# THE STAKES OF SOUTHERN AND EASTERN MEDITERRANEAN COUNTRIES WITHIN THE DOHA DEVELOPMENT AGENDA

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## 1. Introduction

For Mediterranean countries, or more precisely for the Southern and Eastern Mediterranean Countries (SEMCs), considered as a subset of the wider group of developing economies, the stakes at the centre of the new multilateral negotiation round launched in 2001 within the World Trade Organization (WTO) with the Doha Development Agenda are high, since they are linked to their vulnerability to exogenous shocks[1]. Depending on the agreements that will be reached on the different topics under discussion (agriculture, industrial products, services, medicines, environment, new trade issues), their ability to regulate their economies, offsetting in particular asymmetric shocks, could be in principle lastingly affected. The impact of a new trade liberalization wave following a successful conclusion of the Doha Round could on the one hand open new vents for their products, strengthening their export sectors enjoying of comparative advantages, but also reduce the autonomy degree of their industrial and innovation policies, by weakening their most performing industries, on the other hand. At the same time their participation to the experiences of regional economic integration in which they are involved, mainly with the EU, could be influenced.

This paper tries to give a first set of answers to the issues just mentioned, underlining the crucial link existing for them with the EU, in facing the challenges of the new trade round negotiations.

The general framework in which the SEMCs are acting, inside the negotiation game, is one of a new North-South bargaining, going beyond the disappointing results of the Uruguay Round (UR), not in terms of advantages obtained by the Developing Countries (DCs) from the official agreements,

[1]. Valuable information about the Doha development agenda and the round negotiations can be found in the WTO website: www.wto.org, together with a number of background papers written by the Secretariat.

which are present mainly in the fields of liberalization and market access, but in terms of fulfilment and implementation of the new rules, with delays and breaches at the expense of the developing economies. All this has fed the feeling that costs and benefits of world free trade are unfairly distributed along the North-South dimension. Hence the need to re-balance the principles of efficiency and equity in the future agreements, that will close the Doha Round, taking into due account the DCs' interests in fostering their development goals within the multilateral trade system. That is the reason why the article begins with a first part, devoted to analyze the pros and cons of the DCs participation to the new multilateral trade round, after the deceptions of the UR, while the situation of the SEMCs is scrutinized specifically in the second part of it.

In detail, the paper is organized as follows. Sections 2 and 3 describe the background of the ongoing multilateral negotiations sketching respectively the state of affairs of trade protection practices in the aftermath of the UR, focused from the standpoint of the DCs, and the specific contents of the Doha agenda, with the guidelines for the different issues to be settled during the round. In Section 4 a state of the art or the current state of the multilateral round is briefly sketched, focusing on recent modest decisions taken at the Hong Kong Ministerial Conference held in December 2005. Section 5 addresses in general terms the costs and benefits for DCs to engage actively in a new round of trade liberalization negotiations, whereas the rest of the article is specifically devoted to the conditions of SEMCs. Trade protection and impact of liberalization reforms for the SEMCs are investigated in Section 6, while the consequences for them of a strengthened protection of the intellectual property rights are reviewed in Section 7. The subsequent Section 8 tries to estimate the impact of further trade liberalization on the regional economic integration among them but, above all, in the Euromed area. The paper is concluded by some final remarks in the last Section.

## 2. Impact of the Uruguay Round on developing countries

After 8 years of painstaking multilateral trade negotiations, in December 1993 the UR came to a close, with the relevant agreements subsequently signed by Ministers on 15 April 1999 in Marrakesh and coming into force on 1 July 1995: a first step towards a fully fledged multilateral trade system.

The negotiations were carried out by 123 countries with a view to establishing rules capable of:

- facing the revival of protectionism;
- extending the issues involved in the negotiations to agriculture, services and foreign investments;
- providing at the international level a protection to intellectual property rights;
- strengthening the procedures governing the settlement of disputes.

As a result the sectors of agriculture and textiles were included in the system of multilateral rules, previously voluntarily exempted from the General Agreement on Tariffs and Trade (GATT), alongside with intellectual property rights and services. In addition, any country wishing to join the WTO has a duty to accept as a whole a set of commitments ranging from subsidy measures to customs evaluation methods, according to the principle of the single undertaking.

The signature of the UR agreements represented a remarkable attainment, but most of the goals that the participating countries expected have not been achieved, above all as far as the sharing of trade liberalization benefits between North and South and the need to take into account the fostering of development process in DCs are concerned (Salvatore, 2001).

The main outcomes of the UR were as follows.

❖ An average cut from 4.7 to 3% in tariffs on industrial goods, an increase from 20-22 to 40-45% of the duty-free proportion of imported products; the dismantling of tariffs on pharmaceuticals, building material, medical equipment, paper products, steel. Within 10 years less restrictive tariff rates had to replace quotas on imports of agricultural products, textiles and clothing ruled by the Multifibre Arrangement (MFA); tariffs on agricultural products had to be reduced by 24% for DCs and 36% for industrial countries, while tariffs on textile manufactures had to be cut by 25%.

❖ Anti-dumping measures were not ruled out, but more stringent provisions and quicker procedures governing the settlement of relevant disputes were introduced.

❖ Within 6 years the volume of agriculture product subsidized exports had to be cut by 21%, whereas public subsidies to industrial research had to be reduced to 50% of the applied research costs. Moreover the US and the EU gave the commitment, following direct negotiations, to further cap government subsidies to the production of civil aircraft, to developing long distance phone market and to reduce the European subsidies to steel market.

- Safeguards: it was allowed to raise duties or to introduce other kind of temporary protection aimed at targeting imports which cause serious injury to national industry, but it was prohibited to set specific health or safety standards; only were permitted those based on scientific evidence and not only devised to restrain trade.
- Intellectual property: patents, trade marks and copyrights were given 20 year protection, with a 10 year transition for DCs which did not provide patent protection in the field of pharmaceuticals.
- Despite the services provisions laid down in the General Agreement on Trade in Services (GATS), based on a basic Most Favoured Nation (MFN) obligation, the US did not succeed in entering into the Japanese, Korean and other DCs markets with the services offered by their banks and financial companies, and lifting the curbs on broadcasting their films and TV programs in Europe.
- Concerning the Trade Related Aspects of Investment Measures (TRIMS) the reform established the elimination of the obligation requiring a foreign investor, for instance in the car sector, to conform to a given content of local procurement or to match the volume or value of imports to exports made.
- The GATT Secretariat was replaced by the WTO in Geneva with authority also for the agricultural products and services, besides the manufactures trade. The consensus rule of the former GATT in the trade disputes was abolished (with the ensuing distortion linked to the veto power of the offending country) and replaced by a voting procedure based on 2/3 or 3/4 of the Member countries.
- As far as the treatment of the DCs is concerned, besides the special provisions already mentioned, the UR agreements included a set of additional measures in favour of the Least Developed Countries (LDCs), allowing them waivers whenever they judged the commitments inconsistent with their individual development, financial and trade needs, or in the case of Net Food Importing Countries, that could be hurt by the reforms introduced.

According to a World Bank study (Martin and Winters, 1995), the distribution of benefits deriving from the UR in terms of long-term real income for different countries and regions could be estimated as in Tab. 1.

*Tab. 1 – Real income gains from the UR*

| Country or Region | Welfare gains (US 1992 billion Dollars) | Welfare gains (% on GDP) | Real wages (%) |
|---|---|---|---|
| US | 26.68 | 0.45 | 0.4 |
| EU | 49.93 | 0.74 | 0.0 |
| Japan | 22.73 | 0.64 | 0.9 |
| Canada | 2.61 | 0.46 | 0.3 |
| Australia | 3.26 | 1.10 | 1.2 |
| New Zealand | 1.43 | 3.62 | 2.8 |
| China-Hong Kong-Taiwan | 1.99 | 0.27 | 1.0 |
| Indonesia | 2.61 | 2.12 | 6.1 |
| Korea | 7.45 | 2.50 | 6.1 |
| Malaysia | 5.03 | 8.78 | 9.0 |
| Philippines | 2.38 | 4.35 | 3.4 |
| Singapore | 0.73 | 1.70 | 6.8 |
| Thailand | 12.63 | 10.93 | 8.8 |
| South Asia | 6.74 | 2.03 | 2.6 |
| Argentina | 2.35 | 1.01 | 0.7 |
| Brazil | 4.27 | 1.12 | 0.8 |
| Mexico | 2.29 | 0.67 | 0.4 |
| Other Latin America | 4.70 | 1.72 | 1.1 |
| Middle East-North Africa | 1.54 | 0.26 | -0.2 |
| Sub-Saharan Africa | -0.69 | -0.40 | -0.1 |
| Transition economies | 1.16 | 0.14 | 0.1 |
| Rest of the world | 8.81 | 0.73 | n.a. |
| Total | 170.63 | 0.74 | n.a. |

*Source*: Martin and Winters (1995).

Following the content of Tab. 1, the main gains obtained from the UR in welfare terms (in 1992 prices) pertain to, in that order, the EU, the US and Japan; in percentage points on GDP and in real wages we find at the top Thailand, followed by Malaysia and the Philippines. The thin gains of China, Taiwan and Hong Kong are due to the fact that at the moment of the UR completion the first two countries did not belong to the WTO, whereas in Hong Kong there were basically no protection measures. Sub-Saharan African countries are burdened by a limited liberalization and the rise in international price on their food and textile imports, which results in negative values.

It is anyway possible to maintain, as reported in Hoekman *et al.* (2003), that in short, after implementation of the UR, trade barriers in the agriculture and services sectors are still very high: average tariff rates on imports of agricultural products, both for DCs and for developed countries, range between 15 and 20%, attaining for some goods 100%. On the contrary, tariffs on industrial products are on average higher in the DCs than in OECD countries, even though some manufactures as clothing are hit by very high tariff rates in several developed countries.

