Research Paper

 Publisher: University of Tehran

Cite this article as: Sabbaghian, A., & Singh, R. (2024). The Role of EU in Distortion of Trade in the Southern Shores of the Mediterranean Sea. *Journal of World Sociopolitical Studies*, *8*(1), pp. 1-31. https://doi.org/10.22059/wsps.2024.371105.1406

The Role of EU in Distortion of Trade in the Southern Shores of the Mediterranean Sea*

Ali Sabbaghian,[1] Rajdeep Singh[2]

1. Assistant Professor of Regional Studies, University of Tehran, Tehran, Iran. (sabbaghian@ut.ac.ir) 0000-0002-4505-2133
2. PhD Student of European Studies, University of Tehran, Tehran, Iran (Corresponding Author) (rajdeep.singh@ut.ac.ir) 0000-0003-1218-134X

(Received: Aug. 08, 2023 Revised: Oct. 12, 2023 Accepted: Nov. 01, 2023)

Abstract

Despite EU's engagement with the Mediterranean region and its active support for intra-regional integration initiatives, the data shows an impressive underperformance of Southern and Eastern Mediterranean Countries (SEMCs) in regional trade. Ideally, an energy rich North Africa and energy deficient neighbors in the South would unlock considerable opportunities for regional trade. Therefore, the following question looms large: How has EU's trade policy contributed to the low market integration among the SEMCs? To answer this question, under the Market Power Europe and qualitative methodology, it is hypothesized that EU's externalization of policies through different embedded tools such as rules of origin and outward processing schemes (OPS) has contributed to the divergence, instead of convergence, of trade among SEMCs. Research findings point to a distortion of competition between EU enterprises and African and third party enterprises in the benefit of European interests. Further, the results reveal that despite the higher complementarity between some of the SEMCs, still the predominant direction of trade is north-south, thanks to EU's trade policy in the Mediterranean region.

Keywords: Competition, Euro-Mediterranean Relations, Neo-Colonialism, Rules of Origin, Trade Policy

* The authors have no affiliation with any organization with a direct or indirect financial interest in the subject matter discussed in this manuscript.

Journal of **World Sociopolitical Studies**| Vol. 8| No. 1| Winter 2024| pp. 1-31
Web Page: https://wsps.ut.ac.ir//Email: wsps@ut.ac.ir
eISSN: 2588-3127 PrintISSN: 2588-3119

Journal of WORLD SOCIOPOLITICAL STUDIES | Vol. 8 | No. 1 | Winter 2024

1. Introduction

EU is the most important trade partner of the majority of the Southern and Eastern Mediterranean Countries (SEMCs). EU's engagement with the Mediterranean region through different free trade arrangements (EFTAs), as well as EU's active support for intra-regional integration initiatives such as the Agadir Agreement underpins the European discourse of solidarity with the South, fair trade and competition, and regional integration. Therefore, decades after EFTAs and EU's fair trade discourse, the expectations have been high as to the degree of Mediterranean integration as well as South-South cooperation among SEMCs and their neighbors in the Sahara and sub-Saharan Africa. However, decades after the launch of the Euro-Mediterranean Partnership and EFTAs, the intra-regional trade has remained low. Looking at raw data, it is surprising that the intra-trade among SEMCs has recently hovered around under 10% for over a decade. Moreover, compared to the rest of the world, the Middle East and North Africa remain at the bottom in terms of regional trade. Though most of SEMCs are rich in oil and gas, they suffer from a low energy trade with the rest of energy-hungry Africa. In fact, Africa remains the most energy-deficient continent in the world, as it alone constitutes 75% of the world's population without access to electricity. Energy is a significant impediment to economic development in Africa. In 2022, roughly half of the continent's population suffered from poverty associated with lack of energy access, since The continent consumes a disproportionately low amount, under 6%, of global energy despite hosting 18% of the world's population (Baskaran & Coste, 2024). According to the IMF estimates, intra-African trade grew meagerly from 11in% in 2000 to 15% in 2019, while the EU as export destination, topped 33% as of 2019 (ElGanainy et al., 2023, p. 7). Intra-trade among SEMCs is further pulled down by regional tariff and non-tariff barriers, with weighted values around 5 and 21% respectively as of 2019 (ElGanainy et al., 2023, pp. 9-10). While the trade in services is around 25% in the EU, the Arab Maghreb Union, consisting of SEMCs, fares badly with only 10% intra-regional trade in services. IMF data further claims that the low intra-regional trade among SEMCs as SEMCs intra-regional trade in goods (non-commodity) barely touches 39%, while the EU enjoys 58% intra-regional trade in goods. The IMF 2023 report further highlights the fragmented trade policy landscape in SEMCs as partly to blame for such low intra-regional and intra-African trade integration (ElGanainy et al., 2023, p. 5). In fact, The EU, incorporating the former colonizing countries, remains the main export and import partner of North Africa as well as Africa as a whole. While Algeria is rich in gas, her southern neighbors face repetitive power cuts and load shedding. furthermore, following independence in the 1960s, Africa has seen a number of regional economic communities (RECs), to the extent that every African country, including SEMCs, is a member of at least one such grouping. Based on the above-mentioned discussion, the main research question addressed in this study is: How has EU's trade policy contributed to the low market integration among the SEMCs? To answer the above question, it is hypothesized that EU's externalization of policies through different embedded tools, such as rules of origin and outward processing schemes (OPS), has contributed to the divergence, instead of convergence, of trade among SEMCs.

