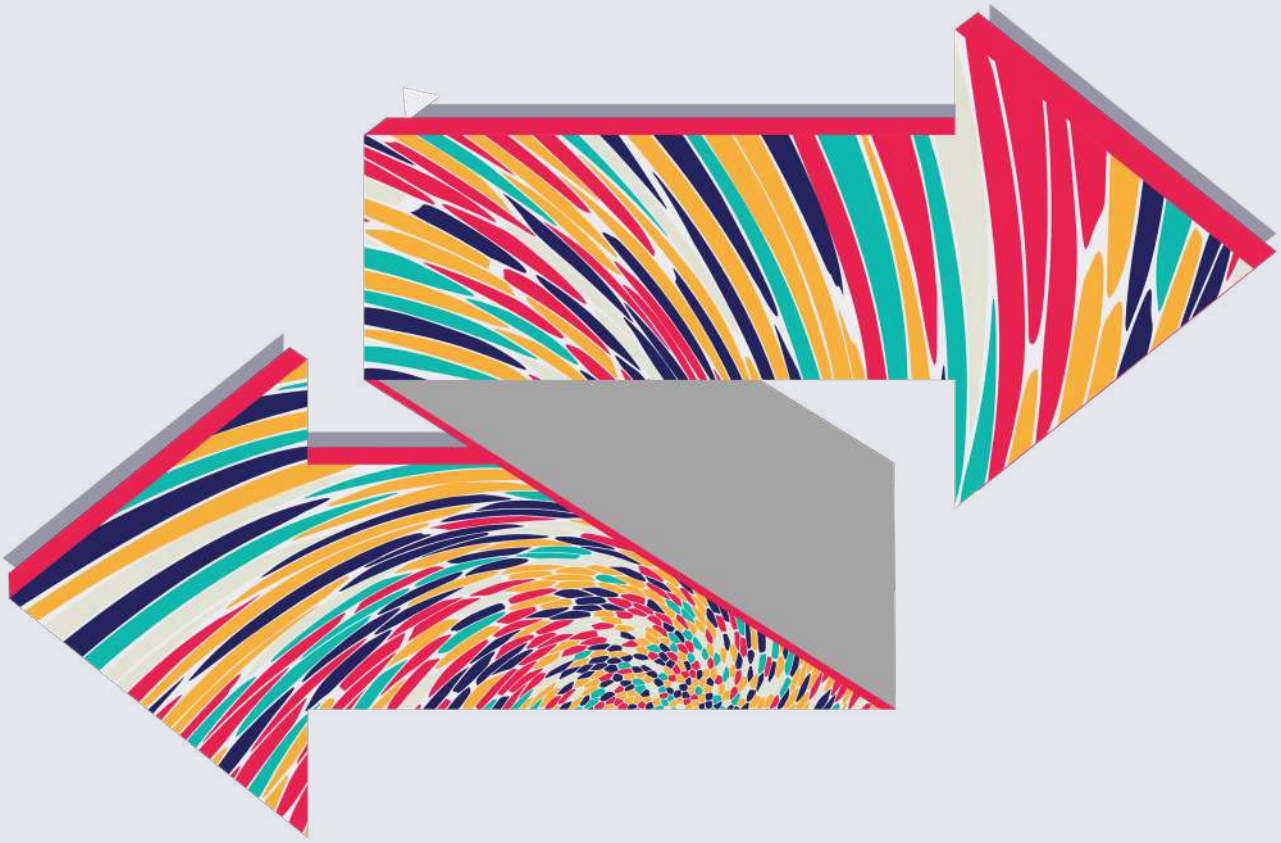
Chapter II

A missing link between trade and jobs?



Key takeaways

- For each of the sectors, **the European Union (EU) has a higher non-tariff measure (NTM) frequency ratio than the Southern and Eastern Mediterranean Countries (SEMCs) and the rest of world (RoW). Nevertheless, it is hard to conclude that these NTMs impacted bilateral trade between the EU and SEMCs and, consequently, affected employment**.

- It is also difficult to determine how the rules of origin may have interfered with the link between trade policy and employment. We can say that **the restrictiveness of the rules and the lack of diagonal, or better, full cumulation has not been conducive to economic growth in SEMCs and has most likely limited the potentially positive effects of openness on job creation**.

- The situation is much clearer when looking into internal factors that affect the trade-to-jobs chain, including the obstacles faced by firms that impede employment creation and the **labour-market rigidities** that impede reallocations.

- **Firms operate in country and regional contexts that may be preventing the possibility of reaping expected economic gains**. This includes poor and inefficient governance, together with a labour-market structure characterized by costly entry and exit of firms, lack of economic mobility, scarcity of capital and high levels of informality.

- Furthermore, in SEMCs, **labour markets are still restrictive and inadequate**. SEMCs have relatively strict regulations when it comes to redundancy plans, particularly with the relatively high severance payments compared to other countries. This leads employers, especially in the private sector, to be reluctant to hire formal and long-term workers, seeking instead to hire workers informally.

- **Volatility of foreign direct investment (FDI), in addition to institutional bottlenecks in SEMCs, help explain why FDI did not generate enough jobs to help reduce unemployment, especially among youth and women**.

As mentioned in Chapter I, there is a need to understand why the expected results of trade liberalization did not fully manifest themselves in the four SEMCs. Could there have been factors affecting trade that altered the results? Could internal factors in SEMCs and the nature of FDI also play a role? This chapter sheds some light on these issues.

The first section will try to provide some explanation as to why the expected favourable results (intermediate goods channels) did not fully manifest themselves in the four SEMCs. It will discuss other factors affecting trade that were not improved and therefore undermined the effects of trade liberalization. The second section will take an in-depth look at how internal factors in SEMCs may have hindered the expected positive effects of trade on their national economies. The third section will look at the nature and evolutions of FDI and possible links with the evolutions of employment.

II.1. Tariff reduction and other trade-related elements: non-tariff measures and lack of trade facilitation

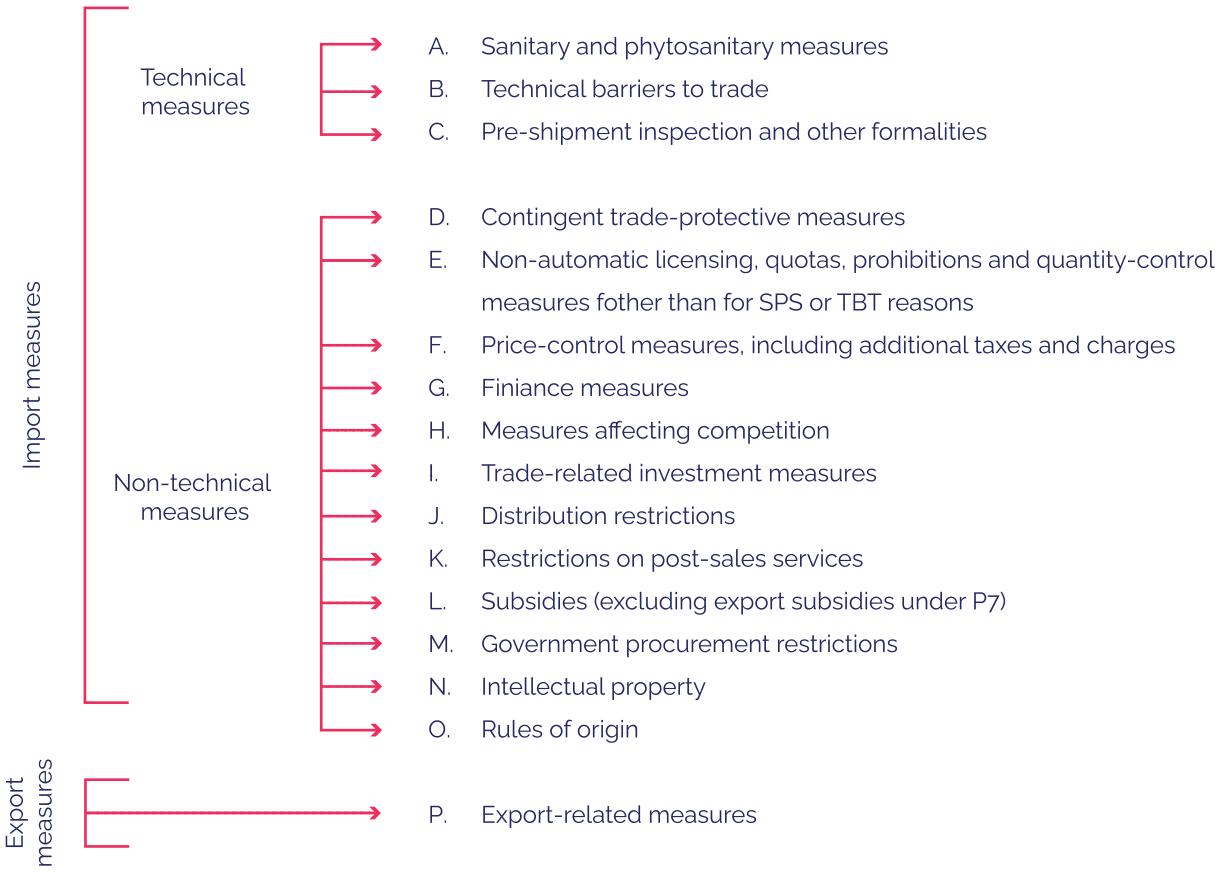
This section provides some explanation as to why the favourable results (intermediate goods channels) that were expected in theory did not fully manifest themselves in the SEMCs. It will discuss other factors affecting trade that were not improved upon and therefore undermined the effects of the free trade agreements (FTAs).

II.1.1. The effects of non-tariff measures

"Non-tariff measures (NTMs) are policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both" (United Nations Conference on Trade and Development [UNCTAD] 2010).

To better identify NTMs and distinguish between their various forms, the United Nations Conference on Trade and Development (UNCTAD) classified them into "chapters" depending on their scope and/or design, each comprising measures with similar purposes. Each chapter is then further differentiated into several subgroups to allow a finer classification of the regulations affecting trade. The NTM classification encompasses 16 chapters (A to P), with each individual chapter divided into groupings with a depth of up to three levels (one, two and three digits). Although a few chapters reach the three-digit level of disaggregation, most of them stop at two digits. Figure 1 sets out the chapters of the NTM classification.

Figure 1. Classification of non-tariff measures (chapters)



Source: UNCTAD Secretariat
Note: Sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT)

Impact of non-tariff measures on international trade: what we know

In practice, **NTMs have the potential to substantially affect international trade, regardless of whether their trade effects are protectionist**. For example, measures such as quality standards, although generally imposed without protectionist intent, may be of particular concern to countries where producers are ill-equipped to comply with them. Properly addressing NTMs so that they do not become obstacles to economic development requires a scenario in which NTMs: (i) do not raise trade costs unnecessarily and (ii) do not alter the playing field in ways unfavourable to developing countries (UNCTAD 2017). The academic literature has a long history showing that **most quantitative and/or regulatory restrictions to trade are often more harmful for economic welfare than import tariffs** (see, for example, Corden 1974; Vousden 1990). However, the growing importance of NTMs requires a better understanding of their trade effects and how their use should be best regulated within the multilateral trading system.

Indeed, NTMs act on both the exports and imports of countries and their effects are complex to analyse.

- On the export side, we can expect both positive and negative effects. When NTMs are put in place or when existing NTMs are replaced by more restrictive NTMs, exports can be impacted:
  - Positively, because product quality improves and production becomes more transparent and more in line with the demand of businesses and consumers in developed countries' markets. We could therefore expect an increase in exported volumes ("traded quantities effect").

  - » Negatively, because to make a product more compliant with new regulations, domestic companies incur costs, which can be passed on to the selling prices ("price effect"). This may result in a loss of competitiveness and a decline in market share on international markets.

- On the import side, the introduction of new NTMs or the replacement of existing NTMs by more restrictive ones generally has a negative effect on imports, at least for the time it takes for foreign companies to adapt to these new regulations.

The theoretical and empirical literature therefore does not say much about the effects to be expected with regards to NTMs.

Focusing more specifically on SEMCs and the EU, Augier *et al.* (2012) showed that, on average, NTMs covered about 40 per cent of the products imported by the SEMCs (from itself or from the RoW) and 50 per cent of total imports. The imports of Egypt and Morocco were the most affected by NTMs. The shares of NTM-affected imports were, however, significantly lower than those of the EU, where 84 per cent of products and 89 per cent of the volume of imports were concerned.

Ghoneim and Péridy (2013) found that NTMs had significant negative effects on imports into Morocco and Tunisia and, especially, Egypt, related to the incidence of sanitary and phytosanitary measures, quantitative restrictions, pre-shipment inspection, and export-related measures. Imports of machinery, electrical products, stone, metal, chemical products and services were also found to be negatively affected by NTMs in all SEMCs. Kamal and Zaki (2018) reported that technical barriers to trade measures had a negative impact on Egyptian firms' market entry and exports of new products and increased the probability of their withdrawal from exporting.

On the other hand, in agriculture, Ramzy and Zaki (2018) showed that more stringent regulations do not hamper, but rather increase, the probability of agriculture trade between EU and Mediterranean countries, for both European and Middle East and North Africa (MENA) exporters.

> **Overall, even though the literature is limited regarding the impacts of NTMs in the context of trade between EU and SEMCs, we can see that some NTMs may be significantly trade-reducing in some SEMCs while some NTMs could also improve trade.**

Non-tariff measures for Mediterranean producers: difficulties expressed by firms

According to a survey conducted by the International Trade Centre (ITC 2014) on NTMs in four selected Arab countries (Egypt, Morocco, State of Palestine and Tunisia), 44 per cent of all trading companies (both exporters and importers) reported facing burdensome NTMs – both within and outside the region. A substantial share of NTMs originate in the home country: 24 per cent for agriculture and 21 per cent for manufacturing. This is in line with ITC findings in other countries and regions, which show that **many barriers originate at home**. Respondent companies revealed that sanitary and phytosanitary measures, technical barriers to trade, conformity assessment measures and rules of origin stand out as particularly difficult to handle and that problems with home-country export measures exacerbate existing trade obstacles. Furthermore, **related procedural obstacles, which increase the cost of compliance, are more problematic than the NTMs themselves**.

- **Sanitary and phytosanitary measures and technical barriers to trade:** Survey respondents perceived sanitary and phytosanitary measures and technical barriers to trade as the most challenging NTMs. More than half (54 per cent) of the NTM cases cited fall into this category, which comprises technical regulations and conformity assessment measures. Companies had many more problems in complying with conformity assessment measures of countries within the region than with technical regulations themselves. Product quality and conformity challenges include: insufficient private sector capacity to comply with technical regulations; difficult labelling requirements; inefficient testing and certification procedures; high certification costs; lack of recognition of certificates and lack of harmonization of standards; lack of transparency of foreign standards and conformity assessment

procedures; lengthy product registration and import authorization procedures.

- **Rules of origin:** Rules of origin pose a major challenge to exporters in the region. Regional and bilateral agreements have established tariff-free market access in principle. To benefit from tariff preferences, companies must prove the origin of their products. Recurrently reported problems include failure to grant preferential treatment, language issues, and inefficiency in issuing the certificates of origin. Numerous exporters report that despite compliance with rules of origin under any or all of the agreements governing trade between two countries, companies are not granted preferential treatment and are obliged to pay tariffs. Indeed, the presence of several FTAs in parallel (the "spaghetti bowl phenomenon") and resulting complex rules of origin create confusion and make it difficult to determine the country of origin, resulting in higher business and administration costs. In addition, companies and exporters do not know the provisions in order to benefit from them (for more details, see Moreno-Dodson 2020).

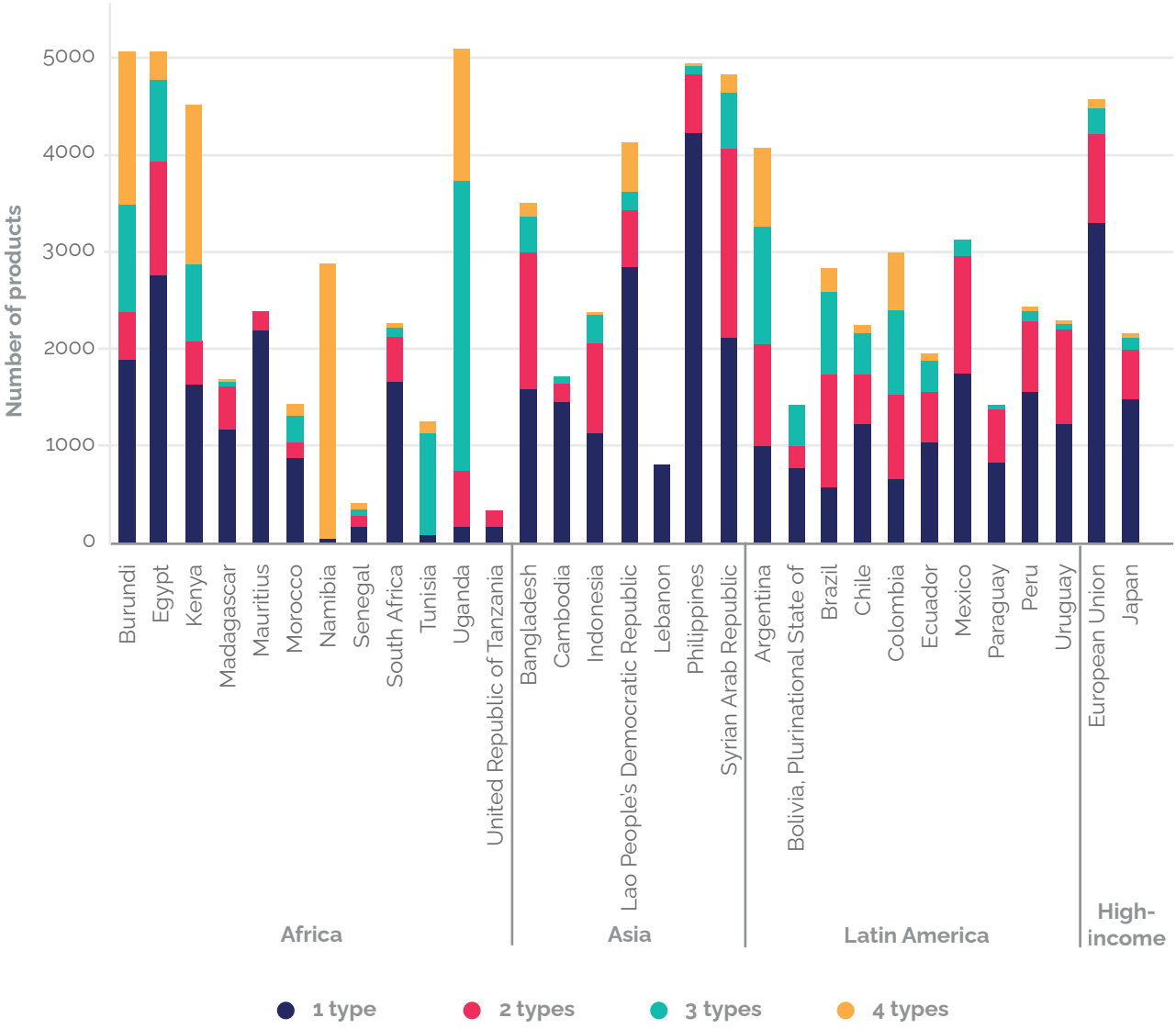
- **Customs clearance and border controls:** Customs authorities may be the single most important trade facilitation body. They balance a mandate of revenue collection, product quality and safety control against smooth import and export procedures. Inappropriate infrastructure is a major challenge, including outdated scanners and missing, ill-equipped or expensive storage facilities. Another challenge is the availability and training of officials, limited service hours and staff shortages for inspections and customs clearance. Procedures change frequently and there is not enough access to customs clearance information and related documents. Businesses also report a lack of coordination and trust between agencies and countries, as well as numerous opportunities for corruption. As a result, custom clearance procedures are perceived as lengthy, bureaucratic and costly.

- **Other NTM challenges:** Other challenges include quantity control measures (such as licences and quotas), charges and taxes, and finance measures (such as regulations on payment terms for imports or on official foreign exchange allocations). Together, these measures represent 25 per cent of challenging NTMs regionally, in contrast to 13 per cent in countries outside the region. Outside the region, the EU market poses the most challenges for quantity control measures on agricultural products. Among export-related measures applied by the home country, businesses are concerned most frequently about export taxes, registration and licensing requirements, and export permits.

Incidence of non-tariff measures in the Southern and Eastern Mediterranean Countries and the European Union

In order to quantify the NTMs, we start by presenting the incidence i.e. the number of products that are affected by at least one NTM in SEMCs (data for Jordan are not available), in the EU and in other countries in order to obtain comparisons (Table 1). The table reveals that the SEMCs do not apply more NTMs than the other countries listed. The SEMC with the largest number of products where at least one NTM is applied is Egypt (5,014), followed by Morocco (1,417) and Tunisia (1,244). The EU imposes NTMs on about 4,500 products. While the number of products facing at least one NTM is lower in Egypt, Morocco and Tunisia, the number of products facing three or four types of NTMs is higher in these countries than in the EU (Figure 2).

Figure 2. Number of products affecting harmonized systems six-digit products



Source: UNCTAD Secretariat

Turning our attention to the number of NTMs applied by each country, Table 1 shows that the total number of NTMs in the SEMCs studied and the EU falls below most comparator countries (158 for Jordan, 387 for Morocco, 412 for Tunisia and 417 for the EU, compared to 7,203 for China, 6,628 for the USA, 3,606 for Peru, 1,284 for Chile, 964 for Indonesia and 865 for Mexico). In terms of the number of measures, there is not much difference between the SEMCs studied (with the exception of Jordan, which has a low number) and the EU. Moreover, as for all countries, it is in the category of sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT) that a large part of the NTMs is concentrated.

Table 1. Number and type of non-tariff measures (2019)

Country	CTPM (%)	EXP (%)	INSP (%)	OTH (%)	PC (%)	QC (%)	SPS (%)	TBT (%)	Total NTM
Algeria	0 (0.0)	13 (4.5)	4 (1.4)	1 (0.3)	1 (0.3)	34 (11.8)	114 (39.4)	122 (42.2)	289 (100)
Morocco	0 (0.0)	42 (10.9)	4 (1.0)	1 (0.3)	6 (1.6)	35 (9.0)	208 (53.7)	91 (23.5)	387 (100)
Tunisia	0 (0.0)	87 (21.1)	21 (5.1)	12 (2.9)	46 (11.2)	36 (8.7)	94 (22.9)	116 (28.2)	412 (100)
Lebanon	0 (0.0)	56 (12.0)	29 (6.2)	8 (1.7)	7 (1.5)	50 (10.7)	193 (41.3)	124 (26.6)	467 (100)
Jordan	0 (0.0)	29 (18.4)	0 (0.0)	2 (1.3)	5 (3.2)	33 (20.9)	73 (46.2)	16 (10.1)	158 (100)
EU	0 (0.0)	2 (0.5)	6 (1.4)	2 (0.5)	0 (0.0)	36 (8.6)	98 (23.5)	273 (65.5)	417 (100)
Mexico	70 (8.1)	131 (15.1)	3 (0.3)	1 (0.1)	3 (0.3)	139 (16.1)	180 (20.8)	338 (39.1)	865 (100)
USA	0 (0.0)	216 (3.3)	415 (6.3)	1 (0.0)	39 (0.6)	184 (2.8)	3,194 (48.2)	2,579 (38.9)	6,628 (100)
Chile	2 (0.2)	28 (2.2)	8 (0.6)	0 (0.0)	12 (0.9)	122 (9.5)	850 (66.2)	262 (20.4)	1,284 (100)
Peru	12 (0.3)	31 (0.9)	7 (0.2)	0 (0.0)	10 (0.3)	255 (7.1)	3,149 (87.3)	142 (3.9)	3,606 (100)
Indonesia	0 (0.0)	130 (13.5)	53 (5.5)	12 (1.2)	18 (1.9)	81 (8.4)	239 (24.8)	431 (44.7)	964 (100)
China	0 (0.0)	1,013 (14.1)	111 (1.5)	58 (0.8)	51 (0.7)	308 (4.3)	1,612 (22.4)	4,050 (56.2)	7,203 (100)
World	324 (0.4)	7,668 (10.5)	1,701 (2.3)	320 (0.4)	1,450 (2.0)	6,337 (8.7)	29,467 (40.4)	25,723 (35.2)	72,990 (100)

Source: UNCTAD TRAINS NTMs database (https://trains.unctad.org/)
Note: The non-bracketed figures denote the number of measures, while the bracketed numbers denote the individual NTM categories as a share of the total number of NTMs.
Notes: CTPM (Contingent Trade-protective Measures), EXP (Export-related Measures), INSP (Pre-shipment inspections & other formalities), OTH (Other), PC (Price-Control Measures), QC (Quality Control Measures), SPS (Sanitary and Phytosanitary Measures), TBT (Technical Barriers to Trade)

Sectoral frequency of non-tariff measures in Southern and Eastern Mediterranean Countries and the European Union

Finally, the incidence and the number of NTMs give little information about their potential impact on trade. To provide additional information, we used the "frequency index", which measures the percentage of imported products (at the harmonized systems [HS] six-digit level) to which at least one NTM applies, in a given group of HS two-digit products. We calculated this ratio by sector, comparing the results obtained for each of the SEMCs, the EU and the RoW. The results are shown in Figure 3, which highlights several facts:

- First, for each of the sectors, **the EU has a higher frequency ratio than the SEMC and the RoW**. For all products, the EU frequency ratio is almost 94 per cent, compared to 58.17 per cent for Tunisia, 44.5 per cent for Morocco, 39 per cent for Jordan and 41 per cent for the RoW. Among the 16 sectors, 14 have a frequency ratio above 80 per cent. The only two sectors below 80 per cent are fuel products (66.7 per cent) and minerals (57 per cent). These very high EU frequency ratios mean that almost all goods imported by the EU face at least one NTM.

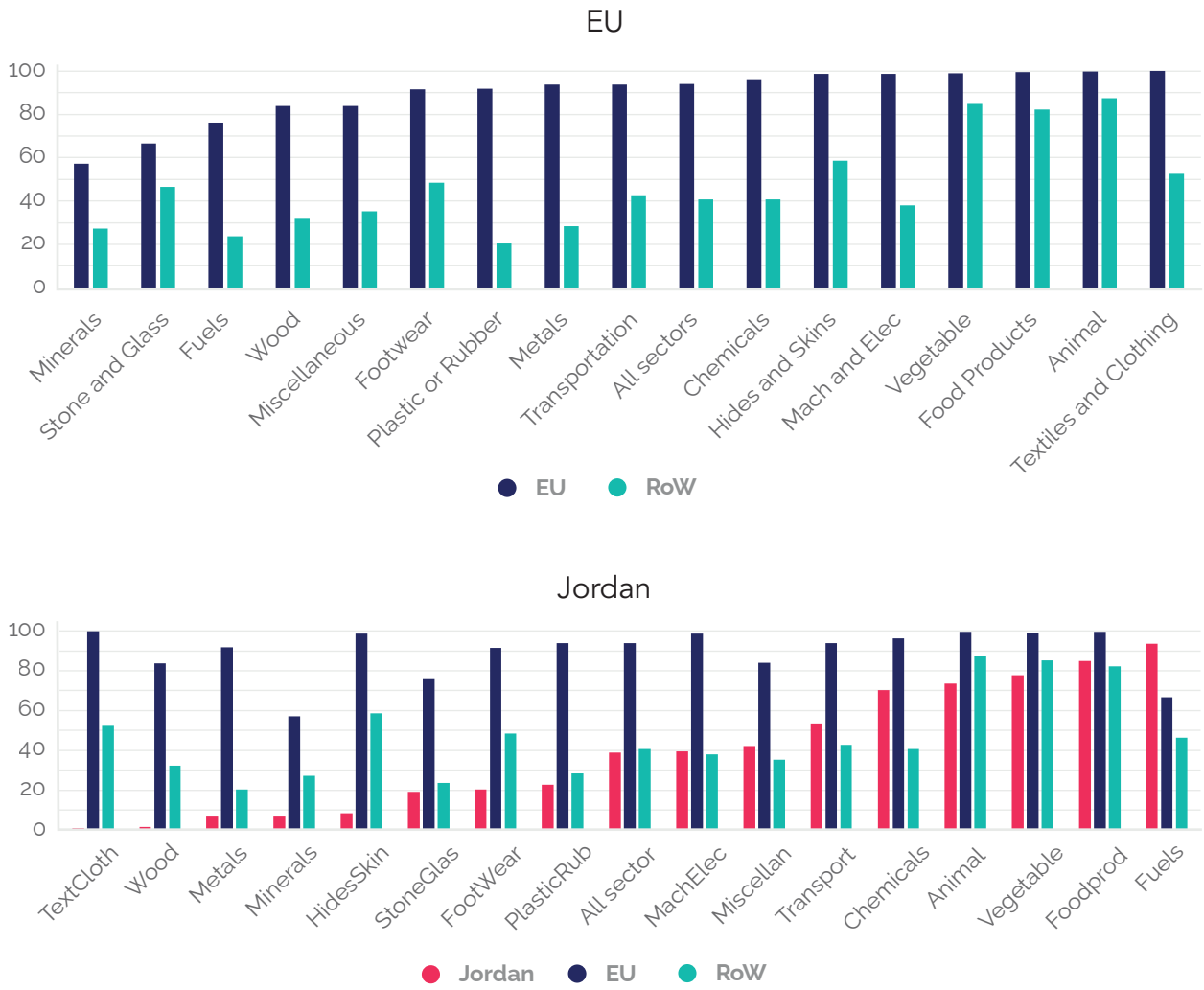
- Second, across the SEMCs studied, we find a high frequency of application of NTMs to imports **in the three agrifood sectors: Animal Products, Vegetable Products and Food Products**. Since these are not the key sectors of the EU's comparative advantage, the potentially negative impact of NTMs applied in SEMCs on these products may be mitigated. However, for SEMCs, these sectors are generally an important area of comparative advantage. Moreover, this sectoral distribution of NTMs makes sense if we consider their consumer protection role. Among the sectors in which imports bear the fewest NTMs, we find for the SEMCs studied the Mineral and Metals sectors.

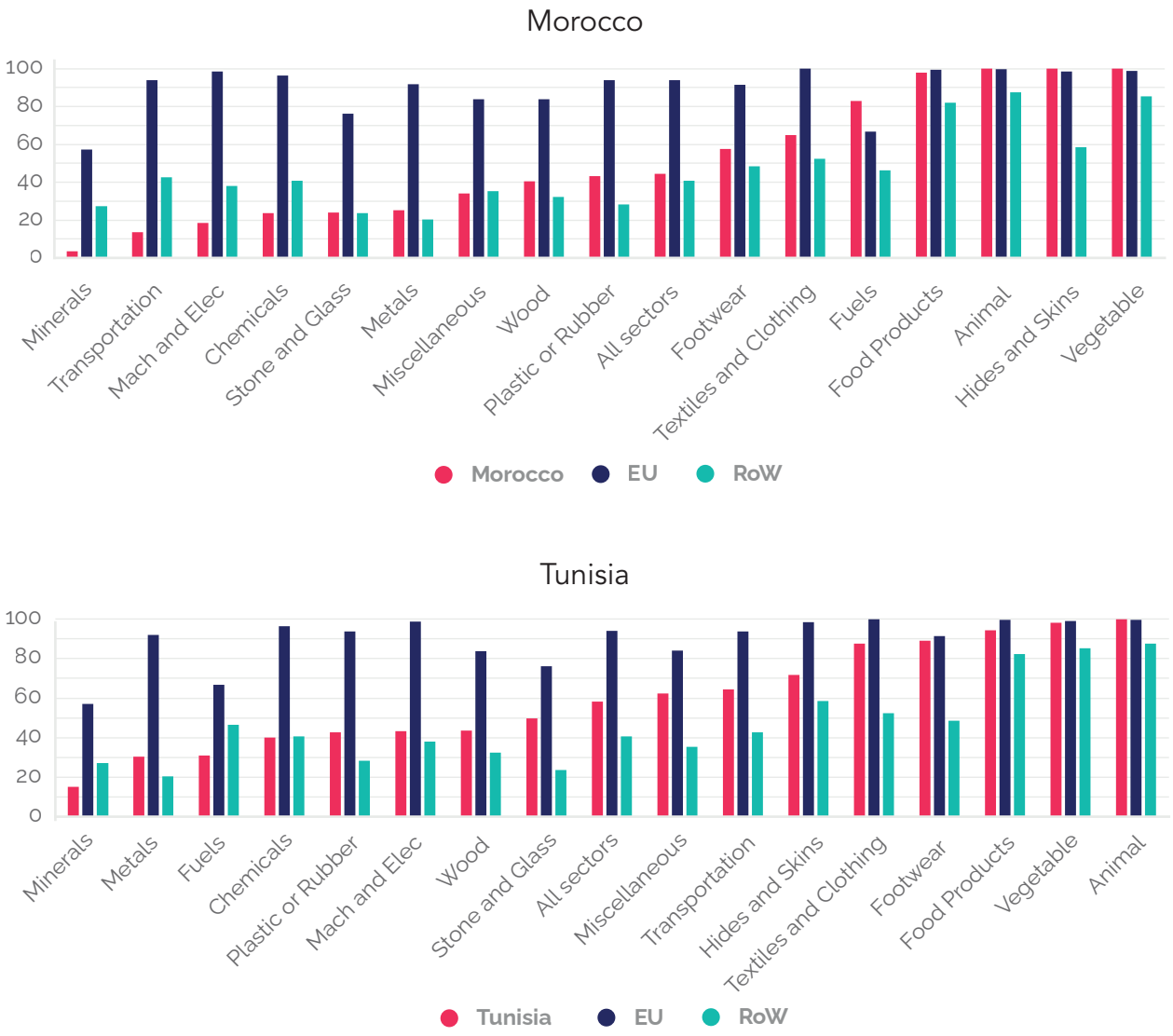
- Third, **Jordan exhibits the lowest frequency ratios**. Five sectors are between 0.98 per cent and 8.4 per cent (Textiles and Clothing; Wood; Metals; Minerals and; Hide and Skin Products) and five others are between 19.23 per cent and 42.3 per cent (Stone and Glass Products; Footwear; Plastic and Rubber Products; Machinery and Electrical and; Miscellaneous). Only six sectors have frequency ratios above 50 per cent (in addition to Food Products, Vegetables and Animal Products, we find Fuels, Chemicals and Transport).