In addition, tariffs on DCs agricultural exports reach on average 15.6% in high income countries and exceed 20% in other DCs, while developed countries tariffs are much more reduced. Multiplying marginal tariff rates by the relevant trade flows we obtain estimates of tariffs really paid: those values show that more than half the duties paid by DCs are linked to exports towards industrial countries.

### *2.1. Agriculture*

With the agreement signed in Marrakesh in this field a turning point has been achieved towards the compliance with the WTO rules of agriculture sector (at the time one of the most protected, mainly in the developed countries) concerning market liberalization and elimination of distortions. As highlighted in Tab. 2, which summarizes the main commitments, the Agreement on Agriculture (AoA) is focused on three areas: market access, export competition, domestic support.

**Market access**

Virtually all the kinds of agriculture trade protection have been changed from non-tariff to tariff measures (*tariffication*)[2]. Nevertheless, in many cases developed countries have adopted tariff levels which were higher than those employed with non-tariff barriers (*dirty tariffication*), whereas, on their part, the tariff rates used by DCs were exceedingly high, showing in a number of cases a gap between the tariffs really applied and the accepted commitments (Abbott and Morse, 1999). Much criticism has been raised on this point, as *tarrification* produced too high protection levels for giving way to real export opportunities for sales coming from the Southern countries. Anyway the

[2]. All the trade protection measures were replaced by "equivalent tariffs" obtained in such a way to allow, with reference to the base period, the same import volume.

transformation of the non-tariff barriers in consolidated duties can be considered a significant step towards liberalization.

Tariff quotas (Trq) are largely applied by OECD countries: by providing an "extra-quota" tariff for imports exceeding the level of the quantitative limit, they represent a major barrier to market access[3] and indeed they affect goods which are vital for the southern economies such as sugar, grains, milk products and meat, as it has been shown by the indicators set up by Elbheri *et al.* (1999). According to this paper in 13 cases on 16 imports for the US, Europe, Canada and Japan have exceeded the foreseen level, even though allocation of the quota earnings has proved scarcely homogenous, as in some cases they have been assigned to exporters and in others to importers. In addition the authors argue that most of the countries are benefited – and that losses are quite limited – by a reduction of the "extra-quota" tariff, if accompanied by a 50% increase in the quotas.

**Export subsidies**

The 1994 Agreement calls for reductions both in the payments for subsidizing exports and in the volume of the latter, while allowing at the same time DCs, under specific circumstances, to resort to subsidies during the implementation period in order to cover transport and marketing costs for their sales abroad.

**Domestic support**

Domestic support measures were allocated in the following boxes: red (being not allowed), green (permitted), amber (their use is constrained by provisions set down in international agreements) and blue (with policies temporarily tolerated according to WTO rules, even if considered trade-distorting: in fact containing the main support tools applied in the different countries). Despite reductions implemented in the EU and the US increases, domestic support to agriculture in Europe remains well above the American one.

*Tab. 2 – Commitments included in the Agreement on Agriculture*

[3]3. For imports included within such a limit the tariff is lower.

| Commitments | Developed Countries | Developing Countries |
|---|---|---|
| Implementation period | 6 years (1995-2001) | 10 years (1995-2005) |
| Market access<br>*Tariffication* of all trade barriers (base year 1986-88) and subsequent reduction of the base tariffs.<br>Average reduction (unweighted)<br>Minimum reduction (for each tariff line) | <br><br><br>36%<br><br>15% | <br><br><br>24%<br><br>10% |
| Reduced tariff quotas in existence (current access) | Maintenance | |
| Minimum access tariff quotas initially at 3% of the domestic consumption to be expanded to 5% within 2001 | Tariff reduced on in-quota imports, equal to 32% of the base level | |
| Export subsidies<br>(base year 1986-90)<br>Reduction of the subsidies payments<br>Reduction of the subsidized export quantities | <br><br>36%<br><br>21% | <br><br>24%<br><br>14% |
| Domestic support<br>(base year 1986-88)<br>Reduction of the aggregate support | <br><br>20% | <br><br>13% |

*Source*: Anania (1996).

On the whole, however, changes in terms of agricultural policies introduced by the UR have been quite limited in scope, even though they represent a starting point from which it will be possible to produce further cuts in agriculture protection. Some DCs have experienced rises in imports (owing to the existence of export subsidies) for a number of goods, with damages to their import-export sectors. As a consequence they increased duties in view of protecting domestic production from considerable falls in many goods prices.

### 2.2. *Industrial tariffs*

The dramatic change occurred in the structure of international trade in the second half of the last century has been particularly far reaching during the last 20 years. In the 1960s the bulk of the DCs exports consisted in industrial goods for about a quarter, which in early 1980s increased to a 1/3, with a progressive acceleration that brought them, in the Mid-1990s, to 3/4 of their total exports.

Such an increase is a consequence, on the one hand, of the enhancement of North-South trade and of a rising export share directed to other developing economies, on the other hand.

Hence, a strengthening of the DCs position in the world economy (to which the sizeable fall in tariff barriers is not unfamiliar), which explains their interest in including in WTO negotiations industrial goods too.

Tariffs applied by developed countries on manufactures are low on average but, according to the present tariff system, imports coming from DCs are affected by duties four times higher than those coming from OECD countries (Hertel and Martin, 2000), mainly owing to the strong protection granted to textile and clothing sectors. Nevertheless, according to an estimate, 70% of the industrial duties charged on DCs are applied by other developing economies, finding in such a case the opposite situation compared with the agriculture sector (Hoekman *et al.*, 2003).

According to a number of computational general equilibrium analyses a cut by 40% in tariffs applied by all countries on industrial goods would result in a growth of world trade expected to reach US 380 billion Dollars within 2005. The main benefits would concern the clothing sector, followed by textile and car segments (Hoekman *et al.*, 2003).

The Multifibre Arrangement[4] dismantling – which on 1 January 2005 has come to an end of the 10 year transition period and has been replaced by the Agreement on Textiles and Clothing (ATC) – will possibly produce, by abolition of the quota system, an increase of 20% in the sector trade, due to the high protection granted by developed countries.

It is well known that severe tariff cuts produce strong feedback effects, *i.e.* a quick increase in low cost imports with advantages for consumers and for

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[4]. The MFA was signed in 1974 in order to establish a ceiling on imports in Northern countries, avoiding competition by DCs.

efficient use of national resources. Hertel and Martin (2000) estimate that the strongest efficiency increases will occur in DCs, notably in regions where tariffs are higher: China, South Asia, India. On the contrary, in developed countries such as Japan, Western Europe, Australia, North America, owing to the lower tariffs, the benefits are more limited. For all these reasons the DCs support the need to include industrial products, together with agriculture, in the new multilateral negotiations on trade liberalization.

### *2.3. Services liberalization (General Agreement on Trade in Services – GATS)*

The GATS represents the first set of multilateral rules organizing international trade in services. Its operation is based on three levels: *i)* the basic Framework Agreement with general provisions for all Member countries; *ii)* the framework of national schedules of commitments, with further national obligations in view of an ever growing process of liberalization; *iii)* the set of annexes, ruling special situations of individual countries in granting access to their markets.

The Agreement (in force since 1 January 1995) is divided into 29 articles and has been requiring the contracting parties to liberalize progressively the different service sectors, that the WTO classifies in 160.

In short the text establishes, along with the future steps in order to extend the Agreement, the general provisions to apply to all services, included the MFN status, specific commitments concerning the market access and the National Treatment rule, that relates to the services contained in the lists provided by Member countries. A precise outstanding commitment concerns the mode 3, which regulates indirectly the FDI to the advantage, in some cases, of shareholding in national companies, by providing protection to the incumbent partners (Mattoo, 2000).

Owing to the complexity of subjects to address, besides the basic text a number of specific agreements have been signed: for instance, in 1997 the base agreements on telecommunications and on the movement of labour providing services have been concluded and in 1999 came into force the agreement on financial services.

Liberalization in the services sector represents for DCs a challenge not to miss. In spite of the fact that international trade in services is under the developed countries' control, DCs are highly specialized and big exporters of tourism, transport, electronic and IT services; to the point that in many cases they find here their main foreign currency source. They are therefore interested, in particular, in the liberalization of physical person movements and of the trans-border trade, above all the *e*-trade.

In the Services Agreement also particular provisions are included, aimed at facilitating the DCs participation in international services trade, and this by negotiated commitments concerning issues ranging from access to technology and improved access to distribution channels and information networks, to the liberalization of market access in sectors and schemes of supply, concerning the export sectors. Moreover, specific provisions on economic integration are stated to require arrangements having "substantial sectoral coverage" and providing "for the absence or elimination of substantially all discrimination" among the relevant parties.

### *2.4. Intellectual property rights (Trade Related aspects of Intellectual Property Agreement – TRIPS)*

The contracting parties commit themselves to produce legislation protecting the intellectual property rights; for DCs transition periods were foreseen. The Agreement addresses protection measures concerning copyrights, registered marks, geographical indications (products named after a locality defining their characters), industrial designs, patents, integrated circuits and topographical designs, trade secrets.

Areas covered by the agreement concern 5 general points: *(i)* application of basic rules of the trading system and other international intellectual property arrangements; *(ii)* adequacy of intellectual property rights protection; *(iii)* enforcement by the Member countries of those rights in their own territories; *(iv)* settlement of disputes; *(v)* particular transitional arrangements during the phasing in period of the new system.

A much debated issue has been Article 27, defining possible exceptions to the protection and establishing in particular a waiver to the patent system for plants and animals on the basis of systems chosen by an individual country (even though it is not clear what such a definition should imply). In addition, the main provision concerning agriculture states that plant varieties have to be given protection by a patent or a *sui generis* legislation, or a mix of both.

At the moment when the TRIPS Agreement has been concluded most of the Member countries had no legislation in this field; the WTO plays hence a role of world regulator of intellectual property rights protection systems which, in their present terms give an advantage to the research centres located in the developed countries. That is the reason why the DCs emphasize the need of a substantial change in the current agreement.