2. Literature Review

An expanding body of academic literature has focused on EU's Mediterranean policy. Topics such as neo-imperialism in the Mediterranean region and trade relations under the framework of borderlands are among the most investigated ones. In "Trade, security and neoliberal politics: whither Arab reform? Evidence from the Moroccan case," the authors investigate the link between market reform and eventual political liberalization in the Mediterranean region, and Morocco in particular. It is concluded that Democracy promotion in the Middle East and North Africa has become post 9/11 through market-led reforms, and good governance has made democratization a highly depoliticized issue, while standardized packages of reform and projects of economic liberalization mostly reflect the existing political power structures and the established political configurations (Zemni & Bogaert, 2009). In "Trade Integration and Revealed Comparative Advantages of Sub-Saharan Africa and Middle East and North Africa Merchandize Export," the potential for trade integration between Sub-Saharan Africa, North Africa and the Middle East is investigated. It is argued that sub-Saharan Africa enjoys comparative advantage in ores, metals, fuels, food, and agricultural raw materials, while North Africa and the Middle East enjoy an abundance of cheap energy resources. Taking into account the population growth in sub-Saharan Africa, the author concludes that that the two regions have enormous potential for trade and investment integration (Beyene, 2017). In "Lagging behind? German Foreign Direct Investment in Africa," the pattern of German Foreign Direct Investment (FDI) in North Africa and the overall African region, as well as the reasons for lagging behind France, and the effect of recent initiatives such as the investment

Journal of WORLD SOCIOPOLITICAL STUDIES | Vol. 8 | No. 1 | winter 2024

guarantees, “German Desks” and “AfricaConnect” are investigated. The results indicate that investment guarantees in particular have helped to overcome the negative effects of political risks, such as low institutional quality and corruption, partially compensating for poorer institutions and low legal protection of assets (Glitsch et al., 2020). In “Imperialisms past and present in EU economic relations with North Africa: Assessing the Deep and Comprehensive Free Trade Agreements”, Langan and Price look into trade relationship between the EU and Southern Mediterranean states, analyzing the pursuit of Deep and Comprehensive Free Trade Agreements (DCFTAs) as part of EU’s trade and aid relations with former colonies in North Africa. It is argued that the EU is cementing colonial-style patterns of production via trade and aid arrangements, in which EU elites are replicating the colonial-era discourse (Eurafrica), the alleged economic ‘complementarity,’ and inevitable ‘interdependence’ of the European and African continents through the pursuit of DCFTAs (Langan & Price, 2020). In “The potential for internal trade and regional integration in Africa,” Geda and Seid investigate the potential for intra-Africa trade and the prospects of advancing regional economic integration through such trade. While their different empirical methods point to a bright spot for significant intra-regional trade potential, some important obstacles were identified, including lack of complementarities in some sectors and importantly the relative competitive position of African potential export suppliers. The authors conclude that there is a real export supply constraint that characterizes the African export trade, of which a broken supply chain is the imminent result (Geda & Seid, 2015). In the book *Borderlands: Europe and the Mediterranean Middle East,* Del Sarto (2021) investigates the EU relations with its southern neighbors through the lens of borderlands, in which the southern neighbors have become a peripheral and hybrid area of transition. By focusing on EU policies towards North Africa and the Middle East, Del Sarto turns the spotlight on transformation of the Southern Mediterranean into EU borderlands by co-opting the political and economic elites of North Africa and the Middle East into specific modes of EU governance**.** Del Sarto concludes that the EU shapes a differentiated pattern of cooperation in the fields of trade, energy and infrastructure with the Southern neighbors, expanding EU rules and legal frameworks into its periphery, which in turn gives the EU the capacity to control the region (Del Sarto, 2021, p. 205).

While the review of the literature shows that there is an acknowledgment regarding the lack of intra-trade among the Southern Mediterranean shores, there is a clear gap with regard to the role that the EU plays in this matter. Therefore, we believe our study will bridge the gap, shedding light on the mechanisms through which the EU effectively shapes its Southern neighbors trade policy, mirroring EU's political endeavors to manage its neighborhood.

3. Conceptual Framework and Methodology

Since the 1970s, significant scholarly attention has been given on the nature of the EU, i.e. what it is and what it does. Considering its unique characteristics, i.e. lack of military force and coherent military policy, the power of European Union has been theorized in terms of softer dimensions such as normative and market power. While Normative Power Europe (NPE) has been used and applied to different cases, the market dimension of EU power is another important theory that shares one important understanding of the EU with the NPE. The NPE contests the understanding of the EU as a power in terms of military or civilian power, while it regards the international role of the EU as "not what it does or what it says, but what it is" (Manners, 2002, p. 252). MPE, in line with Normative Power Europe (NPE) looks at the EU from an ontological perspective; i.e., MPE theorizes that the EU, with its very own unique features, possesses power and exercises its power in both voluntarily and accidentally manners. Therefore, the power of the EU is largely hinged upon its very existence or identity (what it is), rather than the strategies it employs or actions it commits. In other words, the EU is conceptualized as an actor not based on its hard power, but its ability to promote its policies abroad in the so-called externalization process, which can be done without any clear direction and willingness from the EU, but rather brought about by its identity as the largest market. Therefore, MPE conceptualizes the EU as what it essentially is, a market. MPE is a non-state-centric theory, i.e. it takes into account both EU's internal non-state actors, such as different industrial lobby groups as well as EU member states.

The internal dynamics of the EU decision-making process has a bearing on the outcomes and therefore the influence of the EU on other actors. MPE, first formulated by Damro, rests upon the assumption that three factors are into play to understanding what the EU is and how it promotes, voluntarily or non-voluntarily, and externalizes its policies. These factors are as follows: 1) EU single market; 2) institutional features of the EU; 3) contestation of interest groups (Damro, 2012). While MPE recognizes the variation of different EU institutions involved in each and every policy, it also argues that the EU, by the very referral of competences bestowed upon by member states, has both regulatory expertise and sanctioning authority towards third parties. Hence, once the internal dynamic of policy-making in the EU is triggered and a policy is out, the EU is entrusted to monitor and promote the adopted policy as a single and coherent actor. The entire range of positive or negative conditionality, that the EU exercises through its varied pacts, such as Free Trade Association (FTA) agreements and EU neighborhood policies, rests upon the "actorness" of the EU to monitor and protect the EU single market regulations and standards. Again, the EU as a single market is also responsible to intervene to stop the monopoly and negative externalities out of market failure. Therefore, the EU is both a market enabler, and an actor in charge of combatting market failure and negative externalities through adopting a range of socio-environmental policies. Finally, according to MPE interest groups, whether private or public, internal or external, participate in EU policy-making in different institutional settings and this contestation of different lobby groups pushes for the externalization of EU policies. In other words, interest groups active in international market or with an interest to compete internationally will push the EU not to restrict them with EU regulations, but to externalize such regulations, so that they will enjoy the first mover advantage in external markets. To summarize, MPE considers that EU's market size, institutional features and interest group contestation internally are the independent variable, while the externalization of EU policies is the dependent variable.