- **In Morocco, in addition to the three agrifood sectors, two other sectors have high frequency ratios: the Hides and Skin sector (100 per cent) and the Fuels sector (82.66 per cent)**. The frequency ratios of the other sectors are between 65 per cent and 34 per cent (Textiles and Clothing; Footwear; Plastic and Rubber; Wood and; Miscellaneous) or between 25.29 per cent and 3.66 per cent (Stones and Glass; Chemicals; Machinery and Electrical and; Transport in addition to Metals and Minerals).

- **In Tunisia, Footwear and Textiles and Clothing are, alongside the three agrifood sectors, among those with high frequency ratios (above 71.64 per cent)**. Six sectors have more moderated ratios i.e. between 64.35 per cent and 39.95 per cent (Transport; Miscellaneous; Stone and Glass; Wood; Machinery and Electrical and; Chemicals). Finally, only three sectors have frequency ratios between 31 per cent and 15.19 per cent (Fuels, Metals and Minerals).

Figure 3. Non-tariff measures: frequency ratio by sector. Comparison between the European Union, Southern and Eastern Mediterranean Countries and the rest of the world





Source: UNCTAD TRAINS NTMs Database (https://trains.unctad.org/)

These figures show that in the EU market, the sectors characterized by a high frequency index (such as Food; Vegetables; Textiles and Clothing; Animals; Hides and Skins and; Chemicals) are also areas where SEMCs generally have a comparative advantage in international markets. This makes their exports to the EU more sensitive to the potentially negative impact of NTMs.

In addition, the European market is the main destination of products exported by SEMCs, whereas the market of these Mediterranean countries represents only a small share of European exports. Generally, business representatives in SEMCs consider that the costs of entering the EU market are relatively high as a result of the EU's high standards and technical requirements (NTMs). Others pointed to the fragmented nature of the EU market (and thus relatively high costs of entering and remaining in the market) because of the differences not only in rules and regulations but also in business culture between different Member States (Directorate-General for Trade [DGTRADE], Center for Social and Economic Research [CASE], Ecorys and Euro-Mediterranean Forum of Economic Institutes [FEMISE] 2021).

Overall, even if the EU uses NTMs more frequently than SEMCs across the different sectors and even if standards and regulations applied by the EU are also often regarded as more demanding that those applied in less-developed countries, **it is not possible to conclude that these NTMs impacted bilateral trade between the EU and SEMCs and, from there, potentially employment**.

II.1.2. Rules of origin

Rules of origin determine which goods can benefit from preferential treatment. The "origin" refers to the "economic nationality" of the goods traded. Origin procedures ensure that customs authorities can verify the origin of a good and allow businesses to prove the origin of their goods. When all the necessary requirements are met, goods with preferential origin are eligible to be imported with lower duty rates, or even a zero rate, depending on the preferential tariff treatment. The rules of origin in the FTAs and in possible intraregional agreements are important because they will help determine the potential for trade diversion resulting from the FTAs (Hoekman and Djankov 1996a, 1996b). While rules of origin can improve market access and foster regional trade, they may also be restrictive and lead to significant costs and reduction in trade volumes.

The EU tends to have the most restrictive rules. Preferential rules of origin apply only in reciprocal trade preferences between the country and the EU without regional cumulation. As the FTAs with SEMCs were initially based on a process of bilateral cumulation, the benefits of this type of cumulation may have been limited, as it "imposed" the EU as the main supplier of inputs (which was not necessarily the cheapest option).

In addition to the lack of rule of origin cumulation among the SEMCs, other sectoral and specific barriers might apply. The *Ex-post Evaluation of the Impact of Trade Chapters of the Euro-Mediterranean Association Agreements* (DGTRADE, CASE, Ecorys and FEMISE 2021) found **limited evidence for rules of origin being a major barrier for SEMC exports overall**. For example, the double transformation rule applicable in the Textile and Clothing sector has been the most criticized and has been flagged by several regional industry representatives in the SEMCs. The rule nevertheless affects the extent to which these countries can use imported inputs from outside the Euro-Mediterranean region undermining their competitiveness in the EU market vis-à-vis producers from less-developed countries, notably from Asia and Africa. Indeed, SEMCs cannot benefit from cumulation of origin with the countries outside the region and which already benefit from some flexibilities offered by the EU. For example, the EU imposes the double transformation on Tunisian textile and clothing products exported to the EU even if the raw material is imported from a country that already enjoys a single transformation from the EU if it is exported directly to the EU zone.

Box 1. Simplification of rules of origins in Jordan: opportunities and limits

In 2016, the EU adopted the single transformation in Jordan. The EU relaxation decision (No.1/2016) relaxed origin requirements for certain goods produced in Jordan for a ten-year period until 31 December 2026 to alleviate the refugee crisis in the country and improve Jordan's export to the EU market. Products with relaxed requirements include petroleum products, fertilizers, some chemical and plastic products, articles of leather, textiles and apparel. The manufacturing from fabric process is sufficient to confer origin on Jordanian apparel, which amounts to a temporary replacement of the double transformation rule by a single transformation rule. Yet, the EU decision limits the beneficiaries who must be located in designated special development zones and industrial areas, thereby limiting preferential market access.

In qualifying zones, the total workforce of each production facility should contain at least 15 per cent of refugees in the workforce during the first and second years and at least 25 per cent from the third year, with the aim of creating 200,000 job opportunities for Syrian refugees. According to De Melo (2020), this could be equivalent to a quota on exports eligible for preferential market access, since beneficiaries must be located in designated special economic zones. Furthermore, companies operating outside the designated areas will have to incur costs to move operations if they wish to benefit from preferences.

With the aim of modernizing the Pan-Euro-Mediterranean Convention on rules of origin and standardizing rules of origin with improved cumulation provisions in all its Euro-Mediterranean Partnership Agreements, the EU has recently proposed a new package for its Euro-Mediterranean partner countries. This includes 21 proposals for Council Decisions that will provide for more user-friendly rules of origin in the EU's trade agreements with most of its neighbouring countries. The provisions of the modernized Pan-Euro-Mediterranean (PEM) rules that entered into force on 1 September 2021 in the majority of PEM countries will make it easier for products to benefit from trade preferences. These include:

- simpler product-specific rules, such as the elimination of cumulative requirements, thresholds for local value added, better adaptation to EU production needs, and new double transformation for textiles
- increased thresholds of tolerance for non-originating materials, from 10 per cent to 15 per cent
- the introduction of "full" cumulation, under which the manufacturing operations needed to acquire origin for most products can be divided among several countries
- the possibility of duty-drawback (repayment of duties on imported components) for most products to help EU exporters compete.

Following several rounds of discussions, the four SEMCs accepted to take part in this process in order to benefit from the cumulative origin between these countries and facilitate access to the EU market. While Jordan agreed to implement the revised rules on a bilateral basis from 1 September 2021, other countries are at different stages of the adoption process.

Overall, it is difficult to determine how the rules of origin may have interfered with the link between trade policy and employment. Certainly, **the restrictiveness of the rules and the lack of diagonal, or better, full cumulation have not been conducive to economic growth in SEMCs and have most likely limited the potentially positive effects of openness on job creation**. On this point, we can only recommend that the process of simplification and harmonization of rules be continued and that the system of full cumulation be extended to the pan-European zone in order to encourage increased trade, especially in intermediate goods between "spoke" countries (the "hub country" being the EU and the spokes countries all the neighbouring countries).

Euro-Mediterranean FTAs and the tariffs reduction have not led to major export growth rates in the SEMCs nor to changes in the patterns of trade, which remain relatively limited and insignificant for the EU. On the other hand, tariffs have been replaced by NTMs that have created imbalances and prevent small businesses from growing and being sustainable and thus creating jobs. SEMCs created distortions by protecting certain sectors (such as agriculture and agrifood sectors, as well as services that have been excluded from the agreement) and liberalized other sectors (industry) without putting in place the necessary reforms and infrastructure to enhance exports. This has indirectly had a negative impact on the industrial sector (since imported products are of better quality) which, in order to survive, is becoming increasingly capital-intensive to compete. Traditional industries have not been able to make their structural transformation towards higher value added content and more innovation because the priority is to maintain jobs and there are rigid employment laws, as we will see in the next section.

II.2. Internal factors preventing trade from having a positive impact on labour in the region

This section provides an in-depth look at how internal factors in SEMCs may have hindered the expected positive effects of trade on their national economies. As we saw in Chapter I, trade may have a positive effect on growth. However, this is not automatically the case; it also depends **on a set of factors, including internal conditions i.e. the absorption capacity of the host country and its firms**, such as its human capital's[1] level of research and development, the quality of its infrastructure, the functioning of its financial market,[2] the managerial quality of company managers, the country's production structure, and the general business environment. Therefore, this section will be looking into such internal factors that affect the trade-to-jobs chain. It will do so through two subsections: one focusing on the context faced by firms that undermines employment creation and one focusing on labour-market developments that impede reallocations.

II.2.1. A global context preventing firms reaping expected economic gains

1. Governance and institutional efficiency

The capacity of the government to effectively formulate and implement sound employment policies affects the extent to which the country can benefit from the positive impact of FTAs. Meanwhile, poor and inefficient governance may have a detrimental impact on any reform efforts and negatively affect public perception, which can in turn negatively affect the labour markets. In this section, we discuss the main governance and institutional efficiency performance indicators in the Southern Mediterranean region and explore how that reality relates positively or negatively to countries' labour supply to trade.

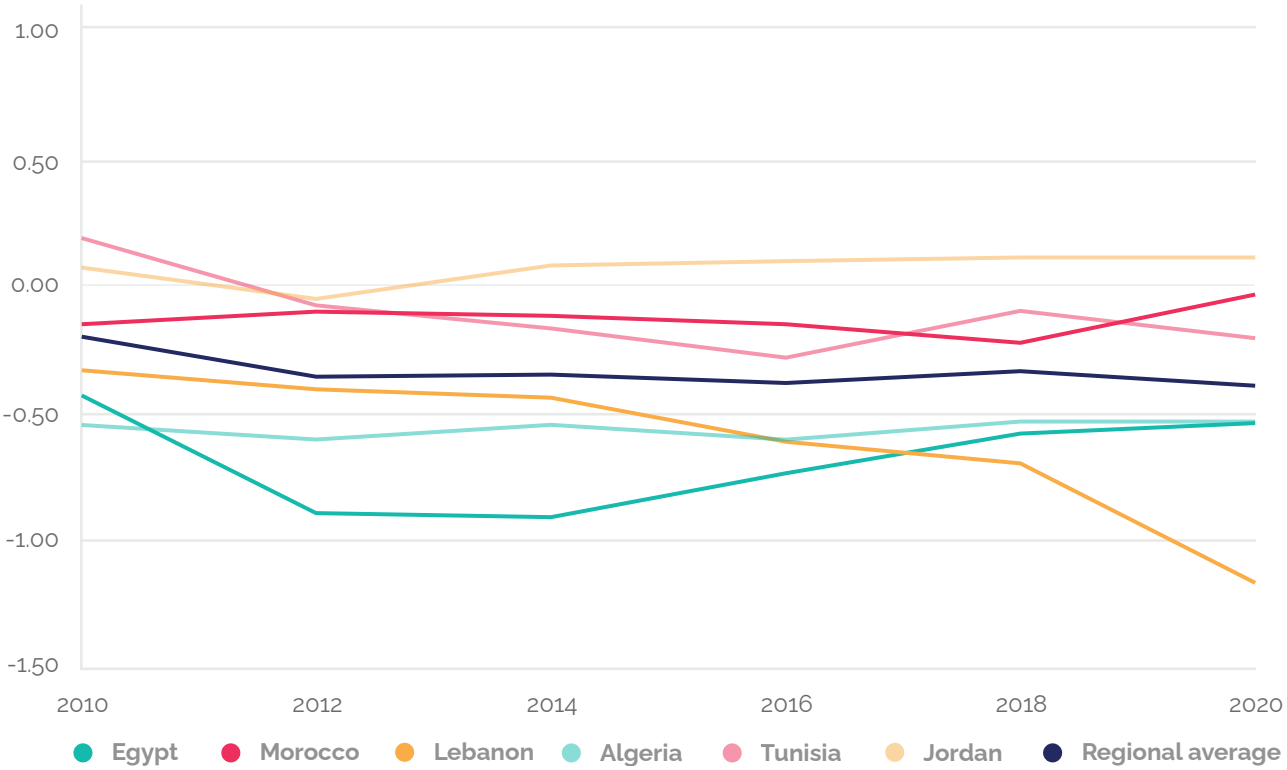
- **Government effectiveness:** The index[3] captures perceptions of the quality of public services, the quality of the civil service and the degree to which it is independent from political pressures. Most importantly for the purpose of this section, it captures the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies, including employment policies but also policies that specifically mitigate the effects of trade on labour markets. Compared to similar developing regions, the performance of SEMCs in terms of government effectiveness is subpar. As Figure 4 shows, in 2020, the regional average was -0.39 points compared to 0.87 points on average for sub-Saharan countries. The figure also shows the individual country performance since 2014, with Jordan being the SEMC that steadily achieved the highest score since 2012, followed by Morocco and Tunisia. Poor governance, as reflected by the index, directly affects the business environment and the potential for trade-related job creation.

1 Borensztein, De Gregorio and Lee (1998) show that countries receiving FDI could benefit from the technology provided by multinational companies only when they had a minimum threshold of human capital. This result has been confirmed by several recent studies such as Malikane and Chitambara (2018).

2 Limited access to financing and/or liquidity constraints prevent companies from benefiting from the presence of multinational companies. See for example Alfaro *et al.* (2010), Javorcik and Spatareanu (2008).

3 Government effectiveness index (-2.5 weak; 2.5 strong)

Figure 4. Government effectiveness by country (2010–2020)



Source: Worldwide Governance Indicators, World Bank

- **Educational systems:** The indicator encompasses the vital role of education systems in providing an adequate source of labour supply that is required in the trade-to-jobs chain. There are, however, numerous and complex dimensions of education–labour-market linkages. Many studies have explored the relationship between education and labour in the MENA region and have found that there is indeed a mismatch overall, not only in terms of numbers but also in terms of skills needed. In Egypt for instance, every year 790,000 graduates compete for over 200,000 jobs. Meanwhile, 30 per cent of graduates believe that their skills are not relevant to the labour market and more than 60 per cent of employees are not working in their specializations (Salama 2012). A report by the European Commission (2013) reveals that SEMCs are particularly affected by education mismatch mainly due to the segmentation of labour markets, the high degree of informality, and unequal unemployment distribution across groups and regions.

2. Southern and Eastern Mediterranean Countries' market structure

The relationship between international trade and labour supply is also very much affected by the market structure and the degree of market liberalization and competition. Competition policies are meant to shape laws and regulation to maintain fair market competition and restrict abusive practices by regulating anticompetitive firms' behaviour. In addition to their benefits on the market mechanism and economy as a whole, the literature has shown that pro-competitive policies, especially stricter antitrust laws and regulations, can have a positive (and causal) effect on trade (particularly on exports) (see, for example, Kee and Hoekman (2002)). Some of the issues that are linked to the competition policy at the national level include: industrial policy, State-owned enterprises, and competitive neutrality. At the global level, there are issues related to, for example, international competition laws, intellectual property rights, monopolization and competition in digital markets.

In the MENA region and more specifically the SEMCs, the market structure is characterized by (i) costly entry and exit of firms, (ii) lack of economic mobility (including labour markets), (iii) scarcity of capital, (iv) high level of informality, (v) corruption, (vi) high market concentrations, (vii) politically connected private companies; and (viii) dominance of State-owned enterprises (El Heidi Lahouel 2000; Arezki *et al*. 2019). It is clear that injecting more competition into these markets will have an important benefit for the economy and will ease the constraints on job creation. This section will focus on two aspects: the status of competition law and the impact of State-owned enterprises on job creation and trade in the SEMCs.

- **Link between competition laws and international trade:** The current literature identifies two channels for the direct impact of competition policy on international trade. First, **changes in competition policy affect market access for domestic and foreign firms**, due to the lower costs of entry. This leads to the ability of foreign firms to access, operate and compete effectively in the export markets. Second, **competition policy affects many features of industrial organizations** that are considered important trade determinants, by facilitating entry and leading to a "positive firm selection".

  This in turn results in an increase in the number and variety of firms in a given sector, thereby increasing competition and leading to lower price mark-ups (an important determinant of trade), higher static and dynamic efficiency, and increased productivity, research and development (R&D) and innovations. There are also some indirect impacts of competition policy on trade through the impact on transportation and communication costs (details are provided in the following section), the impact of the combination of antitrust law actions and deregulation of the banking and finance sectors. At the same time, trade agreements can also have an impact on competition laws as the latter could be used to make changes to the former to ease access conditions to international markets.

  Some studies consider a loose competition policy as a tariff (or non-tariff) barrier to trade (Luniku 2014). This link is confirmed by a large amount of empirical evidence (Bliss 1996; Nagaoka 1998; Yano 2001; Kee and Hoekman 2002; Broda and Weinstein 2006; Francois and Wooton 2010). Despite this close relationship between competition policy and trade, there is still no general agreement on a competition policy in the international trading system. Provisions related to competition polices are incorporated in all World Trade Organization (WTO) agreements such as the General Agreement on Tariffs and Trade (GATT), the General Agreement on Trade in Services (GATS), the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) and the Agreement on Trade-Related Investment Measures (TRIMS Agreement). Meanwhile, most bilateral and regional trade agreements (RTAs) include a chapter on competition policy.

- **Status of competition laws in SEMCs:** In the South Mediterranean region, five out of six countries have explicit competition laws in place (Algeria, Egypt, Jordan, Morocco and Tunisia) which were issued between 1990 and 2010. Lebanon, however, has not adopted a competition law. These laws have been amended at least once over the decades. In addition, all countries of the region possess a competition authority that regulates the market dynamics (annex, Table A1). These agencies have general authorities to request information, conduct inspections and seize documents. To be able to function properly, they should be independent and able to make decisions with no pressure (either from the public or the private sector).

While the presence of competition laws is a good step towards ensuring fair competition, their enforcement is essential to obtain positive results. However, in SEMCs, there are some exemptions with regards to the application of these competition laws in some sectors (annex, Table A2). Meanwhile, other practices could also contribute to undermining the power these bodies should have. These practices include (Arezki *et al*. 2020):

- Specific seats/positions in the board of those entities are reserved for senior officials from the

judicial branch (Algeria, Morocco and Tunisia) or the executive branch (Egypt, Jordan and Morocco).

- Except for Tunisia, board members in all SEMCs are appointed for two to five years, with the possibility of renewal more than once.
- Except for Egypt, employees in those entities are not protected against firing that is based on their personal or political interests.
- Except for Algeria, board members are allowed to occupy other private or public positions during or after their work at the competition authority, which allows for conflict of interests and misuse of power for personal gains. In Egypt, the only case in which board members are not allowed to work for companies is if these companies are part of an official investigation during the members' time at the entity.
- Although all SEMCs grant their competition entities the right to appeal, most of them lack fair and complete regulations of proceedings to guarantee that the parties on the defence side under any investigation will receive just and evidence-based assessment and judgment.
- The investigation entity and the decisions entity are not divided into two separate bodies. Except for Egypt and Jordan, all SEMCs have these two functions assigned to their competition authorities.
- SEMCs are not open and timely in publishing details of decisions on cases, the entities' strategic plans, objectives and priorities, their budget, employment, investments, and so on. All SEMCs publish their annual reports yet they do not necessarily make them accessible on their websites nor do they include the required level of detail regarding their decisions.

One important point to add relates to the role played by the State-owned enterprises in the market as they control a large portion of the labour force in SEMCs. Other than their key role in providing public services to the population, they also contribute by producing goods and other services and contribute to market stabilization (annex, Table A3). However, their dominance leads to a lack of competition and crowding out of the private sector. More important than the number of firms in each of these sectors is their market share within the sector, which could be quite considerable in some cases, in addition to the fiscal cost (explicit and contingent), as well as their governance model and the obstacles they pose to emerging private firms. Based on their important role in creating jobs and contributing to growth, there has been a call for reforms to unlock their potential and to allow them to be involved in enhancing competitiveness in the economy.

Box 2. Competition law and its enforcement in selected Southern and Eastern Mediterranean Countries

Egypt: Issued in 2005 and amended in 2014 and 2015, the competition law in Egypt ensures that competitive markets flourish through the coverage of all industries (both private and public) as well as the prohibition of anticompetitive agreements and any misuse of a monopoly of dominance. The law is currently being reviewed by parliament to enhance its enforcement and allow the competition authority to better carry out its designated tasks. These amendments include having an impartial board and more autonomy over its budget and further promoting transparency practices.

Jordan: The competition law in Jordan was issued in 2002 and amended in 2011. In addition to the prohibition of agreements that do not promote competitiveness and encourage misuse of monopoly, the law grants the competition entity in Jordan the power to control mergers and to limit any negative spillovers of market consolidation. The competition directorate still faces some challenges in terms of limited resources, independence and some ambiguous regulations and procedures, especially when it comes to merging. The Jordanian Government aims to strengthen the role of the directorate by 2025 to be able to face some of the anticompetition issues present in the markets.

Tunisia: In 1997, the competition law in Tunisia was passed, but the country faced many challenges in implementing it until the 2015 amendment was issued. Among other improvements, the 2015 law reinforced the powers given to the competition council, enhanced transparency to some extent, refined the criteria of grant exemptions following the EU best practices and increased fines. Although a second regulation was approved to ensure proper implementation of the amendment, other measures need to be in place to comprehensively address the present challenges, such as regulatory barriers to entering and competing in the market.

II.2.2. Labour market in the Southern and Eastern Mediterranean Countries and obstacles to reallocations

The relationship between trade and jobs has been the subject of many studies. In order for the trade-to-jobs chain to be effective, labour markets must be flexible and workers must be able to shift across sectors and regions to meet the increasing demands created by trade. A number of ideas concerning the relationship between trade and jobs have been researched extensively. First, the idea that the more flexible labour markets are, the more likely that trade liberalization will have a positive effect on employment and wages. Second, that more imports would lead to jobs losses while more exports would lead to job creation, but this has not proved to be straightforward.

The literature on developing countries also shows that the benefits of employment and wages that FTAs yield have been biased towards skilled workers, something which is associated with increased complexity of global supply chains, as well as increased use of skill-intensive inputs, mainly services, leading to higher wage inequality. In addition, new emerging trends, including automation and digitization, may further deepen this bias (Hollweg 2019).

This close relationship between trade and jobs has initiated proposals to strengthen collaboration between the WTO and the International Labour Organization (ILO) to deepen relations between trade and labour norms.[4] There are recent trends to incorporate clauses within FTAs that commit countries to adhere to national and/or international labour standards, laws or conventions. This has been the case in recent EU FTAs where sustainability development chapters (involving provisions to protect and promote labour standards, as well as provisions to protect the environment) have become a standard part of the agreements. These seek to ensure that competitive advantage in trade is not gained through poor labour laws, indecent jobs and labour outcomes. However, in many cases, they are not properly enforced.

The expected positive outcome of trade on the labour markets assumes mobility across firms, sectors and regions. However, internal and regulatory obstacles make job reallocation more difficult, moving workers from non-tradable (and redundant) sectors towards filling jobs in the export sectors. This not only affects the expansion of exports but also may lead to a negative distributional effect on both employment and wages.

Labour markets in the MENA region have been facing persistent challenges with the following major characteristics:

- high rates of unemployment, particularly among youth, who saw the highest unemployment rate in the world of about 26 per cent in 2019 (World Bank Development Indicators[5])

4 The proposal to establish a "committee on trade and decent work" that ensures labour discussions under the Trade Policy Review, the WTO's mechanisms for review of national trade policies, has been supported by the EU.

5 https://databank.worldbank.org/source/world-development-indicators

- low participation of women, averaging about 20 per cent (World Bank Development Indicators)
- high rates of informality, reaching about 80 per cent in Egypt's private sector and 70 per cent in Jordan
- still-high public sector employment accounting for 25 per cent with a high wage bill of 32 per cent of total government spending (higher than any region in the world) (World Bank Development Indicators 2022)

The COVID-19 crisis caused an economic downturn that has further affected the labour markets.

1. Overview of labour-market regulations in Southern and Eastern Mediterranean Countries

Labour-market regulations are meant to provide necessary tools for both employers and employees to govern their relationship in a way that secures their mutual benefits and rights. However, in some cases they could lead to poor labour performance if they are not adequately formulated to meet the market needs and/or become too restrictive. There is evidence that both over and under regulations should be avoided (Kuddo, Robalino and Weber 2015). Restrictive regulations could lead to raising the hiring costs and restrict workers' reallocation to more-productive jobs or from non-tradable to tradable sectors. This would reduce productivity and impede efficient resource allocation, which could have serious implications, particularly in the post-COVID-19 recovery era where workers and jobs are expected to adapt quickly to meet new needs at the domestic or international levels.

In the MENA region, and despite important progress in the past few years, the labour markets are still considered to be restrictive and inadequate (Selwaness and Zaki 2017; Cho *et al.* 2012; Angel-Urdinola and Kuddo 2010). This has had several implications on restricting the expected positive impact of economic reforms and trade liberalization on job creation and employment. At the same time, as countries in the region are looking towards better integration in regional value chains in the post-COVID-19 recovery plan, restrictive labour-market regulations will hinder this plan moving forward.

1. **Hiring regulations:** Most SEMCs have flexible hiring regulations, while fixed-terms contracts are restricted by law only in Algeria and Morocco. However the length of temporary fixed contract could vary from a minimum of 12 months in Morocco to unlimited, as is the case in Algeria and Egypt. Working hours are fixed by law in all countries in the region at eight hours per day which is comparable to international standards. Most labour laws in the region have arrangements for overtime payment (annex, Table A4).

2. **Minimum wages** in most SEMCs are comparable to international practices and the ratio of the minimum wage to the value added per worker is similar to the global average of 0.45 (Figure 5). The SEMCs (mostly in the non-Gulf Cooperation Council (non-GCC) in this figure) have a ratio of about 0.50 (higher than that of Organisation for Economic Co-operation and Development (OECD) countries). State of Palestine and Morocco show a ratio that is higher than the regional average of 0.75 and 0.68 respectively (annex, Table A5).

Figure 5. Ratio of the minimum wage to value added per worker by region

Source: World Bank Employing Workers 2020 database
Note: Average ratios are calculated only for countries with provisions of minimum wages for private-sector workers. GCC = Gulf Cooperation Council

In Egypt, the minimum wage is considerably lower than both the regional and international standards. It was set at EGP 1,200 (USD 68) per month until 2006, which increased to EGP 2,000 (USD 113) in 2020 and more recently to EGP 2,400 (USD 127), with a presidential directive to increase the minimum wage to EGP 2,700 in the 2022/23 fiscal year. This wage is only binding for public sector employees, while for the private sector this restriction is often not applicable. It is clear that enforcing a minimum wage at the national level would have a positive impact on encouraging formal employment and would ensure workers' rights were protected, on the one hand, and better planning for employers on the other hand.

3. **Severance regulations** are relatively rigid in the region with burdensome procedures (such as length of advance notice, redundancy schemes, and entitlements). While it is important to ensure measures to avoid termination without valid reasons (following ILO conventions), procedures are sometimes restrictive and might discourage employers from hiring permanent workers. In addition, only Egypt has an unemployment protection scheme applicable after one year of employment (annex, Table A6). In Morocco, only a serious breach of contract can allow the employer to engage in a firing procedure against the worker, with the possibility of the worker engaging in a court case to contest the employer's decision and requesting payment of damages. It is worth noting that even though the Moroccan Government introduced unemployment benefits in 2014, the access conditions are very strict and only a very small number of those who lose their jobs can benefit from them (Badawi and Harders 2017).

4. **Unemployment protection schemes and severance pay** (end-of-service compensations): Unemployment protection schemes, such as unemployment insurance or benefits, are commonly applied in all of the SEMCs (annex, Table A7) except for Lebanon. Moreover, severance pay is applicable in these countries, except for Jordan and Lebanon, and with a regional average of 17.6 weeks it is higher than the global average of 13.9 weeks. Severance pay ranges from 13 weeks of salary in Algeria to 27.4 weeks of salary in Egypt. In fact, severance pay in Egypt is considered among the top 10 in the world, with 54 weeks of salary for top workers (who have worked for more than 10 years).

   In some countries such as Egypt, the provision of unemployment insurance benefits in the private sector is not binding. However, the government continues to apply the law requiring that employers pay 2 per cent of salaries to all workers for unemployment insurance. In Jordan and Morocco, despite the presence of protective provisions against unjustified layoffs and other provisions in favour of rights at work and equal opportunities, there are no specific support measures such as unemployment benefits and social assistance for people who are unemployed (Al Husseini and Fortuny 2010).

   Moreover, the SEMC average for the notice period of redundancy dismissal is 6.4 weeks, similar to the global average of 6.3 weeks. However, countries such as Egypt and Lebanon have a longer notice period which is comparable to the average of eight weeks in OECD countries.

   It is important to note that despite the existence of these unemployment benefits, the share of unemployed individuals receiving unemployment insurance is less than 10 per cent: the coverage rate is very small, such as in Algeria for instance where it stands at 8.8 per cent. This is due to a lack of public awareness, complicated procedures and strict eligibility conditions (Angel-Urdinola and Kuddo 2010). Furthermore, this scheme does not cover informal and domestic workers.

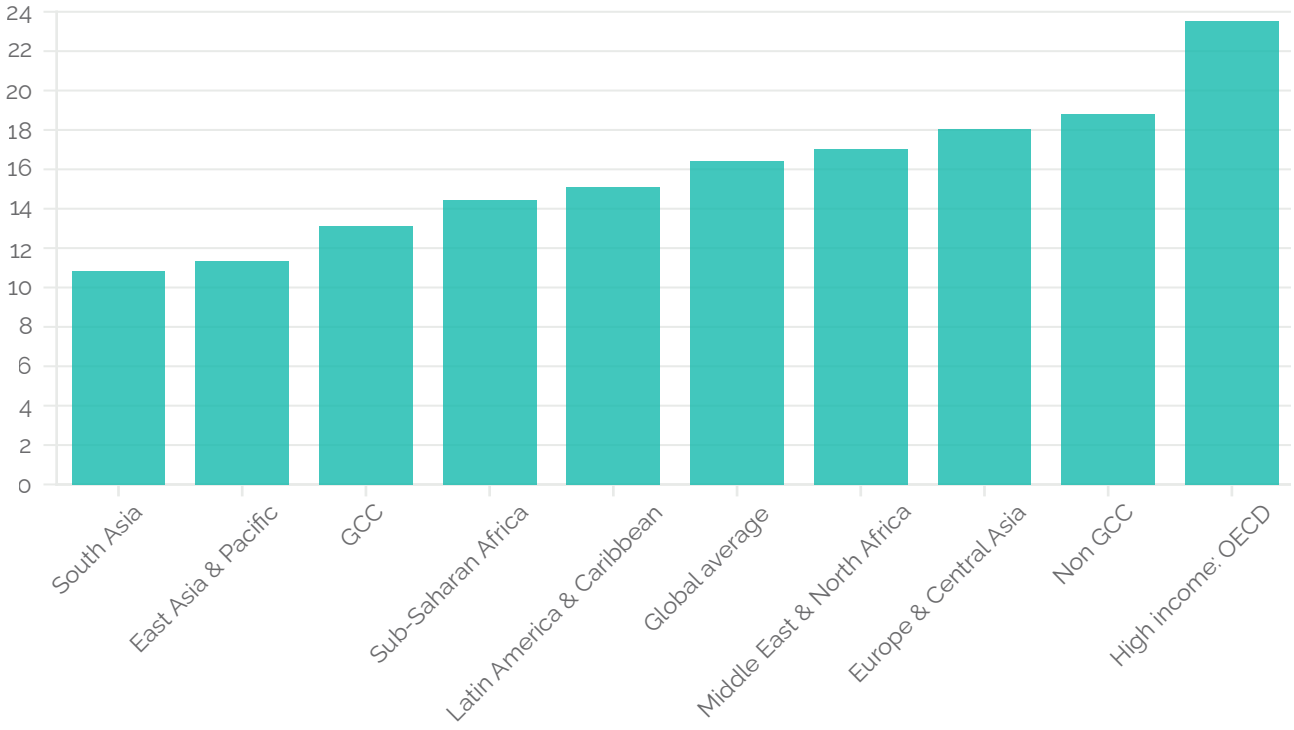
   Trade (or labour) unions have an important role to play, as they become the bargaining power and the voice of the workers, particularly in times of economic shock or deterioration in working conditions. Although SEMCs have the right to form unions, South Mediterranean trade unions are often either State-controlled or not inclusive of all relevant workers. Moreover, strikes remain illegal in many countries, leaving workers powerless (Angel-Urdinola and Kuddo 2010). There is an exception in the case of Tunisia, where the Tunisian General Labour Union (UGTT), which gathers more than a million members, can be considered quite powerful and has a voice that the Government cannot ignore.

   Overall, it seems that the SEMCs have relatively strict regulations when it comes to redundancy plans, particularly with the relatively high severance payments (compared to other countries). This leads employers, especially in the private sector, to be reluctant to hire formal and long-term workers and to seek to hire workers informally. Studies have shown that countries with high dismissal costs tend to have less-formal labour and high levels of self-employment.