## 3. The Doha development agenda

Not all the negotiations under assessment during the UR have been finalized. It was indeed forecast that some dossiers had to be re-opened and re-discussed; which has in fact occurred, with the addition of other issues.

In the framework of the 4th WTO Ministerial Conference in Doha in November 2001, which was attended by a number of countries increased to 144, the process of international trade liberalization has been re-launched.

With the Doha final declaration a new round of multilateral negotiations has been kicked off, with the aim to continue the process of reform and liberalization of international trade and investments, fostering at the same time economic conditions of DCs. The rhetoric was to put trade at the service of development[5].

Following the same procedure adopted in the UR deal, a wide set of issues has been gathered in a single global negotiation. Such a choice could be conducive to a strengthened probability of success, due to the fact that, on the one hand, costs of a failure are increased and, on the other hand, a more easily compensation among different issues under discussion is allowed. Indeed it is stated that should a comprehensive agreement on all points under negotiation not prove possible, no partial arrangement will be concluded. Moreover, if a country does not intend to approve agreements as a whole, it will exclude itself from the WTO.

Negotiations extend from those on agriculture and services, already begun in early 2000, to those concerning the new issues added. All negotiations but two had to be completed by January 2005. The exceptions relate to Negotiations on the Dispute Settlement Understanding, which had to end in May 2003, on the one hand, and those on a multilateral register of geographical indications for wines and spirits, which had to be finalized by Ministerial Conference in 2003, on the other hand.

In addition in Doha Ministers agreed on a linked decision on implementation problems DCs face in executing the current WTO agreements, taking into account their specific conditions.

Among others, the main issues under negotiation relate to:

[5]. As Amorim (2005) puts it: «*The Doha development agenda was meant to address the unfinished business of the previous Rounds, by correcting the ever-growing gap between rich and poor Nations and the gap in the existing trade rules for industrial and agricultural goods*».

- *TRIPS and access to medicines*: the aim is to allow the DCs to produce or to make produce life-saving drugs capable to fight big epidemics at affordable costs. On this issue, prior to the draft accord reached in Geneva at the end of August 2003, allowing poor countries to import cheap drugs from countries such as India, Brazil, South Korea (Williams, 2003*b*), two strong options were in conflict: on the one hand the US', which was concerned with too large waivers from the WTO Agreement on Intellectual Property, and the EU's on the other, which suggested assigning the World Health Organization the task to solve disagreements on the drugs and illness list;

- *agriculture*: a wider liberalization in agricultural products trade and the safeguard of the origin of goods are the most important topics; progress on this point would have a positive impact on all other chapters under negotiation. On this subject DCs blame the US and Europe to reduce subsidies to the growers and duties on imports at too slow a pace;

- *services and investment*: here it is necessary to define international standards for investment, competition, government procurement and services. This issue is highly intricate and witnesses the opposition of several DCs;

- *safeguard measures*: there is a need to accompany the opening of markets with suitable protection standards for the weaker countries from the social, employment and environmental standpoints. The complexity of the issue suggests proceeding hand in hand with progress in market liberalization.

Clearly, so far the DCs issues have been only partially taken into due consideration: from the need of a strong liberalization in agricultural trade, which is vital for fostering growth in less developed economies, up to the definition of the life-saving drugs list and that of the countries allowed to produce them, passing by commitments of market liberalization in the textile sector.

Measures applied by Northern countries in favour of DCs have been virtually irrelevant[6]; the lack of international experience in the framework of multilateral agreements has further damaged the situation of less developed economies, which is burdened also by the lack of technical and financial assistance by developed countries.

[6]. See, among others, Blackhurst *et al.* (2000); Finger and Schuler (2000).

Hence, a kind of rejection of international agreements by DCs has grown up, inducing Stiglitz (2000) to support the need of a more balanced negotiation round, capable to establish really flexible rules also to the DCs' advantage.

## 4. From the failure of Cancun to the compromise of Hong Kong

Indeed, the strong reaction of the DCs, for once forming a successful coalition under the leadership of India and Brazil, to the unbalanced bargaining stances adopted by the US and the EU within the Doha Round was one of the reasons that led to the failure of the 5th Ministerial Conference in Cancun, in September 2003. Issues on the table for the Cancun meeting ranged from guidelines for industrial and agriculture goods, to access for poor countries to cheap imported medicines, from competition policy, investment, transparency in government procurement and trade facilitation, to registration systems of geographical names for wines and spirits, alongside with more favourable treatment to DCs (Williams, 2003*a*). The request by the EU and the US to obtain substantive gains in terms of better market access to the DCs' markets for their services and manufactures against elusive promises to reduce agriculture subsidies was rejected by the DCs as a whole, and the Conference was unable to achieve its main aims: to review progress made in the Doha development agenda, deciding at the same time how best to organize the final stage of the Multilateral Round.

By contrast, despite the basically unchanged state of the affairs in the relationship between advanced and developing countries, two years later a compromise between the two parts was achieved in the Ministerial Conference of Hong Kong, in December 2005. In fact, the results of the latest overall bargaining among the WTO Members, whose number is in the meanwhile increased to 149, consist mainly in no more than nominal commitments to reduce in the future a number of obstacles hampering the progress of the liberalization round. Nevertheless, thanks to the Hong Kong compromise the Doha process was not reduced to a standstill and the credibility of WTO, in its capacity of multilateral free trade institution, was not definitively hurt. Thus, it is still possible that by April 2006 new agreements are reached allowing to finalize the round by the end of that year, before the Bush administration's "fast-track" authority expires in July 2007 (Bhagwati, 2005). Possible, but rather difficult, owing to the high risks of failure still existing, linked to the resistance of the main players of the WTO game to make further concessions: the EU and the US in terms of reduced subsides to agriculture, and the larger DCs, such as Brazil, in form of improved market access for the advanced countries' exporters (Wolf, 2005).

In any case, progress at Hong Kong Ministerial Conference was really minimal. On the one hand, on agriculture the US promised to cut subsides to its cotton growers in 2006, so as to grant unrestricted access to its market to West African producers and other least developed economies, while the EU succeeded in shifting to 2013 the commitment to scrap its export subsides. On the other hand, concerning industrial goods only a general tariff cutting formula was agreed, allowing however LDCs' exports to be granted by 2008 free access to advanced countries' markets for 97% of import lines by the EU, the US and Japan, but with salient exceptions for US textile imports. Finally, as to services, only negotiating guidelines were agreed, postponing the presentation of revised liberalization offers to July 2006 (De Jonquières, 2005).

In short: only future, mainly distant concessions on agriculture and nominal exemptions for LDCs' exports[7] on the part of advanced countries, and practically no commitment at all for the export interests of the latter on the part of DCs.

## 5. Costs and benefits for developing countries of a new wave of trade liberalization

The starting point for assessing the interest of the DCs in being involved in a new round of multilateral trade negotiations in view of further liberalizing international transfers of goods, services and capitals in a worldwide context is to have an idea of the impact of the UR on their economies. It has been widely recognized that, in a nutshell, the main effects of the UR provisions on the DCs were the following ones:

- the AoA succeeded in defining general rules for agricultural trade, but achieved limited results in terms of immediate market opening;
- sizeable reductions in tariffs on manufactured goods and the decision to dismantle the MFA and in a wider framework the so-called Voluntary Exports Restraints (VERs) have helped to foster the DCs' effort to industrialize and to modernize their economy;

[7]. Indeed, the differential value of preferences allowed to LDCs reduces when the advanced countries' customs duties decrease as a result of a general tariffs cut.

cuts in protection on merchandise trade have heightened real incomes in DCs, with a possible net gain ranging from US 55 to 90 billion Dollars, i.e. with an increase between 1.2 and 2.0%;

the establishment of the WTO, encompassing GATT 1994, TRIPS and GATS, along with more efficient and binding dispute settlement procedures have strengthened the world trading system, with positive effects – in principle – for the CDs too (Martin and Winters, 1995).

An Executive Summary updating the studies contained in Martin and Winters (1995) and edited by the Secretariat of the Committee on Agriculture of WTO (2000*a*) allows focusing on these arguments more in detail.

The main reasons why in agriculture sector little results were achieved in terms of market opening were that the period chosen for implementing the tariff reductions (36% for industrial countries and 24% for DCs), 1986-1988, was one of high protection, and that the conversion from non-tariff barriers to tariffs was allowed for DCs to take place at very high levels, a fact dubbed *dirty tariffication*, as we have already mentioned (Hathaway and Ingco, 1996). As a consequence, even in 2001 the reduced tariffs were in many cases higher than prior to the UR agreements, and in general terms despite a reduction in trade-distorting policies (as measured by the Aggregate Measurement of Support or AMS) total support to agriculture has not declined (FAO, 2001*a*).

The cuts in tariff protection on manufactures were considerable and in the same order of those following the Kennedy and the Tokyo Rounds. Far more important for the DCs was nevertheless the dismantling of non-tariff barriers inherited from the past, notably in the shape of prohibition of VERs and in the phasing out of the MFA, dating back to the 1970s, and obliging the DCs to give up their comparative advantages in the field of textiles on the basis of arrangements that were all but freely agreed. Incoming gains by 2005 are estimated amounting to US 56 billion Dollars at 1992 prices for the EU, the US and Canada, and to US 13 billion Dollars for exporting countries like China, Indonesia, Thailand and other South Asian highly competitive producers[8].

