

The New EU Neighborhood Policy: Implications of Integration à la Carte

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Outline

- Initial (economic) objectives—why “go regional”?
 - Will not speak to political & cultural partnerships
- Euro-Med achievements to date
- Where to from here?
 - The “new neighborhood policy”
 - Open questions and substantive challenges
 - Realizing the potential

Objectives—“why go regional”?

- Managed reciprocal liberalization—
“gradualism”
- Security of market access to EU
- Convergence of norms on EU practices
- Attract FDI and increase domestic investment
- Transfers of knowledge and financial support
- Stimulate intra-Arab integration
- Dynamic gains

The Euro-Med: basic framework

- FTA for non-agricultural merchandise only
- Services/investment/agriculture left for future
- Long transition period (12 years)
- TA/cooperation focused on implementation and achievement of “EU norms”
 - MEDA: grants
 - EIB: loans

Agriculture

- Limited coverage/slow progress
- Emphasis on TA and EU standards
 - Stress on SPS/quality norms, rural development
 - Little focus on access and trade distortions
- Key potential source of gain to Med partners (and EU consumers!)
 - But severe political constraints in EU
- WTO primary focal point

Nontariff policies

- NTBs a major area of focus: customs, standards
- E.g., Euro-Med Trade and Investment Facilitation Action Plan; Pan Euro-Med Protocol on Cumulation of Rules of Origin
- In key areas much remains to be achieved:
 - e.g., limited progress on recognition—no labs in Arab partners have been certified
- No monitoring; little transparency

Services and Investment

- Excluded, so all progress has been unilateral on the part of Egypt
- EU reluctant to move in key area for services access: mode 4 (temporary movement of suppliers)
- Services negotiations foreseen in Euro-Med agreements have been slow to start
- No general right of establishment

Intra Arab Integration

- Pan Arab Free Trade Area agreement (PAFTA)
 - Goods only—free trade in 2005
- Tariffs being removed, but continued use of NTBs—red tape, standards, rules of origin
- Agreement to pursue a customs union and to liberalize services
- Numerous bilaterals—value added unclear
- Agadir Free Trade Zone agreement with Jordan, Morocco and Tunisia (2004)
 - Focus on rules of origin—complements PAFTA

Aid: Numerous Instruments

- Economic assistance multidimensional:
 - Technical/financial assistance for policy reform and institutions—customs, standards, etc.
 - EU norms for competition policy, environment ...
 - Firm-specific aid programs
 - E.g., Industrial Modernization Program
 - Twinning—private sector; information; networks
- Disbursements/commitment ratio improving
- Limited information on impacts and lessons

Process—“soft law” cooperation

- “Hard” disciplines mostly on trade—no binding dispute settlement
- Multidimensional spider web of interaction:
 - Regional:
 - Dozens of Ministerials and bi-monthly meetings of the Euro-Med Committee;
 - Euro-Med working groups on technical issues, e.g. Euro-Med Transport Forum
 - Bilateral:
 - Association Councils/Committee meetings
 - Technical sub-committees (limited so far)
 - Numerous aid projects

Progress to date—impressions

- Focus of interactions on EU norms and partner country policies—i.e., more on issues than solutions
- Little is known whether and how issues are resolved, what is decided, if it is implemented, etc.
- Bottom line: limited awareness, “ownership” and relevance of the EMP in economic reform process/debates

Regional impacts so far are limited

- Trade: overall non-oil growth trade for region lower post-1995 than in first half of 1990s
 - Intra-regional trade shares up, approaching 10%
- Net FDI/GDP: from 0.9% in mid 90s to 1.2%
- Labor force growth exceeded employment growth in most countries
- Aid impact—uncertain
- Limited effects are “built-in” given design and sectoral exclusions and gradual nature of liberalization
- Too early to evaluate in the case of Egypt

What is needed on policy?

- Continued reduction in *MFN* tariffs
- Agriculture: full market access in EU; sequence own liberalization on removal of trade-distorting subsidies in EU
- Remove threats of contingent protection
- NTBs: customs, product standards
 - Harmonization a necessary condition for access to EU
- Improve business environment and competitiveness
- Need benchmarks and timeframes as focal point and to increase accountability for performance

Services: key for competitiveness

- High service costs = effective “tax” on other sectors; a disincentive for investment
- Regulations restricting entry may raise marginal costs and/or prices above cost
 - Consumers and enterprise users pay the price
- Solution: enhance competition in/access to national ‘backbone’ services
- Not only an FDI story—return flight capital

A shift to deeper cooperation?