5. **Labour taxes and social security contributions** (contributions made by both employers and employees) and payment of income taxes are obligatory in all SEMCs. Average labour taxes in SEMCs are estimated at about 18.8 per cent (Figure 6 considers the non-GCC group) which is higher than the global average of about 16.4 per cent. In Algeria (31 per cent), Egypt (26 per cent), Tunisia (25 per cent), Lebanon (25 per cent) and Morocco (23 per cent), at least one-quarter of corporate profits are spent on labour taxes and contributions.

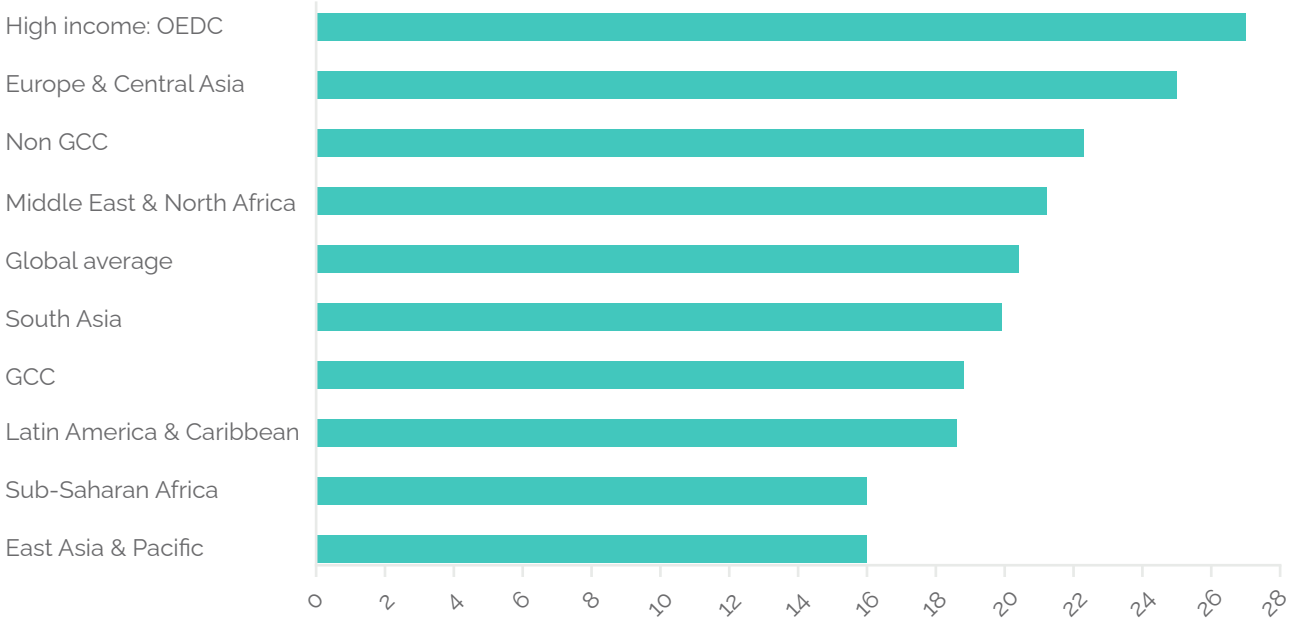
   At the same time, the region has a rather high statutory social security contribution rate of about 21.2 per cent compared to the global average of 20.4 per cent (Figure 7). Egypt has one of the highest employer contributions in the region amounting to 40 per cent, followed by Algeria (34 per cent). As evidenced by many studies, the cost of labour has an important direct impact on the level of employment and informality of the labour market. Relatively high taxes and social contributions increase labour cost for employers and hence affect their labour demand, leading some employers to avoid formal employment, and hence may contribute to increasing the informal labour.

Figure 6. Average labour tax (percentage of corporate profit) by region



Source: World Bank Paying Taxes, 2020
Note: GCC = Gulf Cooperation Council

Figure 7. Employee and employer statutory social security contribution rates by region (as a percentage)



Source: International Social Security Association (ISSA), 2018; 2019a; 2019b; 2020
Note: GCC = Gulf Cooperation Council; OECD = Organisation for Economic Co-operation and Development

6. **Gender laws and regulations in SEMCs** tend to be restrictive and discriminatory against women and result in lower female participation and/or the creation of gender wage gaps (Hallward-Driemeier and Gajigo 2015; Amin and Islam 2014; Islam, Muzi and Amin 2019; World Bank 2015). SEMCs' labour markets suffer from inequality in the workplace, including restrictions in certain industries, working hours, limited maternity leaves and unequal retirement ages. This has led the SEMCs to have one the lowest female labour participation rates in the world at about 20 per cent (World Bank data). The Women, Business and the Law Index developed by the World Bank provides information about the number of laws and regulations affecting women's access to employment and entrepreneurial activity, and measures the legal differences between men's and women's access to economic opportunities across 190 economies (World Bank 2019). The MENA region scores the lowest in the world with a score of 49.5 (Figure 8). Moreover, no economy in the MENA region scores above 90.

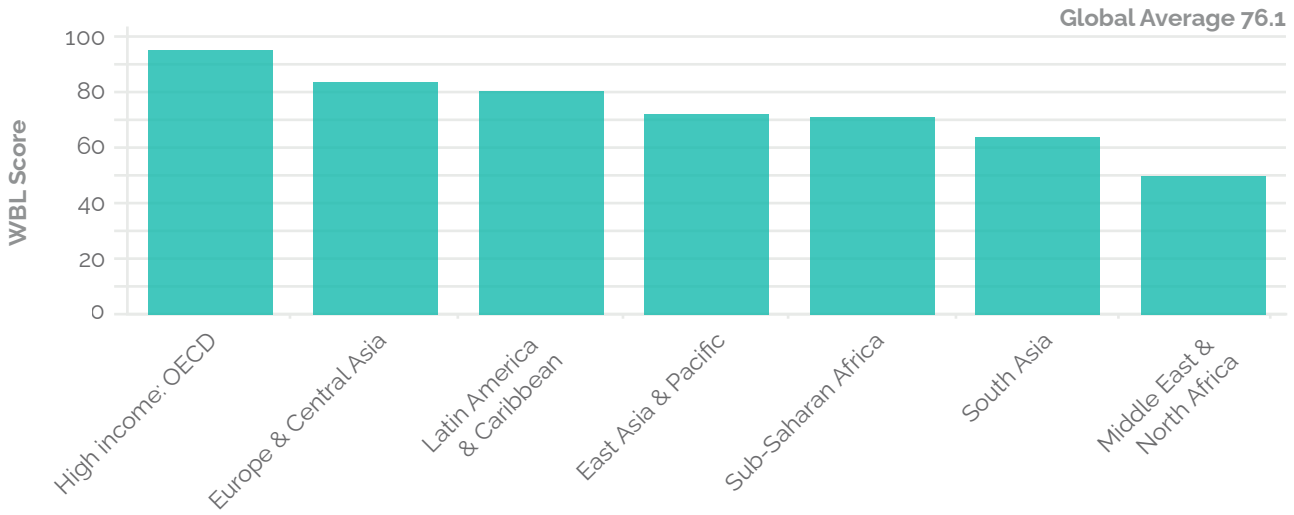
   Moreover, some SEMCs prohibit women from some jobs, such as working in underground mines, stone and metal extraction, and fertilizer production (annex, Table A8). Some additional restrictions are applicable in the workplace, such as working night shifts. These restrictions limit female participation and encourage gender wage gaps. While these restrictions could be justified by the fact that they are protective for women, they could also be seen as rigid and not providing women with freedom of choice.

   In terms of maternity leave, the MENA region as a whole has the shortest paid maternity leave of about 81 days compared to 96 days in Latin America and 197 in Europe and Central Asia (Figure 9). Within the SEMCs, Morocco and Algeria have the greatest number of days (98 days) followed by Egypt (90), then Jordan, Lebanon and State of Palestine (70) and finally Tunisia (30). It is important to mention that in Algeria, Jordan, Morocco and Tunisia, paid maternity leave is borne by the governments rather than the employers. This avoids discrimination against hiring women of childbearing age. In some OECD countries, governments bear the full cost.

   There is a direct link between the fact that the MENA region is one of the most restrictive regions in the world for female employment

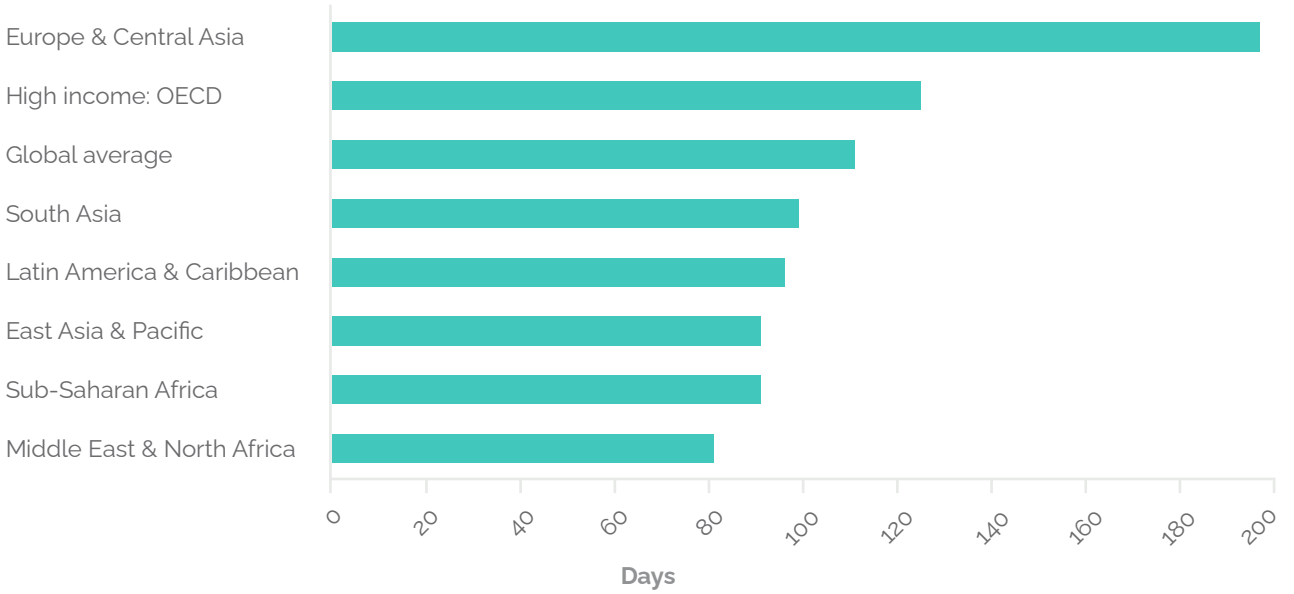
and the fact that it has the lowest female participation. In addition, while the law is sometimes intended to protect women, it may be seen as a burden on employers and can affect their willingness to hire young women. This could be resolved by, for example, having governments bear the cost of paid maternity leave alongside employers.

Figure 8. Women, Business and the Law Index



Source: Women, Business and the Law Index 2021

Figure 9. Average length of paid maternity leave by region

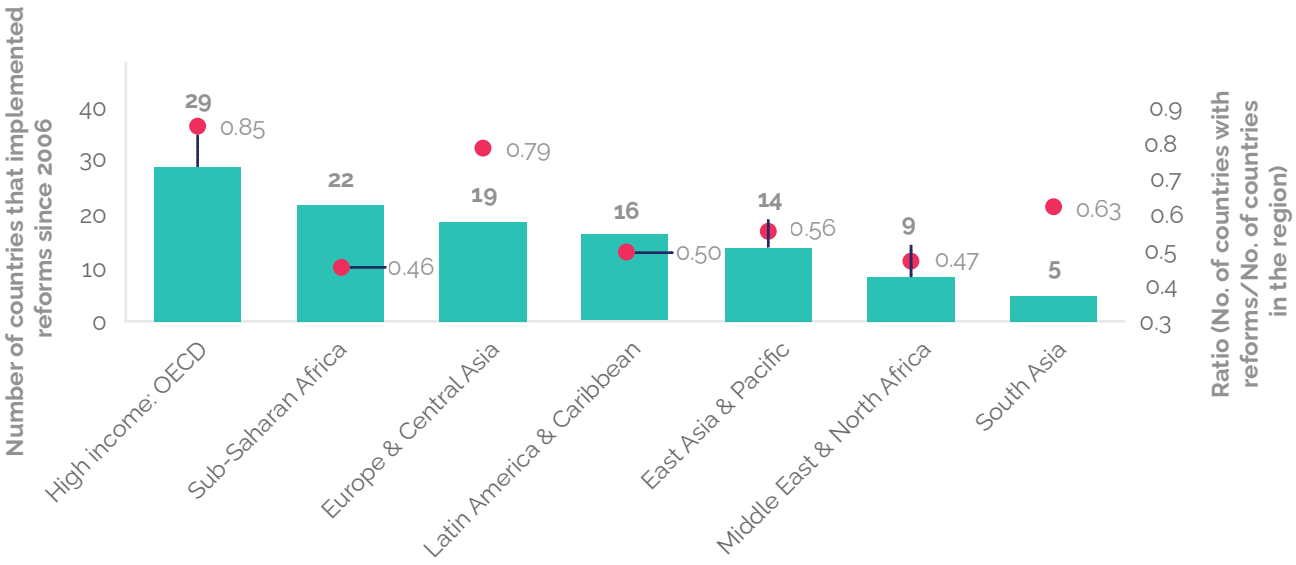


Source: Women, Business and the Law Index 2021

2. Labour-market reforms

In the MENA region as a whole, labour reforms are slow compared to other regions (except for South Asia), as Figure 10 shows. Since 2006, almost half of the countries in the region have introduced labour reforms.

Figure 10. Number of countries that have implemented labour-market reforms since 2006 per region



Source: World Bank Employing Workers 2020 database

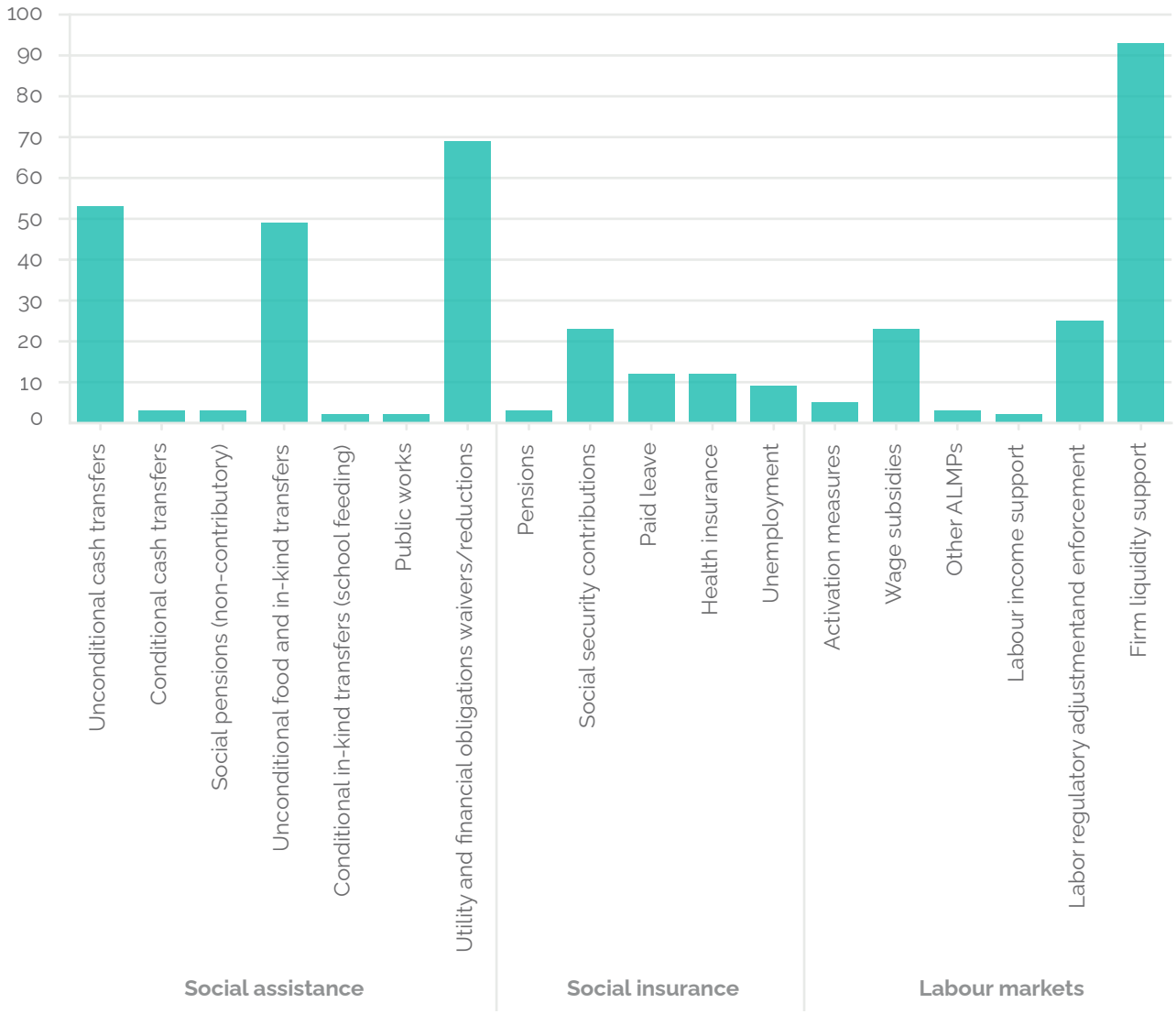
Jordan, Morocco, State of Palestine and Tunisia are some of the countries in the region to have introduced amendments to their labour laws in the past 10 years (annex, Table A9 shows some details of these reforms). While some reforms introduced are in favour of employees (e.g. minimum wages, leave, gender-related), others are perceived as making the already-strict labour-market regulations even more rigid (e.g. through procedural requirements).

In Tunisia, the original labour code of 1966 has been amended several times to improve freedom of hiring and firing, to index wages to productivity and to decentralize wage negotiations. These reforms have introduced specific provisions for both definite and indefinite contracts, as well as the notion of part-time work. In 2006, a new amendment was introduced to create a committee for social dialogue. A recently suggested general government reform was rejected by the Tunisian General Labour Union, which included suggestions to freeze wages and hiring (among others).

In Egypt, the implemented labour law was the one introduced in 2003 (Law No.12 of 2003). A new labour law is currently under discussion and aims to provide greater job security and employment rights protections for private sector and non-governmental organizations as well as trade union regulations.

Moreover, it is important to note that due to COVID-19, most SEMCs have adopted new measures and initiatives to protect employment. Figure 11 shows that across the whole MENA region, 151 labour-market programmes were introduced covering, for example, hiring flexibility, dismissal measures and the provision of leave benefits. This is in addition to facilitating, and in some cases formalizing, teleworking through creating new digital platforms and new procedures around this new trend (Hatayama 2021).

Figure 11. Number of social protection and labour-market programmes in the Middle East and North Africa region in response to COVID-19 between March 2020 and June 2021



Source: COVID-19 SPJ Policy Inventory; De La Flor *et al.* (2021); De La Flor *et al.* (forthcoming)

This quick and adapted response to protect employers, employees and businesses constitutes evidence that these governments are willing and able to act quickly. This momentum and the desire to improve labour-market conditions needs to continue in the post-COVID-19 recovery plans, particularly as many have already lost their jobs or their businesses during the pandemic.

Overall, it is clear that despite the somewhat implemented recent reforms in the region, labour regulations in the SEMCs are still considered restrictive. This has not only affected the efforts of economic development and reforms but has also restricted the potential positive impact of trade liberalization and FTAs, particularly in contributing to job creation. Moreover, even though labour regulations exist, they may not be properly implemented, which may lead to a loss of trust and confidence in the system.

3. Link between labour markets and trade

As already discussed, evidence shows that trade liberalization is more likely to have a positive impact on employment if labour markets are flexible enough to be able to adjust to the changes it brings. More particularly, the literature has shown that the impact

of trade on employment is very much linked to the nature of labour regulations. Labour-market rigidity reduces the positive impact of exports on employment as it limits the potential for creating new jobs either in an existing sector or in new sectors (Selwaness and Zaki 2019; Botero *et al*. 2004; Campos and Nugent 2012; Di Tella and MacCulloch 2005; Lazear 1990). These rigidities could take the form of protection regulations and strict or costly hiring and firing procedures, which could lead to increasing unemployment rates, growing informality and a segregated labour market that is non-inclusive, particularly for youth and women.

In the MENA region as a whole, rigid and/or inadequate labour-market regulations are a major factor affecting the aforementioned poor labour-market performance in the region (Angel-Urdinola and Kuddo 2010; Cho *et al*. 2012; Elbadawi and Loayza 2008; Kabbani and Kothari 2005). Moreover, the scarce literature about the relationship between trade and employment in the MENA region has shown that there is no significant effect. The labour-market rigidity in the region, frictions due to high hiring and firing costs, and low degree of mobility (across jobs, sectors, industries, and so on) are the main causes restricting any potential employment gains from trade.

Finding the right balance between workers' rights in terms of social security, health insurance, wages and other benefits and a certain flexibility to ensure that labour mobility benefits from trade will be important for policymakers.

II.3. The role of foreign direct investment and its linkages to employment

The literature has shown that FDI can affect employment as it can increase the productive capacity of the receiving country, lead to technology transfer, boost exports and thus generate new jobs. Yet, this effect might not occur in several emerging economies if FDI is volatile and concentrated in extractive or capital-intensive industries with limited value added. In this section, we therefore first analyse FDI performance in MENA in recent years before examining its structure and its linkages to employment.

Limited and volatile inflows

As developing countries, MENA countries' inward stocks of FDI are much higher than their respective outward FDI stocks (see Table 2). By 2020, the total inward FDI stocks as a percentage of gross domestic product (GDP) reached 84 per cent in Tunisia, 63 per cent in Morocco and 36 per cent in Egypt. These FDI inflows come primarily from Europe, especially France and the United Kingdom of Great Britain and Northern Ireland (UK), as well as the United States of America (USA) and United Arab Emirates (see annex, Figure A1 for more details). Despite these relatively large stocks, FDI failed to generate enough jobs in most of the countries.

Table 2. Foreign direct investment stocks as a percentage of gross domestic product

	Outward stock (total)			Inward stock (total)		
	2000	2010	2020	2000	2010	2020
Egypt	1%	2%	2%	20%	33%	36%
Morocco	1%	2%	7%	23%	48%	63%
Tunisia	0%	1%	1%	54%	25%	84%

Source: Authors' elaboration using the World Investment Report (2021) and the World Development Indicators

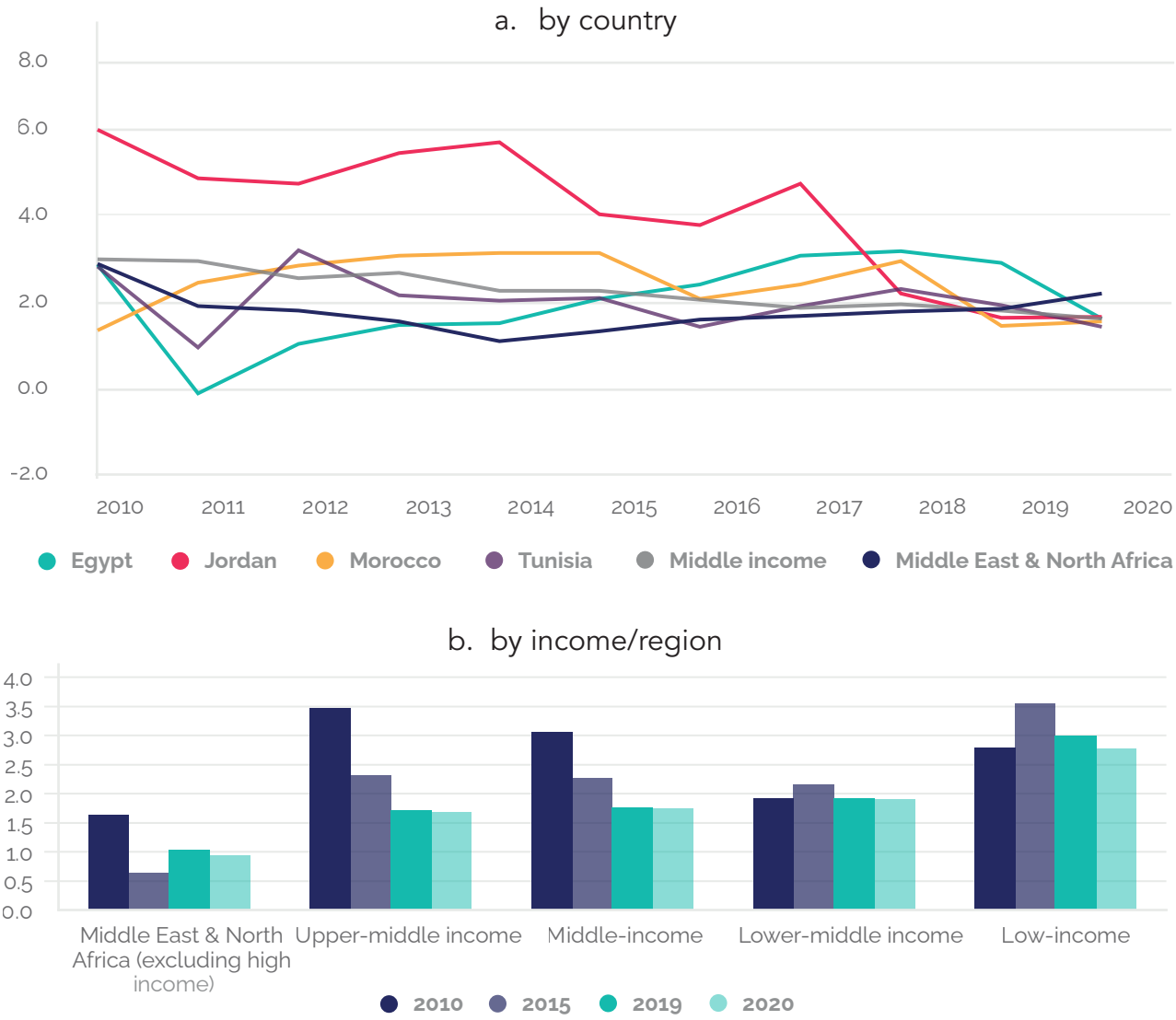
In the same vein, Figure 12 presents the yearly evolution of net FDI inflows as a share of GDP for selected MENA countries vis-à-vis the regional average as well as middle-income countries during 2010–2020. We first note that FDI inflows fluctuate continuously as they are highly vulnerable to external factors including political turmoil, economic reforms and external shocks. For instance, at the beginning of the 2010 decade, the MENA region was hit by severe political events following the Arab Spring in 2011, which was accompanied by a significant drop in net FDI inflows amounting to 107 per cent in Egypt, 69 per cent in Tunisia, 19 per cent in Jordan and 35 per cent at the regional level compared to 2010 levels. These events had a negative spillover effect on the investment attractiveness of the entire region as some investors had to suspend their operations, downscale their commitments or completely withdraw their investments in some countries (OECD 2014).

FDI inflows are similarly responsive to the host countries' economic policies and reforms. In 2016, while FDI inflows across middle-income countries witnessed a general slowdown following a persistent weak aggregate demand and sluggish growth in some commodity-exporting countries, Egypt's FDI inflows were steadily rising thanks to a sequence of macroeconomic and legislative reforms. These included the implementation of a new investment law in March 2015, which simplified investment procedures, enhanced the licensing system and introduced better government-investor dispute settlement mechanisms (Aboushady and Zaki 2017). Moreover, the Central Bank of Egypt's decision to float the exchange rate in 2016 has brought the official rate closer to its black-market counterpart, narrowing the gap that has deterred domestic and foreign investors in the past (OECD 2020).

Finally, the end of the 2010 decade saw the outbreak of the COVID-19 pandemic, which was accompanied by a dramatic drop in global FDI flows and led to the convergence of all the reporting MENA countries towards similar levels of around 1.5 per cent. Indeed, the global value chain disruptions induced by the COVID-19 pandemic have pushed many countries to reduce their reliance on concentrated production in foreign countries (Lee and Park 2020).

Thus, such volatility in FDI, in addition to several institutional bottlenecks in these countries, help explain why FDI did not have much impact on job creation.

Figure 12. Foreign direct investment, net inflows (as a percentage of gross domestic product)

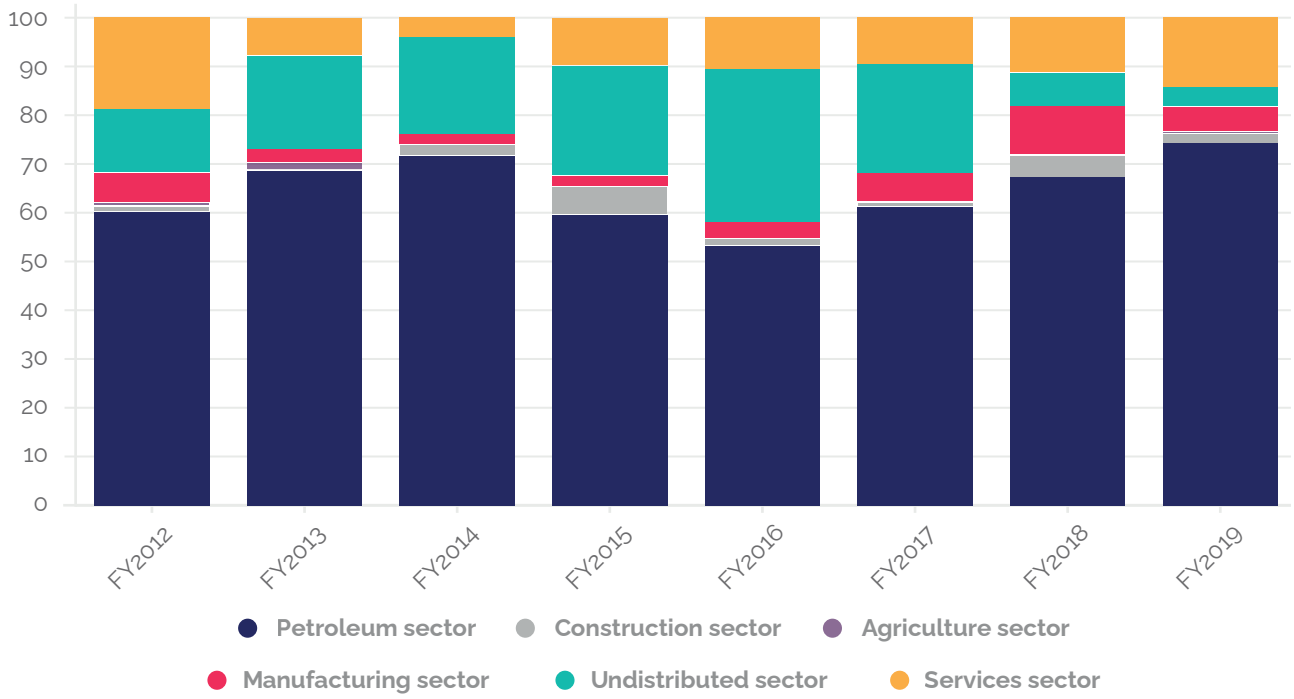


Source: Authors' elaboration using the World Development Indicators (World Bank)

Structure of foreign direct investment

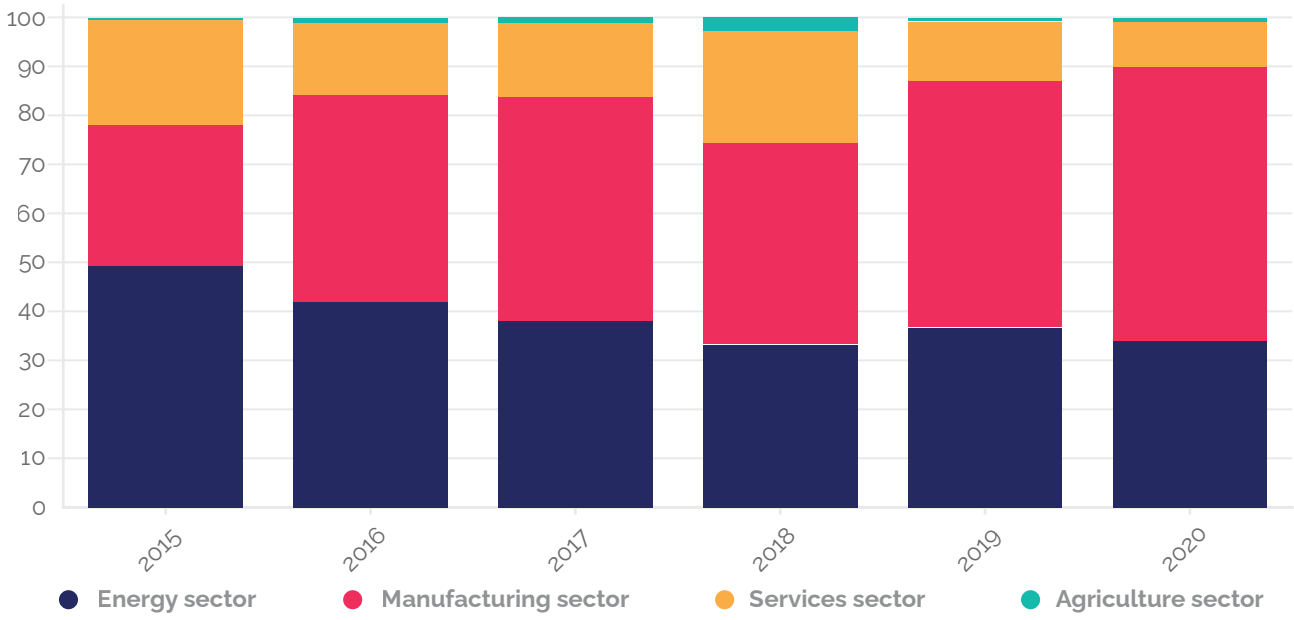
Observing the sectoral distribution of FDI inflows in the MENA region is key as foreign investment could be a crucial driver of economic growth and job creation, particularly when FDI is directed to labour-intensive sectors such as manufacturing (Abor and Harvey 2008; Waldkirch, Nunnenkamp and Bremont 2009; Inekwe 2013). Looking at Figures 13–15, we find that FDI inflows are unevenly concentrated in different sectors across the three MENA countries. For example, in Tunisia, 56 per cent of FDI inflows are directed to the manufacturing sector, compared to 21.9 per cent in Morocco and only 5.1 per cent in Egypt. On the contrary, extractive industries are primarily capital-intensive and their added value is significantly low. For instance, 74.3 per cent of Egypt's FDI inflows are concentrated in the petroleum sector versus 33.9 per cent in Tunisia and 5.4 per cent in Morocco. This explains why most of the FDI inflows in Egypt did not generate enough jobs (Aboushady and Zaki 2017).