The substantial gains in terms of real incomes achieved by DCs (from US 55 to 90 billion Dollars in the long run, or between 1.2 and 2.0% of their 1992

[8]. Taking into account the long run welfare gains shown in Tab. 1, estimates for these two groups of countries amount respectively to US 80 Dollars and US 24 billion Dollars. On the impact of UR on individual DCs a number of estimates are at hand. Shiells *et al.* (1996) show that both Egypt and Morocco did not undertake sizable efforts to liberalize their trade regimes, locking in previous trade liberalization and rending their regimes more transparent. The progressive dismantling of the MFA will benefit Egypt, but not Morocco, while in general gains for the former and losses for the latter are expected to be small.

income level) are likely to be unevenly distributed. Official estimates of the benefits obtained are highly correlated with the cuts in protection offered. Thus, most of the welfare gains will go to countries in East Asia and South Asia, where strong reductions in tariffs were accepted, while in Sub-Saharan Africa, where cuts in protection are very small, the gains will be low, or negative, taking into account the loss linked to the erosion of preferences in OECD markets. Nevertheless the brunt of tariff cuts will not be charged to workers, as wages are projected to rise in real terms, with an increase of over 3% in East and South Asia.

The establishment of the WTO has heightened the efficiency of the world trade system with potential benefits for the DCs too, not least for the improved dispute settlement procedures. At the same time the setting up of GATS, TRIPS and the new GATT rules provide them with additional opportunities to safeguard their interests. The GATS was a well-built innovation, but involved no explicit commitment to lessen protection in the service sector, neither in industrial nor in developing economies. The latter have nevertheless an advantage to share its discipline thanks to the increasing weight of services, notably in form of tourist services, on their exports (currently about 20%).

The TRIPS arrangement requires the DCs governments too to grant minimum standards on the strength, form and duration of the intellectual property protection.

Finally the discretionary measures allowing the governments to introduce safeguards, anti-dumping, countervailing duties and balance of payment measures are better regulated within the GATT arrangement, in order to reduce their protectionist impact.

A last point to emphasize is that the UR has left a good deal of work unfinished, with the commitment to begin negotiations for further liberalization on chapters as important as those of agriculture, services and for TRIMS.

In summary, the benefits deriving from the UR to the DCs can be considered sizeable in terms of real income increases (between US 55 and 90 billion Dollars, alongside 100 to 200 billion Dollars for the world as a whole), even if in implementing its agreements and provisions they have to enter into sometimes hard bargaining in order to safeguard their parts of the world trading market.

Against this background, the new round of trade liberalization forecast within 5 years from the UR conclusion can change the sharing of the welfare net gains between industrial countries and DCs. In general terms expected gains from Doha Round liberalization in all markets of agricultural and industrial products, as well as in services, are not particularly important. Their assessment on the basis of general equilibrium models ranges from 0.09 to 0.5% of aggregate GDP of involved countries (Helg e Salvatici, 2005)[9]. Against this background, a wide inquiry involving World Bank and national experts, along with an international research network[10], allows to sketch the interests of the DCs in taking part in the Doha negotiations, in the different fields of agricultural, manufacture and service liberalization (Hoekman *et al.*, 2003).

As already hinted, in the aftermath of the UR the degree of trade protection for the agricultural products and services is still high, with tariffs ranging from 15 to 20% for the former and tariff averages hitting the DCs exports of 15.6% in the industrialized countries and of 20.1% in the developing economies. By contrast, tariff protection for manufactures is generally lower, but with modest rates in OECD countries and higher in DCs.

The weight of protection in agriculture after the UR completion is featured in Tab. 3, which shows how trade liberalization in such a sector would benefit first of all the industrial countries. Nevertheless DCs too would obtain quite large gains in terms of real income increases, with the important exception of some poor net importing countries. The list of winners could comprise South Asia (India excepted) and South-East Asia (without Indonesia) (Hertel *et al.*, 1999).

From the standpoint of DCs the liberalization of agriculture sector has to address the issues of trade barriers and of domestic support with the ensuing export subsidies. As already mentioned, among the trade barriers the system of tariff-quotas adopted by a number of both industrial and DCs has proved to be a substantial obstacle for goods which are vital for southern producers (Elbheri *et al.*, 1999); so the reduction of the higher rates on imports exceeding the quota, alongside with an expansion of the quantitative ceiling for which a reduced rate is applied, could be in DCs' interest.

*Tab. 3 – Agriculture protection (1995)*

| Export regions | Import regions |
|---|---|

[9]. See also Ackerman (2005).

[10]. The network included the following centres: Latin American Trade Network (LATN), Economic Research Forum for Arab Countries, Iran and Turkey (ERF), African Economic Research Consortium (AERC), Coordinated African Program of Assistance on Services (CAPAS), and the Trade Policy Forum of the Pacific Economic Cooperation Council.

| | Industrial Countries | DCs |
|---|---|---|
| *Average weighted import tariffs (%)* | | |
| High income | 15.9 | 21.5 |
| DCs | 15.1 | 18.3 |
| World | 15.6 | 20.1 |
| *Paid tariffs (US million Dollars)* | | |
| High income | 37 | 20 |
| DCs | 16 | 14 |
| World | 53 | 34 |

*Source*: Hertel and Martin (2000).

As to the lessening of agriculture domestic support with the dismantling of export subsidies, one has to bear in mind that a subsequent rise in the world prices could hurt the DCs that are food net importers (FAO, 2001*b*). It is possible that such a negative impact is partially offset by a surge in the domestic production following the higher world price or by domestic accompanying reforms (Wang and Winters, 2000), but a safety net for sheltering the poor seems to be necessary for avoiding the most vulnerable part of the society to be damaged by the shock induced by liberalization policies.

DCs have an interest to take part in negotiations for liberalizing manufactures too. As already mentioned, by 1995 manufactured goods had grown to 3/4 of all their exports, whereas their sales to industrial countries face four times higher tariffs than those directed to OECD countries (see Tab. 4).

In Section 2 we reported estimates based on computational general equilibrium models showing that a cut of 40% on all industrial tariffs worldwide can produce a huge expansion of world trade (US 380 billion Dollars by 2005), with higher sectoral increases in the textile and car areas and 3/4 of the overall gains concentrated in DCs, mainly in those adopting high level tariffs like China, South Asia, India (Hertel and Martin, 2000).

*Tab. 4 – Manufactures protection (1995)*

| Export regions | Import regions | |
|---|---|---|
| | **Industrial Countries** | **DCs** |

| | | |
|---|---|---|
| *Average weighted import tariffs (%)* | | |
| High income | 0.8 | 10.9 |
| DCs | 3.4 | 12.8 |
| World | 1.5 | 11.5 |
| *Paid tariffs (US million Dollars)* | | |
| High income | 16 | 93 |
| DCs | 23 | 57 |
| World | 40 | 150 |

*Source*: Hertel and Martin (2000).

On the contrary, it is much more difficult to assess the possible gains stemming from liberalization of trade in services, ruled by the GATS. Recently some effort has been devoted to weighting the barriers restricting the service transfers and the Australian Productivity Commission (APC) has found that for the mode 3 of GATS, *i.e.* the FDI, the most protectionist DCs are South Korea, Indonesia, Thailand and China, and the most protected sectors are those of telecommunications, financial services and transport (Francois and Hoekman, 2000). Despite the fact that international trade in services is overwhelmingly carried out by industrial countries, DCs are among the most specialized and the most dependent economies on this kind of activity, providing them the bulk of their foreign currency. Some of them enjoy competitive advantages in industries like tourism, transport, back-office services and information technology.

Liberalization of trade in services could be in the interest of DCs also in sectors covering mode 1, free movement of people, and mode 4, trans-border trade.

Among the residual issues included in the Doha agenda, one of the most important concerns the strengthening of the TRIPS rules. Section 7 addresses the possible negative impact for the South of an increased protection of the intellectual property at a worldwide level. As to the interests of the DCs to deepen the TRIPS provisions here it is sufficient to emphasize that for them the dynamic long run effects in terms of FDI, technology transfers and fostering of technological innovation can outperform the negative static short run effects in terms of increased prices for the new goods coming from the industrial countries. Moreover for some countries even the short run impact could be mixed. Studying the case of Lebanon, for instance, Maskus (2000) finds that in the field of imported pharmaceuticals more stringent patents could be detrimental with a possible increase of average prices of 10%, but that in other sectors where the country enjoys a comparative advantage as for publishing and press, music and video products, more intellectual right protection could be welfare improving.

By contrast, it is doubtful whether DCs could be better off following an extension of the ban decided by the UR agreements on the TRIMS with new provisions affecting investments and competition rules (Low and Subramanian, 1996), or by including in the WTO system social and environmental standards (Rollo and Winters, 2000). In both cases the DCs policies aimed at fostering development and growth could be put in jeopardy by accepting asymmetrical regulations, as in the past was the case in the UR framework for many subjects (limited help and promotion of DCs exports in exchange of mandatory rules for antidumping measures, domestic subsidies, product standards, intellectual property rights) (Hoekman *et al.*, 2003).

A final issue to analyze concerns the preferential trade arrangements on which the DCs have traditionally relied in their relationships with the developed economies[11], as one of the possible consequence of the Doha Round could be to reduce their weight. Indeed, as a matter of fact, trade liberalization that has already occurred in the past has greatly diminished the substance for them of the preferences granted by the industrialized countries (Robertson, 1999).

Among the benefits obtained by the DCs from preferential arrangements the most valuable ones are probably the fostering of a self-sustained economic development and the financial assistance often attached to them, but these gains are paid by the danger to shift the economy to production patterns that are not sustainable in the long run, when with progressive reductions of MFN tariffs the value of preferences declines, and by trade diversion effects that could imply a loss in terms of world welfare[12]. At the same time the loss suffered by the removal or the reduction of preferences could be at least in part offset by possible compensations and by the gain obtained in terms of better allocation of the domestic resources.

The general framework in which the new WTO Round has been launched is characterized by the tenet that overall trade liberalization is beneficial to all countries, even though the peculiar conditions of the LDCs have to be taken

[11]. The types of preferential trade agreements in which DCs are usually involved comprise the Generalized System of Preferences (GSP) and specific schemes for a regional subset of them as in the cases of Lomé-Cotonou Convention or Caribbean Basin Initiative arrangements, or the recent trade regime granted by the EU in 2001 to the LDCs under the “Everything but Arms” Initiative (EC, 2001).