This study is a qualitative research taking into account both research objectives and research method. In fact, due to the novelty of theoretical framework, EU Market Power, and the dearth of data on EU's dealings with former colonies in the southern Mediterranean shores, a qualitative method was deemed suitable.

Thus, different data sets from both EU documents as well as North African authorities were compared and analyzed. In fact, through the analysis of a variety of statistical reports, issued by both the European Union and North African authorities, raw data were collected and analyzed. The data were supplemented by secondary data from a wide range of sources, including government reports and media coverage to extend contextual understanding. The qualitative analysis of rules of origin in the case of EU GSP and EU-North African countries further sheds light on EU's hidden arrangement and agenda in its dealings with her members' former colonies in the South.

4. EU and Its Instruments of Influence

Through its large single market, the EU has the capacities to set standards and regulations. Such capabilities in terms of conferral of competences derive directly from the founding EU treaties. The conferral implies that EU member states voluntarily cease to impose their own state powers in a special policy arena, transferring it to a supranational political unit in order to pool their resources and capabilities (Huhta, 2021); such gain in strength and influence represents the modus operandi of EU policy-making, where no state could achieve it on its own. Therefore, the EU as a Market Power Europe is bestowed upon itself the competencies in order to come up with policies, adopted after extensive stocks-taking of different agents, both private and public, through different institutional settings, wherein the EU commission acts as an essential component. After adopting policies, the EU is in charge to protect and monitor the single market regulations and to externalize its regulations through varied international agreements with third parties. The decisions adopted by the EU, therefore, have supranational character, safeguard common interest of all members and are applied equally by all EU member states. Regarding the competences, important distinctions have been made in the Treaty on the Functioning of the EU (TFEU), where it was amended after the adoption of the Lisbon treaty with a non-exhaustive list for each type of competence conferred: 1) exclusive, where the Union is entitled to legislate on its own alone; 2) shared, where the EU and its members may both adopt binding acts, although states will lose their authority to exercise their competences once the Union decides to initiate to regulate on the subject matter; 3) supporting, where the Union intervenes only to strengthen, harmonize (coordinate), and complement the action of the member states (Huhta, 2021).

According to the TFEU, the Union shall have exclusive competence in the following areas: (a) customs union; (b) establishing of the competition rules necessary for the functioning of the internal market; (c) monetary policy for the Member States whose currency is the euro; (d) conservation of marine biological resources under the common fisheries policy; (e) common commercial policy (Koivurova et al., 2012, pp. 364-365). Furthermore, the EU shall also have exclusive competence to conclude an international agreement in case its conclusion is part of a legislative act of the Union, is necessary to exercise its internal competence, or in so far as its conclusion may affect common rules or alter their scope. TFEU also lists shared competences such as internal market, social policy, economic, social and territorial cohesion, agriculture and fisheries, excluding the conservation of marine biological resources, environment, consumer protection, transport, trans-European networks, energy, area of freedom, security and justice, and common safety concerns in public health matters (Koivurova et al., 2012, pp. 364-365). Nevertheless, there are areas where states feel uncomfortable to share their competences with a supranational EU and prefer not to confer their competences in its stead, such as security and defense area. Competences are further divided into explicit and implied ones. While the explicit competences are directly derived from EU treaties (and ordinary legislative procedure), the implied competences result from the activity of the Court of Justice of the European Union (CJEU). In other words, the verdict or case law issued by the CJEU on its own becomes a reference for policy making in what is known as the principle of parallelism, and many of the activities of the ECJ a posteriori will be incorporated in EU treaties through treaty amendments (Konstadinides, 2014).

Two key principles arise from the CJEU's case law those of parallelism and necessity. The principle of parallelism stems from ERTA, concerning a dispute between the Commission and Council over the negotiation of an international road transport agreement in the absence of an explicit Treaty provision on external competence, where the CJEU pointed out that that the Treaty's internal provisions (in foro interno) legitimized EU external action in the same field (in foro externo) (Konstadinides, 2014, p. 6). Furthermore, any unilateral in such external action was preempted (the doctrine of pre-emption), since such unilateral external agreement would not only jeopardize EU internal competences, but would also be detrimental to the unity of the common market and the uniform application of EU law and that once the EU enters into international agreements whether by conferment or treaty provisions, such power becomes exclusive, implying external competence as in Article 3 (2) TFEU (Konstadinides, 2014, p. 6).

In other words, in foro interno in foro externo means the internal policy setting of the EU would translate into the power to do so externally. Therefore, by setting policies internally, the EU is imposing its internal will on third parties as well. The type of competences conferred depends on the legal basis (the most relevant for the case) and more competences can be called upon once it is impossible to invoke one competence.

5. EU's Influence on the Trade Front in the Mediterranean Region

While the economic ties between the EEC (European Economic Community, predecessor of the EU) and the southern Mediterranean region dates back to late 60s with bilateral agreement between the EEC and Tunisia and Morocco, although limited in scope for a five-year period, there has been an upward trend toward the institutionalization of the trade between the two shores of the Mediterranean Sea. In fact, The EEC launched the Global Mediterranean Policy in early 70s to inject coherence into its Mediterranean approach, with the inevitable differentiated treatment of Mediterranean Partners (MPs) due to heterogeneity of the 17 Mediterranean countries involved, in which the conclusion of 'cooperation agreements' —an encompassing trade, and economic development scheme— with preferential access and economic aid through protocols on financial and technical cooperation were the main outcome (Wouters & Ovádek, 2020, p. 113).

Succeeding in creating a genuine internal market in the 90s prompted the EU to launch an ambitious approach to the southern shores of the Mediterranean Sea, dubbed Euro-Mediterranean

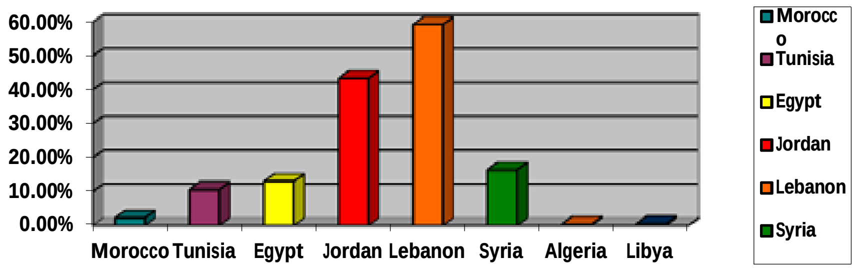
Partnership (EMP), which came in 1995 in the form of the Barcelona Declaration, and has framed the overall Euro-Mediterranean relations ever since. In fact, even when France attempted to establish a Mediterranean Union, which led to the establishment of Union for Mediterranean (UfM), the latter remained as part of, not in break with, the Barcelona Process. Although the EMP comprised an all-encompassing agenda, with the associated social, human and cultural values, it was the trade dimension that was targeted as its essential function. While the Barcelona Declaration itself was non-binding, the accompanying association agreements (AAs) are binding and enforced until today.