Figure 13. Foreign direct investment inflows by sector (2012–2019) in Egypt, percentage of total



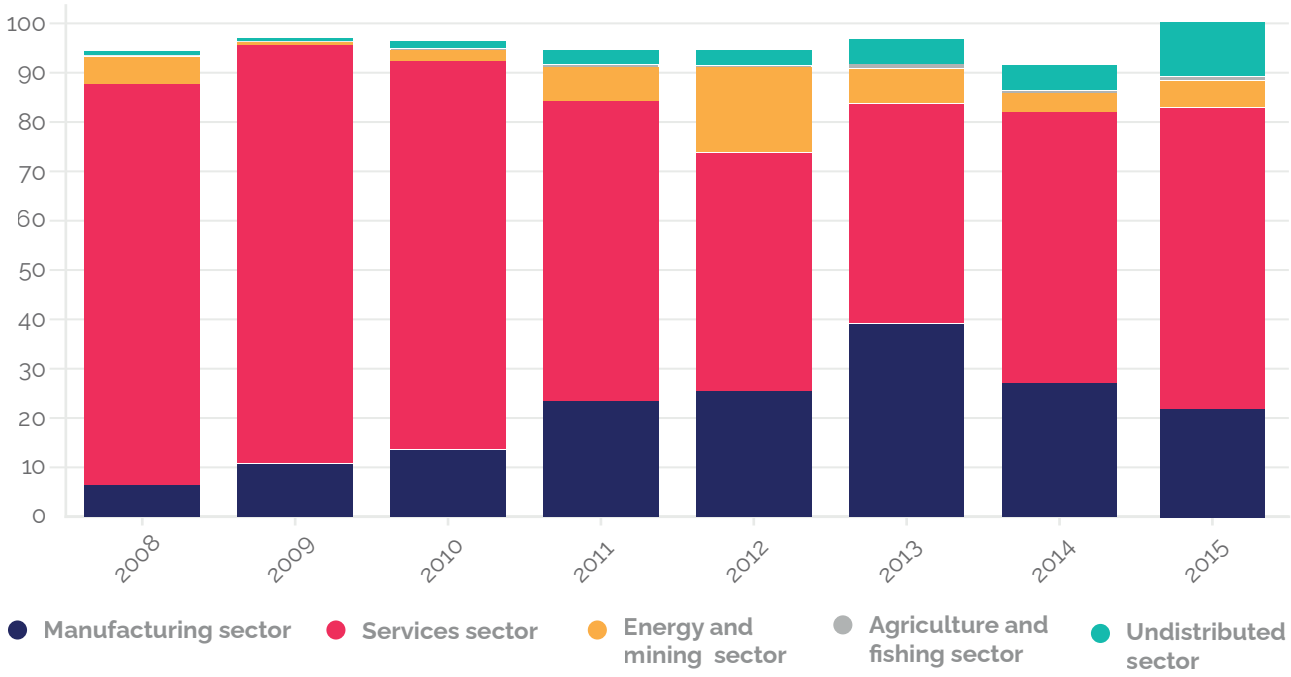
Source: Authors' elaboration using the Central Bank of Egypt Economic Review Reports

Figure 14. Foreign direct investment inflows by sector (2015–2020) in Tunisia, percentage of total



Source: Authors' elaboration using the Central Bank of Tunisia data set

Figure 15. Foreign direct investment inflows by sector (2008–2014) in Morocco, percentage of total



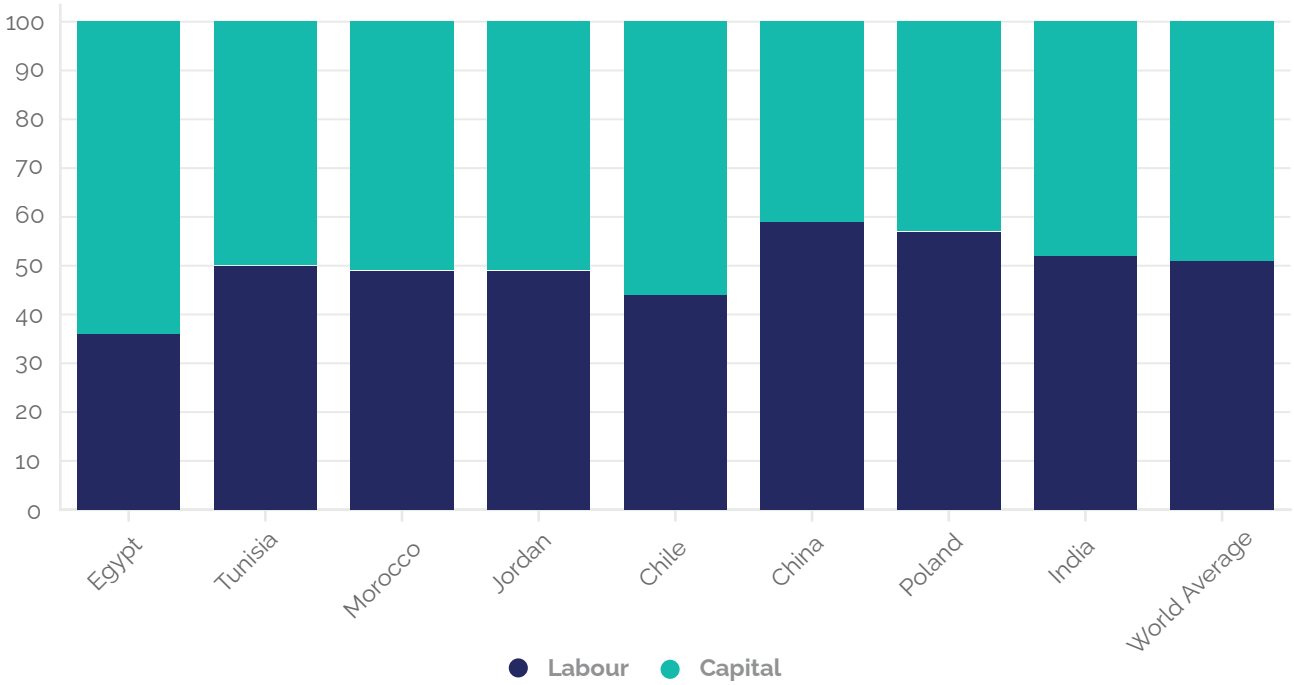
Source: Authors' elaboration using WTO (2015), OECD (2018) and Moroccan Exchange Office data.

One of the implications of this FDI structure pertains to the fact these economies became more capital-intensive than their comparator ones at the world level. To analyse this, we compare the share of labour and capital in total value added (see Figure 16). We note that, globally, the share of labour (51 per cent) exceeds the share of capital (49 per cent) in the world value added on average.

Yet, most of the MENA countries have a larger capital-to-output ratio with respect to other comparator economies from Europe, Asia and Latin America. For instance, Egypt is the most capital-intensive economy with a capital share amounting to 64 per cent of the value added compared to 51 per cent in Morocco and Jordan. Other comparator economies from Asia and Europe are rather labour-intensive, where the labour share as a percentage of the total value added amounts to 59 per cent in China, 57 per cent in Poland and 52 per cent in India. This is in line with our previous findings according to which, in Egypt, most of the FDI inflows were concentrated in the energy sector, making the economy highly capital-intensive. Indeed, capital accumulation remains the main contributor to growth.

Haq and Zaki (2015) argue that, on the one hand, the prevailing employment laws in Egypt foster the adoption of capital-intensive production techniques and, on the other hand, investment policies have led to modest investment levels that are biased against labour-intensive growth, which has weakened the economy's ability to create jobs. In contrast, Tunisia, whose FDI inflows are mainly directed towards the manufacturing sector – which is labour-intensive – had a larger labour share compared to the other MENA countries.

Figure 16. Capital and labour share in total value added, 2017



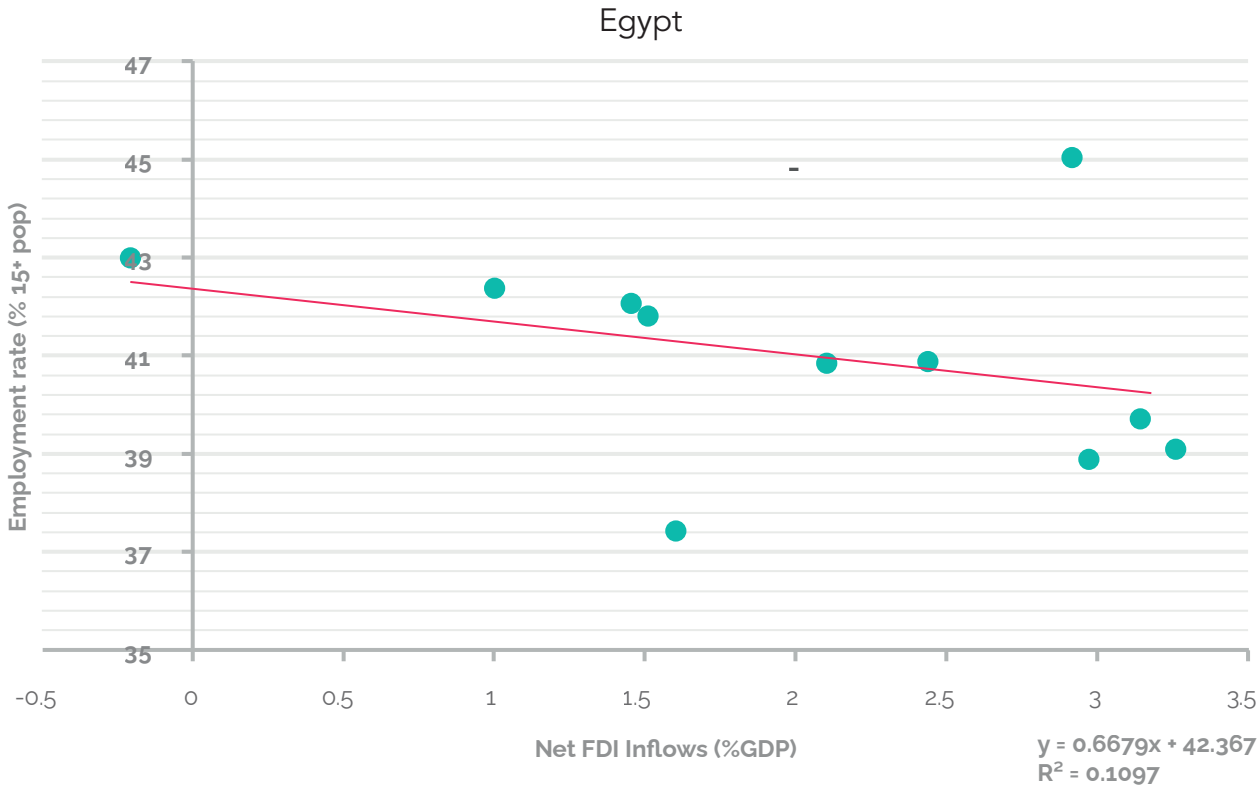
Source: Authors' elaboration using the Penn World Table (2017)

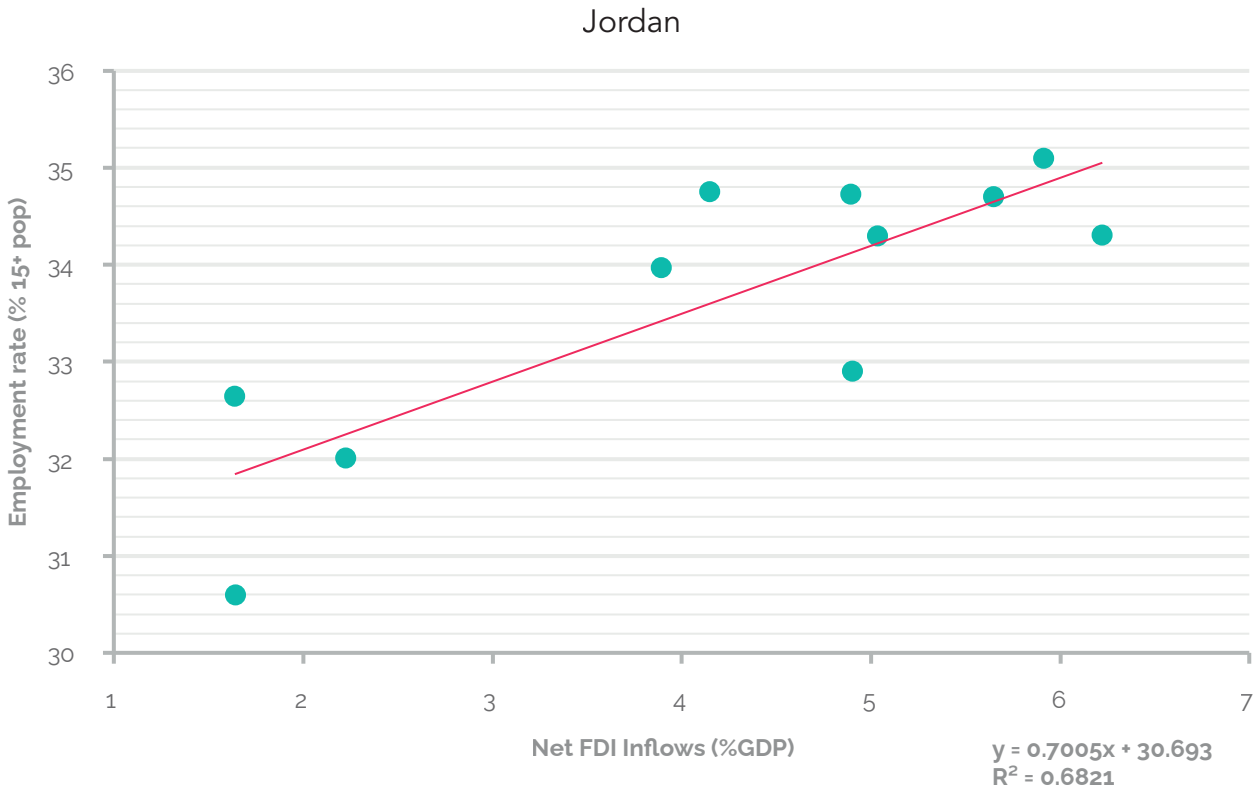
Limited effect on job creation

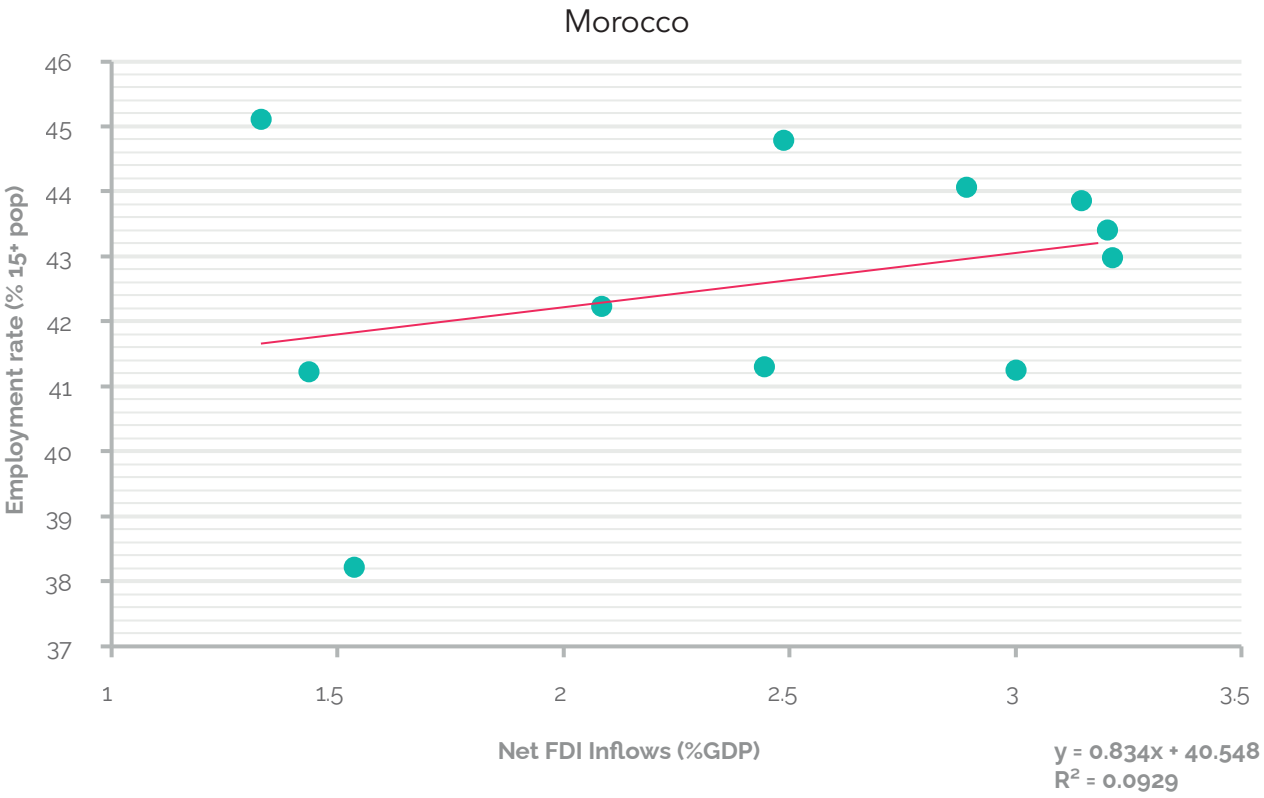
The foregoing analysis opens up important questions with regards to understanding potential driving forces behind economic growth in MENA as well as the relationship between FDI and employment. In fact, there is an increasing amount of economic literature on the impact of FDI on employment. Waldkirch, Nunnenkamp and Bremont (2009) find that FDI has a significantly positive, though quantitatively modest, impact on manufacturing employment in Mexico, especially in export-oriented industries. Abor and Harvey (2008) argue that increases in FDI inflows would lead to improved job creation quantitatively, but not necessarily qualitatively in Ghana. Contrastingly, Jenkins (2006) observes that the increasing foreign participation in labour-intensive manufacturing has not had a significant effect on employment in Viet Nam due to high productivity, low industrial value added and weak domestic linkages. Yet, Dunning (1993) suggests that the primary role of FDI in employment is likely to be its industrial composition, its skills mix, its quality and its productivity, rather than its amount.

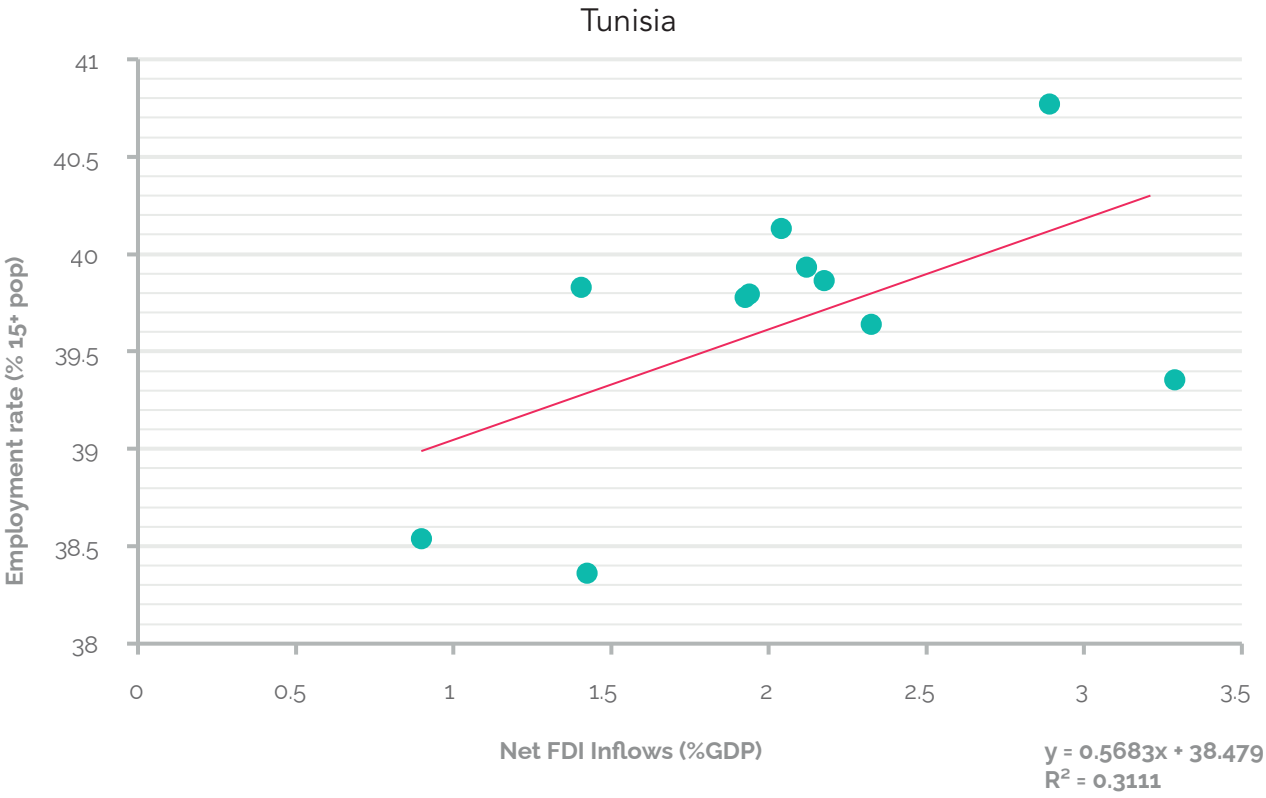
Figure 17 helps us assess whether there are possible correlations between FDI inflows and employment across the four MENA countries during 2010–2020. We observe that the correlation between the two variables seems to be positive, though low, for all countries except for Egypt where higher FDI levels tend to be associated with lower employment rates. Moreover, Tunisia has the highest correlation coefficient compared to other countries. This finding is in line with our previous analysis on the sectoral distribution of FDIs in Egypt as well as the share of capital in the country's total value added. However, as most of the FDI in Tunisia is in the manufacturing sector, the country is more labour-intensive, which partially explains the positive and relatively high association between employment and FDI.

Figure 17. Relationship between employment and foreign direct investment inflows during 2010–2020









Source: Authors' elaboration using the World Development Indicators (World Bank)

To summarize, in order to increase the effect of FDI on employment, a key reform will be to attract more FDI in the manufacturing sector generally, and in labour-intensive industries in particular. This will require deep and structural reforms that improve the investment climate and make it more investor-friendly. Moreover, given the large potential of backward and forward linkages between different manufacturing industries in the region, this can help the development of domestic value chains that are an important pre-requisite to the development of regional value chains.

II.4. Conclusions

The analysis in this chapter focuses on the factors that may have influenced the effects of trade liberalization on job creation. Our findings suggest that:

- Some empirical evidence in the literature and perceptions of private operators suggest that NTMs and rules of origin negatively impacted bilateral trade between the EU and SEMCs and, in turn, potential employment. NTM frequency ratios by sector are consistent with this and suggest that the burden of NTMs is much heavier for Mediterranean firms seeking to export to the EU than those exporting to other parts of the world.

- Concerning the rules of origin, although it is difficult to know exactly how they may have affected the link between trade liberalization and employment, it is possible to say that the restrictiveness of the rules and the lack of diagonal, or rather full, cumulation has not been conducive to trade expansion in SEMCs and has most likely limited the potentially positive effects of openness on job creation.

- Much clearer conclusions can be drawn when looking into internal factors that affect the trade-to-jobs chain. We notice that firms face obstacles that prevent them from reaping expected economic gains. This includes poor and inefficient governance, together with a labour-market structure characterized by costly entry and exit of firms, lack of economic mobility, scarcity of capital and high levels of informality.

- Furthermore, we see that in SEMCs, labour markets are still inadequate. Firing regulations are relatively rigid, redundancy plans' rules are strict and gender laws and regulations are discriminatory against women. Despite the partially implemented recent reforms in the region, labour regulations in the SEMCs are still considered restrictive. This has not only affected the efforts of economic development and overall progress with reforms but has also restricted the potential positive effects of trade liberalization and FTAs, particularly on creating jobs.

- Last but not least, volatility of FDI in addition to several institutional bottlenecks and policy choices in selected SEMCs help explain why FDI did not generate enough jobs. In order to increase the effect of FDI on employment, a key reform will be to attract more FDI to the manufacturing sector generally, and to labour-intensive industries in particular.

This chapter suggests that future reforms will also need to consider new global trends that further impact the trade–employment link. Indeed, the trade and jobs relationship is influenced by other factors of both a structural and conjunctural nature. Such factors bring important challenges and opportunities for SEMCs regarding the development of their exports and, hence, the creation of related jobs. It is essential to highlight post-COVID-19 diversification and shortening of global value chains, new EU orientations deriving from its new Agenda for the Mediterranean, repercussions for SEMCs' trade linked to the European Green Deal and the Carbon Border Adjustment Mechanism (CBAM), digitalization trends and expected consequences, as well as possible trade actions related to the war in Ukraine. All of these dimensions will impact the relationship between trade and employment, likely affecting specific sectors, jobs and working conditions. Future policies and integration efforts would need to take them into account in order to maximize the potential positive effects of trade liberalization on growth and employment. These issues are discussed in the following chapter.

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Annex

Table A1. Status of competition laws and competition agencies in Southern and Eastern Mediterranean Countries

Country	Competition law	Date of enactment	Amendments	Date of creation of competition authority
Algeria	Yes	1995	2003, 2008 and 2020	1995; no activity 2003–2013
Egypt	Yes	2005	2010 and 2014	2005
Jordan	Yes	2002	2011	2002
Lebanon	No	-	-	-
Morocco	Yes	2000	2014	2008; no activity 2014–2018
Tunisia	Yes	1991	1995, 2003, 2005 and 2015	1995

Source: Youssef and Zaki 2019

Table A2. Sectors exempt from competition law in Southern and Eastern Mediterranean Countries

	Algeria	Egypt	Jordan	Morocco	Tunisia
Conduct that is required or authorized by another government authority	x	x	x	x	x
Certain sectors of the economy	x			x	x
Legal monopolies	x	x		x	x
Certain goods and services	x	x	x	x	x
Other state bodies and government agencies		x			
State-owned enterprises		x			

Source: Arzeki, 2019 based on the updated (August 2019) questionnaire compiled for Mahmood and Ait Ali Slimane (2018), Chapter 2. Competition Policy pp. 77–98.

Table A3. State-owned enterprises' share of key sectors in 16 Middle East and North Africa economies, 2013

	Percentage of firms in sector
Transportation	16
Electricity and gas	10
Telecoms	9
Finance	23
Manufacturing	13
Primary sectors	14
Other utilities	6
Other activities	5
Real estate	4

Source: Arzeki, 2019 based on OECD Report (2013)

Table A4. Hiring regulations, fixed contracts and overtime

Country	Fixed-term contracts prohibited for permanent tasks?	Maximum length of a single fixed-term contract (months)	Standard workday	Premium for overtime work (% of hourly pay)
Algeria	Yes	No limit	8.0	50.0
Jordan	No	60.0	8.0	25.0
Egypt, Arab Rep.	No	No limit	8.0	35.0
Lebanon	No	24.0	8.0	50.0
Tunisia	No	48.0	8.0	25.0
Morocco	Yes	12.0	8.0	25.0
West Bank and Gaza	No	24.0	8.0	50.0

Source: Employing Workers data set, 2020

Table A5. Minimum wages in Southern and Eastern Mediterranean Countries

Country	Minimum wage applicable to the worker (private sector) assumed in the case study (USD/month)	Ratio of minimum wage to value added per	Minimum wage applicability	Latest adjustments
Algeria	149.4	0.28	Latest adjustments	2014/15
Jordan	308.9	0.54	Different minimum wage for migrants versus nationals	2016/2017
Egypt, Arab Rep.	-	-	Only applicable for the public sector	
Lebanon	431.2	0.46		
Tunisia	266.4	0.68	Different minimum wages: by age, urban versus rural	2015/16
Morocco	251.9	0.58		2018/19
West Bank and Gaza	403.8	0.75		2014/15

Source: Employing Workers data set, 2020

Table A6. Severance regulations

Country	Dismissal due to redundancy allowed by law?	Retraining or reassignment obligation before redundancy?	Notice period for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure, in weeks of salary)	Severance pay for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure, in weeks of salary)	Unemployment protection after one year of employment?
Algeria	Yes	Yes	4.3	13.0	No
Jordan	Yes	No	4.3	0.0	No
Egypt, Arab Rep.	Yes	No	10.1	26.7	Yes

Lebanon	Yes	No	8.7	0.0	No
Morocco	Yes	Yes	4.3	17.2	No
Tunisia	Yes	Yes	7.2	13.5	No
West Bank and Gaza	Yes	No	4.3	23.1	No

Source: Employing Workers data set, 2020

Table A7. Severance pay in countries with unemployment protection schemes

Country	Unemployment protection schemes	Severance pay (weeks of salary)	Notice period for redundancy dismissal (weeks)
Algeria	Yes	13	4.3
Egypt	Yes	26.7	10.1
Jordan	Yes	No	4.3
Lebanon	No	No	8.7
Morocco	Yes	13.5	7.2
Tunisia	Yes	17.2	4.3
SEMCs' average	-	17.6	6.4

Source: International Social Security Association (ISSA) and World Bank Employing Workers database, 2020

Table A8. Examples of countries in which certain occupations are forbidden for women

Country	Examples of prohibited jobs	Legal basis
Egypt	Underground work in mines, quarries, and all work connected with extraction of metals and stones; Glass melting or ripening; Tire manufacturing; Fertilizers and hormone making; All soldering work	Decress of Minister of Manpower and Immigration No. 155 of 2033, Article. 1
Lebanon	Underground work in mines, quarries, and all stone extraction work; Production and handling of explosives Operating driving engines; Repairing or cleaning driving engines on the run; Asphalt production	Labour Law of 1946, Article 27, ANNEX 1
Morocco	Underground work at the bottom of mines	Article 179, Labour Code

Source: Women, Business and the Law Index, 2021

Table A9. Major labour reforms since 2012

Country	Year	Reform
Jordan	2019	Amendment to the Labour Law (1996): • Introduced penalties on employers for wage discrimination based on gender. • Increased overtime cap from 20 to 30 days a year. • Wage authority can resolve employment disputes if the person is no longer employed. • Financial compensation for unused annual leave and granting three days of paternity leave. • Obligation to establish a nursery when employees cumulatively have at least 15 children under the age of 5 years. • The right to extend the enforceability of the employment contract even after the age of retirement.
Morocco	2016	• Implemented an unemployment insurance scheme. • Increased minimum wage from 12.24 to 12.85 DH/hour as of 1 July 2014, according to decree n° 2.14.343 of June 2014, published in the official bulletin 5292.
Palestine	2014	Introduced a minimum wage.
Tunisia	2017	Created a social dialogue committee.