[12]. Soloaga and Wintersb (2001) find scarce evidence that the new regionalism created or revamped in the 1990s boosted intra-bloc trade significantly, but there are indications of trade diversion for the EU and EFTA.

into consideration. Against this background, the time of non-reciprocal trade preferences seems to be over. Nevertheless compensations in forms of cash subsidies or of reduction of tariffs on products of special interest for the DCs involved in previous trade preferential arrangements could be devised.

In summary, a possible policy line striking a sensible compromise between the free trade principles of the WTO and the specific needs of the most vulnerable DCs could be based on the following points:

- ⇨ to include the GSP in the WTO and to amend the Enabling Clause, that allows trade preferences, in order to add to the list of DCs permitted to get preferences wider than those of the GSP regime the small and other vulnerable countries, beyond the least developed ones;

- ⇨ to ask for deeper preferences for the least developed and vulnerable countries, rather than aiming at expanding the same preferences for all DCs under the GSP scheme;

- ⇨ to remove trade preference conditionality, as in the case of labour and environmental standards;

- ⇨ to expand quota volumes, simplify rules of origin, ask for deeper preferences when tariffs exhibit peaks and tariff escalation;

- ⇨ to consider the better regime sketched above as a compensation for the erosion of GSP preferences following multilateral tariff reductions, considering also two extra compensation options: additional cuts of MFN tariffs benefiting DCs exporters and in special cases cash payments, as under the EU sugar agreement for ACP countries (Tangermann, 2001).

In closing this Section, it is perhaps possible to draw some conclusions as to the interest of the DCs to get involved in a new trade liberalization process, even though the developing world is highly segmented, with laggards, as the LDCs, and frontrunners. Due to the residual barriers existing in the aftermath of UR a wider access to the market through further tariff cuts for manufactures, agriculture and services would improve their welfare. In these sectors the DCs have substantial stakes to look after, either because industrial goods cover 3/4 of their exports, or thanks to comparative advantages enjoyed in some subset of agriculture products or trade in services. At the same time, they can be entitled to ask for compensation for the reduction of their benefits following possible removal of trade preferences.

On the front of further regulations to be included in the WTO system, on the contrary, their bets can be better preserved by maintaining a room for manoeuvre for their development and growth policies. That is namely the view of scholars, such as Stiglitz and Charlton (2005*a*), according to whom the "*agriculture for services and manufacturing deal*" which lies at the core of ongoing negotiations between advanced and DCs offers very little for the poorest countries. Far from being satisfied to be relegated to the role of agriculture suppliers to advanced countries, DCs need to preserve their options to promote long-term industrialization. A fairer deal could comprise a reduction of heavily biased tariffs applied by advanced countries on industrial goods exported from DCs, freer migration flows, and more assistance to them in order to reduce gaps in infrastructure and upgrade product quality as well marketing opportunities (Stiglitz and Charlton, 2005*b*).

These are the reasons for which two preconditions seem necessary for a successful conclusion of the Doha Round from their standpoint. At the international level a more balanced bargaining, taking into due account the needs to foster the reduction of the North-South divide, amending what has been perceived by many as the unfair results of the UR (Stiglitz, 2000)[13]. At the domestic level the launch or the strengthening of a safety net for helping the most disadvantaged people not to bear the brunt of the short-term shocks produced by the new liberalization upsurge[14].

## 6. Trade liberalization in the SEMCs

[13]. In this wider context the vexed and undecided issue of the general relationship linking free trade and growth in the case of developing economies could be further debated. Recent literature pointing to opposite results includes Greenaway *et al.* (2002) from the one hand and Yanikkaya (2003) from the other hand. The former find that liberalization appears to impact positively upon growth of DCs, even if with a lag, with a J curve type relationship, while the latter shows that trade barriers are significantly associated with growth, mainly for developing economies. Additional worthy of note issues, that are not addressed in the paper, include the negative impact of liberalization for DCs on wage inequality (Xu, 2003), and allegedly on labour demand elasticities (Krishna *et al.*, 2001), rural resource degradation (Barbier, 2000) and tax revenues (Khattry and Rao, 2002), among others.

[14]. Along this line Harrison *et al.* (2003) illustrate two approaches ensuring that trade liberalization will not hurt the poorest households in the case of Turkey: the one involving direct compensation to losers, the other implying exceptions to the across-the-board reform in order to meet equity goals.

The wider area of Middle East and North Africa (MENA) region[15], in which the SEMCs[16] are included as a specific Mediterranean subset[17], is currently deemed to have lagged in growth and to be sidelined from globalization (Abed, 2003). Compared with the bulk of DCs, MENA has lost ground since the 1970s, even though the non oil producers have performed better than the oil exporters. Moreover SEMCs that introduced political and economic reforms such as Egypt, Jordan, Morocco and Tunisia enjoyed the most satisfactory growth rates in the area. One of the factors explaining the poor growth performance suffered by the region is possibly a high degree of trade restrictiveness, despite recent liberalization efforts made in a number of SEMCs and notably in Morocco, Algeria and Tunisia.

To assess the degree of openness of a country is not an easy task (Anderson and Neary, 1994; Shearer *et al.*, 1998; Oliva, 2000), but a number of measures are currently employed to this aim. Among them one can quote the Index of Aggregate Trade Restrictiveness (ATR) and the Overall Weighted Trade Restrictiveness Index (OWTR), both in use in IMF and World Bank studies[18].

On the basis of the ATR and OWTR Indexes Oliva (2000)[19] carries out a wide inquiry into the trade protection measures applied in the MENA countries in the 1990s, providing useful insights on trade protection in a number of SEMCs.

The ATR Index was developed by Shearer *et al.* (1998), and assesses trade protection by a combination of the unweighted tariff and a ranking of non-tariff barriers. Its computation is based on a three stage procedure: first the countries are classified in five categories, from the most open to the most restrictive ones, depending on the tariff level, then a classification in three categories (open, moderate, and restrictive) is made, according to the weight

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15. Besides the Arab States of the Gulf Cooperation Council (GCC) MENA includes Algeria, Djibouti, Egypt, Iran, Jordan, Lebanon, Libya, Mauritania, Morocco, Pakistan, Somalia, Sudan, Syria, Tunisia, Yemen, Afghanistan, the West Bank and Gaza.

16. SEMC region consists of the following countries, sometimes called in the EU Mediterranean Partner Countries (MPC): Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestinian Authority, Syria, Tunisia and Turkey. The Maghreb countries are Algeria, Morocco and Tunisia, whereas Mashrek includes Egypt, Jordan, Lebanon, Syria and the Palestinian Authority (West Bank and Gaza Strip).

17. Nevertheless Turkey and Israel do not belong to MENA.

18. Other trade protection indicators have been put forth by Anderson and Neary (1996, 1999) with their Trade Restrictiveness Index (TRI) and Mercantilistic Trade Restrictiveness Index (MTRI) and the authors quoted in Oliva (2000) with reference to measures of overall trade restrictiveness.

19. The author uses also a modified ATR indicator, introducing a new classification of protection schemes, differing from the original one developed by Sharer *et al.* (1998), by reducing the categories of country considered to three, according to the weight of non-tariff barriers.

of non-tariff barriers, and finally the rankings for the two kinds of barriers are mapped in a unique measure of overall trade restrictiveness.

The OWTR Index is an improvement of the ATR methodology, taking into account also tariff dispersion as a new variable measuring the burden of protectionism. Its author Oliva (2000) defines protection P as a linear combination of tariffs T, tariff dispersion D and non-tariff barriers NT:

[1] $$P = \alpha T + \beta D + (1-\alpha-\beta)NT$$

The weights of the different variables are obtained by maximising the average correlation between them:

[2] $$\mathrm{Max}_{\alpha\beta}[\rho(T,P) + \rho(D,P) + \rho(NT,P)]/3 = [\rho(T,\alpha T + \beta D + (1-\alpha-\beta)NT]/3 + [\rho(D,\alpha T + \beta D + (1-\alpha-\beta)NT]/3 + [\rho(NT, \alpha T + \beta D + (1-\alpha-\beta)NT]/3$$

The estimation of Eq. [1] for 4 SEMCs (Algeria, Egypt, Morocco, Tunisia) and 3 extra MENA countries (Oman, Pakistan and Saudi Arabia) provides the following result:

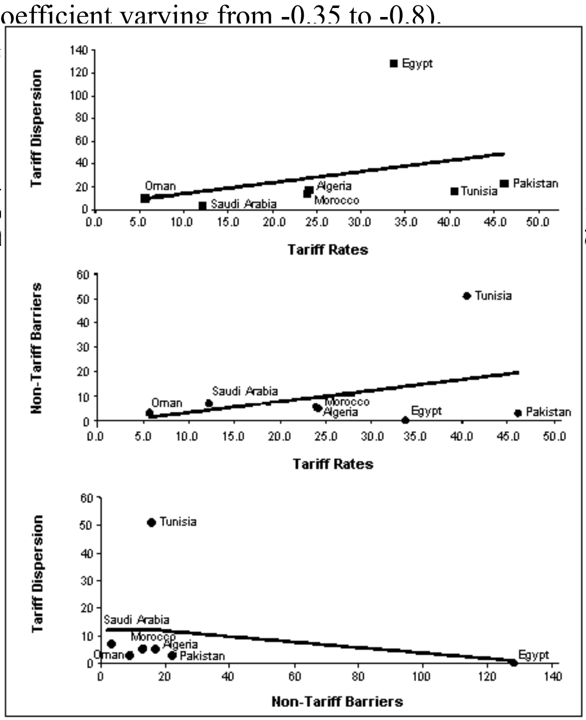
[3] $$P = 0.6T + 0.1D + 0.3NT$$

This seems to suggest that the main bulk of protection is given by the level of trade obstacles and that non-tariff barriers account for half the weight of the tariff rates.