Thus, the EU has been pursuing, through Euro-Mediterranean Partnership in the 90s and later extension of European Neighborhood Policy (ENP) to the South, the externalization of its economic and trade policies. In fact, as part of the implementation of the Barcelona Process and the ENP, the EU signed Association Agreements (AA) with 8 SEMC (all but Libya and Syria) in the 1990s and 2000s; similar to other AAs with Eastern partners, the Euro-Med ones include political, institutional, economic and trade provisions (Dabrowski, 2014, p. 56). AAs are FTAs initially limited to tariff reduction (not always their complete elimination), the elimination of import quotas for industrial goods and the protection of intellectual, industrial and commercial property rights, but upgraded in the 2000s with respect to agriculture trade and trade in services by signing additional protocols (Dabrowski, 2014, p. 56). One of the stated goals of AAs was to liberalize intra-regional trade among the SEMC. Through the Barcelona Process, the EU envisaged a large and comprehensive free trade area along the Mediterranean basin based on bilateral AAs along with “a deepening of South-South integration … South-South integration has been similarly protracted, with the much anticipated Agadir Agreement only coming into force in 2007" (Behr, 2010, p. 49). An important aspect of the Euro-Mediterranean Partnership, the EU in fact has pushed the AAs to include ever-more expanding EU internal market policies, from initially modest gradual liberalization of industrial products over a transition period of up to 12 years, moving to commitments on agricultural products and services, to further deeper integration and included, amongst others, provisions on regulatory issues, competition, intellectual property rights and public procurement, although not fully binding for the PMs (Behr, 2010, p. 46).

5.1. Intra-Regional Trade among SEMCs

The EU, moreover, promotes intra-regional integration and thus welcomed the Agadir Agreement. The Agadir Agreement is a preferential trade agreement that was signed on February 25, 2004 between Morocco, Tunisia, Egypt, and Jordan. According to the Agadir Technical Unit (ATU), the AA aims i) to create a free trade area in accordance with the provisions of the General Agreement on Tariffs and Trade; ii) to coordinate sector-specific policies of the four participant countries, especially in foreign trade, agriculture, industry, and services, and iii) to approximate their legislation in these areas in order to foster their economic integration (Kourtelis, 2021). However, despite such EU emphasis on intra-regional trade integration and the Agadir Agreement, the intra-trade (South-South) volume has remained low compared to the trans-Mediterranean (South-North) trade (see Figure1).

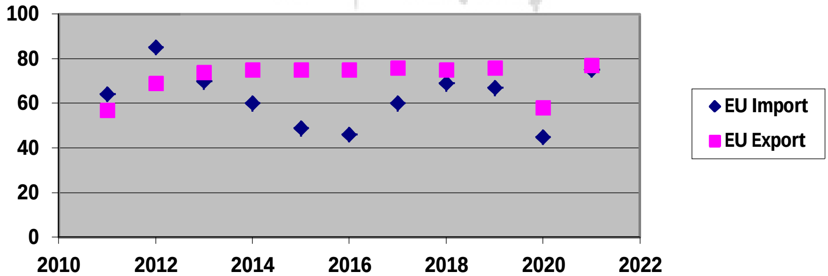
Figure1. Share of Intra-Region Intermediate Trade Exports in the Middle East and North Africa in 2020



Source: Statista, 2023

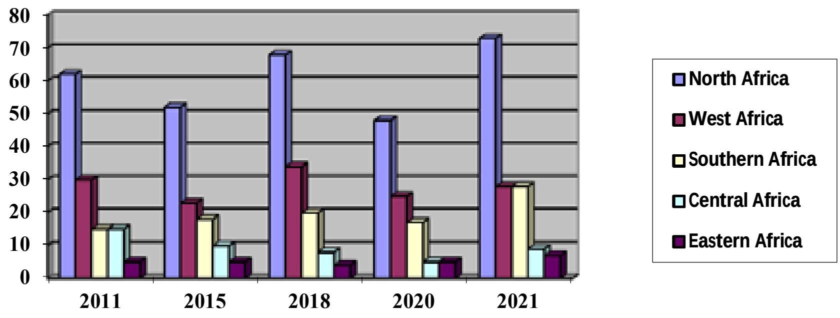
Such weak intra-trade share among the SIMCs stands in sharp contrast with EU-SIMCs trade. For example, Algeria and Morocco are the EU's 19th and 21st biggest trade partners, both representing each 1% of the EU's total trade in goods in 2022, the EU is the largest trade partner for both of them, accounting for the majority their international trade (around 50% in 2021) (European Commission, 2023a; European Commission, 2023b). The overall trade among the EU and North Africa is illustrated in Figure 2, and as shown in Figure 3, North Africa has the largest amount of trade with the EU compared to other regions.

Figure 2. EU Import and Export to North African Countries 2011-2021 (billion Euros)



Source: Authors' Calculation Based on Eurostat, 2023

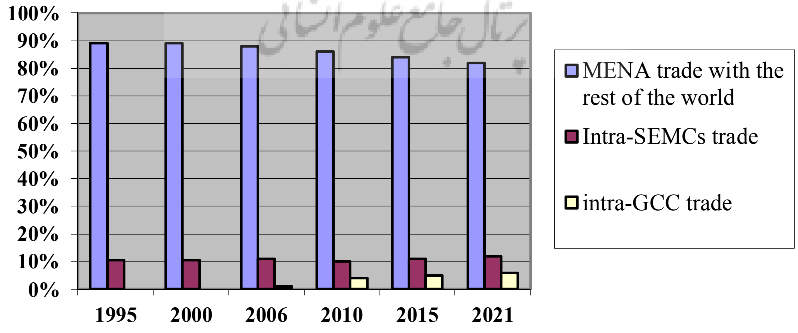
Figure 3. EU Import of Goods from Different Regions in Africa in 2021



Source: Eurostat, 2023

Intraregional trade is low among SEMCs and wider Middle-East and North African region, despite a common language and culture as well as geographic proximity and trade agreements such as Agadir Agreement. Interestingly, intra-trade among SEMCs is even lower, taking into account that the six oil-exporting Gulf Cooperation Council (GCC) nations account for the big chunk of intraregional trade (see Figure 4).