Source: Employing Workers database, 2020; Jordan: Labour Law No. (14) of 2019 amending the Labour Code; Tunisia: Labour Law No. 2017-54 of 24 July 2017

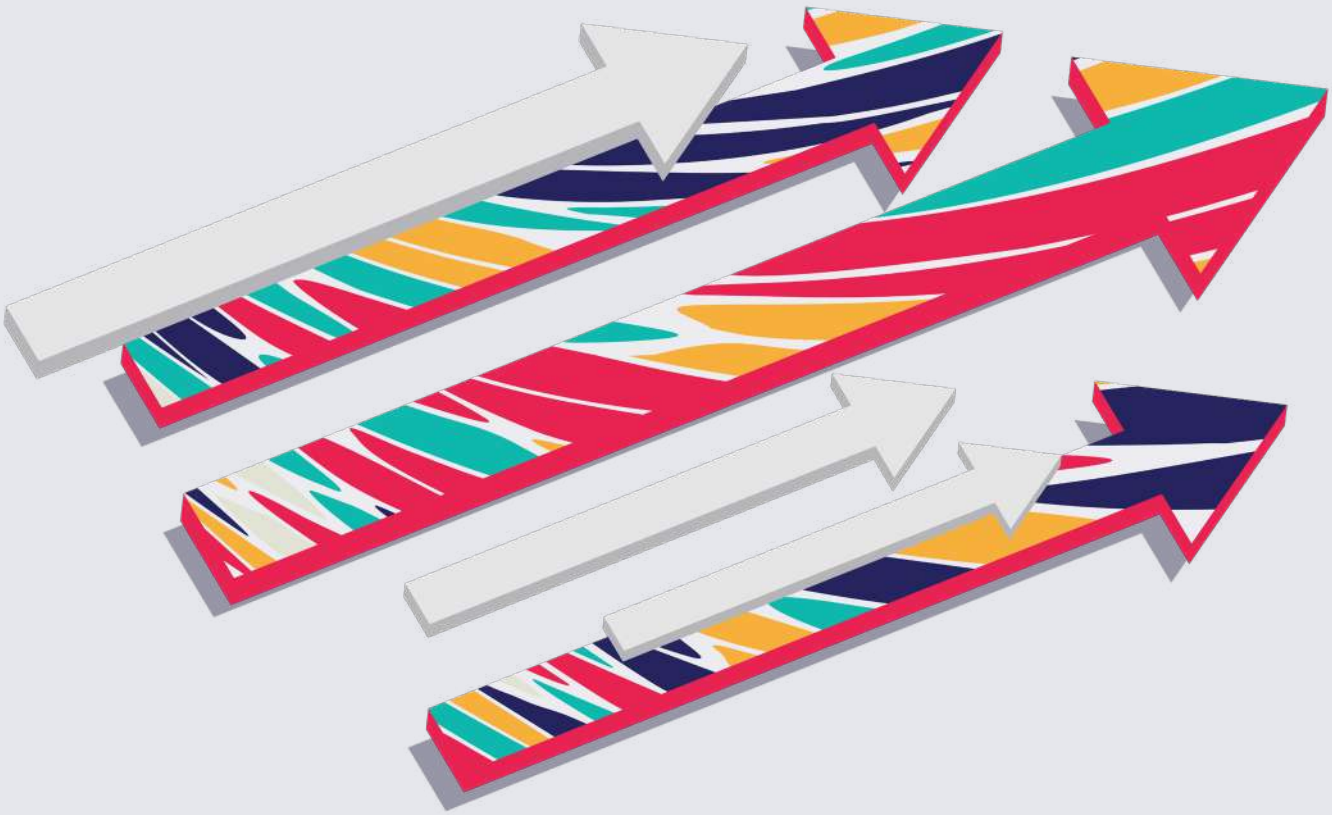
Table A10. Evolution of labour-market rigidity in Middle East and North Africa

	1960	1965	1970	1975	1980	1985	1990	1995	2000
North Africa									
Algeria					1.1	1.1	1.1	1.1	1.1
Djibouti		1.7	1.7	1.7	1.7	1.7	1.4	1.4	1.5
Egypt		1.5	1.5	1.6	1.7	1.8	1.7	1.6	1.5
Iran					1.8	1.9	1.9	1.9	1.5
Iraq	0.0	0.0	0.0	0.4	0.4	0.5	0.8	1.1	1.1
Israel	0.2	0.2	0.8	1.2	1.2	1.4	1.5	1.5	1.5
Jordan								1.7	1.7
Lebanon	0.3	0.4	0.5	1.3	1.4	1.5	1.4	1.5	1.8
Libya				1.8	1.8	1.8	1.8	1.8	1.9
Malta		1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Morocco		1.4	1.4	1.4	1.4	1.4	1.5	1.7	1.7
Syria							2.5	2.5	2.5
Tunisia	2.2	2.2	2.2	2.2	2.2	1.9	1.8	1.8	2.0
West Bank and Gaza	2.3	2.3	2.3	2.3	2.3	2.4	2.5	2.4	2.3
GCC									
Oman		1.5	1.5	1.5	1.5	1.5	1.7	1.7	1.7
Qatar				1.2	1.2	1.2	1.2	1.2	1.3
Bahrain	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.5
Kuwait							1.8	1.8	1.9

Source: Constructed by the authors using the LAMRIG dataset.

Chapter III

New challenges and opportunities: Reviewing trade agreements to promote trade and job creation



Key takeaways

- The **diversification of supply sources for European firms will likely coincide with a shortening of global value chains**. Specific "niche" intermediate products that Southern and Eastern Mediterranean Countries (SEMCs) currently produce and export could benefit from this trend.
- The European Union's **(EU) new Agenda for the Mediterranean** offers opportunities to promote trade, investment and job creation. However, it does not mention moving forward with Euro-Mediterranean Deep and Comprehensive Free Trade Areas (DCFTAs).
- The European Green Deal's "Fit for 55" package includes a Carbon Border Adjustment Mechanism (CBAM) for non-European countries. This would **mean additional tariffs for SEMCs and potential impact on jobs**, particularly in "Brown" sectors.
- **The Ukraine crisis carries ramifications for SEMCs**, including new opportunities for phosphates and fertilizer products, notably in Morocco and Egypt.
- However, the Ukraine **crisis could also slow down the global energy transition** and lead to additional difficulties for SEMCs to meet their decarbonization commitments.
- **This crisis has also worsened challenges for food sustainability**, as SEMCs rely on food imports, especially Russian and Ukrainian wheat. SEMCs, like the world economy as a whole, are also experiencing the consequences of global growth slowdown and higher inflation.
- In a post-COVID-19 world, with stronger regional value chains, the digital economy has the potential to expand SEMCs' trade opportunities with their neighbours and within the region itself and to lead to the creation of new and more sustainable jobs.
- Overall, **trade agreements would need amending to generate a positive effect on labour markets in SEMCs**. They would need to include the liberalization of the services sector. They should also establish a stronger link with foreign direct investment (FDI) in the industry sector oriented towards promoting technology and know-how transfers. Trade costs associated with non-tariff measures (NTMs) should be reduced to make the industry sector more competitive.

In this chapter, we discuss the challenges and opportunities that new global trends might bring to SEMCs for export growth and, hence, to the creation of jobs. The aim is to show how both structural and conjunctural factors influence the link between trade and jobs, which is analysed in the first two chapters. The new global landscape includes the post-COVID-19 trends of global value chains' diversification and shortening, new EU orientations deriving from its new Agenda for the Mediterranean and repercussions for SEMCs as a result of the implementation of the EU Green Deal and CBAM. In addition, the consequences and trade actions related to the war in Ukraine must also be considered. Finally, it remains essential to analyse how ongoing digitalization trends can bring substantial benefits for trade and jobs in the Mediterranean region. In light of these challenges and opportunities, the chapter discusses how future regional integration efforts, such as new and revised deeper integration in trade agreements (that is, Euro-Mediterranean DCFTAs) could promote trade flows and job creation in the SEMCs.

III.1. Is the post-COVID-19 period an opportunity for SEMCs?

The pandemic has made apparent just how reliant production systems around the world are on a handful of Asian countries. This dependence is not sector-specific but concerns all sectors, including those considered by some countries to be "Sovereignty" sectors. The EU has identified raw materials, batteries, active pharmaceutical ingredients, hydrogen, semiconductors and cloud and edge technologies as being strategic sectors with vulnerable supply chains (European Commission 2021a). This awareness coupled with the supply disruptions that European companies are experiencing in certain sectors will most likely cause these firms to stop selecting their suppliers solely on the basis of the lowest cost, but also to consider all of the risk factors, including those associated with large geographical distances. The war in Ukraine has further reinforced the need to better manage all the risks and integrate them into companies' supply chains. This could result in **a greater diversification of their suppliers** without necessarily relocating them to European territories only.

At the same time, EU citizens, investors and private companies are giving increased consideration to the respect of social and environmental standards. These concerns, likely to continue increasing in the coming years, are leading companies to review their strategy of international multi-country production processes, taking into account the number of kilometres travelled by inputs through global value chains. It can therefore be expected that **the diversification of supply sources for European firms will coincide with a shortening of global value chains**. To the extent that it would be too costly and inefficient for European companies to completely relocate all the different production segments to Europe,

> **Mediterranean countries (including as producers and transition hubs, especially for sub-Saharan countries) could become important suppliers for European companies.**

From this perspective, the challenge is to identify the products and/or sectors in SEMCs that could benefit from this dual trend of the diversification and shortening of global value chains. These products and/or sectors could potentially become a source of job creation. This analysis was undertaken in one of the chapters of the joint Center for Mediterranean Integration–Euro-Mediterranean Forum of Economic Institutes (CMI-FEMISE) report (Augier *et al.* 2022) and resulted in the identification of a number of intermediate goods that are both imported by the EU from developing and emerging countries far from the EU (over 7,000 km from Brussels) and that are already produced and exported by Mediterranean countries. A synthesis of this work is presented in Box 1.

Box 1. Niches for potential job creations in Southern and Eastern Mediterranean Countries

Multiple opportunities are emerging for SEMCs to supply the EU market following the COVID-19 pandemic. The assumption is that COVID-19 and other recent global developments will motivate suppliers in the EU to buy fewer intermediates from distant locations and instead source them from the EU neighbourhood. The CMI-FEMISE report (Augier *et al*. 2022) focuses on the trade patterns of the EU, SEMCs and "distant low- and middle-income countries" (DLMICs). Working on United Nations Comtrade data at the six-digit level, the analysis identifies:

- Intermediate products that the EU imports are also products exported by an SEMC economy, and a high share of them currently come from DLMICs. These products, between 400 and 500 for each SEMC,[1] are potential natural candidates that SEMC economies could supply to the EU, if firms in the EU were seeking to diversify their sources of supply, or to reshore larger shares of their production "closer to home".

- From the list of 400–500 common products, a narrower list is identified with the **most important products**, defined as those representing export shares larger than 1 per cent. Table 1 shows the most important products for each SEMC. All these intermediate goods possess a very high revealed comparative advantage, both with regard to the world and vis-à-vis distant developing and emerging countries. This suggests that **even if these products are already exported to the EU, their share in European imports can still be substantially increased**, as confirmed in Table A.1 (annex), which shows the European market shares of its main competitors (predominantly large economies such as Brazil, Mexico and China and South-East Asian economies such as Thailand, Viet Nam and Indonesia as well as African economies such as South Africa and Mozambique). The strong domination of China remains the most striking fact: out of the 16 key intermediate goods needed by European firms and immediately available in SEMCs, the EU imports 12 of them in large quantities from China (between 54 per cent and 100 per cent of the total EU imports are covered by China).

1 Due to its size, the list is not included here but can be made available on demand (in Excel format).

Table 1. Key niche intermediate goods needed by European firms and immediately available in Southern and Eastern Mediterranean Countries

Key intermediate goods in the four Mediterranean countries		Morocco (12 key products)	Tunisia (8 key products)	Egypt (3 keys products)	Jordan (5 key industries)
251010	Natural calcium phosphates	x			x
280920	Phosphoric acid	x	x		x
300390	Medicaments for therapeutic or prophylactic uses (not packaged for retail sale)				x
310210	Fertilizers, mineral or chemical			x	
310310	Phosphatic, superphosphates	x			
310530	Diammonium phosphate	x			
310540	Monoammonium phosphate and mixtures	x			
340290	Washing and cleaning preparations				x
390210	Propylene, other olefin polymers			x	
710812	Metals: gold, non-monetary, unwrought (but not powder)			x	x
853690	Electrical apparatus conductors	x	x		
853890	Electrical apparatus, parts suitable for use solely		x		
854129	Electrical apparatus, transistors	x			
854430	Insulated electric conductors, ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships	x	x		
854442	Insulated electric conductors, fitted with connectors	x	x		
854449	Insulated electric conductors, not fitted with connectors	x	x		
870894	Vehicle parts, steering wheels		x		
880330	Aircraft and spacecraft, parts of airplanes or helicopters	x	x		
940190	Seat, parts	x			

Source: United Nations Statistics Division (UNSTAT) and UN Comtrade via World Integrated Trade Solution (WITS), data exported and compiled through TradeSift: https://tradesift.com/tradesift-software/.

III.2. Beyond the European Neighbourhood Policy: What the European Union's new "Agenda for the Mediterranean" could mean for trade and jobs in Southern and Eastern Mediterranean Countries

The European Neighbourhood Policy (ENP) was launched in 2004 to support the historic EU enlargement by rethinking relations with EU neighbours and favouring the emergence of a "circle of friends" as well as a "common ownership of the process" of regional cooperation. The ENP aimed to strengthen cooperation with its Southern and Eastern neighbours[2] through reforms, without including the prospect of EU membership but instead promoting access to the European market and financial support.

The EU has reviewed the ENP several times, including in 2011 (with a focus on promoting sustainable democracy and inclusive economic development) and in 2015 (with a focus on launching a consultation process), while on 18 May 2017 the European External Action Service and the European Commission published a report highlighting a "more flexible and sensitive approach" vis-à-vis the ENP partners. In 2015, in the face of a mixed record the ENP underwent a thorough review. Since 2017, its main objective has been to "promote reforms with each partner in mutually agreed forms".

The EU therefore now favours a more flexible and differentiated approach depending on each country. Central elements to the ENP are the **bilateral action plans developed between the EU and several partner countries**. These action plans establish political and economic reform programmes with short or medium-term priorities over a period of three to five years. Their objectives include building democratic, socially equitable and inclusive societies, promoting economic integration and education, developing small and medium-sized enterprises and agriculture, and facilitating the cross-border mobility of people. In this context, the European Commission also aims to:

- Continue promoting the mutual opening of markets, which has been pursued: (i) in the **agricultural field** with the entry into force (as mentioned in Chapter I) of the Additional Protocols on Agriculture, in the case of Egypt in June 2010, Jordan in January 2006 (with full entry into force in 2010) and Morocco in October 2012, and (ii) through the negotiation of **deeper and more comprehensive free trade areas** since 2011 with Egypt, Jordan, Morocco and Tunisia. These negotiations are currently at a standstill.
- Facilitate partner countries' access to the regulatory framework and standards of the acquis communautaire to allow them to adapt their own regulations. In this area, only Morocco has implemented a harmonization of NTMs in certain sectors, as part of the ENP action plans.

To our knowledge, no study has evaluated the economic impact, particularly in terms of employment, of the action plans implemented within the framework of the ENP. Insofar as these are targeted country projects, it is not easy to evaluate their effects. However, it would be most useful for empirical work to be carried out in the near future, data permitting.

More recently, in February 2021, to relaunch and strengthen the strategic partnership between the EU and its Southern Neighbourhood, the European Commission and the High Representative adopted a joint communication proposing a "new Agenda for the Mediterranean" (European Commission 2021b). In the context of post-COVID-19 recovery, the EU announced that it would draw from the full EU toolbox and the opportunities of the twin green and digital transitions to relaunch cooperation and realize the region's untapped potential. This new agenda proposes a range of actions along the following five key policy areas: (i) human development, good governance and the rule of law; (ii) strengthen

2 Sixteen countries are included in the ENP: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria (suspended in 2011), Tunisia, Armenia, Azerbaijan, Belarus (suspended in 2009), Georgia, Moldavia and Ukraine.

resilience, build prosperity and seize the digital transition; (iii) peace and security; (iv) migration and mobility and (v) green transition: climate resilience, energy and environment.

To support the implementation of concrete actions, the European Commission proposed an "Economic and Investment Plan (EIP) for the Southern Neighbours" (2021c) which includes **12 preliminary flagship investments and projects** that could be financed under the Neighbourhood, Development and International Cooperation Instrument, and will only require part of the allocation for the Southern Neighbourhood. The 12 flagship initiatives are expected to be developed in the context of joint programming or initiatives of Team Europe (consisting of the EU, the EU Member States, their implementing agencies and public development banks, the European Investment Bank and the European Bank for Reconstruction and Development).

Regarding trade integration, the most relevant flagship in the Joint Staff Working Document is Flagship 5 on "**connected economies**", which stresses that "trade, transport and private sector development are key vectors for economic diversification, contributing to economic integration and connectivity". Here, the European Commission foresees the key opportunities that SEMCs could seize:

- **At the regional level**, the EU will provide technical assistance and support access-to-finance for key sustainable value chains and clusters in sectors with the potential for exports and economic integration, to help them integrate into regional and global value chains. EU support will aim to develop the institutional capacity and technical training of government and private sector organizations to factor in job creation when investing in specific sectors and projects.

- To strengthen **regional interconnectivity**, the EU will also support the upgrading of trade and connectivity infrastructure and logistics hubs in strategic trade/sustainable and safe transport routes that would allow for integration with other regions (including the Middle East and sub-Saharan Africa). Furthermore, finance initiatives for micro-, small and medium-sized enterprises will be developed to expand financial inclusion in the social economy sectors. The EU may also issue budgetary guarantees and explore new and innovative forms of finance.

- **At the bilateral level**, among its suggested initiatives, the EU will aim to conclude a Comprehensive Aviation Agreement with Tunisia to facilitate air connections and help restart the Tunisia tourism sector. The EU also announced that it will support reforms for the development of sustainable public transport infrastructure in Egypt. The Joint Staff Working Document specifies that the EU "will support comprehensive reforms with a view to providing citizens with safe and [sic] means of transportation, reducing congestion and promoting the shift from private cars to more sustainable modes of transportation, and improving transportation efficiency and greening the sector".

In addition to Flagship 5, other flagships can also enable gains for trade and related jobs in SEMCs, as the benefits of some of their suggested activities would be cross-cutting. Such flagship initiatives include:

- **Flagship 1 – Support to social sectors, education, skills and health**, where the EU will give special attention to vocational education and training as a tool to support the needs for the working population to up- and reskill in the context of the green and digital transitions.

- **Flagship 2 – Human rights, the rule of law and modern, effective administrations, governance and accountability**, under which the EU will provide support to strengthen, among other things, the partners' statistical capacities to produce reliable, comparable statistics.

- **Flagship 6 – Inclusive economies**, under which the EU will seek to enhance its support to an inclusive and structured dialogue with a view to, among other things, tackling the employability issues and the transition from informal to formal labour.

- **Flagship 7 – Digital transformation, research and innovation**, which can help unlock important benefits for the Southern Neighbourhood. Specifically, in the context of the EU-Morocco Digital partnership, the EU will support Morocco in becoming an associate member of the Horizon Europe research programme and support the digital/innovation ecosystem of Morocco. There are also opportunities for Tunisia as, based on the 2025 Strategy for Digital Transformation, the EU will strengthen the digitization of the economy in order to improve productivity, stimulate new job creation, improve e-governance and invest in education and multisectoral digital infrastructure.

- **Flagship 10 – Energy transition and energy security**, which will be key for the region to meet its commitments to transition from fossil fuels towards clean energy under the Paris Agreement, while it can also help meet the requirements of the recently introduced CBAM (see next section).

  » Here, Egypt could benefit from EU support to achieve a transition to a green economy. This includes support for increasing the share of renewable energy in the global energy mix, carrying out radical improvements in energy efficiency, enhancing international cooperation to facilitate access to clean energy research and technologies and promoting investment in the sector. Planned actions in favour of a green transition, highlighted by the launching of the National Climate Change Strategy 2050 (Egypt, Ministry of Environment 2022), could utilize EU support.

  » In Morocco, the EU will continue to support its renewable energy infrastructure, notably through the European Fund for Sustainable Development Plus, and to strengthen its technical and financial cooperation in order to accelerate the production of green hydrogen.

  » In Jordan, the EU announced that it will support the implementation of the 2020–2030 energy sector strategy, which focuses on maximizing local sources and enhancing further use of natural gas and renewable energies.

While the flagships are ambitious and offer opportunities to promote trade, investment and jobs, there are glaring omissions, especially regarding **the trade dimension**. Specifically, there are no explicit mentions of moving forward with Euro-Mediterranean DCFTAs. This could be explained by the fact that

> **great obstacles have not yet been overcome, including the lack of detailed studies to anticipate their effects (particularly on employment in SEMCs) and the resistance within Tunisian and Moroccan civil society, business and politics, and also the hesitance of the EU to grant concessions on agriculture.**

Substantial progress cannot occur without efficient and trusted communications between all parties, in-depth pedagogy and long-term technical assistance that generate ownership, a broader consensus in the SEMCs, and the capacity to negotiate and implement agreements in line with their own growth and poverty reduction strategies. New initiatives would provide the technical and operational means to reassure the SEMCs' counterparts that deeper integration can genuinely deliver concrete benefits to their societies and jobs and that potential risks are manageable. The positive contribution to the SEMC economies of a regional Euro-Mediterranean association agreement could also be promoted.

III.3. Implications of the new Carbon Border Adjustment Mechanism for Southern and Eastern Mediterranean Countries

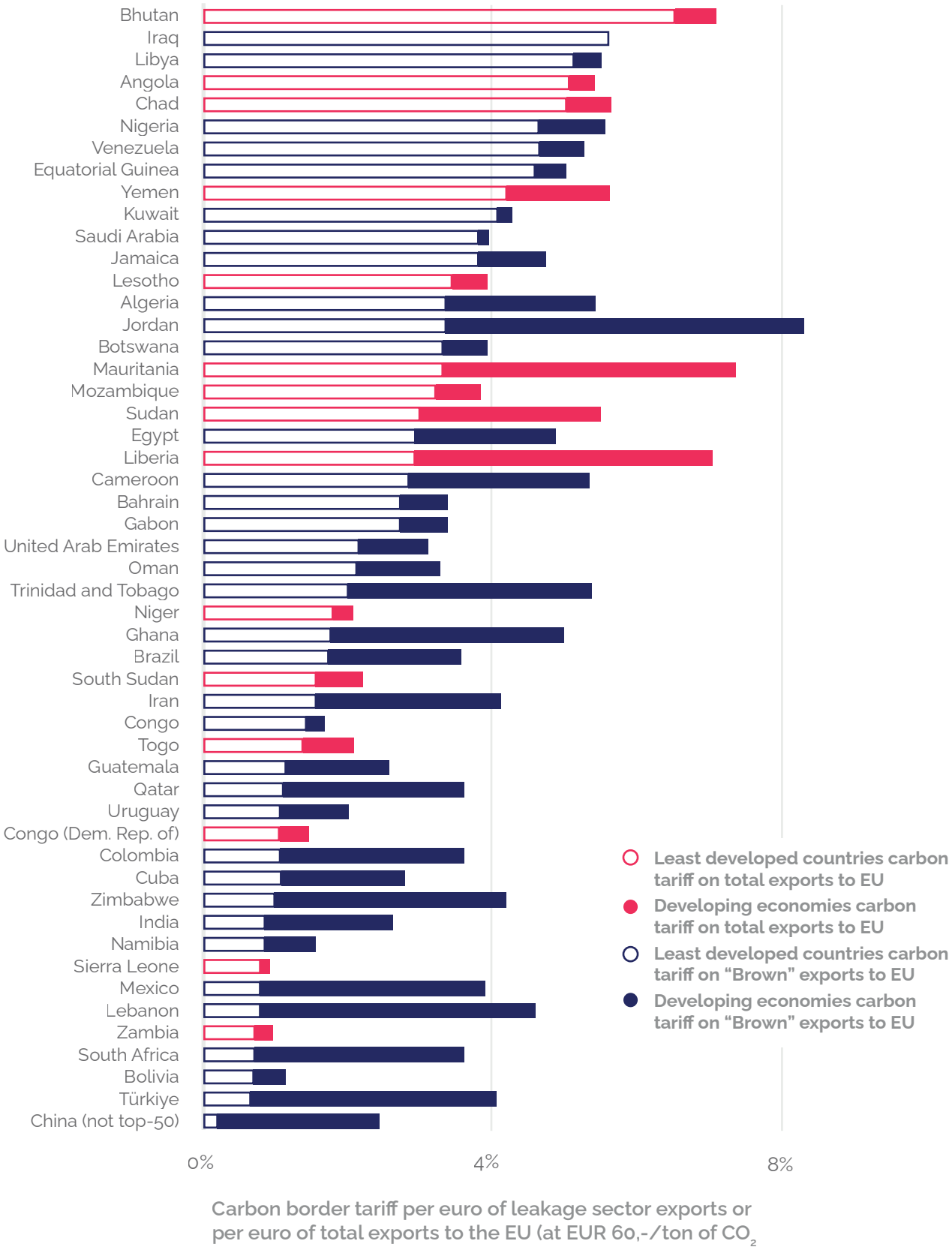
The recently announced European Green Deal is a "new growth strategy that aims at transforming the EU into a fair and prosperous society, with a competitive economy, where there are no net emissions of greenhouse gases in 2050 and economic growth is decoupled from resource use". To implement the Green Deal plan, the European Commission proposed the Fit for 55 package, a set of policy, regulatory and legislative tools. Among other things, the EU recently proposed a CBAM for non-European countries as a key element in the European Green Deal. The justification of the proposal is that, so long as trade partners do not live up to the climate ambition of the EU, carbon leakage remains a risk and this would undermine EU efforts and leave global emissions unchanged.

The CBAM will mirror the EU Emissions Trading System in the sense that the system is based on the purchase of certificates by importers of goods coming from outside the EU. Importers of the goods will have to register with national authorities where they can also buy CBAM certificates. National authorities will authorize registration of declarants in the system, as well as review and verify declarations. They will also be responsible for selling CBAM certificates to importers. By ensuring that importers pay the same carbon price as domestic producers under the EU Emissions Trading System, the CBAM will ensure equal treatment for products made in the EU and imports from elsewhere (European Commission 2021d).

The introduction of the CBAM could prove a strategic tool for the SEMCs in moving forward with their "green transition". However, such a transition cannot happen overnight and it will become necessary to open a dialogue regarding the exact perimeter of the adjustment mechanism (Colombier 2021) as well as related employment issues. **Right now, for SEMCs (and other) trade partners, the introduction of the EU CBAM could mean additional tariffs, which would impede their exports to the EU and indirectly affect jobs in SEMCs**, especially in Brown sectors. The CBAM would mostly affect the cement, iron and steel, electricity as well as basic chemicals, fertilizers, industrial gases, aluminium and paper sectors (Allianz Research 2020a). Eicke *et al.* (2021) find that most countries with high risks of CBAM exposure are located in Africa.

The CBAM will also likely affect a large share of the niche products identified in the CMI-FEMISE report (Augier *et al.* 2022) that are in demand from European firms and immediately available for export in SEMCs. In terms of absolute embedded carbon dioxide (CO_2) emissions in exports to the EU, Egypt would be among the most concerned SEMCs. When it comes to relative exposure to carbon tariffs, Figure 1 shows that, for African and Middle East and North Africa (MENA) countries, the majority of export value is generated in a Brown (carbon leakage) sector. This would place SEMCs such as Egypt and Jordan among the most exposed.

Figure 1. Top 50 least developed and developing economies most exposed to European Union carbon border tariffs



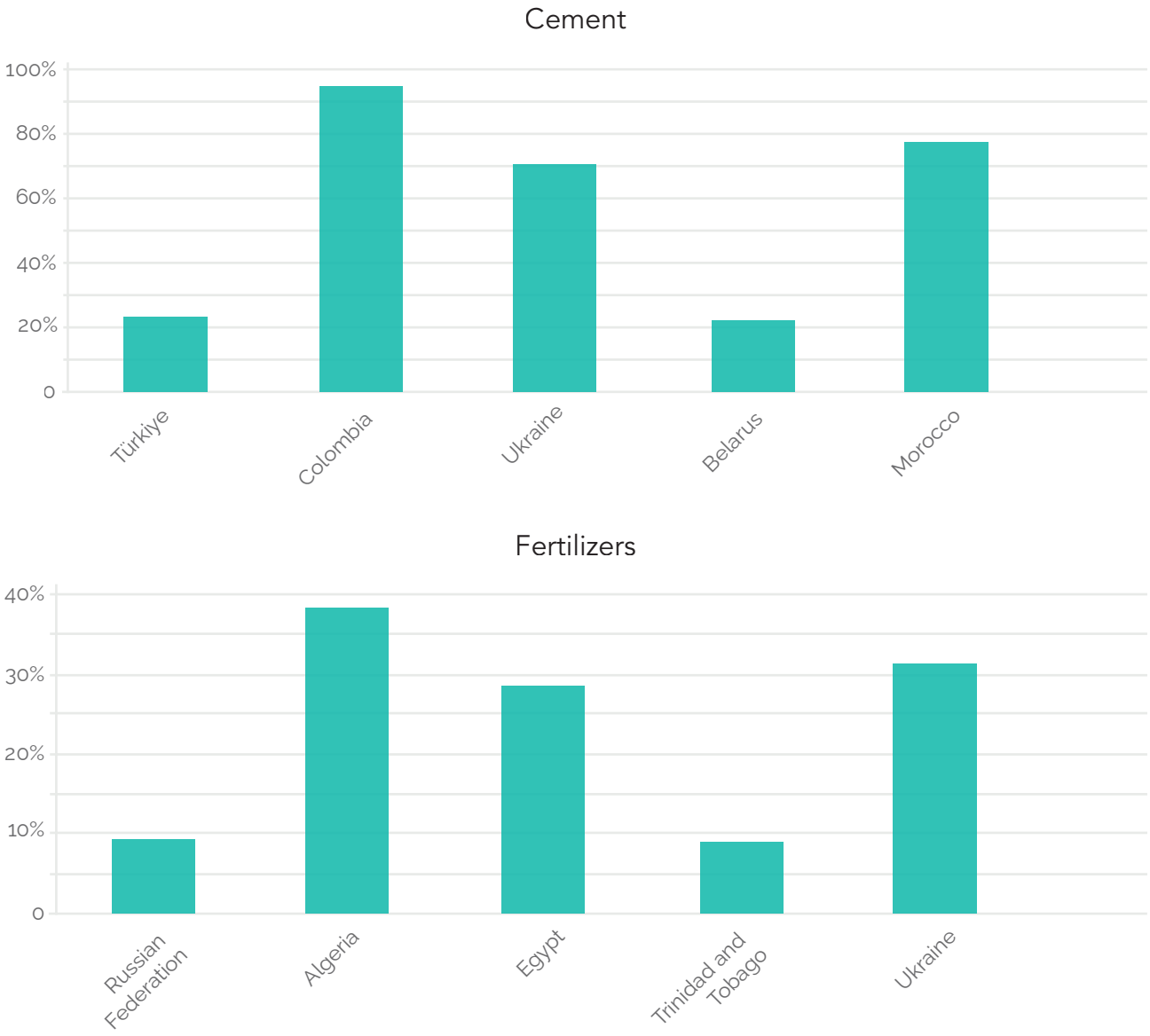
Source: Allianz Research 2020b

Other countries in the region would be concerned as well. For instance, as noted by Berahab and Dadush (2021), Morocco holds about 72 per cent of the world's phosphate reserves. Phosphate is the primary material in inorganic fertilizers. The country's fertilizer exports to the EU amounted to USD 395 million in 2019, which equates to about 0.3 per cent of Moroccan GDP and 78 per cent of total Moroccan exports of products covered by the CBAM. Even though Morocco has already made steps towards decarbonization and its industry's carbon intensity has declined recently, fertilizers are still a high-emitting sector expected to incur a sizeable CBAM tax when exported to Europe. The Morocco State-owned producer of phosphates and phosphate-based products, OCP Group (OCP), currently supplies three products to the EU: phosphorus found in rock phosphate, phosphoric acid and fertilizers. All of these products are among the list of goods covered by the EU CBAM. As identified in the CMI-FEMISE report (Augier *et al*. 2022), phosphoric acid in particular is also a key niche product needed by European firms and immediately available in SEMCs such as Jordan, Morocco and Tunisia.

The EU has announced that a reporting system will apply starting in 2023 for the CBAM-concerned products. Meanwhile, importers will start paying a financial adjustment in 2026. A key question is how SEMCs will react to the CBAM. They may decide to export elsewhere or sell more domestically in order to avoid an additional tariff. Figure 2 focuses on the CBAM-covered Fertilizers and Cement sectors and shows that most of the EU top-five suppliers are within its neighbourhood.

Morocco is one of the top suppliers of cement, selling 25 per cent of its total exports of cement to the EU. Meanwhile, Egypt is a top-five supplier of fertilizers, selling 28.5 per cent of its exports to the EU. The EU is thus an important market for them, but far from being the only one, which means that countries could make the choice to reorient their exports elsewhere. If SEMCs decide to keep exporting to the EU, foreign producers and EU consumers will share the extra CBAM cost depending on the bargaining power each of them holds as well as the availability of alternative suppliers and buyers (Erixon 2021). For SEMCs as a whole, once the CBAM applies, their attitude towards the EU will depend on whether they maintain sufficient margins despite facing additional import duties. In the specific case of Morocco, the country is embarking on green ammonia research and development projects, as well as carbon capture projects (Berahab and Dadush 2021). This would likely make the tender to the EU market feasible by the time the CBAM enters into force and help preserve jobs in the phosphates sector.

Figure 2. Top-five suppliers to the European Union: The share of their exports to the European Union as a share of their total exports for cement and fertilizers



Source: UN Comtrade, adapted from Erixon 2021

Still, the CBAM question raises **multiple issues that need debating** as part of an EU-SEMC dialogue, which future EU-SEMC free trade agreements (FTAs) should address:

Firstly, countries in the Mediterranean region may be unable to decarbonize at the pace required to compete in the EU market. Climate finance flows are insufficient and tend to target emerging economies that are rapidly growing. Escaping carbon lock-in by introducing alternative energy technologies is also a complex process for energy-intensive sectors, where a long investment cycle means that today's assets need to comply with 2030 and 2040 emissions reduction targets (Eicke *et al*. 2021).

Secondly, **calculating embedded carbon content may prove difficult**. Exporters to the EU will need to be able to monitor, report and verify their emissions. In a world of global value chains, calculating this within a given product whose inputs originate from several different countries with differing climate policies could be extremely complex and expensive. This is especially true for SEMCs that do not have

the same technical capacity as the EU. The ability of local firms to measure, report and verify the carbon content of their products will depend on the existing national infrastructure but also on the level of statistical skills of their authorities. Therefore, future FTAs should clearly identify the means to strengthen their know-how and administrative/financial/technical capacity, and the EU should actively contribute to this capacity-building exercise.

Thirdly, a regional **dialogue is necessary** to focus on the right policies and initiatives that induce a **green and inclusive labour transition**. SEMCs should receive ample time to design and implement well-informed and coherent fiscal, employment and industrial policies for the creation of long-term backward and forward links of the green sectors that can export with their domestic economies.