Eq. [1] captures the idea that a same set of tariff and non-tariff barriers can be more or less protectionist, according to the level and frequency of tariff spikes, or tariff dispersion[20]. Fig. 1 plotters the relationships between the three variables.

Tariff rates are weakly correlated with tariff dispersion, as measured by the standard deviation, and non-tariff barriers, while tariff dispersion and non-tariff barriers are substitutes. Excluding Tunisia, considered as an *outlier*, the correlation between tariff rates and non-tariff barriers becomes negative and the substitution between tariff dispersion and non-tariff barriers deepens (with a correlation coefficient varying from -0.35 to -0.8).

*Fig. 1 – Tariff rat*




[20]. A high tariff ... tionism, whilst a uniform rate tarif... 7).

*Source*: Oliva (2000).

Among the main results of the inquiry under scrutiny it is worth highlighting the changing weighted average tariff rankings of the Maghreb countries from the early to the late 1990s, with an order of increasing restrictiveness going initially from Algeria, Morocco, Tunisia to Morocco, Algeria, Tunisia at the end of the decade, and the confirmation of this second ranking also employing Oliva's (2000) overall weighted indicator (OWTR). Oliva's (2000) overall ranking obtained by a simpler methodology, similar to that of the ATR Index introduced by Shearer *et al.* (1998), classifies by contrast Algeria and Morocco at the same level, before Tunisia, the most restrictive country among the three.

Against this background, the effects of trade liberalization on imports in a number of SEMCs have been recently assessed in Santos-Paulino (2002). Following earlier studies on import behaviour in Morocco and other DCs by Bertola and Faini (1991) and by Faini *et al.* (1992), in the aftermath of trade reform measures, Santos-Paulino (2002) estimates import demand functions in a panel of selected DCs, confirming in general terms previous empirical literature findings on the signs of the relevant variables, such as income and price elasticities. For Morocco and Tunisia some results are to be found in Tab. 5, where import growth rates in the run up to and in the aftermath of liberalization policies are shown[21]. For them and the rest of the 22 countries panel the impact of the reform trade measures on import growth is found to be strong and there is evidence that following liberalization income and price elasticities increase.

*Tab. 5 – Import duties and import growth* before and after trade liberalization*

| **Country** | **Year of liberalization** | **Before liberalization (from 1976)** | | **After liberalization (up to 1998)** | |
|---|---|---|---|---|---|
| | | *Import duty* | *Import growth* | *Import duty* | *Import growth* |
| Morocco | 1984 | 19.11 | 3.31 | 16.65 | 6.49 |
| Tunisia | 1989 | 23.83 | 6.01 | 21.29 | 4.63 |

* period averages.
*Source*: Santos-Paulino (2002).

The standard import demand function for import M employed in Santos-Paulino (2002) includes as arguments domestic income Y and the relative prices of imported goods, taking into account the foreign prices $P_f$ and the domestic prices of import substitutes $P_d$:

[4] $$M = (P_f E / P_d)^{\psi} Y^{\pi}$$

where E is the nominal exchange rate and $\psi$ and $\pi$ stand respectively for the price and the income elasticities. In log-linear form, the import rate of growth has the following form:

[5] $$m = \psi (P_f + e - P_d) + \pi (y)$$

Considering the partial adjustment version of [5], where the import growth rate at time *t* adjusts in a sluggish form to the long run level starting from the actual rate at the time *t-1*, we have:

[6] $$m_t = \beta_0 + \beta_1 pm_t + \beta_2 y_t + \beta_3 m_{t-1} + \mu_t$$

[21]. The reforms considered for these two countries concern the following periods and contents: for Morocco from 1983 to 1989, with reduction in quantitative restrictions on non-competitive goods, severe decline on maximum tariff and new tariff surcharges; for Tunisia from 1987 to 1990, with progressive substitution of quotas with surcharges, tariff lessening and rise in surcharges. In sum the two countries experienced a decrease in the import duty earnings compared with total imports.

with $pm_t$ representing the growth rate in relative prices and $\mu_t$ being the error term. In Eq. [6] the short run price and income elasticities are expressed by $\beta_1 = \psi$ and $\beta_2 = \pi$. By contrast, the equilibrium elasticities obtain in that order as follows:

[7] $$\varphi = \beta_1 /(1-\beta_3), \text{ and } \rho = \beta_2 /(1-\beta_3)$$

At this stage from Eq. [6] it is possible to estimate the following augmented import growth function for each country *i*:

[8] $$m_{it} = \alpha_i + \beta_1 pm_{it} + \beta_2 y_{it} + \beta_3 m_{it-1} + \beta_4 d_{it} + \beta_5 lib_{it} + \varepsilon_{it}$$

where $\alpha_i$ captures country-specific factors, $d_{it}$ expresses import duties and $lib_{it}$ is a dummy for the period in the aftermath of sizeable liberalization measures.

An interesting complement to the analysis consists in finding the new price and income elasticities which, according to Melo and Vogt (1984), can be affected by trade liberalization itself, by considering two extra dummies in this order: pm x lib and y x lib. As a consequence a further equation has to be estimated:

[9] $$m_{it} = \alpha_i + \beta_1 pm_{it} + \beta_2 y_{it} + \beta_3 m_{it-1} + \beta_4 d_{it} + \beta_5 lib_{it} + \beta_6 \text{ pm x lib} + \beta_7 \text{y x lib} + \varepsilon_{it}$$

Among the results of the different estimates it is worthwhile to stress that the price elasticities are often far below one, whereas income elasticities are found to be above unity and, as already hinted, the reduced obstacles to trade following liberalization generally translate into higher elasticities.

Concerning in particular the SEMCs involved in the exercise, namely Morocco and Tunisia, it has to be added that for them the impact of liberalization on the import flows is deemed to be quite large. They are included in the class of the countries having a high (for the former) and very high (for the latter) level of protection, according to the Heritage Foundation trade policy grading scale over the period 1995-2000 (O'Driscoll *et al.*, 1999). Such a class exhibits a severe negative effect of duties in hampering trade and, hence, a strong positive effect of liberalization measures. Indeed, its import duty elasticity $\mu_d$ is the highest in the panel:

[10] $$\mu_d = (d_a/m_a)(\partial m/\partial d) = (d_a/m_a)\, \beta_1 = -0.74$$

where the subscript *a* identifies the mean of the relevant variable.

At the same time the proportional effect of liberalization has the highest value:

[11] $$\%lib = {}_{m\ a,lib=0} = 1.45$$

with $m_{a,lib=0}$ denoting the mean of import growth in the run up to liberalization.

Taking into account the Melo and Vogt (1984) effect, all this allows to assume that future possible liberalization measures taken in the aftermath of a positive conclusion of the Doha Round could be followed by increases in the import flows for these two countries in the order of more than 150%[22].

## 7. Service liberalization issues for the SEMCs

The service chapter of the Doha agenda relies heavily on the agreements previously achieved in the WTO framework concerning at the same time the treatment of intellectual property rights and the trade of services as such. Indeed, one of the main topics of the new negotiations is represented by the updating of the two specific treaties that rule the two fields, namely the TRIPS and the GATS.

Implementing these two sectoral rule sets and negotiating the new provisions raises the issue of the economic rationale for protecting Intellectual Property Rights (IPR) and in general innovations[23].

The standard static analysis of this issue insists on the public good nature of knowledge and the need to give an incentive to the innovator to produce enough innovation and new knowledge, so as to raise the production of them beyond the private equilibrium point to the social one. In a Schumpeterian context the intellectual property is shielded by a patent or an alike tool, producing a temporary monopoly, from which extra profits move to the innovating firm. The short-term market distortion due to such a type of imperfect competition is offset by the long run social benefit linked to higher growth induced by innovations.

*Fig. 2 – Investment in R&D*

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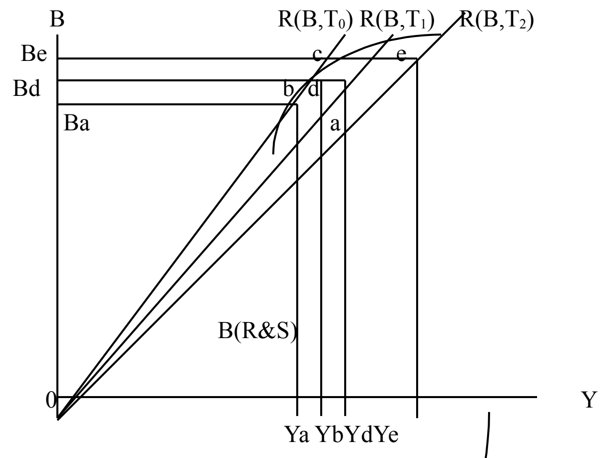
[22]. Among the caveats that should surround this conclusion, the most important one is perhaps linked to the fact that in the class of high-very high restrictive trade countries considered, together with Morocco and Tunisia the following countries are also included: Dominican Republic, Indonesia, Cameroon, India, Malawi.

[23]. The TRIPS Agreement includes also topics relating to agriculture: geographical indications (Arts. 22-24), patent protection of agricultural chemical products (Arts. 70.8 and 70.9) and plant variety protection (Art. 27.3(*b*)), involving the thorny issue of OGM (FAO, 2001*c*).




*Source*: De Benedictis (2003).

The argument by Nordhaus (1969) on the relationships among innovation, welfare and growth can be expressed by Fig. 2, in the terms employed in De Benedictis (2003). Investment in R&D on the horizontal axis produces for the firm a benefit B in form of cost reductions, according to a function B (R&D), exhibiting at first increasing and later on, in its last part, decreasing returns. Function R(B,T) traces the linear relationship between cost decreases and monopoly profits linked to a patent period length T. The firm maximizes the latter at a point, where the difference between R(B,T) and B(R&D) is the largest. Beyond the point *a*, where costs and benefits match, for a patent period T1 the benefit is Bd and the difference between the two functions is *bd*. Extending the patent length to T2 raises the net benefit of the intellectual property right protection to *ce*, with a gain, in our case, decreasing in T. From a welfare static standpoint an optimal patent duration will be found when the marginal benefit for the individual firm will be matched by the marginal social cost suffered by consumers, due to the patent protection.