Figure 4. Comparison of Intra-Trade and Extra-Trade in the GCC and SEMCS (Percentage of Total Trade)



Source: Saidi & Prasad, 2023, p. 44

5.2. EU Trade Policy and Distorted Intra-Regional Trade among SEMCs

The problem can be analyzed in view of Association Agreements established with the EU under the Barcelona Process, further reinforced by ENP and UfM. The goals of further EU-Mediterranean integration on the model of the EU internal market was further reinforced through ENP, as it was based on existing AAs and the newly established Joint Action Plans aiming at deepening integration by supporting economic and political reforms in the MPs and promoting regulatory cooperation with the EU, promoting measures such as the progressive liberalization of trade in agriculture; the progressive liberalization of trade in services; the adoption of the Pan-Euro-Med protocol on the cumulation of origin; and greater regulatory cooperation through the negotiation of Conformity Assessment and Acceptance Agreements (ACAAs) (Behr, 2010, p. 48).

Although the AAs have undergone periods of expansion and transition, there are some basic characteristics preserved since the establishment of AAs. One important feature of these AAs is the rules of origin. The rules of origin defined by AAs state a general change of tariff heading rule; however, annexes specify, for listed products, requirements other than change in tariff classification, i.e. the value-added criterion is rarely applied, while the specific requirements listed in the annexes mainly define extensive technical requirements, mostly overstretching to over hundred pages (Brenton & Manchin, 2003). In fact, rules of origin are the protectionism stratagem in disguise, implicating trade diversion by inducing a switch in demand in free trade partners from low-cost external inputs to higher-cost partner inputs (Krishna & Kruger, 1995, pp. 27-31). The highly technical requirements under the rules of origin in AAs is further compounded by the high cost associated with proving origin, the extent that for many small and medium enterprises in the MPs proving the origin will impose unbearable additional costs, thus the choice of most favored nation (MFN) duties would be preferred in many cases.

Such costs include the ones associated with a number of administrative procedures in order to provide the documentation that is required and the ones associated with maintaining a sophisticated network of suppliers' data and EU-compatible accounting system. As a consequence, companied in the upstream portion of supply-chain, low-tech, labor-intensive ones in particular, in the EU internal market would not incur market loss due to AAs with MPS. In fact, the rules of origin and the costs of origin lead many small companies in MPs to engage in outward processing traffic (OPT), through which EU firms will be relieved of import duties by processing overseas in the Mediterranean partner countries on the compensating value of imports after processing abroad (Brenton & Manchin, 2003, p. 16).

5.2.1. Rules of Origin

While supporting regional integration in both North Africa as well as sub-Saharan Africa on the rhetorical level, the EU presents its market as the main instrument to shape and form an EU-dependent supply chains in SEMCs. Presenting the EU-access as reward for SEMCs, the EU shapes their trade policy according to its own supply chains and interests. It results in a bizarre situation: a harsh competition among SEMCs in order to accede to the EU market. Not only does the EU abstain from any flexibility in its rules of origin, it outright denied negotiating such rules in multiple occasions, with Cyprus mostly playing the intermediary (Pedi & Kouskouvelis, 2019). Origin requirements for preferential treatment prevent producers in the SEMCs from using the most competitively priced inputs from third markets. In other words, rules of origin restrict significantly with whom and which products SMEs can use to minimize the level of production costs. In fact, EU internal stakeholders such as the consulted European Federations representing agricultural and industrial interests are opposed to a shift from product specific origin requirements to the value-added criterion in the origin-determining criteria as a method to evaluate sufficient processing across the board for most products. What SMEs in the SEMCs face is a tremendous paper work for the proof of origin are based on a change of tariff heading, a maximum allowance of non-originating materials and specific processing requirements.

Interestingly, the EU finally reformed the rules of origin in 2011, but only for GSP partners, and in particular for the Least Developed Countries (LSD). The reformed measures are: i) relaxation of product-specific origin, with more lenient treatment for LDCs than developing beneficiary countries; ii) slight relaxation of the tolerance rule for agricultural products in terms of the weight and for manufacture products in terms of the ex-works price; iii) the system of registered exporters and self-certification (Tanaka, 2020, p. 9). Table 1 shows the differences between the reformed rules of origin for EU GSP and the Euro-Mediterranean regime.

Table 1. Comparison of Reformed Rules of Origin under EU GSP and the Current Euro-Mediterranean Regime.

Origin requirements	Reformed Rules of Origin under EU GSP	Euro-Mediterranean regime
Processing Stage	Single Stage	Two Stages
Use of imported materials from third countries	Not allowed	Allowed conditionally
Tolerance rule	Strict	Relaxed
Product-specific requirements	Strict	Relaxed
the system of registered exporters and self-certification	Not introduced	introduced

Source: Authors' Adaptation from Tanaka, 2020, p. 38

Regarding the difference between the two, the evidence support that simplification of rules of origin in the case of EU GSP has had tremendous impact, resulting for example of a jump in garment exports from Cambodia to EU markets by 112% after the introduction of new origin requirements regime with sharp increase import from China and inward FDI in garment industry (Tanaka, 2020).