- The European Neighborhood Policy (ENP)—3 goals:
 - Support of a national development strategy;
 - Fulfillment of the Association Agreements; and
 - Integration into EU economic and social structures (“a stake in the Internal Market”)
- Premise: *differentiated* convergence with EU norms
- Implication: *deeper integration* (convergence with *acquis*) will help achieve development, but recognize differences in capacity/priorities across countries
 - towards “special and differential treatment”?

The Instrument: An Action Plan

- A 3-5 year timeframe
- Objectives (from Jordan 2004 paper):
 - Help fulfill the Association Agreement
 - Encourage/support national reform objectives
 - Further integration into EU ec./social structures, by advancing approximation of laws/norms
 - Implement policies to promote growth, employment, reduce poverty and protect environment

Targets and Instruments: Questions

- Multiple objectives—sufficient instruments?
- Tension between integration (one end point, even if progress differentiated) and national development (where end point *not* defined, endogenous)
- Would agreement to deeper disciplines and enforceable “commitments” help growth?
- Should such disciplines be those that would apply in an accession context—the EU *acquis*?
 - If so, which?
- How to make implementation credible if no prospect of accession exists?

Three possible ENP “models”

- Three approaches: (1) “accession”, (2) negotiation of hard rules (treaties), and (3) soft law & cooperation based on *acquis* as a focal point
 - (1) Not on offer for Egypt
 - (2) builds on the Partnership Agreement—services, agriculture, some of the *acquis*; reciprocity key
 - (3) a unique feature of EU cooperation—but needs to be made more effective

The ENP and national development

- When is *Acquis* consistent with national priorities?
 - Regulatory convergence may or may not be beneficial
 - And, may not be necessary for access
- Integration (“stake in Internal Market”) may be second-order if market access payoff much smaller than gains from domestic reform
- Back to instrument issue—basic issues is binding treaty instruments vs. soft law & cooperation
 - What to use for which objective? When to combine the two? Sequencing?

How can EMP help? Rules of Thumb

- Put Egypt's priorities first. This requires that the *Acquis* be seen as *a* model, not *the* model. Often will be needed—e.g., product standards—but not in many areas
 - Make the approximation/integration objective subservient to national priorities (a “development test”?)
- Defining priorities critical—avoid shopping lists. Here burden is on Egypt
- Strengthen dialogue on national policy agenda through cooperation with other actors/stakeholders
 - There should be just one set of national priorities
 - Apply principle of comparative advantage—which in case of EU is integration-related, not development
- Promote full transparency to allow analysis of impacts

Example: Services

- Needed: open access; national treatment and achievement of social/economic regulatory goals
- EU Framework protocol for liberalization of services—
I.e., a treaty based, binding approach
- Pursues regional MFN and “progressive alignment” with the *acquis*
- Questions
 - Incentives for *reciprocal* liberalization—will it deliver results?
 - Reciprocity can be a trap—discrimination is not desirable (regional MFN is better than bilateral discrimination, but MFN is better)
 - EU alignment can be a diversion—focus on those limited areas where is it needed for access to EU (free trade)
 - What regulation etc. is needed to achieve national goals?

Information and analysis matters

- Knowledge of impacts is needed for good policy and to mobilize political support
- Requires collection of data on policies and open access—currently not the case
 - Tariffs, NTBs, services policies—databases weak
- Same is true of EMP generally—no accessible and comprehensive information on processes (working groups, committees, etc.)
- Bolster data collection and independent monitoring mechanisms (think tanks, not gov'ts)

Benefiting from the ENP

- Identify a national development strategy/priorities
- Reform/investment agenda for competitiveness is complex—must be mostly unilateral (national) process
- EMP/ENP can help: (1) through real access to EU (agriculture, services), (2) aid, and (3) flexibility with accountability
- Exploit “integration à la carte” option by determining where “hard” commitments make sense and where “soft law” is better
- In both cases effective monitoring is critical—requires greater transparency, incl. reporting of data on policies and details of EMP cooperation