Along these lines, at the international level, a number of recent papers maintain that the TRIPS agreement, by improving the shelter warranted to IPR, has increased the international monopoly degree of innovator countries, at the expense of follower countries and, in general, of world consumers[24]. As a result, the traditional North-South divide has worsened, with the interests of the former, producing innovations, and of the latter, imitating or purchasing them along with the final goods and services produced, that are distinct and

[24]. See, for instance, Deardorff (1992) and Panagariya (1999).

conflicting (Panagariya, 1999). Also Primo Braga and Fink (1999) argue that by heightening the degree of monopoly for the innovating north, the TRIPS rules transfer in its favour a part of the South consumer rent, reducing the worldwide welfare.

As a matter of consequence DCs would have an incentive not to implement the obligation to harmonize intellectual property rights protection to the WTO standards, following a free rider behaviour (De Benedictis, 2003). Yet, in the presence of non homogenous preferences between the two types of countries and limited resources in the North to invest in innovations, the South could produce some new products too, having therefore an interest to desert the free riding and to adhere to an IPR regime, in order to protect its own innovations (Diwan and Rodrik, 1991).

Further and more wide-ranging insights into the North-South re-distributive conflict can be obtained by dynamic models, focused not only on IPR protection, but also on trade, FDI and technological transfer relationships between innovating and imitating countries.

Employing dynamic general equilibrium frameworks Taylor (1994) and Helpman (1993) study the impact of IPR protection on growth and welfare of the countries involved in the world process of innovation and imitation. Nevertheless their conclusions as to the IPR protection impact are quite different. Indeed, their models can be considered as the most complete basic references for two opposite schools of thought concerning the TRIPS welfare improving merits. According to Taylor (1994), a poor protection produces a set of negative consequences, ranging from the reduction in the R&D and in the innovation activities to the fall of technological transfer, to a decrease in the world growth. By contrast Helpman (1993) shows that heightening the IPR defence for the South is welfare diminishing, worsening its terms of trade and its inter-temporal consumption allocation, owing to the higher prices charged on the North innovations. In the short run imitation by the South is hampered, whereas North profits increase, but in the long run the rate of innovation in the latter decreases following the use of its resources in goods that cannot be considered wholly new. Thus, TRIPS agreement while reducing the South welfare can also be harmful to the North[25].

More balanced results are obtained in Lai and Qiu (2003), where a multi-sectoral North-South trade model is presented, that is conducive to a globally welfare-improving equilibrium for both types of countries. Harmonization by the South to the pre-TRIPS North standards implies the following consequences: North profits increase and South consumers pay a higher price, but consumers both in North and South are better-off, thanks to a larger

[25]. On innovation and imitation in North-South models, see also Marenco (1992).

product variety. Thus, South's welfare decreases and North's welfare increases, while the global welfare of the two regions improves, by means of the inter-regional positive externality represented by a wider product variety for consumers of both regions. At the same time the South can have an incentive to enter into the contract of IPR harmonization, despite the prospective welfare loss, if the North agrees to liberalize its traditional goods market, in a framework of multi-issue negotiation, as in the case of the Doha Round.

The conclusion of this survey seems therefore to point to the argument that a tightening of the IPR protection can be welfare improving for DCs too, but in the presence of compensations obtained from the developed countries in form of a larger access to the North markets for the South exports.

The state of IPR patent protection in a number of SEMCs, for which an official review of legislation has been completed, can be found in the WTO website[26]. The products involved in the protection range, for instance, from agrochemical products and computer software to genetic engineering products and textiles for Morocco, from aircraft to pharmaceuticals for Turkey, and from audiovisual works to sound recordings for Israel[27].

As to the overall process of liberalization of services and investment in the relationship between the EU and the SEMCs, beginning in 2006 negotiations among the involved countries will start, in the more general framework of Barcelona Agreements aimed at boosting trade in the region. The official stance of the EU is to consider this preferential bargaining as a complement to ongoing negotiations within the WTO, but it is well possible that the initiative represents in a sense a reaction to diminishing expectations of real advancements in the sectoral liberalization of the Doha agenda. That is why the EU is eager to achieve results going well beyond the measures foreseen under the European Neighbourhood Policy (ENP). Considering that services represent around 60% of GDP in the SEMCs but that the North-South trade along the Mediterranean area accounts for only 3%, possible gains from a future regional agreement can be substantive. So far services exports from SEMCs to the EU concern above all tourism, but potential for adding new service flows in fields such as those of transport, energy, environmental protection is high (EC, 2005).

## 8. Trade liberalization and regional integration for the SEMCs

[26]. http://docsonline.wto.org/GEN_catalogViewAllBottom.asp?ct

[27]. For Egypt and Tunisia no file is available, whereas Algeria is not included in the list of countries for which the review of legislation was carried out.

Following the launch in 1995 of the Euromed project of Barcelona with the aim to establish a Euro-Mediterranean Free Trade Area by 2010, a number of bilateral free trade agreements between the SEMCs and the EU have been signed. The network of bilateral agreements is close to being finalized. Recently, Association Agreements with Algeria (April 2002) and Lebanon (June 2002) have been concluded. The EU-Jordan Agreement and the Interim EU-Lebanon Agreement entered into force respectively in May 2002 and in March 2003. A EU-Egypt Interim Agreement has come into force in 2004 and negotiations with Syria have led to an Association Agreement in 2003, with the commitment in 2004 to establish an Interim Agreement. Turkey has a Customs Union Agreement with the EU signed in 1995 and Cyprus and Malta have become Member of the EU in May 2004.

At the same time a process of sub-regional integration among the SEMCs themselves is taking place, in order to heighten the mutual trade and economic relationships, after the disappointing results achieved by more ambitious projects like the Union of Arab Maghreb countries. In general terms, indeed, the local level of economic integration within the SEMCs is quite low and there is room for expanding trade interactions among them[28]. One recent development along the South-South dimension concerns the initialling of the Agadir Agreement between Egypt, Jordan, Morocco and Tunisia in January 2003, an initiative launched in May 2001 with the goal to establish a regional free trade area. Moreover, negotiations are under way in order to set up a free trade area between Turkey and Egypt. The assumption on which the EU and the Mediterranean partners are working is that the sub-regional economic integration is not an obstacle, but a means to strengthen the Euromed Partnership, giving the latter a necessary South-South dimension. Nevertheless, the same could not probably be said for the worldwide economic integration fostered by the WTO or free trade agreements with important partners outside the Mediterranean region, as in the case of the free trade area between Morocco and the US. At least considering the agriculture side of the Euromed relationships, a general opening of markets thanks to a successful conclusion of the Doha negotiation could endangers the South-South integration, as well as the Euromed one. This in so far as the

[28]. A number of studies employing gravity models techniques identify in trade barriers, political uncertainties and over-appreciation of domestic currencies the factors explaining the low level of local trade within the SEMCs area. Intra-Maghreb trade is in particular lower than that of the Mashrek group, even though the dismantling of specific trade barriers with Israel could boost trade in the region. But of course, a low level of local trade suggests that the gains from enhanced economic integration along the South-South dimension could be quite large (Al-Atrash and Yousef, 2000; Blavy, 2001).

specificities of the regional and sub-regional integration experiences could be put in jeopardy by the provisions of a future WTO general agreement implying a new wave of liberalization.

The effects of the free trade Euromed agreements have been studied thoroughly by a recent literature, but with mixed results. According to some scholars they will be uncertain and limited in terms of results (Hugon, 2003*a*,*b*). For Morocco, for instance, simulations with a computable model of general equilibrium show that public finance and balance of payments will be worse off, implying the need to devalue the currency or to raise taxes or to receive more aid (Tapinos and Cogneau, 1994), with similar outcomes for other Mediterranean countries (Rutherford *et al.*, 1995; Charfi and Ghorbe, 1997). For others, SEMCs will face costs above all in terms of increased competition for the substitution industries and reduced fiscal revenues that could be in principle substantial, but will gain also sizeable benefits, with an improvement of static and dynamic efficiency, notably if the South partners will be able to manage deep supplementary reforms (Ghesquiere, 1998)[29]. Among the positive effects of a North-South free trade agreement like the Euromed one we find a reduction of uncertainty with stabilization of agent expectations, alongside possible increased attractiveness for foreign direct investments (Hugon, 2003*a*,*b*).

Also concerning in particular agricultural trade, a new wave of liberalization following a possible positive conclusion of the Doha negotiations will have to take into account the bilateral relationships linking the SEMCs with the EU in the framework of the Euro-Mediterranean economic integration. Indeed the case for agriculture free trade between the SEMCs and the EU is quite different from that involving manufactures. For non-agricultural products the EU has been already admitting for long the bulk of SEMCs goods in its market without any tariff and the Euromed Agreements will imply the dismantling of protection by the Mediterranean Partners. As a result, when free trade on the two sides of Mediterranean Sea will be achieved, trade diversion at the expense of the third countries will occur[30]. A lessening of protection towards the latter thank to a success of Doha Round

[29]. Concerning individual countries, Ghesquiere (1998) maintains that free trade for industrial products with the EU will be particularly beneficial for Tunisia (with gains eventually exceeding 4% of GDP) and for Morocco, while benefits for Eastern Mediterranean countries will be lower. At the same time Harrison *et al.* (1997) find a gain of 1-1.5% on GDP for the participation of Turkey to the customs union with the EU, while Rutherford *et al.* (1997) show that the EU-Morocco free trade area will increase Moroccan welfare by about 1.5%.