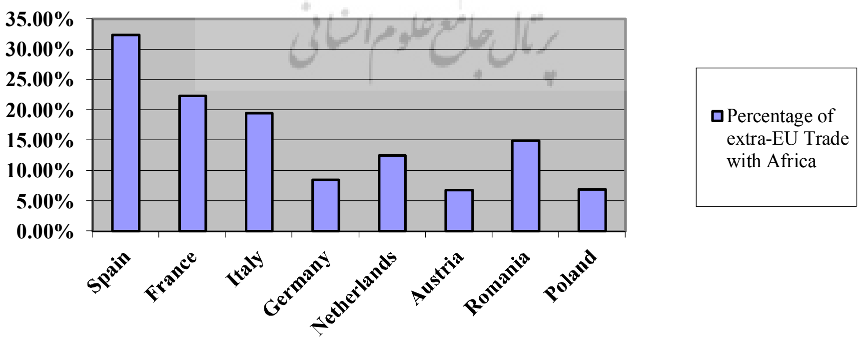
Such strict EU rules of origin effectively prevent intra-regional trade among SEMCs as the arbitrator of rules of origin happens to be the EU itself. While the EU on the paper should refrain from any abuse of power in its trade policy, the reality on the ground in the EU customs shows that the regulatory burden is on SEMCs to show the originality of their products (Draper, 2007). Considering the inter-penetrative nature of supply chain, with different stages of production located in different countries and undertaken by different firms, such strict rules effectively prevent SEMCs from forging closer inter and intra-regional trade with Africa as well as the rest of the world. Fear of losing a wealthy market, such as the EU leave SEMCs with no option but to integrate in the EU market as the primary exporter of raw materials and importer of expensive EU semi-manufactured goods.

The EU safeguards its industries from the formation of an efficient supply chain in the south, and has opposed any change in the origins requirements. Thus, the EU's reform produced substantial impacts on trade and FDI in Cambodia. However, even in case of GSP countries, the EU can unilaterally suspend the preferential trade for specific product categories that i) are deemed to have become sufficiently competitive or ii) are deemed to have caused serious economic difficulties for an industry (European Commission, 2023c).

Moreover, the EU has been successful to externalize its rules of origin to MPs, even in their own bilateral trade among themselves through Agadir Agreement. An interesting feature of EU's rules of origin is the diagonal cumulation. The pan-Euro-Mediterranean cumulation system of origin was created in 2005, and as the EU's Europa trade portal stresses, brings together the EU and other partners in Europe and the Mediterranean to further the integrative efforts through creating a common system of rules of origin where a product coming from one partner country can be treated and processed in a second partner country and still be considered an 'originating product' of that second partner country for the purposes of benefitting from reduction in tariffs under the trade agreement (European Commission, 2023). The pan-Euro-

Mediterranean cumulation system of origin is incorporated into the Agadir Agreement, encouraging the use of materials and processing between the members of the Agadir partners and the EU. By exporting cumulation system of origin into regional agreements such as the Agadir Agreement, the EU effectively links and subordinates the regional agreements such as Agadir Agreement to the Association Agreements between the EU and SEMCs. Moreover, the cost and complexity of proving the origin skew the sub-ordinated regional trade towards the South-North direction, a process that is encouraged by the eager EU countries for outward processing to the Southern shores of the Mediterranean Sea. In the view of the lower efficiency and higher labor costs of Southern EU companies, French and Italian companies benefit heavily from the fact that other competitors, China and India in partner, will be put at a disadvantage in the North African market thanks to the biased rules of origin makes, favoring EU input over external one. In fact, Mediterranean EU members have the highest trade among all EU members with Africa (see Figure 5).

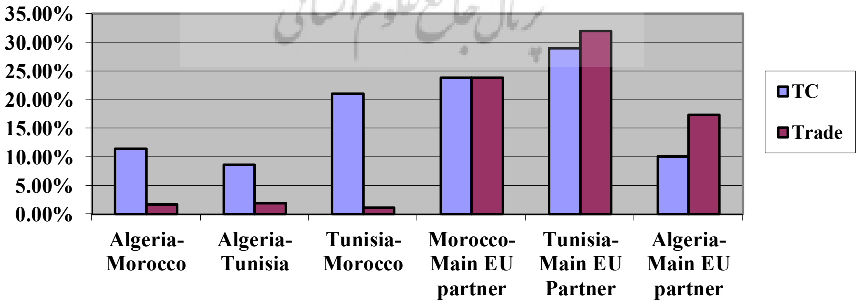
Figure 5. Percentage of Trade Volume by Different EU Members with African Continent of Overall Extra-EU Trade in 2021



Source: Authors' Calculation Based on Eurostat, 2023

Furthermore, the proof of rules of origin would pose a big challenge to Small and Medium-Sized Enterprises (SMEs) interested to collaborate with other African enterprises in order to lower the costs and become more competitive. Thus, not only is the EU imposing its own rules of origin to the MPs, it has also distorted the competition, preventing the creation of a more efficient regional supply-chain. Distorting the competition and prevention of the formation of efficient supply-chain through the region is more discernible when we look into the high complementarity among SEMCs as well as the wider Africa. In other words, low intra-trade among MPs occurs despite many of the MPs having high trade complementarity, as shown in Figure 6. For example, Algeria scores higher in trade complementarity index with Mauritania and Morocco than with Italy, its main export partner, and in case of Morocco and Tunisia, complementarity between them offers much higher potential for bilateral trade than the observed current low trade.

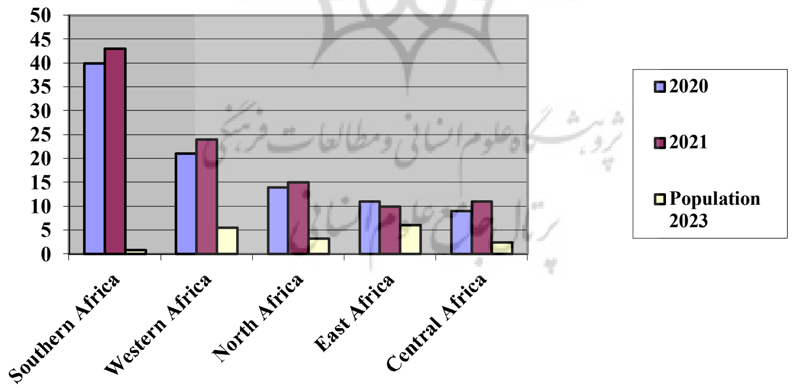
Figure 6. Trade Complementarity Index among MPs in 2016 (TC: Trade Complementarity)



Source: Kireyev et al., 2019, p. 24

Clearly, the European enterprises, French and Italian in particular, are benefitting significantly from rules of origin, as the latter makes the import of raw material from the EU much more economically viable than importing raw material from other African countries. This is despite the fact that a more integrated trade regime among the wider Africa would provide a clear impetus for the creation of efficient supply-chain with products competitive against the current regime with expensive imported EU raw materials. Therefore, the EU has effectively managed to disintegrate North Africa from the rest of the African continent, making a periphery of its own, engaged in outsourcing activity of the EU firms (see Figure 7).