> **For their part, SEMC policymakers should promote legislation that contributes to the transition towards renewables, such as eliminating fossil fuel subsidies and introducing carbon pricing measures**

(Inter-Parliamentary Union and United Nations Environment Programme 2020). This would send a strong signal to their EU neighbours as to their "climate ambition". The green transition also calls for overcoming systemic weaknesses of human capital and technology, such as weak scientific approaches, engineering knowledge and cross-cutting skills. The future FTAs should address these shortcomings and the EU could support, technically and financially, SEMCs' efforts to identify and implement education policies that address skill gaps, gender inequality and industry needs for specific cross-cutting skills in a timely manner. Collaboration through partnerships and clusters for the establishment of common approaches and collaborative actions can leverage a just transition in the green economy and labour market alike.

Overall, concrete suggestions from the EU about how the CBAM could be anchored in bilateral trade agreements with SEMCs are needed. Given its aim for global decarbonization, the challenge will be reconciling the soft power of projecting the EU as a true partner to its Southern neighbours' green transition, while imposing new barriers to their exports. The CBAM should not limit trade options for SEMCs, but act as a true incentive to decarbonize. Given that SEMCs' participation in CO2 emissions is minimal on a global scale, their exports should not be unfairly sanctioned.

To avoid the emergence of new divisions, the EU could take into account the carbon exposure and vulnerability of its immediate neighbours, with whom it has privileged relations. The EU-SEMC dialogue could discuss the possibility of investing in the decarbonization initiatives of SEMCs and in strengthening their administrative, institutional and monitoring capacities as well as in capacity-building and training programmes for emissions reductions in key SEMC industries. The regional dialogue should explore the possibility of SEMCs benefiting from the EU financial instruments that come with the Fit for 55 package to strengthen their own nationally determined contribution commitments.

III.4. What implications can be already observed for Southern and Eastern Mediterranean Countries as a result of the Ukraine crisis?

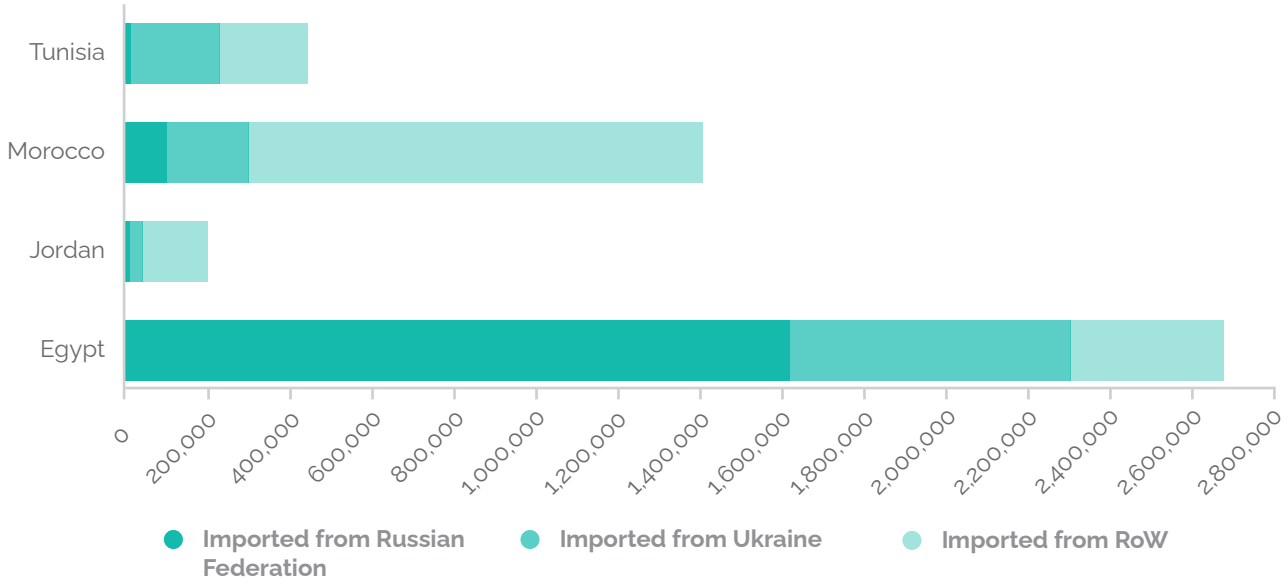
The Ukraine crisis has disrupted the majority of exports from Ukraine and Russia. This carries considerable ramifications for international trade, as well as for the growth and inclusiveness strategies of countries worldwide, including in the SEMCs. New challenges have emerged that also bring their lot of new possibilities for SEMCs, including:

- **Challenges for food sustainability:** SEMCs, whose wheat consumption per capita is double the world average, are highly dependent on Russian and Ukrainian imports, the prices of which have started to rise. As shown in Figure 3, Tunisia buys about 48.6 per cent of its wheat and meslin from Ukraine, while Egypt buys 60.4 per cent from the Russian Federation and 25.6 per cent from Ukraine. As seen in Figure 4, the largest wheat importer worldwide is Egypt, while Algeria is fifth. Rationing and sizeable price increases are hitting the already hard-pressed populations.

As suggested by the CMI-FEMISE report (Augier *et al*. 2022), there is a need to increase food production in SEMCs, which can be achieved by: protecting farming land (land mapping systems to protect land with high agricultural potential), installing water-saving irrigation systems, improving the use of rainwater resources through renewed practices, developing a research strategy to identify crops with a high value added yield per cubic metre of water and improving crop productivity through agronomic and genetic research.

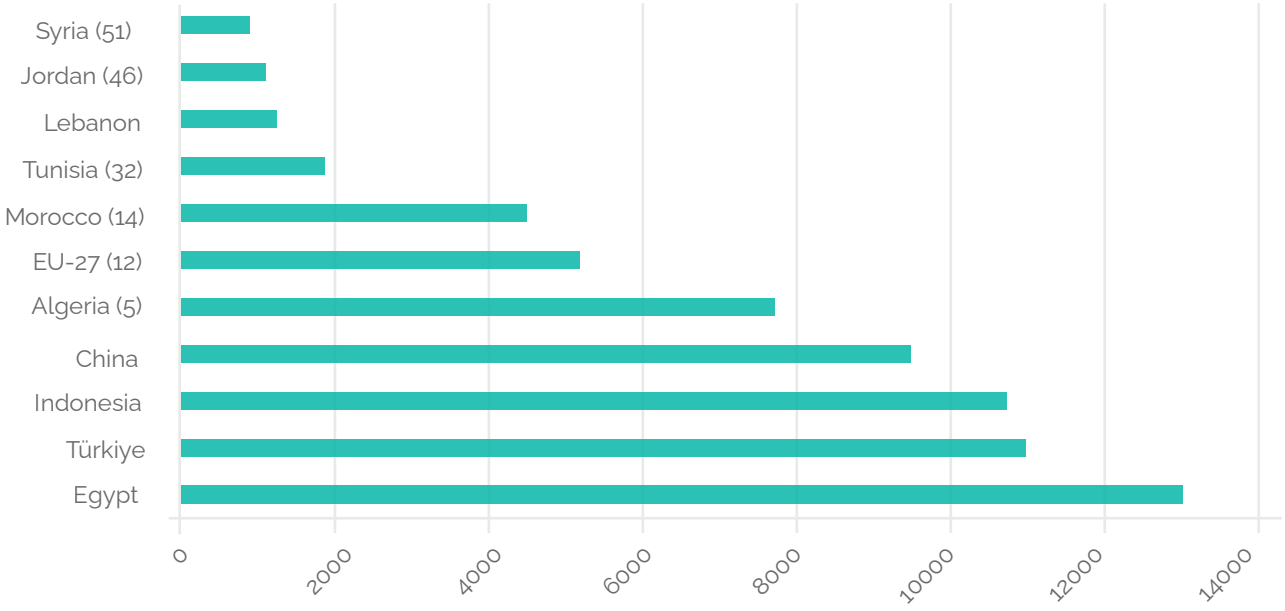
Meanwhile, the agrifood industry must be further reinforced, in particular through a more integrated approach and in cooperation with the EU. The development of **regional agricultural value chains** holds high potential for job creation in the Southern and Eastern Mediterranean region. As such, this topic should be encouraged and form the focus of more in-depth analysis.

Figure 3. Wheat and meslin (1,001) goods imported by the Southern and Eastern Mediterranean Countries (Trade value in USD 1,000, latest year) and the share imported from the Russian Federation and Ukraine



Source: WITS and UN Comtrade

Figure 4. Wheat imports by country in 2021 (in 1,000 tons) and country ranks



- **Challenges and opportunities for the green transition:** The war in Ukraine could prove detrimental for climate action by slowing down the global energy transition. Indeed, the energy transition requires substantial amounts of metals such as copper, nickel, cobalt and lithium (Boer, Pescatori and Stuermer 2021). Both the Russian Federation and Ukraine are key suppliers of such metals used in the manufacture of green technologies including solar panels, wind turbines and electric vehicle batteries. Specifically, the Russian Federation accounts for 7 per cent of the world's mined nickel, which is a key ingredient to make electric vehicle batteries. The Russian Federation also produces a third of the world's palladium, which is used in the car industry to control vehicle emissions. Meanwhile, Ukraine is the world's largest supplier of noble gases, such as neon and krypton, which are critical components of all electronic systems, including those found in renewables machinery (Sharma 2022). New projects in renewables also depend on steel and aluminium, of which both the Russian Federation and Ukraine are major producers. Therefore, additional difficulties are to be expected for SEMCs to meet the requirements of the green transition, something that the EU should take into account when asking them to align with the EU CBAM.

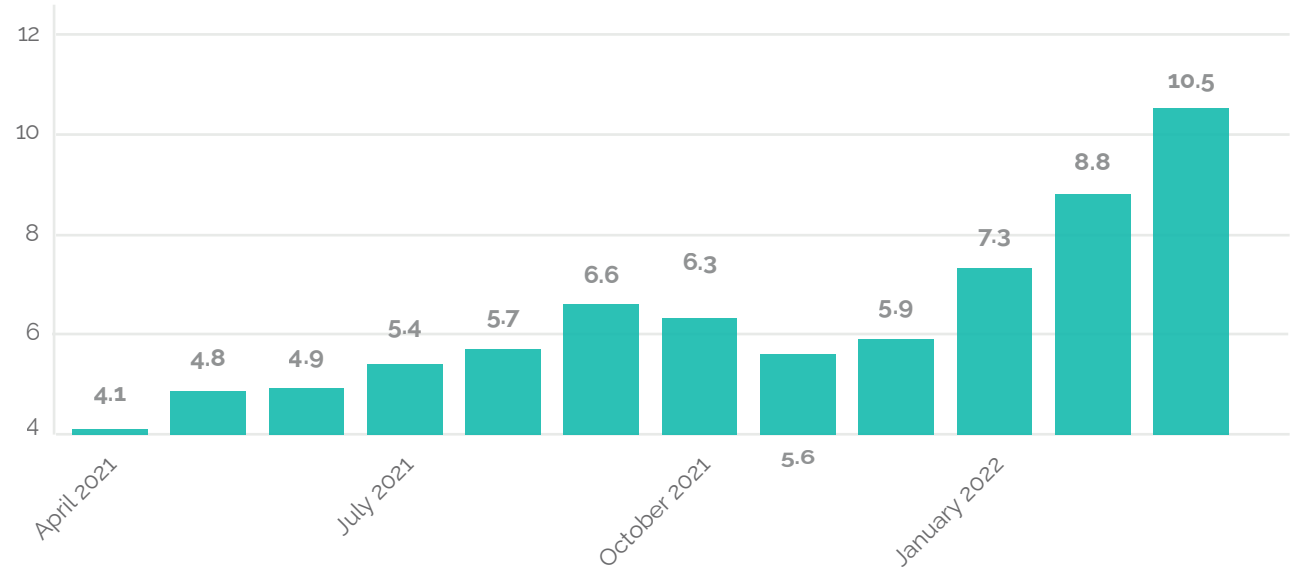
- In the meantime, the EU, which imports about 40 per cent of its natural gas from the Russian Federation, has released plans to curb imports of Russian natural gas by around two-thirds by the end of the year, increasing imports of natural gas from abroad. This constitutes an opportunity for SEMCs such as Egypt, which is looking to increase its gas exports to EU markets. Cyprus, Egypt and Greece have recently demarcated their maritime borders and exclusive economic zones between them to facilitate gas exploration in the region, which is estimated between 340 trillion and 360 trillion cubic feet and worth between USD 700 billion and USD 3 trillion (Saied 2022).

- Beyond the specific effects linked to their resources and trade structure, SEMCs, like the world economy as a whole, are feeling the **effects of the growth slowdown and inflation acceleration**. The rise in commodity prices (especially of food and energy) will further reinforce the upward trend in inflation already present in some SEMCs. Indeed, Figure 5 shows that, in March 2022, inflation rates in Egypt and Tunisia were 10.5 per cent and 7.2 per cent, respectively. The inflation rates are lower in Morocco (3.6 per cent) and Jordan (1.9 per cent). High inflation rates are likely to cause macroeconomic instability, reduce people's purchasing power, further increase the number

of people falling into extreme poverty on top of the effects of the COVID-19-related economic crisis and reduce demand for goods and services, which in turn may reduce production and therefore employment.

- In addition, with growth prospects for high-income countries likely to be downgraded in the coming months, remittances to SEMCs can be expected to decrease again, reducing a significant source of additional income for the population. The deterioration of people's living conditions could lead to social tensions and political instability. Finally, inflation is likely to push up nominal interest rates. Figure 6 shows that the central banks in Egypt and Jordan have already decided to raise their rates, while Morocco and Tunisia have not yet done so. Current nominal interest rates are 9.25 per cent in Egypt, 6.25 per cent in Tunisia, 2.75 per cent in Jordan and 1.5 per cent in Morocco. This general context may discourage both domestic and foreign investment and bear a negative impact on growth and employment in SEMCs.

Figure 5. Recent evolution of inflation rates in Southern and Eastern Mediterranean Countries (in per cent, consumer prices)



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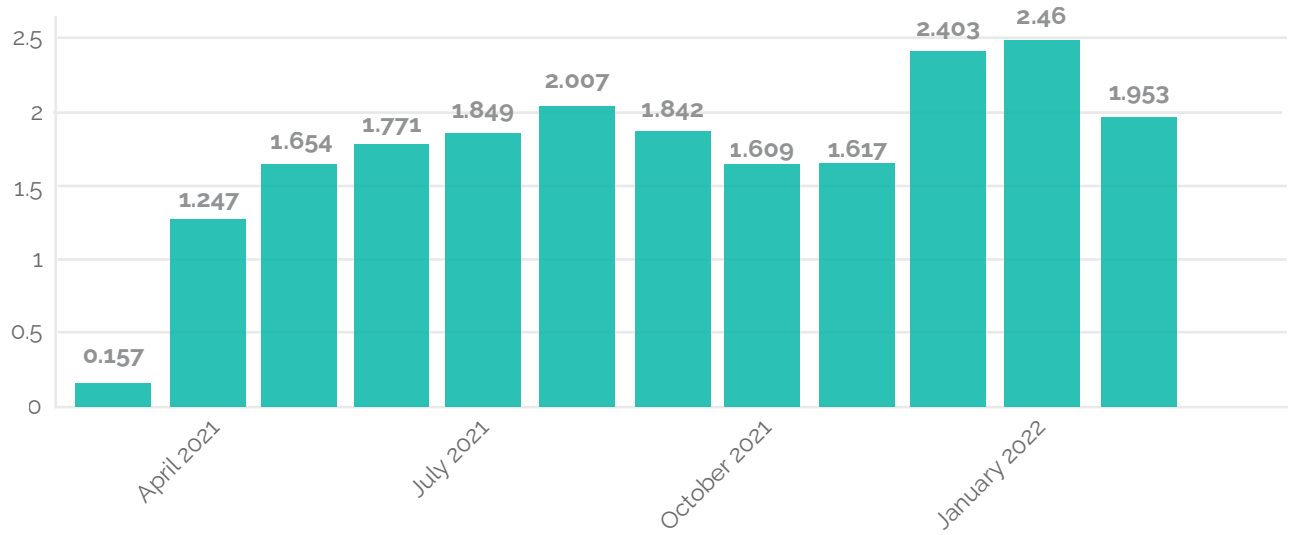

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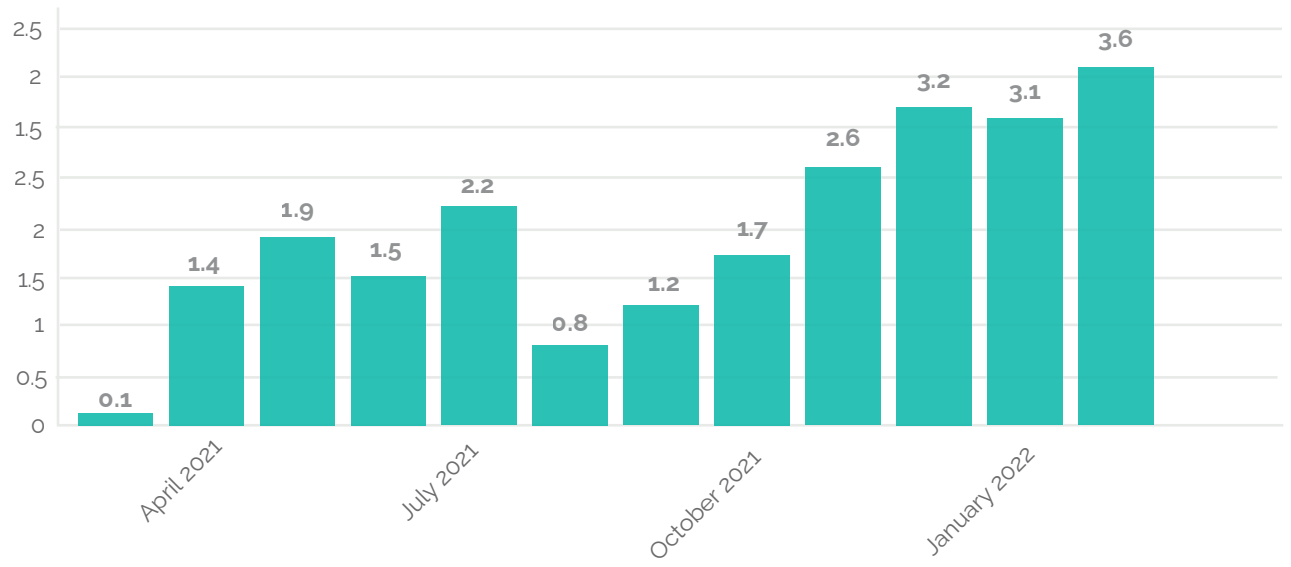
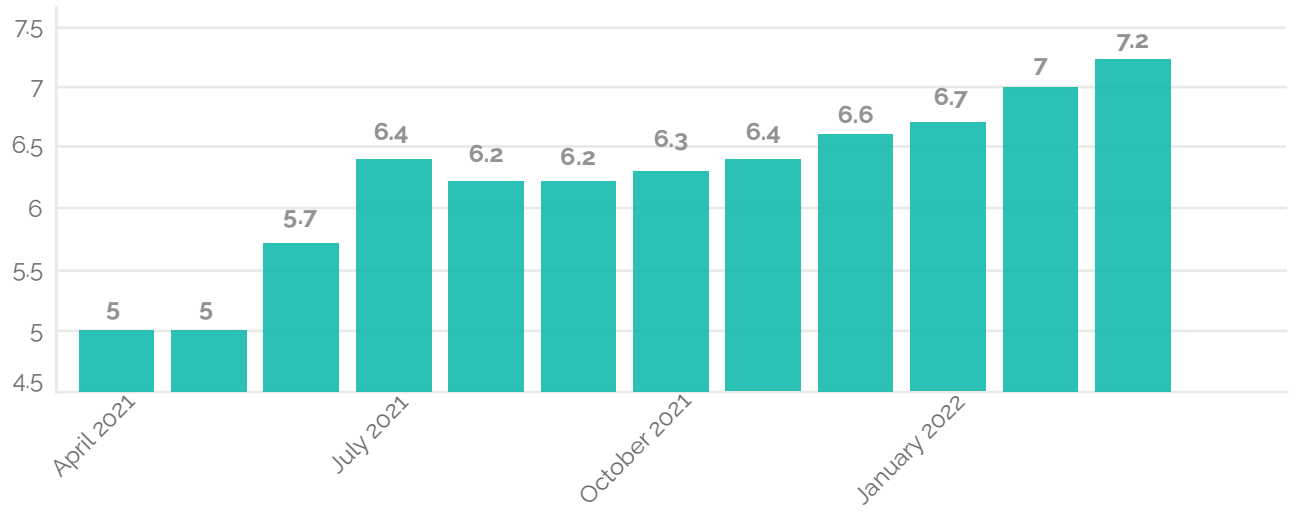


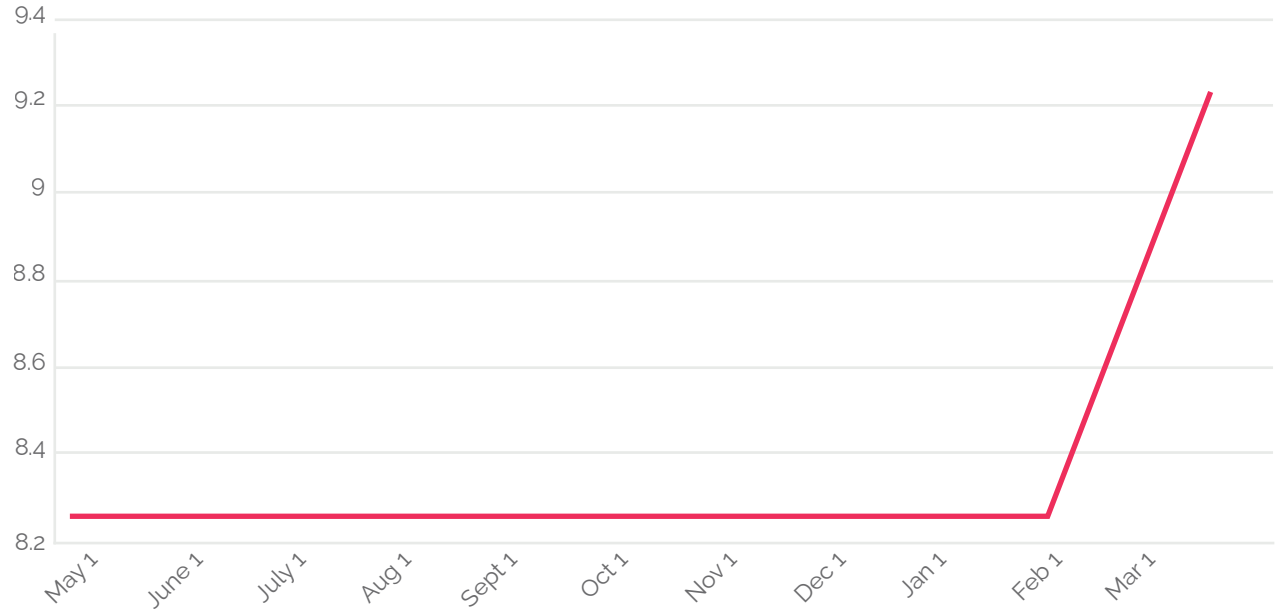
TRADINGECONOMICS.COM | HAUT COMMISSARIAT AU PLAN

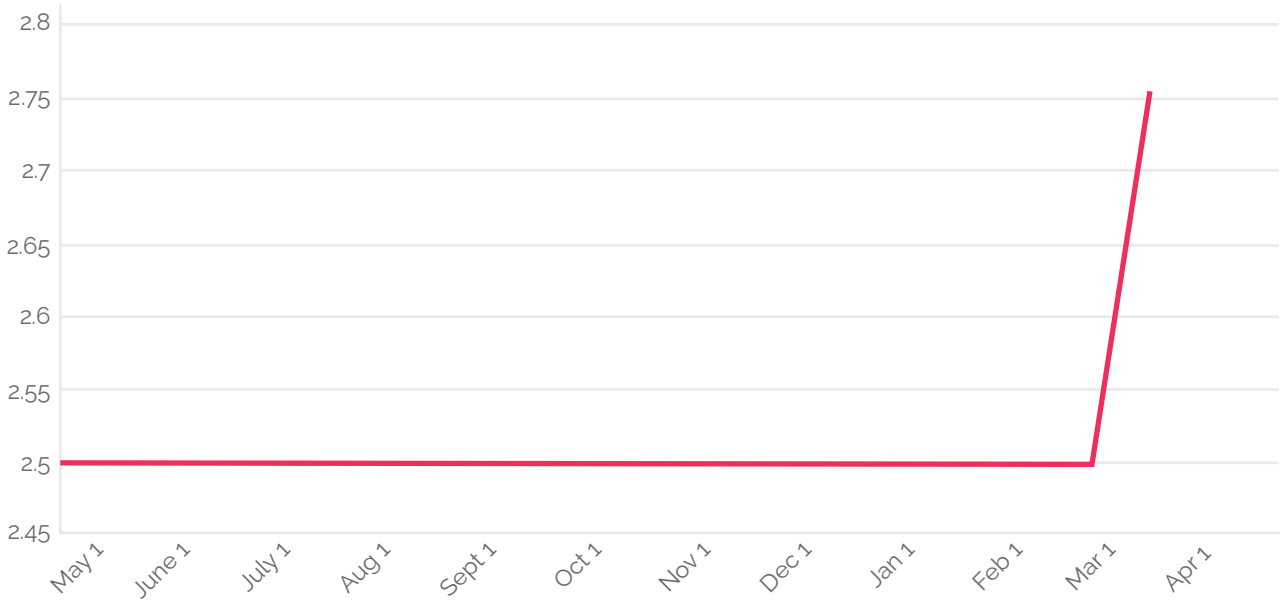


TRADINGECONOMICS.COM | NATIONAL INSTITUTE OF STATISTICS, TUNISIA

Source: National sources

Figure 6. Recent evolution of interest rates in Egypt and Jordan (in per cent, over one year)





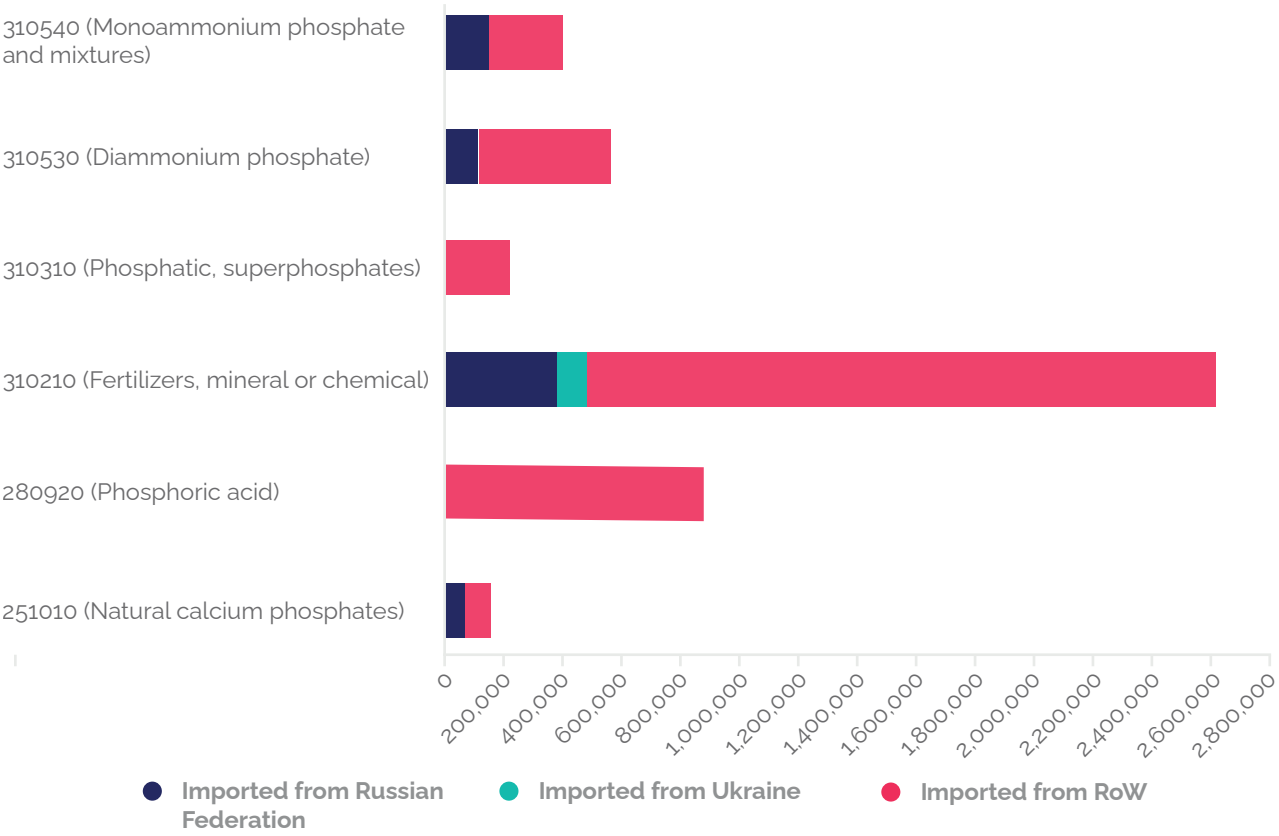
Source: Trading Economics 2022

- **New possibilities for phosphates and fertilizers products:** As already discussed, even before the war in Ukraine, phosphates and fertilizers were key intermediate goods in the SEMCs (CMI-FEMISE 2022). Some SEMCs currently find themselves in an advantageous position, as the Russian Federation has paused its fertilizer exports. While this halt in Russian exports is leading to climbing prices, it could also represent a new possibility for SEMCs, especially Morocco and Egypt, to improve their position vis-à-vis the EU and international market. Among the key niche intermediate goods that the SEMCs are

capable of exporting, but that the EU currently imports from elsewhere as identified by the CMI-FEMISE report (Augier *et al.* 2022), four products are found to be directly concerned by the Ukraine crisis. As seen in Figure 7, about 44.7 per cent of the EU 27 imports of natural calcium phosphates come from the Russian Federation. Regarding monoammonium phosphate and diammonium phosphate, the shares imported by the Russian Federation are 37.7 per cent and 20.5 per cent, respectively. Lastly, about 14.6 per cent of the EU 27 imports of fertilizers come from the Russian Federation, while 3.9 per cent come from Ukraine.

- Meanwhile, Morocco is first worldwide in phosphate reserves, home to more than 71.4 per cent of the world's accounted-for reserves (close to 50 billion tons), far outstripping China (3.2 billion tons) and Algeria (2.2 billion). However, the Ukraine crisis also adds new challenges, as rising gas and ammonia prices can make the process of mining and processing phosphate costlier. Overall, apart from Morocco, other producers that could benefit from this new situation are Egypt (4.6 million tons), Tunisia (3.3 million tons) and Algeria (1.3 million tons). The situation should be significantly favourable for Egypt, which benefits from both the availability of gas and abundant ammonia to produce fertilizers at a competitive rate. The EU could thus partly turn to SEMCs providers for such products.