[30]. All this explains the efforts made by third countries to counter trade diversion by direct negotiations with the SEMCs, as in the case of the possible free trade agreement between Morocco and the US (Jaidi, 2003).

will reduce the diverted trade flows with potential benefits for countries outside the EU-SEMCs Agreements. Thus the sum of these factors points to an ever growing opening of the SEMCs economies.

Also for agricultural produce a similar outcome will take place, but with a remarkable difference. Even though the mid-term review of the Common Agricultural Policy (CAP) fostered by the Commissioner Fischler has recently been partially approved by Member countries, implying a decrease in trade distorting subsidies[31], the EU cannot conclude Doha negotiations with a complete removal of agricultural protection. The residual distortions linked to the CAP mechanisms will reduce the potential benefits for third countries in terms of lessened trade diversion. At the same time, the overall taking away of the agriculture protection by the SEMCs will foster their economic integration with the EU area, including them in a complex system based on CAP rules and interventions in face of the rest of the world.

The general framework of the North-South agriculture integration around the Mediterranean Sea is characterized by the presence of a MENA market worth more than US24 billion Dollars per year, in a context of vast growth opportunities, due to one of the most dynamic demography in the world (Charfi *et al.*, 2003).

Since the early 1990s the SEMCs have nevertheless been adopting a strategy of diversification both on the export and on the import side of agriculture trade, with market parts of the EU stagnating or decreasing. All this could put on a collision course the regional integration with the EU and the worldwide integration fostered by WTO with the Doha agenda.

Concerning the agriculture products exports, Turkey and Morocco, the two main exporting countries in the area, have for instance increased their selling to Anglo-Saxon countries, which presently absorb the third part of their total foreign transactions. The EU market accounts still for half of their sales, but with a reduced weight.

As for imports, the SEMCs have in the last years heightened their purchases from the Cairns countries at the expense of the US and of the EU, whose market parts have respectively declined or are stagnating.

As hinted, these developments could be challenged by the establishment of free trade conditions in the Euromed zone.

[31]. One of the main features of the ongoing CAP reform consists in decoupling the agriculture subsidies from production by linking them to surfaces and to rural development programs, without major trade distorting effects. Indeed, according to the OECD Policy Evaluation Matrix (PEM) area payments are "*relatively more income efficient and less trade distorting than market price support, payments based on output, or payments based on variable input use*" (OECD, 2000). See also WTO (2000*b*).

The increased competition engendered by the lifting of trade obstacles in the agriculture sector will be followed by trade creating effects within the future Euromed market, with loss of market parts for the less performing producers and subsequent restructuring of the supply sources in the area. The outcome of the forthcoming struggle for capturing the new trade opportunities will see winners and loser on both North and South sides, depending on the different competitive advantages enjoyed by the two parts (Roux, 2002).

EU suppliers can count on a number of strengths ranging from direct access to the single market and to the most advanced production and financial facilities, to the control of distributive channels. Moreover the CAP provides them a valuable protection in forms of quantitative restrictions on olive oil and fruit and vegetable import, direct subsidies to the olive oil production and an import calendar, stating the period in which the foreign purchases are allowed, *i.e.* in times when local production is lacking. On the opposite front, the SEMCs producers enjoy the advantages linked to favourable climate, fiscal and exchange rate conditions[32], besides the availability of a cheap workforce, with a cost of 4 euros per day in Tunisia for a working week of 48 hours, against 11 euros in France for a 35 hour week (Charfi *et al*., 2003).

The dismantling of all restrictions in the trade of agricultural products within the Euromed area implies different possible consequences, depending on the type of goods traded. For the typical Mediterranean produce such as olive oil, fruits and vegetables, fish and prepared food, the goods coming from the SEMCs will probably at least partially outperform the supplies provided by the EU Southern countries, Spain, Portugal, France, Italy and Greece, which are at present quite important. The 4 main SEMCs producers of Mediterranean specialities, Turkey with a 56% of its total supply, Morocco with a 22%, Israel (13%) and Tunisia (6%) can try to expand their sales thanks to the reduced costs of their industrial inputs in the aftermath of the complete opening of the manufacture Euromed market.

On the contrary, as far as the trade of basic agricultural commodities such as wheat, fats and oils, other vegetable products is concerned, the North-South technical gap can put in jeopardy the survival of many SEMCs producers[33]. Despite this, the restructuring of the South agricultural economies towards large size firms in order to exploit the reduced costs of the imported input following the dismantling of all obstacles to the manufacture trade within the Euromed zone, alongside with the local lower labour cost, can provide SEMCs producers with new tools in the North-South competition. In addition,

[32]. When local currencies are artificially strong, imports are fostered.

[33]. The productivity difference to the North advantage is, for instance, respectively 10 to 1 or 3.25 to 1 as to the production of crops per hectare or milk litres per animal (Charfi *et al.*, 2003).

specific cultural preferences can shelter local firms in a number of productions, notably reducing the potential import of meat and prepared foods (Domecq, 2003).

Considering all the foreseeable consequences of agricultural liberalization for the SEMCs, recent quantitative assessments stemming from calculable general equilibrium models point to a net gain for the South agriculture, with increased outputs ranging from 0.2 to 4 percentage points (see Tab. 6). In a wider context and taking into accounts also the non-agricultural trade liberalization, that will create new jobs in the sectors of textiles and manufactured goods, the South will suffer a slight loss in terms of GDP, but in the presence of higher wages and profits (see Tab. 7) (Yapaudijan-Thibaut, 2003).

Nevertheless these estimates could be quite different if the SEMCs decide to follow a line bringing to the extreme the logic of their integration with the EU, applying for joining the CAP. A sizeable advantage of this choice, if the EU accepted to extend at least partially the CAP provisions to the Mediterranean partners, would consist in mobilizing the resources, necessary to lessen the social costs produced by the wide restructuring of a sector that in the SEMCs employs 70 million people, often in dire conditions.

In a broader context SEMCs have to do a choice between multilateral and regional free trade, not in the sense that the two options are mutually exclusive[34], but deciding to negotiate multilateral trade liberalization alone, as an individual country, or to enter into the WTO bargaining as a member of a closer integrating group in the Euromed area, knowing that the most effective way of upgrading their economies lies in the regional economic integration with the EU (Tlemçani and Tahi, 2002).

*Tab. 6 – North-South liberalization of agricultural trade: output changes*

| | **Scenario 1 (pure competition)** | | **Scenario 2 (imperfect competition)** | |
|---|---|---|---|---|
| | North | South | North | South |
| Cereals, sugar | -1.06 | +1.48 | -2.04 | +2.06 |
| Vegetables | -0.39 | +0.38 | -1.35 | +1.01 |
| Breeding | -0.37 | -0.09 | -1.46 | +0.16 |

[34]. In general terms worldwide and regional economic integrations are linked by dialectical relationships: the latter is a channel trough which the former works, but at the same time is a means too to check it. In other words regional economic integration can be a tool for a (partial) management of globalization (Praussello, 2001).

| | | | | |
|---|---|---|---|---|
| products | | | | |
| Vegetable preparations | -0.34 | +3.33 | -1.57 | +4.33 |
| Meat preparations | -0.42 | +2.85 | -1.48 | +3.83 |

*Source*: Yapaudijan-Thibaut (2003).

*Tab. 7 – North-South liberalization of agricultural trade: GDP and input price changes*

| | North | South |
|---|---|---|
| GDP | +0.25 | -0.36 |
| Unskilled labour wage | +0.65 | +1.48 |
| Skilled labour wage | +0.57 | +0.32 |
| Price of capital | +0.42 | +1.53 |

*Source*: Yapaudijan-Thibaut (2003).

A first step in such an innovative policy would be for the SEMCs to make a coalition with the EU in the final part of the Doha negotiations, reaching a common position in future bargaining (Charfi *et al.*, 2003).

At the Euro-Mediterranean trade Ministerial Conference in July 2003 in Palermo progress towards this direction has been achieve, adopting the principle of a framework protocol for the liberalization of trade services common to all Euromed partners (EC, 2003), to which the decision has recently been added to start negotiations between the two parts in 2006 (EC, 2005).

## 9. Final remarks

The compromise struck at the Hong Kong Ministerial meeting in December 2005 has maintained nominally alive the Doha Round, but was unsuccessful in removing the stumbling block that has so far impeded the Doha development agenda to merit its epithet.

Indeed the rebalancing of negotiations beyond the limits of the "*agriculture for services and manufacturing deal*", on which they are based, has not been achieved and concessions for DCs in terms of freer access to advanced countries' markets, freer migration flows, strengthened aid for reducing gaps in infrastructure and upgrading product quality as well marketing opportunities for them have not yet materialized.

In addition, the longstanding bargaining North-South divide has not yet bridged, with DCs facing tariffs still four times higher than those practised in North-North trade and damaged by farm subsidies applied by Northern government, and the developed countries asking a WTO investment agreement, opening in DCs sectors such as banking and insurance, despite the near-unanimous opposition of Southern governments (Watkins, 2003).

Against this background, the SEMCs have to decide possibly a common strategy, aimed at sheltering their interests in the final stage of Doha negotiations. Trade liberalization in agriculture, manufacture and service sectors could bring them substantial benefits, provided the growth dimension for DCs in the final WTO bargaining is given the necessary role, while setting up jointly safety nets at home for protecting the poor households from the shock induced by liberalization policies.

At the same time they have an advantage to balance the overall multilateral trade liberalization within the WTO system with the need to foster their regional economic integration both among them and with the EU in the context of Euromed agreements. Following this line, for them a possible policy improving their bargaining power could consist in entering into the ongoing trade final negotiations as a member of a closer integrating group in the Euromed area, and setting up in a first stage a coalition with the EU in the final part of the Doha negotiations, beginning with a common position in the first crucial months of 2006, where preferential ties between the EU and the Mediterranean countries could be strengthened by a possible accord in the field of services and investment.

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