Figure 7. Contribution of African Regions (Percentage) of Overall Intra-African Trade and Percentage of World Population.

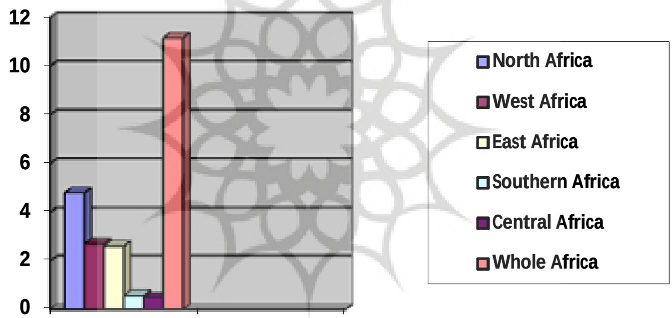


Source: Data Calculation and Adaptation from African Trade Report, 2022, p. 88; Worlodmeter, 2023

Journal of WORLD SOCIOPOLITICAL STUDIES | Vol. 8 | No. 1 | winter 2024

In fact, despite having a larger young population, North Africa trails Southern Africa in trade integration. Furthermore, North Africa even trails Western Africa in intra-Africa trade integration despite having a much greater urban population, 52% and 49% respectively. Such low intra-regional trade among SEMCs is further discernable in a much larger potential for North African export to the rest of Africa (see Figure 8).

Figure 8. North Africa's Export Potential, by Subregional Destinations in 2021 (in Billions USD)



Source: African Trade Report, 2022, p. 98

In fact, the difficulty to comply with the EU rules of origin has prompted SEMCs' leaders to criticize the scheme, asking EU member states to put across this complaint at the EU level, as it was depicted in the words of King Abdullah II of Jordan (2016) when asked Cyprus to discuss the simplification of the EU rules of origin at EU level (Pedi & Kouskouvelis, 2019, p. 162). Therefore, we witness a new form of colonial imposition upon colonies by the

European powers through the EU's trade policy, which eschews the relations among the SEMCs and the wider African subregions in the EU's benefit. In fact, the EU, in its own FTAs has been promoting the free movement of goods, which turns out to be a rather lopsided trade in its own direction. Not only was such EU-centered trade detrimental to intra-regional trade, its trade policy has been criticized for not considering a redistributive wealth mechanism to deal with adjustment costs while undermining government social programs (Meunier & Nicolaïdis, 2013). Therefore, the EU FTAs not only lack the free movement of people, they also offer no remedy to local businesses, which happen to be in competition with more expensive EU imports. SEMCs' authorities in fact prefer to import EU semi-manufactured goods, rather than buying it directly from regional producers in order to facilitate the export of final goods. Such unbalanced and one-sided EU hegemony in trade has effectively steeped the regional trade toward the EU and its trade policy.

6. Conclusion

This contribution analyzed the EU's trade policy in the Mediterranean region. The main question addressed in this study was: Has EU's trade policy contributed to the low market integration among the SEMCs? It was hypothesized that EU's externalization of policies through different embedded tools such as rules of origin and outward processing schemes (OPS) has contributed to the divergence, instead of convergence, of trade among SEMCs. The research findings support the hypothesis and show the distortion of competition between EU enterprises and African and third party enterprises in the benefit of European interests. In fact, the North African region has undergone trade disintegration from the rest of Africa thanks to the EU's complex rules of origin. The cooperation among SEMCs is also heavily affected by the rules of origin that the Mediterranean countries face a tremendous difficulty, with significant paper work involved, in order to prove the origin. Change of tariff heading, a maximum allowance of non-originating materials, and specific processing requirements are some of the features that make the intra-regional economic cooperation and formation of supply chains extremely difficult. On the other hand, the EU has reformed the rules of origin only for GSP partners, in particular for the Least Developed Countries (LSD). Such a double tier treatment only accentuates the feeling that the EU is effectively preventing the formation of an efficient supply chain in its southern neighborhood so as to safeguard European enterprises' interests and to keep the North African region dependent at EU's whims.

References

African Trade Report. (2022). *Leveraging the Power of Culture and Creative Industries for Accelerated Structural Transformation in the AfCFTA Era*. *Afreximbank*. https://media.afreximbank.com/afrexim/AFRICA-TRADE-REPORT-2022.pdf.

Baskaran, G., & Coste, S. (2024). *Achieving Universal Energy Access in Africa amid Global Decarbonization.* Center for Strategic International Studies (CSIS). https://csis-website-prod.s3.amazonaws.com/s3fs-public/2024-01/240131_Baskaran_Energy_Africa.pdf?VersionId=5H6XEl6W.3YisdwUoqotAo7aFeXIHLU3.

Behr, T. (2010). *Regional Integration in the Mediterranean: Moving Out of the Deadlock?*. Notre Europe.

Beyene, H. G. (2017). Trade Integration and Revealed Comparative Advantages of Sub-Saharan Africa and Middle East and North Africa Merchandize Export. *Journal of Economic Cooperation & Development*, *38*(1), 55-95. https://doi.org/10.1177/0015732514525170.

Brenton, P., & Manchin, M. (2003). Making EU Trade Agreements Work: The Role of Rules of Origin. *World Economy*, *26*(5), 755-769. https://www.econstor.eu/bitstream/10419/226065/1/wiiw-bo-wp-027.pdf.

Dabrowski, M. (2014). *EU Cooperation with Non-member Neighboring Countries: The Principle of Variable Geometry* (No. 119). CASE-Center for Social and Economic Research on behalf of CASE Network. https://www.econstor.eu/bitstream/10419/119875/1/798208724.pdf.

Damro, C. (2012). Market Power Europe. *Journal of European Public Policy*, *19*(5), 682-699. https://doi.org/10.1080/13501763.2011.646779.