Figure 7. Phosphates and fertilizers (niche goods) imported by the EU 27 (Trade value in USD 1,000 in 2021) and the share imported from the Russian Federation and Ukraine



Source: WITS and UN Comtrade; United States Department of Agriculture: https://www.usda.gov

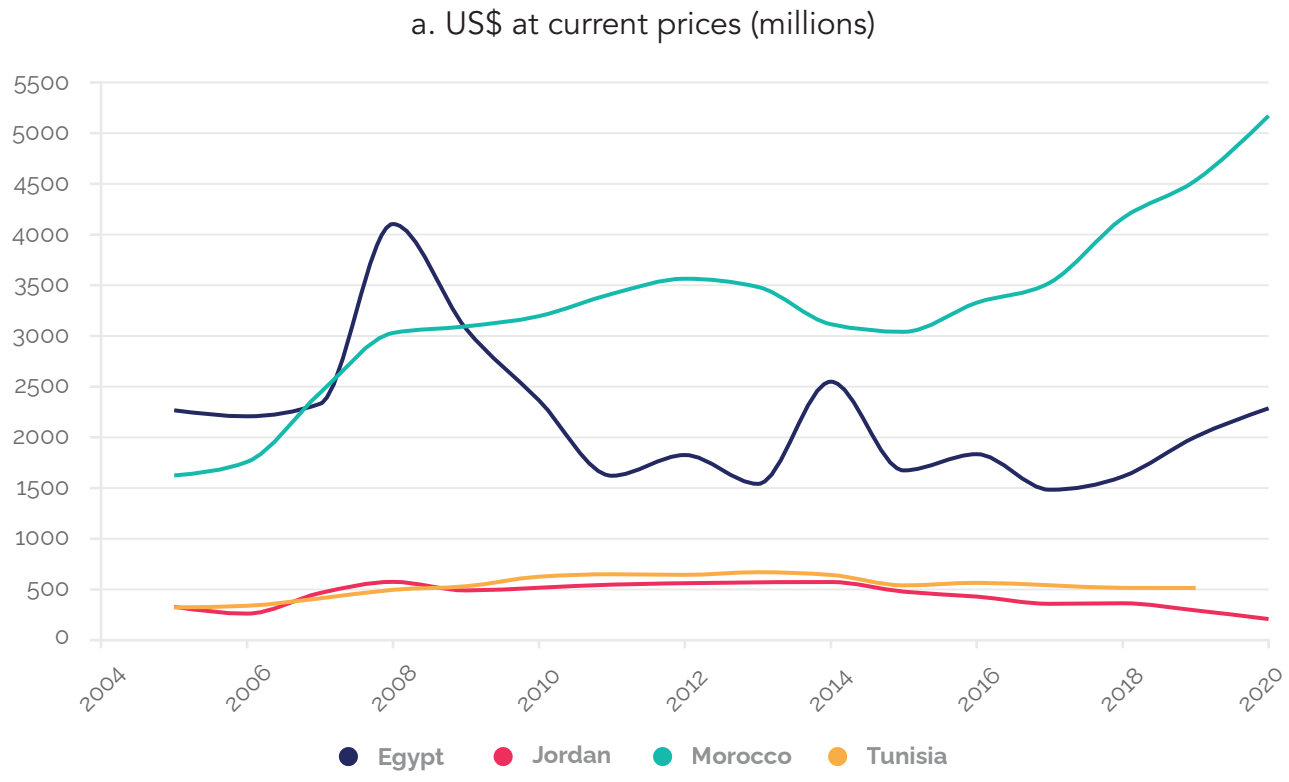
III.5. The potential of digitalization for trade and jobs in the Middle East and North Africa

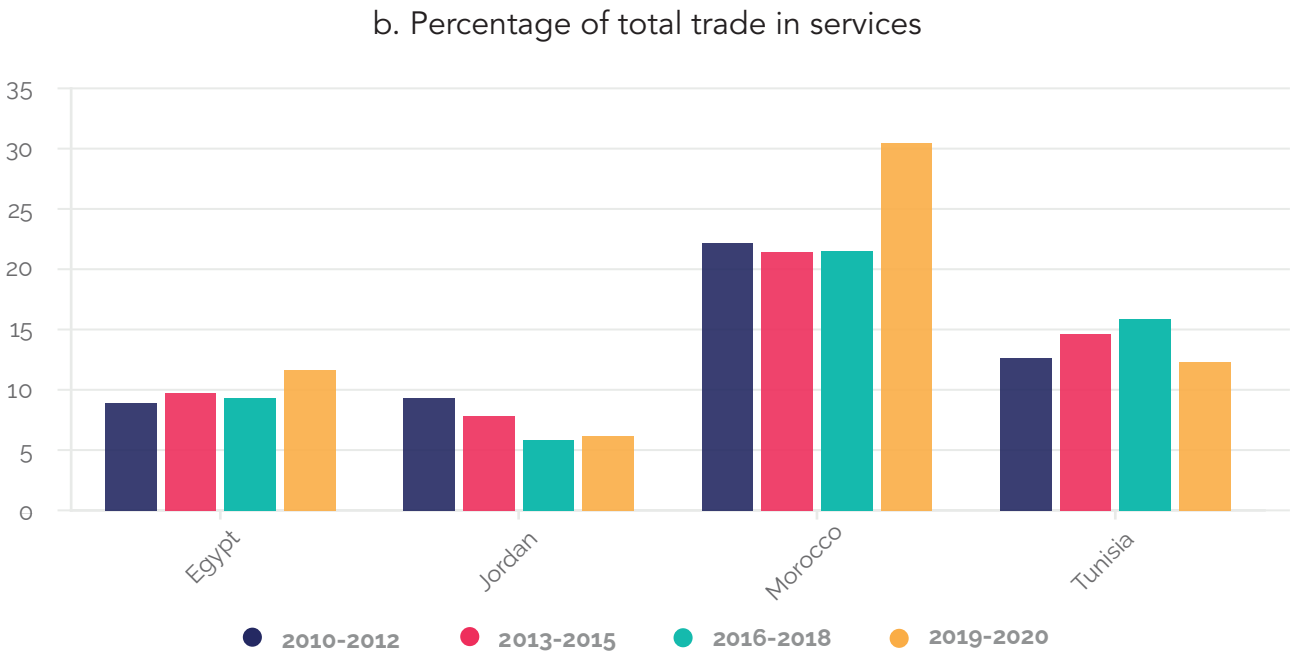
The COVID-19 crisis has accelerated the process of digitalization worldwide, which will have significant effects on the future of work, skills and trade, including for SEMCs. Digital trade has been defined as "all trade that is digitally ordered and/or digitally delivered" (Organisation for Economic Co-operation and Development [OECD], World Trade Organization and International Monetary Fund 2020); it specifically includes:

- **Digitally delivered trade**, which corresponds to "international transactions that are delivered remotely in an electronic format, using computer networks" (OECD, World Trade Organization and International Monetary Fund 2020). While services exports worldwide fell by 20 per cent during the pandemic compared with 2019, exports of digitally deliverable services proved resilient, falling by only 1.8 per cent despite extensive economic disruption (United Nations Conference on Trade and Development [UNCTAD] 2022). Digitally deliverable services thus reached almost 64 per cent of global services exports worldwide.

- This trend was also verified in some of the SEMCs as suggested by UNCTAD data (Figure 8). Morocco saw an impressive increase in its value of digitally deliverable exports of services by 32.2 per cent in 2019–2020 compared with the average value of 2016–2018 and also reached 30.4 per cent of Moroccan services exports in 2019–2020 (up from 21.5 per cent in 2016–2018). For Egypt, the value of digitally deliverable service exports increased by 30.6 per cent and their share in services exports reached 11.6 per cent in 2019–2020 (up from 9.3 per cent in 2016–2018). It is more difficult to draw concrete conclusions for Tunisia and Jordan where digitally deliverable services exports did not seem to notably increase, but the volumes traded by these two countries are much less important than those of the other two SEMCs.

Figure 8. Exports of digitally deliverable services, by country

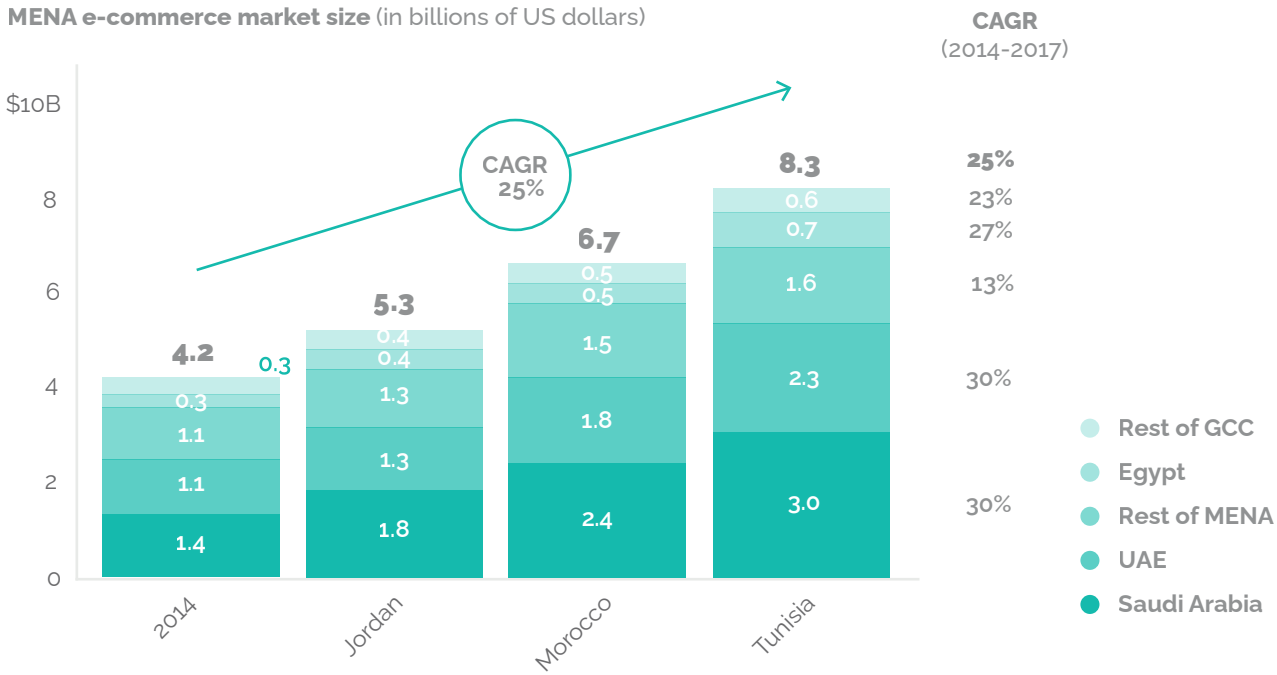




Source: UNCTAD 2021

- **Digitally ordered trade**, which is "the international sale or purchase of a good or service, conducted over computer networks by methods specifically designed for the purpose of receiving or placing orders" (OECD, World Trade Organization and International Monetary Fund 2020), or what we traditionally refer to as "e-commerce". In the wider MENA region, e-commerce grew 25 per cent annually to USD 8.3 billion between 2014 and 2017 (see Figure 9). Yet compared with benchmarks, it remains low, suggesting potential for further growth.

Figure 9. E-commerce in the Middle East and North Africa has grown by 25 per cent annually since 2014



Note: This includes all business-to-consumer e-commerce sales for fashion, personal care, beauty, electronics and groceries and excludes business-to-business and consumer-to-consumer e-commerce, food delivery, travel, entertainment, services and auto; GCC

stands for Gulf Cooperation Council and includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabiaand UAE; MENA includes all GCC countries and Egypt, Algeria, Iraq, Jordan, Lebanon, Libya, Mauritania, Morocco, Syria, Tunisia and Yemen
Sources: OMD Arabnet; eMarketer; E-commerce Foundation; Euromonitor; BMI Research; PayPal Insights; PAYFORT; Bain analysis

Source: Google and Bain & Company 2019

In a post-COVID-19 world of regional value chains, **leveraging the digital economy has the potential to expand SEMCs' trade opportunities with its close neighbours and within the region itself to create new and sustainable jobs**. Information and communication technology (ICT) represents a key vector for regional integration because it could facilitate increases in intraregional flows of goods and services while opening new channels for e-trade exchanges with other trade partners, such as the EU and sub-Saharan Africa. Meanwhile, about 40 per cent of the region's population is younger than 20, meaning that millions of young people could become consumers as well as entrepreneurs and technicians, and help expand the region's digital economy. Creating new trade activities (digitally delivered trade) and modernizing existing ones (digitally ordered trade), enabled by digital technologies, is crucial to create jobs, especially for the youth.

At the same time, countries need to ensure that pre-existing jobs do not disappear as a result of digitalization. Degryse (2016) highlights **four sets of changes in the labour market that will likely occur due to increased digitalization:**

- **Job creation**, as greater reliance on digital technologies will lead to new jobs and occupations being created across sectors, including for the production and delivery of new goods and services. Jobs are expected to increase in software development, data science, networking, designing "smart-technologies" (hardware designers), robotization and 3D printing. Demand for workers can also be expected to increase in areas such as the production of new digital infrastructure, transport equipment and ICT products (Nübler 2016).

- **Job destruction**, as some sectors that have more scope for automation and slower growth in demand will become obsolete. This includes the business process outsourcing sector, which is closely interlinked with trade, retail and finance. Multiple economic sectors could be affected, making it even more challenging to absorb those losing their jobs.

- **Job changes**, as the nature of work itself will change. The use of digital devices will grow in different job streams, requiring different kinds of skills. For instance, road transport evolved with the widespread use of Global Positioning System (GPS) devices for route optimization and fuel efficiency. A possible evolution may relate to connected devices that transmit usage and maintenance data directly to the factory and service facilities. It remains to be seen what share of tasks across different jobs will be automated and how much labour will still be needed for the remaining tasks.

- **Job shifts**, as the conditions of work will evolve. Online platforms are transforming labour markets by favouring certain types of contracts (freelance and contract work over regular contracts) and facilitating the entry of new competitors. Workers with high(er) levels of social protection now compete with workers who enjoy less social protection. This has implications for how health care, pensions, lifelong education and training are organized.

Ultimately, regarding SEMCs, it is premature to estimate how many jobs will be created, lost, changed and/or shifted as a result of digitalization. The impact will differ by country over time and will also depend on policy choices. However, we can be confident that **to fully develop the potential of digitalization for trade and job creation, SEMCs would benefit from catching up in all policy areas**. Specifically:

- Arezki *et al.* (2018) note that the region lags behind other regions in terms of Internet access, digital skills, access to ICT goods and services and the affordability and reliability

of Internet connections. The UNCTAD B2C E-commerce Index (Table 2)[3] shows that, regarding Internet access, Morocco has a relatively high share of users, while Jordan, Tunisia and Egypt all rank below the threshold found in transition economies. Accelerating e-commerce will require the expansion of ICT to facilitate the reliability, speed and affordability of Internet and mobile cellular connections. **Internet speeds in SEMCs are currently slow**, as shown in Figure 10; the speed of the Internet in Egypt is 6.94 megabits per second (Mbps) which is barely higher than the average speed in sub-Saharan Africa at 6.56 Mbps. The region lags behind all Asian countries and the best SEMC performer (Jordan) ranks only 108th worldwide.

- **The cost of accessing the Internet in SEMCs is also higher than in other countries** and Internet plans are less affordable for households, especially for women. The "Internet Affordability" section of the Inclusive Internet Index conducted by the Economist Intelligence Unit (2022), which takes into account various costs (including smartphone cost, mobile and fixed-line costs), places Tunisia 44th among 120 countries, followed by Jordan (65th), Egypt (67th) and Morocco (69th).

- In terms of the average number of electronic transactions per capita, SEMCs also fall behind all other developing regions, except for sub-Saharan Africa (Arezki *et al*. 2020). Instead of online and mobile payments, **cash-on-delivery remains a primary mode of payment in the region**, constraining e-commerce growth. As highlighted in a recent CMI-FEMISE paper (Stefanelli, Boscia and Trinchera 2020), digital pedagogy is also needed through an education programme that would direct consumers towards a more conscious use of digital payments, especially women as high gender differences exist in financial knowledge. The development of a digital economy could further promote the social inclusion of women, improving their integration into job markets and promoting female business owners. SEMCs would need policy measures aimed at raising the level of financial and digital education of individuals through a higher knowledge of the methods of use, as well as of the technical and financial characteristics of various digital payments, such as app, debit or credit card, token, instant payment and so on (OECD 2016).[4]

- Meanwhile, security and privacy infrastructure must be strengthened. Currently, the Southern and Eastern Mediterranean region makes up the area where the population's confidence in personal data protection is the lowest in the world, which contributes to decreased digital use (Augier and François 2019). It is important to **establish a sufficient amount of secure web servers**, which store the content available for the public as well as other confidential data. Small businesses often have a single physical server that executes many functions (web server, database server, email server) which means that compromising a single server can expose the entire business's data. World Bank data (2020) also show that, currently, **the number of secure web servers in SEMCs is very low**, as for every 1 million people there are only 35.3 servers in Egypt, 108.1 servers in Jordan, 271 servers in Tunisia and 369.6 servers in Morocco. This is **much less than in sub-Saharan Africa (838.5 servers per 1 million people)**, even though five years ago it had fewer secure servers than the Mediterranean countries.

3 The index measures an economy's preparedness to support online shopping. It consists of four indicators that are closely related to online shopping and for which there is wide country coverage.

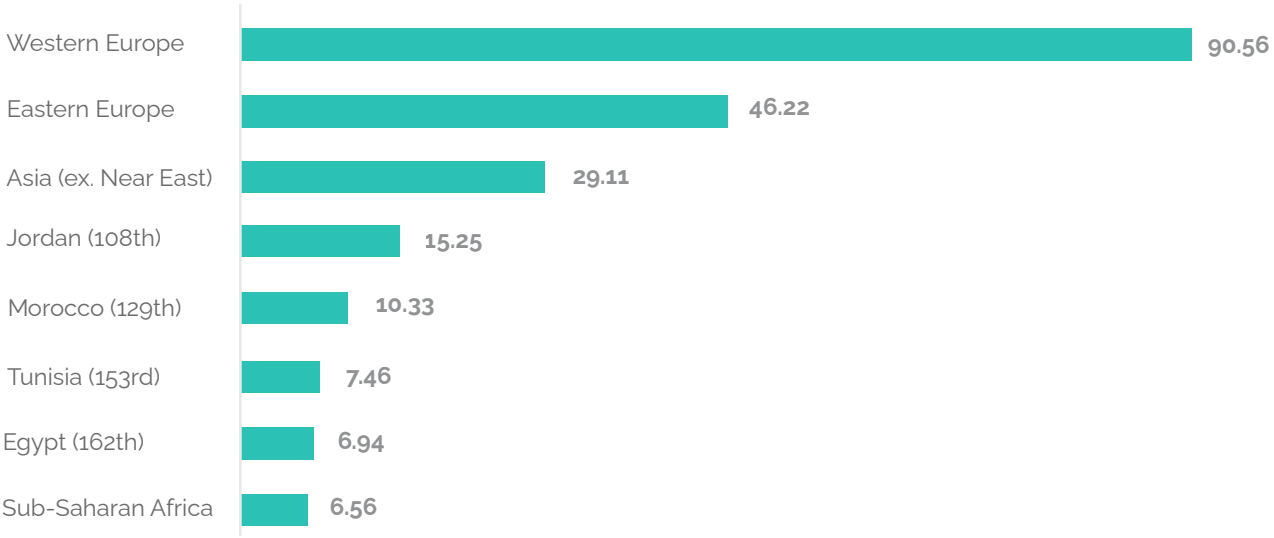
4 See also OECD 2016.

Table 2. UNCTAD B2C E-commerce Index, 2020, World Bank

	Rank 2020	Share of individuals using the Internet (2019 or latest)	Share of individuals with an account (15+, 2017)	Secure Internet servers (normalized, 2019)	UPU postal reliability score (2019 or latest)	2020 Index value	Index value change (2019–20 data)	Rank 2019
Egypt	109	57	33	31	26	36.6	-2.1	107
Jordan	76	67	42	39	71	54.7	2	80
Morocco	95	74	29	49	27	44.8	1.3	97
Tunisia	77	67	37	46	69	54.6	-1.4	74
Africa	-	*30*	*40*	*28*	*21*	*30*	-	-
East, South & South-East Asia	-	*57*	*60*	*54*	*58*	*57*	-	-
Transition economies	-	*71*	*58*	*60*	*59*	*62*	-	-

Source: UNCTAD 2020
Note: UPU stands for Universal Postal Union

Figure 10. Mean download speed (Mbps) in 2021, by country/region



Source: Cable.co.uk 2022

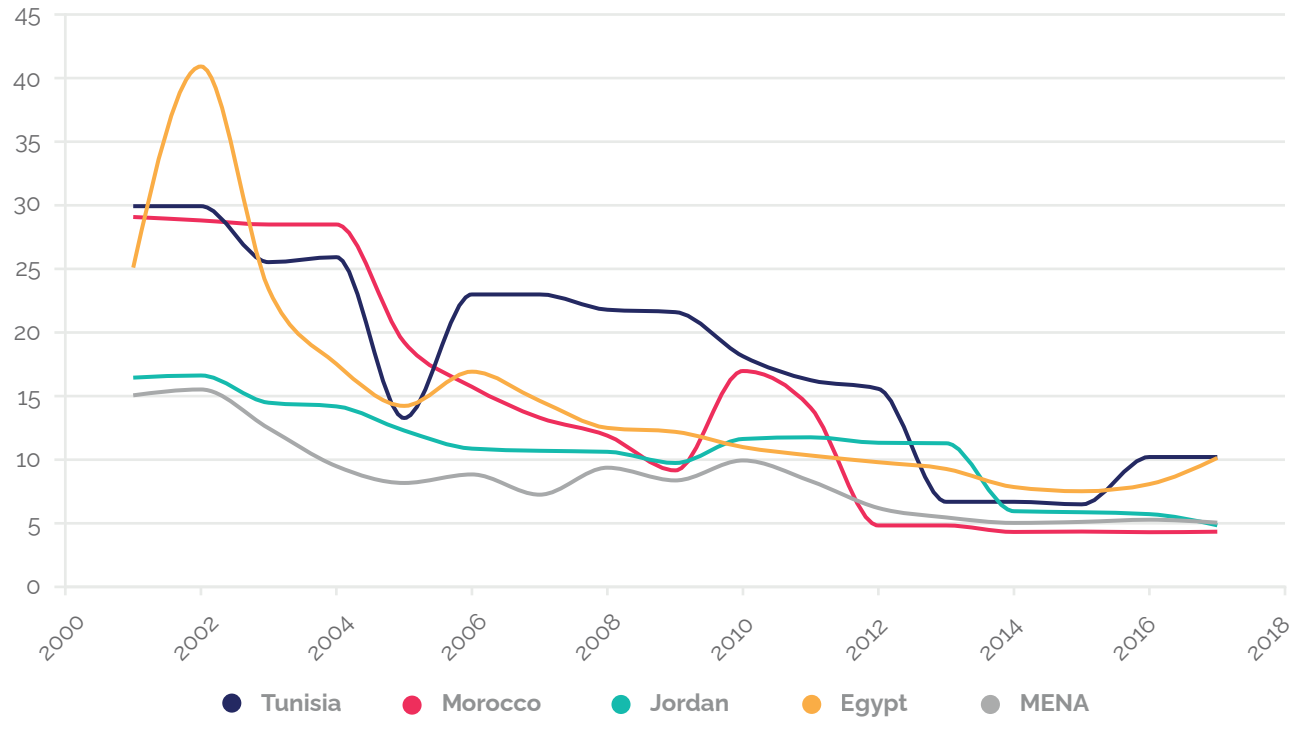
Supporting regional connectivity, developing subregional infrastructure and expanding regional value chains and digital trade entail the adoption of new technologies and the provision of "digital public goods". A factor that will be decisive to achieve this is cooperation on a regional scale. Having similar regulatory frameworks and norms and harmonizing interoperability among all countries would create ideal conditions for digital transformation.

Under this perspective, a Mediterranean **scientific task force for digital transformation** could be set up, composed of members from SEMCs which, together with international institutions, would promote a common economic digitalization strategy in the Mediterranean. Such a regional task force would launch entrepreneurial and educational innovations and discuss case studies that could contribute to increased cross-country cooperation.

III.6. How could trade agreements be reviewed with the goal to benefit the labour market?

SEMCs signed several trade agreements that led to the significant liberalization of tariffs. As shown in Figure 11, tariffs in all countries saw a downward trend as they decreased by 66 per cent in Tunisia, 85 per cent in Morocco, 71 per cent in Jordan and 60 per cent in Egypt. This was due to the fact that most of their agreements focused primarily on tariff reduction. This applies to the EU AAs (analysed in previous chapters), regional agreements such as Agadir,[5] Common Market for East and Southern Africa (COMESA)[6] and the Greater Arab Free Trade Area (GAFTA)[7] and other bilateral agreements.

Figure 11. Evolution of tariffs in Southern and Eastern Mediterranean Countries



Source: World Development Indicators: https://databank.worldbank.org

5 The Agadir Agreement is an FTA between Egypt, Jordan, Morocco and Tunisia. It was signed in Rabat in February 2004 and entered into force in March 2007.

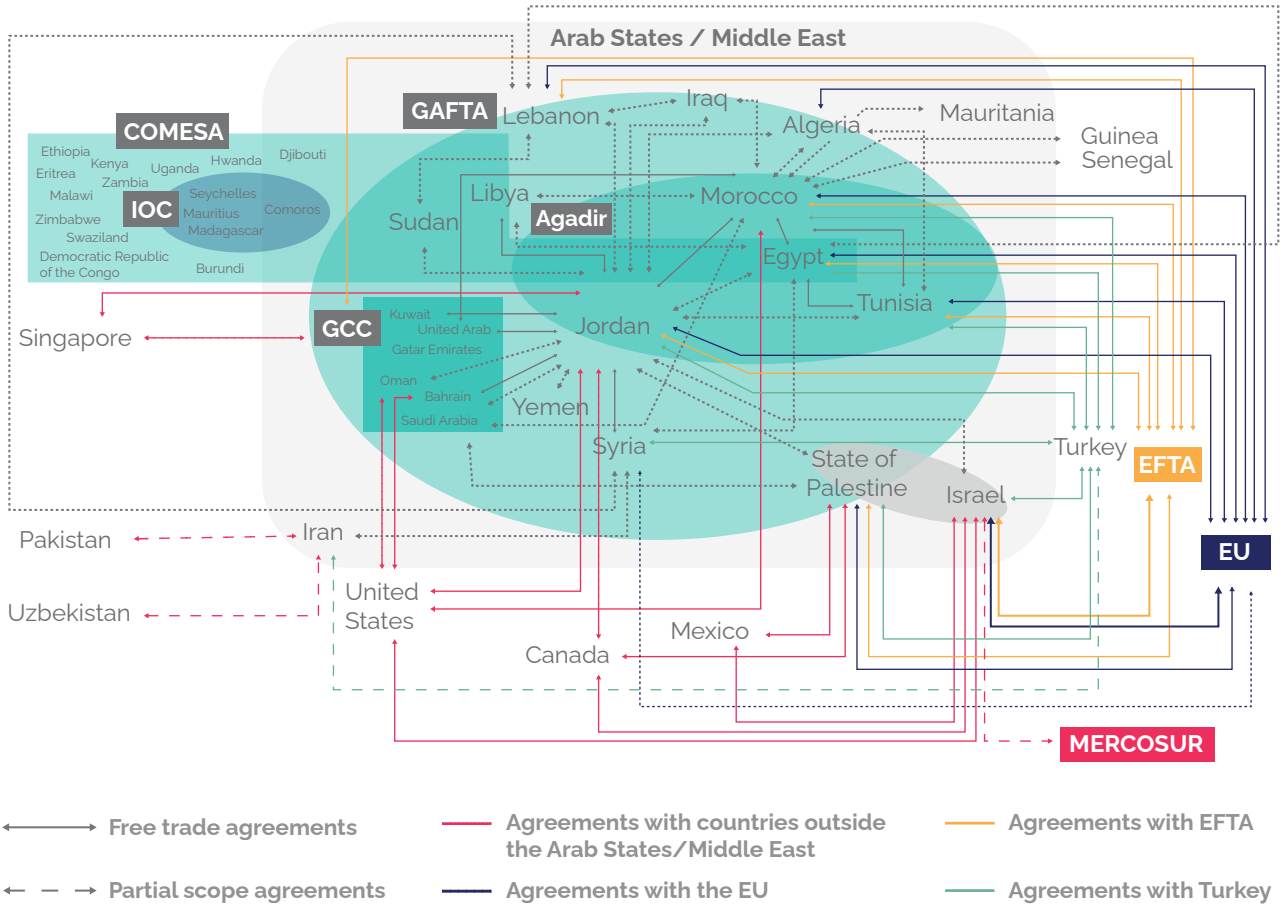
6 The COMESA is a free trade area with 21 member states from Tunisia to Eswatini. It was formed in December 1994.

7 GAFTA is the Arab free trade area created in 1997. To achieve this, a 10 per cent reduction in customs fees each year was planned to be fully in place by 2008. Eighteen of the 22 Arab League states signed on to this agreement, which came into force on 1 January 1998.

Most of the agreements focused on the tariff liberalization of goods, without including other issues beyond tariffs, such as services, investment, intellectual property protection, NTMs, labour-market provisions and competition policy.

While in theory the multiplicity of regional trade agreements, known as the "Spaghetti bowl" may be costly (see Figure 12), Kheir-El-Din and Ghoneim (2005) highlight that such an overlap does not entail a high cost when the agreements are shallow, which thus creates less friction. Indeed, most of these agreements targeted tariff declines without addressing the harmonization of rules and regulations, NTMs or bilateral investment treaties.

Figure 12. Trade agreements that include SEMCs



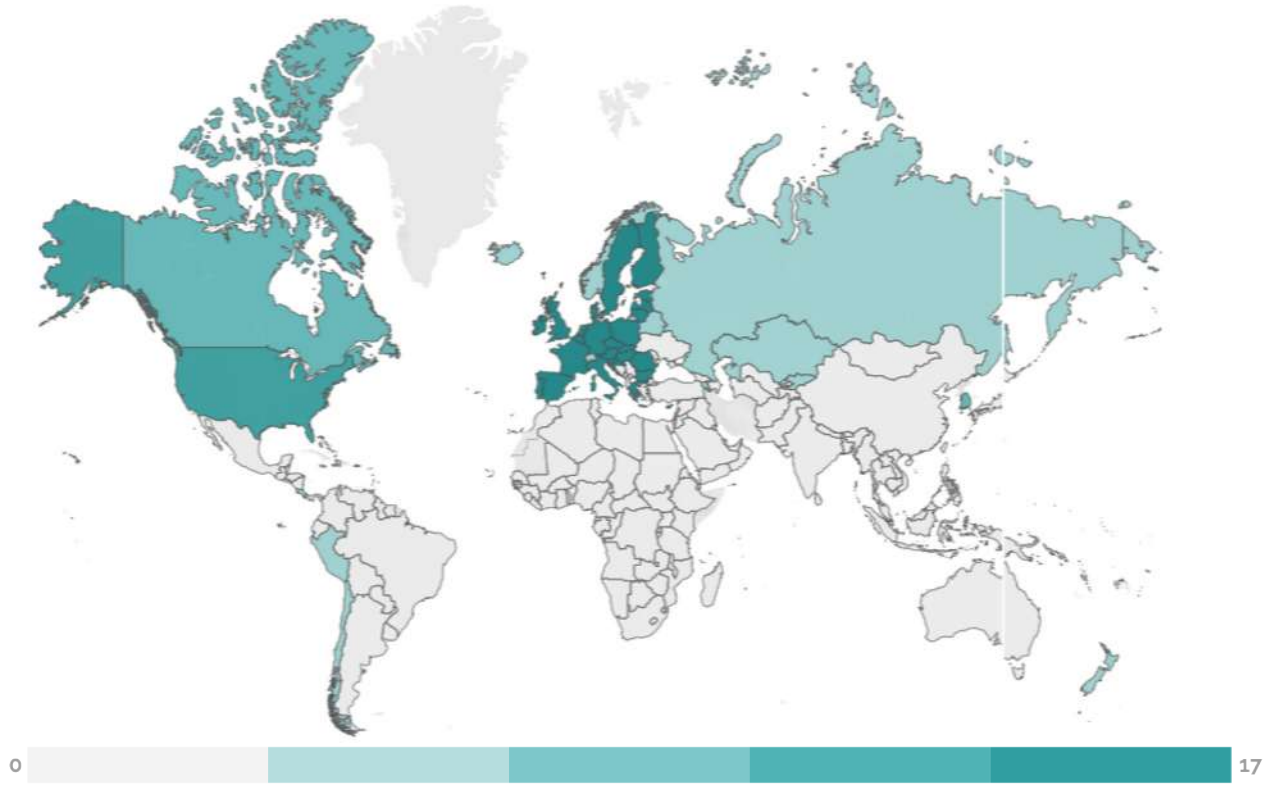
Source: International Trade Centre 2018: https://intracen.org
Notes: EFTA stands for European Free Trade Association; GCC stands for Gulf Cooperation Council and IOC stands for Indian Ocean Commission; MERCOSUR stands for Southern Common Market.

Such shallow agreements led to a **disconnect between trade policies** and industrial policies. In other words, most tariff reductions were negotiated without addressing other distortions that might affect the competitiveness of the industrial sector and without any labour-market or environmental provisions. Trade was confined to either some primary or traditional products. Thus, **trade agreements need to be amended in order to include provisions that would directly and indirectly affect labour markets**.

First, on the direct effect of trade agreement on employment it is important to note that, **at the trade agreements level, employment provisions are rarely included** (see Figure 13). Indeed, among our countries of interest, no trade agreements include labour provisions – with the exception of some agreements that only make an exclusive reference to "creating employment opportunities" in the preamble and/or objectives (Raess, Dür and Sari 2018). Moreover, the EU AAs also make such a broad reference to the fact that the bilateral cooperation

shall focus on areas that are likely to generate growth and employment opportunities. In contrast, other agreements of advanced economies (such as EU and North America) include many more provisions related to the labour market. Thus, it is important to include labour provisions in trade agreements to ensure that trade openness leads to job creation and to the improvement of working conditions. This will help better link trade to employment to improve the integration of employment and trade policies.

Figure 13. Number of agreements including labour provisions in trade agreements



Source: Deep Trade Agreements data set (World Bank) : https://datatopics.worldbank.org/dta/table.html

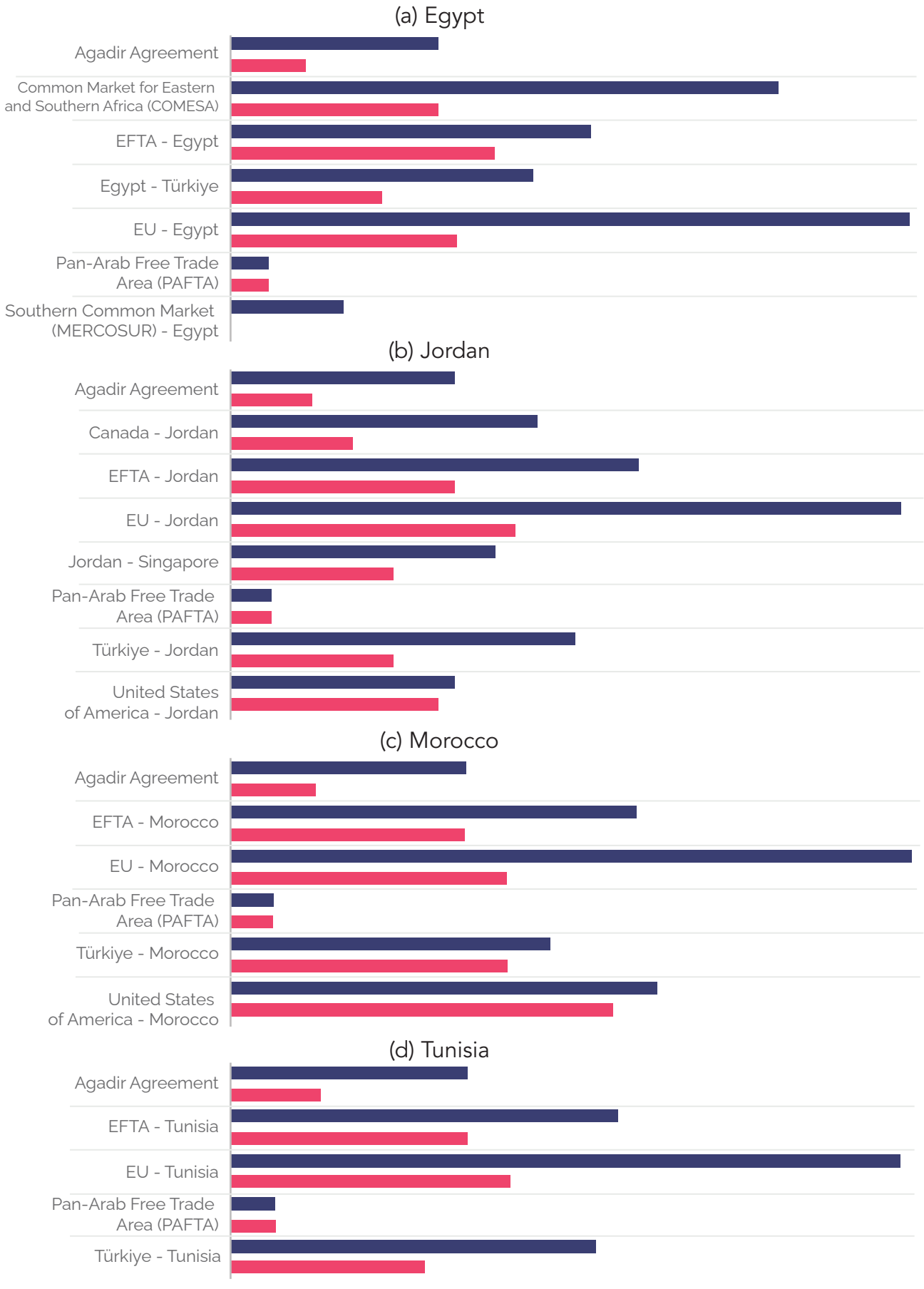
Second, on the indirect effects of trade agreements on employment, it is crucial to include policy dimensions that can improve the competitiveness of the manufacturing sector by deepening trade agreements and by **making these policy dimensions legally enforceable**. Indeed, Figures 14a–d show that, globally, in most of the agreements of Egypt (Figure 14a), Jordan (Figure 14b), Morocco (Figure 14c) and Tunisia (Figure 14d), the number of policy areas included is small. More importantly, when the number of policy areas is high (such as the agreement with the EU), the share of legally enforceable provisions is small, which makes the agreement largely inefficient.

Against this background, trade agreements need to be amended in three ways. First, given the servicification of the manufacturing sector,

trade agreements have to consider the liberalization of the services sector that significantly affects the competitiveness of industry and agriculture

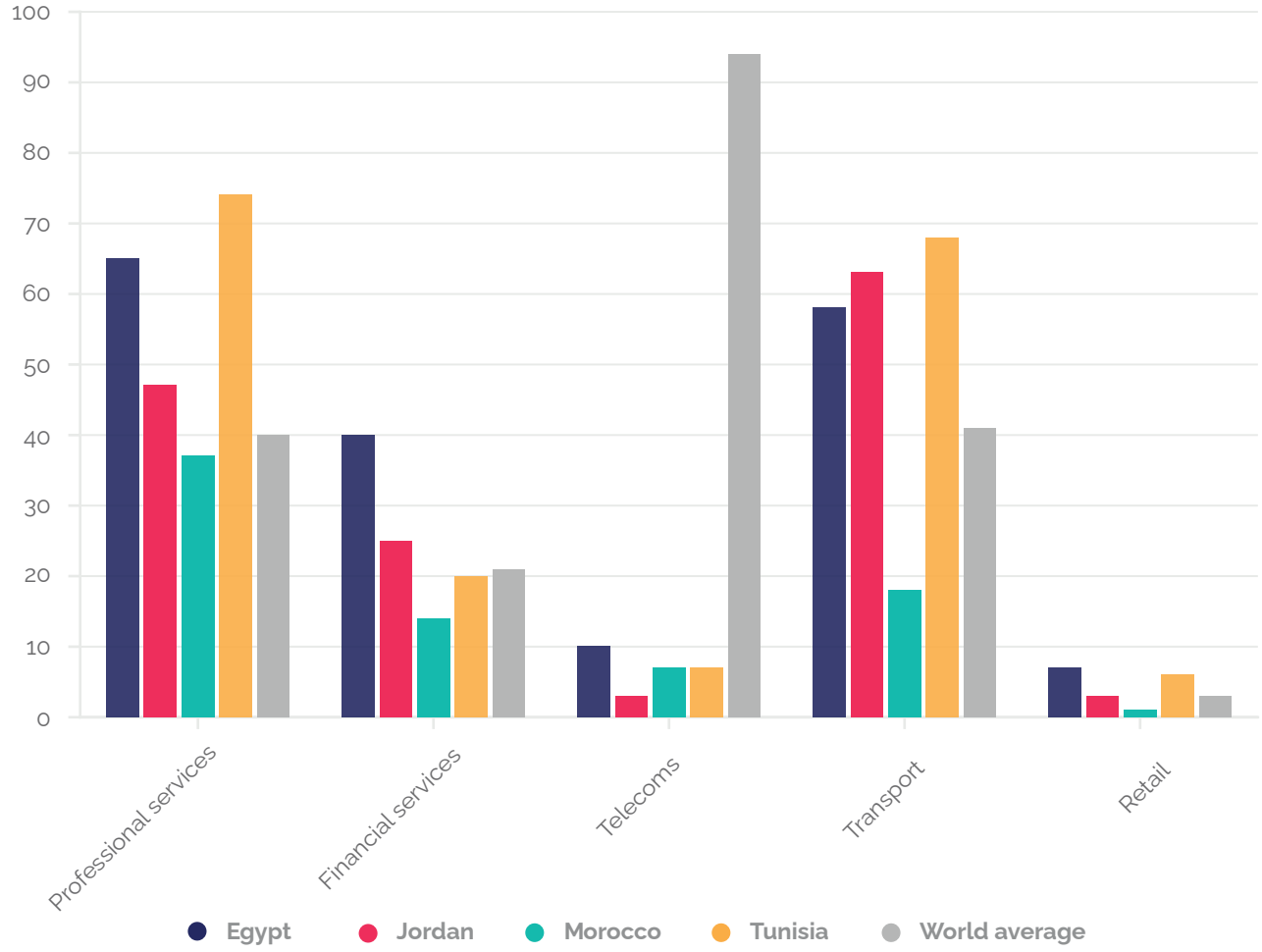
(Karam and Zaki 2020). This holds for business services, information, telecommunication and financial services. In fact, services in these countries remain highly regulated and protected (see Figure 15). For all services, the four countries have a higher ad valorem equivalent of services than the world average. Therefore, liberalizing services should also lead to better integration into global value chains as the unbundling of production and the underlying embedded service inputs would become increasingly important (Ehab and Zaki 2021).

Figure 14. Number of policy areas per agreement



Source: Deep Trade Agreements data set (World Bank)

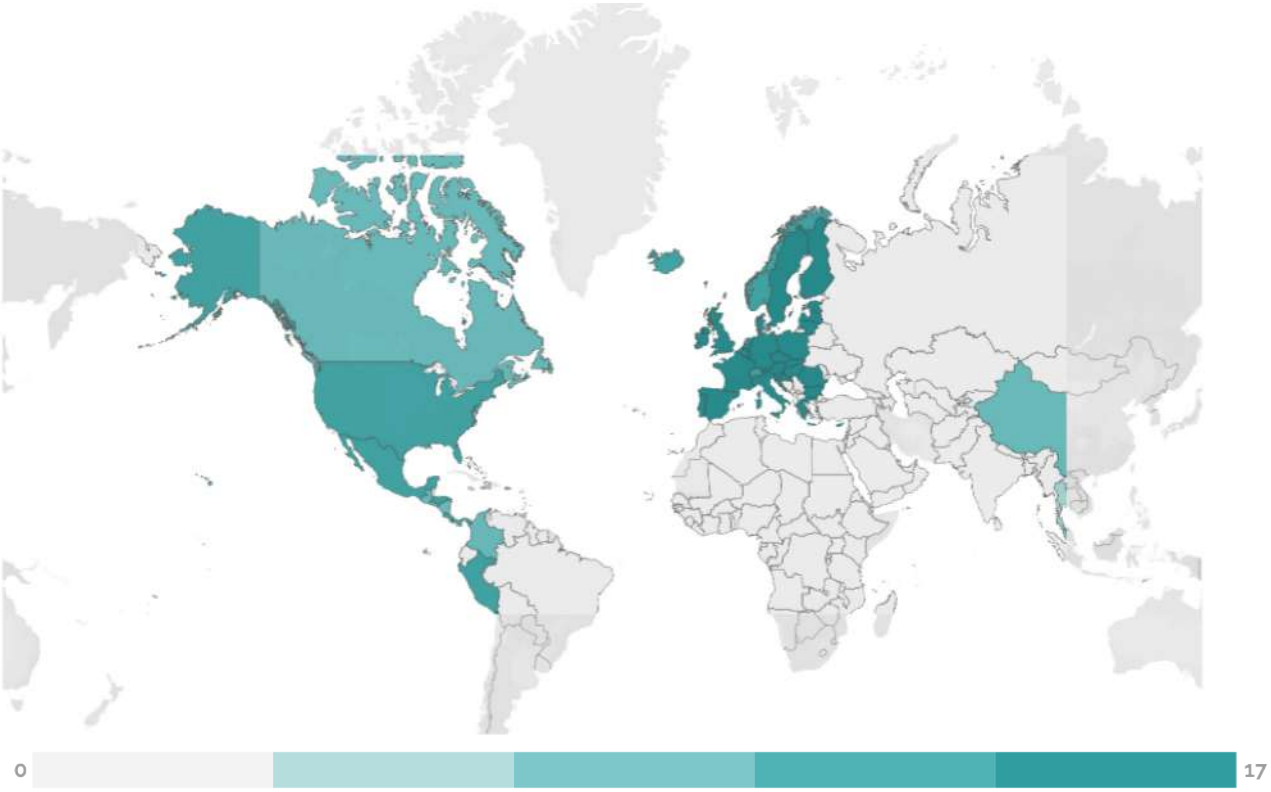
Figure 15. Ad valorem equivalents of services (per cent) 2014



Source: Authors' own elaboration using Jafari and Tarr (2014) data set

Second, most of the FDI inflows in these countries are concentrated either in extractive or primary sectors (see Chapter II). Therefore, **it is crucial to attract more FDI in the manufacturing sector to promote know-how and technology transfers**, especially in subsectors that are labour-intensive and have a high value added. This should also facilitate the creation of clusters of large multinationals with small and medium-sized enterprises, helping the latter integrate into regional and global value chains. Deeper trade agreements that take into consideration such aspects are crucial to strengthen the nexus between exports and FDI channels. Figure 16 shows that none of our countries of interest has an agreement that includes investment provisions.

Figure 16. Number of agreements including labour provisions in trade agreements



Source: Deep Trade Agreements data set (World Bank): https://datatopics.worldbank.org/dta/table.html

Finally, improving the competitiveness of the manufacturing sector will also require **addressing NTMs** that have been left out in most of the existing trade agreements, as highlighted above.

III.7. Conclusions

The analysis in this chapter discusses the challenges and opportunities that **new global trends** bring to SEMCs for export development and for job creation. Specifically:

- We see that there are **specific products** in the region **that could benefit from the dual movement towards the diversification and shortening of global value chains** and that could become a source of job creation. This niche of intermediate goods has a very high revealed comparative advantage, both vis-à-vis distant developing countries and the rest of the world. This means that, even if these products are already imported by the EU (mainly from China), the share of SEMCs exports can still be substantially increased.

- The **new EU 2021 Agenda for the Mediterranean and its flagships** also offer opportunities to promote trade, investment and job prospects. However, Euro-Mediterranean DCFTAs are not explicitly mentioned therein. New initiatives are needed that provide the technical and operational means to reassure the SEMC counterparts that deeper integration can genuinely deliver concrete benefits to their societies and jobs and that potential risks can be managed.

- **The introduction of the CBAM essentially means additional tariffs that impede exports to the EU and indirectly affect SEMC jobs**, especially in Brown sectors. A large share of the niche products identified by the CMI-FEMISE report (Augier *et al.* 2022) that are needed by European firms and are immediately available in SEMCs will be incorporated in the CBAM.

- In the context of a new digital era, supporting regional connectivity, developing subregional infrastructure and expanding regional value chains and digital trade entail the adoption of new technologies and the provision of digital public goods. Cooperation on a regional scale through similar regulatory frameworks and norms will be essential. Harmonizing interoperability among all SEMCs would create ideal conditions for digital transformation.

- Concrete suggestions from the EU on **how the CBAM could be anchored in revised trade agreements are needed**. The CBAM should not limit trade options for SEMCs but rather act as a true incentive to decarbonize. An EU-SEMC dialogue should discuss the possibility of investing in the SEMCs' decarbonization initiatives and in strengthening their administrative, institutional and monitoring capacities.

- **The Ukraine crisis bears ramifications for SEMCs**. We see that:

  - **New possibilities for phosphates and fertilizers products have emerged**, especially for Morocco and Egypt. Among the key niche intermediate goods that the SEMCs are capable of exporting, but that the EU currently imports from elsewhere, are four products that are directly concerned by the Ukraine crisis. They are monoammonium phosphate and mixtures (310540), diammonium phosphate (310530), fertilizers, mineral or chemical (310210) and natural calcium phosphates (251010). The EU could thus, at least partly, turn to SEMC providers for such products.

  - **The war in Ukraine could slow down the global energy transition**, which requires substantial amounts of metals such as copper, nickel, cobalt and lithium, produced both in the Russian Federation and Ukraine. Therefore, unless alternative suppliers are found, additional difficulties should be expected for SEMCs to meet the requirements of the green transition.

  - **Challenges for food sustainability have also risen** as SEMCs are highly dependent on Russian and Ukrainian wheat, the prices of which have started to increase. In SEMCs **the agrifood industry must be strengthened**, in particular through a more integrated approach and in cooperation with the EU. There is high potential for job creation in the development of regional agricultural value chains.

- Beyond the specific effects linked to their resources and trade structure, SEMCs, like the world economy as a whole, are feeling the **effects of the slowdown on growth and acceleration of inflation**. The general context may discourage both domestic and foreign investment and have a negative impact on employment.

- Lastly, we argue that **trade agreements have to be amended in order to trigger a direct or indirect effect on labour markets in SEMCs**. First, trade agreements need to consider the liberalization of the services sector that significantly affects the competitiveness of industry and agriculture. Liberalizing services should be conducive to better integration into global value chains. Second, it remains crucial to attract more FDI in the manufacturing sector in order to promote know-how and technology transfer, especially in sectors that are labour-intensive and have a high value added. This will also encourage the creation of clusters of large multinationals with small to medium-sized enterprises, helping the latter integrate into regional and global value chains. Finally, improving the competitiveness of the manufacturing sector will also require addressing NTMs.

Annex

Table A.1. The main distant low- and middle-income country competitors for important products exported by Mediterranean countries to European markets

Morocco								
Product Code	MAR Export	China	Malaysia	Mexico	Philippines	South Africa	Thailand	Viet Nam
854430	7.35%	30.28%	0.07%	41.82%	3.10%	0.43%	2.09%	12.89%
280920	4.82%	**91.08%**	0.00%	0.12%	0.00%	8.63%	0.09%	0.00%
310540	3.55%	**98.86%**	0.00%	1.14%	0.00%	0.00%	0.00%	0.00%
310530	3.20%	16.20%	0.22%	83.46%	0.00%	0.00%	0.00%	0.11%
854442	2.75%	**90.73%**	0.64%	3.25%	0.54%	0.04%	1.46%	1.83%
251010	2.59%	10.39%	0.05%	0.00%	0.00%	6.88%	0.00%	0.35%
880330	2.55%	38.37%	24.19%	9.97%	8.88%	5.27%	2.80%	1.54%
853690	1.67%	**82.38%**	2.77%	4.87%	1.87%	0.18%	2.27%	3.63%
854449	1.59%	**91.20%**	2.06%	3.97%	0.17%	0.10%	0.25%	1.48%
854129	1.51%	36.86%	42.16%	5.11%	12.83%	0.00%	2.13%	0.80%
310310	1.23%	**100.00%**	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
940190	1.06%	**76.00%**	1.13%	8.47%	1.28%	1.73%	6.42%	2.92%
Tunisia								
Product Code	TUN Export	China	Indonesia	Malaysia	Mexico	Philippines	Thailand	Viet Nam
854442	6.63%	**90.73%**	0.89%	0.64%	3.25%	0.54%	1.46%	1.83%
854449	2.74%	**91.20%**	0.30%	2.06%	3.97%	0.17%	0.25%	1.48%
880330	2.65%	38.37%	1.45%	24.19%	9.97%	8.88%	2.80%	1.54%
854430	2.63%	30.28%	6.56%	0.07%	41.82%	3.10%	2.09%	12.89%

853690	1.90%	**82.38%**	0.97%	2.77%	4.87%	1.87%	2.27%	3.63%
853890	1.32%	**70.24%**	2.94%	6.89%	8.61%	3.90%	5.30%	0.92%
870894	1.25%	**67.64%**	0.01%	8.31%	11.07%	0.07%	9.46%	0.27%
280920	1.11%	**91.08%**	0.00%	0.00%	0.12%	0.00%	0.09%	0.00%

Egypt

Product Code	EGY Export	Brazil	China	Colombia	Mexico	South Africa	Thailand	Viet Nam
710812	6.61%	17.25%	0.00%	36.13%	2.31%	28.51%	1.72%	0.00%
310210	3.56%	0.00%	**68.28%**	20.35%	0.00%	6.57%	0.00%	2.57%
390210	1.14%	27.20%	4.67%	2.64%	1.00%	56.54%	1.30%	3.56%

Jordan

Product Code	JOR Export	Brazil	China	Mexico	Mozambique	South Africa	Thailand	Zimbabwe
251010	5.25%	0.00%	10.39%	0.00%	37.76%	6.88%	0.00%	42.46%
280920	2.69%	0.08%	**91.08%**	0.12%	0.00%	8.63%	0.09%	0.00%
300390	2.48%	1.83%	**89.18%**	0.15%	0.00%	4.11%	1.35%	0.00%
710812	1.69%	17.25%	0.00%	2.31%	0.00%	28.51%	1.72%	0.00%
340290	1.08%	31.99%	**54.10%**	6.27%	0.00%	2.10%	2.08%	0.00%

Source: UNSTAT and UN Comtrade via WITS: https://wits.worldbank.org/, data exported and compiled using TradeSift: https://tradesift.com
Notes: The statistics under the China column are highlighted to show its dominant share of the exports.

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Chapter IV

Recommendations: Towards a trade liberalization agenda that promotes jobs and inclusivness

Based on our analysis throughout the three previous chapters, how can a trade liberalization and jobs agenda that is forward-looking be designed in Southern and Eastern Mediterranean Countries (SEMCs)?

Employment data by country, at a sufficiently disaggregated level, are not available. This hampers our ability to fully understand key trends related to the effects of trade liberalization on trade flows and employment in SEMCs. Therefore, in this report, we could not empirically measure the effect of association agreements (AAs) on net job creation in SEMCs. This analysis was conducted by drawing on theoretical and empirical knowledge from the literature, and by making descriptive use of available data.

> **The report analysis indicates that overall, the AAs have had no measurable impact on net job creation in SEMCs.**

However, specific and non-negligible results are observed by country and by sector. This is due to the fact that the relationship between trade liberalization and job creation may not be linear and is also affected by many other variables such as non-tariff barriers, foreign direct investment (FDI), labour laws and overall business climate and governance levels.

In this final chapter, we provide a series of recommendations, based on the analysis of the previous three chapters and taking into consideration the findings of the World Bank MENA Economic Update 2020 (Arezki *et al.* 2020) and the report produced by the Center for Mediterranean Integration (CMI) and the Euro-Mediterranean Forum of Economic Institutes (FEMISE) (2022). Given the current trends and realities worldwide, we dedicate attention to the need to upgrade the region's "absorption capacity", improve labour-market conditions, including new provisions in future trade agreements, and rethink regional cooperation on trade, investment and jobs.

IV.1. Keep pursuing an improvement of internal conditions

As discussed in the previous chapters, the expected positive effects of trade on growth and job creation at the national level are far from automatic. To trigger positive externalities, SEMCs and the European Union (EU) must work together on creating a sufficiently strong internal "**absorption capacity**" to promote an adequate business environment in which foreign and multinational firms operate and to promote local job creation by doing everything possible to ensure the development of sustainable relationships between them and local companies. Even if the attractiveness of foreign investments (be they greenfields or mergers and acquisitions) requires improvement in certain countries, government action goes far beyond the sole objective of attracting foreign investment. The way in which FDI will impact the national economies of SEMCs (type of effect / positive-negative / scale) also largely depends on their (in)action. Among other things, Mediterranean countries would benefit from:

- Ensuring they have **efficient governance and well-performing institutions**, an issue that was raised in Chapter II. The SEMCs need to work on improving government effectiveness across different levels to encourage private sector participation, foster growth and promote job creation for their educated and skilled youth. Each country needs reforms that respond to its own circumstances and needs. This could include:

  - targeted reforms to increase transparency and accountability and enhancing the implementation of existing policies through raising awareness of their contents, removing red-tape and complicated procedures, following up on efficient implementation through monitoring and audits and continuously updating them to be consistent with regional and global trends

  - streamlining laws and regulations to make them clearer and applicable, most importantly in the areas of taxation licences and permits that would facilitate the market entry and exits, reduce time to create business, avoid cumbersome procedures and so on

- E**nhancing corporate governance, including in state-owned enterprises. This would require a proper evaluation of the impact of the competition laws** on trade, private sector activity and job creation. Such analysis would help countries see the benefits of efficiently implementing such competition policies.

- **Promoting stronger effects of FDI inflows** in the economy by:

  - encouraging the transfer of technology and know-how between foreign companies and the domestic economy as a whole (companies, human capital, research centres, national institutions and so on)

  - pushing for the implementation of training schemes organized by foreign investors for the employees of SEMCs firms

  - staying consistent with the industrial policy **or, more broadly, with the national strategy decided by each country. Financial** incentives could thus be designed to meet the needs of developing, isolated and disadvantaged regions to target strategic sectors and/or to address environmental concerns

- **Recognizing that the presence of foreign investors is an opportunity for the national economy** that the public authorities should seize, as appears to be the case with the automotive sector in Morocco. If the local private sector must rely solely on itself, without the support of public action, it will not be able to derive all the potential benefits offered by foreign investors. Public authorities could act as facilitators and, among other things, help promote the transfer and acquisition of technology and knowledge as much as possible.

- **For SEMCs that have not yet done so, strengthening government functions dedicated to foreign investments**, in addition to replicating successful practices in other SEMCs. The investor service centres that exist in Egypt are such an example. **Carrying out surveys among foreign companies** to identify the problems they face in each of the SEMCs, according to their sector of activity and geographical location, would also enable a better understanding of the priorities towards which public action should be directed.

IV.2. Improving labour-market regulations to better benefit from trade liberalization

Meanwhile, it is clear that the labour markets in the SEMCs are still suffering from a number of obstacles that affect the positive impact of trade liberalization on job creation. The following are some **specific recommendations that relate to the labour-market regulations** (discussed in Chapter II) that could improve working conditions while providing the needed labour-market flexibility.

- The region needs to **adjust minimum wages**, which are low in selected SEMCs as noted in Chapter II, to take into consideration changes in cost of living and other conditions as observed in Chapter III, which will have an important immediate impact on increasing employment and reducing informality. This includes the private sector, which needs to comply with the standards regulations.

- Labour regulations, while they exist, are lacking enforcement and compliance as noted in Chapter II. To address this issue, governments should **avoid complex minimum wage systems and increase public awareness of the minimum wage regulations and levels so that workers can claim their rights.** Additionally, introducing frequent inspections with sanctions for non-compliance could play an effective role in ensuring the application of minimum wage provisions.

- Some SEMCs have overly restrictive and costly firing/redundancy procedures (Chapter II), which affect the flexibility of labour markets. **Introducing and/or strengthening unemployment insurance schemes** could achieve a good balance between labour-market efficiency and workers' protection. This is particularly true as some SEMCs tend to have generous severance pays that can affect the employer's decision for formal hiring.

- **More flexible employment contracts can provide opportunities for workers**, especially young or inexperienced ones, to gain varied work experience and skills. While fixed-term contracts could be restricted, providing certain flexibility and extending their duration could be considered in such cases. This could increase flexibility in formally hiring workers, especially during cyclical fluctuations or for start-ups.

- Many studies have shown that female labour participation could lead to a remarkable increase in economic growth. Hence, the region needs to focus its efforts on **encouraging women to participate**, including by ensuring women's rights in the workplace as well as offering government contributions towards the coverage of maternity leave, childcare, flexible working hours and so on.

In general, any labour-market reform policy must be set in moderation (avoiding under or overregulations) and be designed according to the country's social, political and economic circumstances. This could provide the labour markets with the efficiency and flexibility necessary to better respond to the trade demands and encourage more inclusive and better job creation.

IV.3. Cooperating for more and better jobs: Including new provisions in future agreements and the need for enhanced regional cooperation

As the previous chapters have mentioned, most of the AAs focused on import tariff liberalization. The agreements themselves affected the extent to which SEMCs could gain market access opportunities. Meanwhile, the **AAs did not contain sufficient provisions on areas whose importance for the EU and SEMCs has grown**. These include services, investment, labour, regulatory convergence, public procurement, digitalization, gender, the environment and intellectual property rights. Given the modern economy's reliance on global value chains, services trade and FDI, these interlinked dimensions have become increasingly important.

Trade agreements have to be amended in order to directly and indirectly affect labour markets.[1] Among other things, this means that:

- First, on the direct effect of trade agreements on employment, **it is necessary to include labour provisions in trade agreements** to make them more conducive to job creation and to improving working conditions. This will help to better link trade to employment in order to mainstream employment policies in trade reforms. At the same time, to allow women to fully take advantage of trade liberalization, SEMCs should design accompanying policies that remove the barriers women face, such as ones that improve their vocational training and access to financial services.

- Second, on the indirect effect of trade on employment, it is crucial to include policy dimensions that can improve overall competitiveness by **deepening trade**

1 During public consultations under the Ecorys, CASE and FEMISE (2021) ex-post evaluation of the association agreements, stakeholders directly involved in trade noticed that the agreements had progressively become less relevant in the sense that they do not address the "newer" challenges in international trade. As for stakeholders not directly involved in trade, they were often surprised by the limited scope of provisions of the current free trade agreements (FTAs) and they emphasized the need to give more attention to sustainability objectives.

agreements and making these policy dimensions legally enforceable. It is also crucial to attract the type of FDI that promotes know-how and technology transfers. This should also facilitate the creation of clusters of large multinationals and small and medium-sized enterprises, helping the latter integrate into regional and global value chains. Deeper trade agreements that include **investment provisions** can strengthen the nexus between exports and FDI channels.

Additionally, given the servicification of the manufacturing sector, **trade agreements have to consider the liberalization of the services sector** that significantly affects the competitiveness of agriculture and manufacturing (Karam and Zaki 2020). This applies to business services, information, telecommunication and financial services. Thus, liberalizing services should also lead to better integration into global value chains as the importance of unbundling production and the underlying embedded service inputs increases. To this day, provisions of the Euro-Mediterranean free trade agreements (FTAs) in the area of FDI and services are limited, failing to significantly stimulate Euro-Mediterranean or intra-Mediterranean investment and services trade. Such provisions need to be expanded in future agreements, as regulations related to FDI and services have become integral parts of the more modern trade agreements of the EU.

- Third, given the importance of sustainability issues in trade policy, particularly in recent years and considering the needs for green jobs, SEMCs and the EU would benefit from reflecting on the use of **environmental provisions** in future agreements. The "Trade and Sustainable Development" sections included in the current generation of EU trade agreements already contain more explicit provisions on these subjects as well as monitoring mechanisms. It will become important to consider which sustainability provisions would be most appropriate for future agreements with SEMCs. Issues to be considered could include the impacts of increased trade and growth on the environment, the effectiveness of including environmental provisions in Euro-Mediterranean FTAs as a means of protecting EU businesses from unfair (non-green) competition from SEMCs, and the appropriateness of using such trade agreements as a vehicle for improving environmental practices in the SEMCs, including in production and transport.

- Fourth, **provisions for intellectual property rights and technology transfer are limited in the current Euro-Mediterranean AAs**. Further trade-related gains could be obtained in future agreements by introducing specific provisions that balance the need for both better intellectual property protection and better environments for transfer of technologies to SEMCs. Provisions could also focus on technical assistance and development cooperation for upgrading skills in SEMCs.

- Finally, it is crucial **to address non-tariff measures (NTMs)** that have been left out of most trade agreements. Compared with more recent and comprehensive trade agreements concluded by the EU, the trade chapters of the AAs with the SEMCs mainly express the need for liberalizing some NTMs such as sanitary and phytosanitary measures or technical barriers to trade, rather than including concrete liberalization commitments. Overall, the AAs lack enforceable commitments and instead express the trading parties' broad intentions regarding NTMs. Furthermore, weak provisions on NTMs in the Euro-Mediterranean FTAs have translated into NTMs being maintained and/or new measures being introduced.

The institutional structures behind the AAs have been able to address the remaining or arising concerns with limited efficiency (Directorate-General for Trade, Center for Social and Economic Research, Ecorys and FEMISE 2021). While the EU and the SEMCs representatives often meet bilaterally to discuss barriers, issues are not often easily solved. **Cooperation on a regional scale** will prove to be a decisive factor for the SEMCs. In the context of rising debt and deteriorating fiscal balances, SEMCs need cooperation to reinforce their trade linkages and to enhance their capacities to create more and better jobs.

Although some regional cooperation efforts have been undertaken recently, much more needs to be done to meet the remaining challenges. It would also make sense to invest and support what trade experts have identified as priority opportunities for regional integration and jobs. The 400–500 niche products per SEMC identified by the CMI-FEMISE 2022 report provide some concrete suggestions for further increasing production and exports. Donors, including the EU, could support SEMCs in those specific sectors/products, including by strengthening the export capacity of firms, by helping provide the needed skills and by encouraging them to decarbonize production in view of the requirements of the Carbon Border Adjustment Mechanism (CBAM) regulation.

Potential remains to successfully (re)launch the negotiations and successfully implement Deep and Comprehensive Free Trade Areas (DCFTAs) between the EU and SEMCs by focusing on mutual benefits and widespread impact on their populations, including on small and medium-sized enterprises and job creation. However, this would require substantial time and mutual concessions. SEMCs still need the technical and operational tools to **negotiate deep integration of DCFTA Agreements** that allow the SEMCs to gain the most from their potential benefits. It is particularly important in the present context to ensure that any efforts towards deeper integration deliver concrete benefits to their societies, including on employment, and that associated risks can be managed. This could be done via **a strategic dialogue with the EU. Potential fields for strengthening collaboration and dialogue could include**:

- **NTM harmonization**. Trade policy can only become a central instrument in restoring growth and employment prospects when convergent NTM reforms are implemented. This must be conducted in a regional consultation framework (Arezki *et al*. 2020). Currently, within each country, the responsibility of designing NTMs is dispersed across several ministries and agencies that have no incentive to talk to each other. To converge and simplify NTMs, SEMCs could consider harmonizing and reducing non-tariff restrictions through support and dialogue among national agencies or a regional mechanism allowing them to coordinate systematically, following the example of the Association of Southeast Asian Nations (ASEAN) Economic Community.[2]

  Until now, many NTMs from individual countries have been implemented without a "bigger picture" in mind. Collaboratively drawing up an inventory of all the NTMs applied by each SEMC could prove useful in deciding to eliminate certain restrictive measures and, following an in-depth analysis, in setting up mutual recognition agreements for products in priority sectors. Moreover, some NTMs have an "inclusiveness" component and could be considered as facilitators to reaching the Sustainable Development Goals (SDGs) set by the United Nations. For example, intellectual property measures – including copyrights, patents, trademarks and geographical indications – support SDG 9, which promotes innovation, and SDG 17, which covers technology innovation as one of the pillars of the means of implementation for sustainable development (Arezki *et al*. 2020).

- **Education and training**. Educational systems should be more responsive to the needs of the economy (including through technical and professional training), which would be crucial in responding better to any opportunities for job creation that are provided through economic reforms and trade liberalization. This can be addressed at the regional level through strengthening partnerships among firms, governmental entities and universities with the aim of improving the provision of skills, on-the-job training and the quality of apprenticeships. Moreover, countries should work together on improving the quality of vocational education

2 For instance, the ASEAN Economic Community focuses on the removal of NTMs that affect intra-regional trade; the ASEAN secretariat is responsible for collecting and classifying non-trade barriers as green for NTMs that are not trade barriers, amber for NTMs whose trade-restrictiveness could be discussed, and red for clear-cut non-tariff barriers. The classifications are reviewed by member countries, and the measures are scrutinized and prioritized for elimination by the negotiating bodies. To maintain credibility, such regional institutions must be grounded in law and have sufficient financial and independent human resources. See also: Cadot, Munadi and Yan Ing (2017).

and training to be able to enhance skills to match the needs of exporting sectors (Aboushady and Zaki 2019). More efforts must also be devoted to closing the gender gap, particularly by providing job opportunities to female workers and using labour reforms as opportunities for strengthening inclusivity and promoting social cohesion. Particularly, changes in labour-market supply and demand resulting from open trade agreements can be viewed as an opportunity to increase participation of women in the labour force as demand for new skills grows.

IV.4. Ideas for future research

The use of census-based firm data or the availability of highly disaggregated sectoral data over a long period for each country would make it possible to complete this work using an econometric and descriptive analysis. It would also be useful to be able to study the impact of lower tariffs by distinguishing between intermediate goods and consumer goods, on the basis of input-output tables. Finally, it is essential to understand how the introduction of the AAs has been reflected in practice at the level of firms and how they have reacted according to their specificity, environment and context. A large field of analysis on the link between trade liberalization and jobs in the region is still open.

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