Del Sarto, R. A. (2021). *Borderlands: Europe and the Mediterranean Middle East*. Oxford University Press.

Draper, P. (2007). *EU-Africa Trade Relations: The Political Economy of Economic Partnership Agreements* (No. 02/2007). Jan Tumlir Policy Essays. https://www.econstor.eu/bitstream/10419/174855/1/ecipe-jtpe-2007-02.pdf.

ElGanainy, A. A., Hakobyan, S., Liu, F., Weisfeld, H., Allard, C., Balima, H. W., Bteish, C., Giri, R., Kanda, D. S., Meleshchuk, S., Ramirez, G., Zymek, R., Arora, V. B., Lall, S., Kett, B. R., & Pohl, M. M. (2023). Trade Integration in Africa: Unleashing the Continent's Potential in a Changing World (No. 2023/003). International Monetary Fund. https://www.imf.org/en/Publications/

Departmental-Papers-Policy-Papers/Issues/2023/05/03/Trade-Integration-in-Africa-Unleashing-the-Continent-s-Potential-in-a-Changing-World-529215.

European Commission. (2023a). EU Trade Relations with Algeria: Facts, Figures and Latest Developments. https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/algeria_en.

European Commission. (2023b). EU Trade Relations with Morocco: Facts, Figures and Latest Developments. https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/morocco_en.

European Commission. (2023c). Generalised Scheme of Preferences - Trade-European Union. https://policy.trade.ec.europa.eu/development-and-sustainability/generalised-scheme-preferences_en.

Eurostat. (2023). Archive: Africa-EU - International Trade in Goods Statistics. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Archive:Africa-EU_-_international_trade_in_goods_statistics#Northern_Africa_largest_trade_in_goods_partner.

Geda, A., & Seid, E. H. (2015). The Potential for Internal Trade and Regional Integration in Africa. *Journal of African Trade*, *2*(1), 19-50. https://link.springer.com/content/pdf/10.1016/j.joat.2015.04.001.pdf.

Glitsch, J., Godart, O. N., Görg, H., Mösle, S., & Steglich, F. (2020). *Lagging Behind? German Foreign Direct Investment in Africa* (No. 5). KCG Policy Paper. https://www.econstor.eu/bitstream/10419/219039/1/1700243284.pdf.

Huhta, K. (2021). The Scope of State Sovereignty Under Article 194 (2) TFEU and the Evolution of EU Competences in the Energy Sector. *International & Comparative Law Quarterly*, *70*(4), 991-1010. https://doi.org/10.1017/S0020589321000269.

Kireyev, A., Sarr, B., Al Amine, R., Auclair, A. G., Cai, Y., & Dauphin, J. F. (2019). Economic Integration in the Maghreb. https://www.elibrary.imf.org/view/journals/087/2019/003/article-A001-en.xml. Koivurova, T., Kokko, K., Duyck, S., Sellheim, N., & Stepien, A. (2012). The Present and Future Competence of the European Union in the Arctic. *Polar Record*, *48*(4), 361-371. https://doi.org/10.1017/S0032247411000295.

Konstadinides, T. (2014). EU Foreign Policy Under the Doctrine of Implied Powers: Codification Drawbacks and Constitutional Limitations. *European Law Review*, *39*(4), 511-530. https://repository.essex.ac.uk/17841/1/Konstadinides%20ELR%20Implied%20Powers%20final.pdf.

Kourtelis, C. (2021). The Agadir Agreement: The Capability Traps of Isomorphic Mimicry. *World Trade Review*, *20*(3), 306-320. https://doi.org/10.1017/S1474745620000488.

Krishna, K., & Krueger, A. O. (1995). *Implementing Free Trade Areas: Rules of Origin and Hidden Protection* (Working Paper Series, No. 4983). National Bureau of Economic Research. https://www.nber.org/system/files/working_papers/w4983/w4983.pdf.

Langan, M., & Price, S. (2020). Imperialisms Past and Present in EU Economic Relations with North Africa: Assessing the Deep and Comprehensive Free Trade Agreements. *Interventions*, *22*(6), 703-721. https://doi.org/10.1080/1369801X.2020.1718540.

Manners, I. (2002). Normative Power Europe: A Contradiction in Terms?. *Journal of Common Market Studies*, *40*(2), 235-258. https://doi.org/10.1111/1468-5965.00353.

Meunier, S., & Nicolaïdis, K. (2013). The European Union As a Conflicted Trade Power. *Journal of European Public Policy*, *13*(6), 906-925. https://doi.org/10.1080/13501760600838623.

Pedi, R., & Kouskouvelis, I. (2019). Cyprus in the Eastern Mediterranean: A Small State Seeking for Status. In S. N. Litsas & A. Tziampiris (Eds.), *The New Eastern Mediterranean: Theory, Politics and States in a Volatile Era* (pp. 151-167). Springer Cham.

Saidi, N., & Prasad, A. (2023). A Mercantile Middle East. International Monetary Fund (IMF). https://www.imf.org/en/Publications/fandd/issues/2023/09/a-mercantile-middle-east-nasser-saidi-aathira-prasad.

Statista. (2023). Share of Intra-region Intermediate Trade Exports in the Middle East and North Africa in 2020. https://www.statista.com/statistics/1206453/mena-share-of-intra-region-intermediate-trade-exports-by-country/.

Tanaka, K. (2020). *The EU's Reform in Rules of Origin and International Trade: Evidence from Cambodia*. IDE Discussion Papers (770). https://www.jsie.jp/Annual_Meeting/2019f_IDE-JETRO/pdf/download/12-1p.pdf.

Worldometers. (2023). Subregions in Africa by Population. https://www.worldometers.info/world-population/population-by-africa-subregion/.

Wouters, J., & Ovádek, M. (2020). Bilateral Cooperation Between the European Union and Mediterranean Countries: An Introduction to the Institutional Framework and Key Issues. In F. Ippolito, G. Borzoni & F. Casolari (Eds.), *Bilateral Relations in the Mediterraneanfocus* (pp. 109–139). Edward Elgar Publishing.

Zemni, S., & Bogaert, K. (2009). Trade, Security and Neoliberal Politics: Whither Arab Reform? Evidence from the Moroccan Case. *The Journal of North African Studies*, *14*(1), 91-107. https://doi.org/10.1080/13629380802383604.