



PARLIAMENTARY ASSEMBLY OF THE MEDITERRANEAN
ASSEMBLEE PARLEMENTAIRE DE LA MEDITERRANEE
الجمعية البرلمانية للبحر الأبيض المتوسط

**2nd Standing Committee on Economic, Social and
Environmental Cooperation**

“Facilitating Trade and Supporting Investments”

Rapporteur: Dragica Roščić (Croatia)

Report

I. INTRODUCTION

1. Economic growth and prosperity in the region represent key objectives for the Parliamentary Assembly of the Mediterranean, due to the positive effects on the whole Mediterranean society, not only in terms of wealth, purchasing power or standard of living of the citizens of the region, but also with regard to political stability and social peace.
2. The turmoil that, in the aftermath of the Arab spring, continues to characterize some areas of the Mediterranean has, among its causes, the poor economic conditions of many segments of the population. The Jasmine revolution in Tunisia was triggered by a sudden increase in the price for basic food supply. Unemployment, especially among the youth, makes the new generations increasingly vulnerable and more exposed to radicalism and violent extremism¹.
3. For these reasons, PAM has consistently addressed the issue of economic growth in the Mediterranean, fully aware that it represents both a pillar and a consequence of political stability, democratic procedures and social peace.
4. Small and Medium Sized Enterprises (SMEs) are one of the main pillars of the Mediterranean Economy, due to their structural contribution to the state and the society in terms of employment, Gross Domestic Product (GDP) and purchasing power. SMEs represent 99% of businesses in the EU and employ two thirds of the active working population². Therefore, specific legislative action is needed in order to support existing SMEs, as well as to create a business climate that is conducive to the creation of new enterprises.
5. International and regional trade is the other element that PAM identified as a priority for its action. Commercial exchanges have been increasing in the Mediterranean region at an aggregate level, however several aspects must be widely improved in regards to custom procedures, infrastructure and regulation.

¹ Detailed information is included in the PAM 2017 Report on Economy, available at the link <http://www.pam.int/welcome.asp?m=documents&a=cat&cid=343>

² <http://www.eib.org/projects/priorities/sme/index.htm> (last access 14 December)

6. In 2017, PAM has decided to specifically address the issues mentioned at paragraphs 4 and 5 through the organization of a high-level parliamentary conference, held on 9-10 October 2017, in cooperation with the WTO. The event was hosted by the Parliament of the Kingdom of Morocco in Rabat. During the conference, the need for MPs to continue addressing these topics was stressed in light of their legislative responsibilities, and it was decided to dedicate future event to specific sub-regions within the Mediterranean basin³.

II. MAIN INDICATORS ON TRADE AND INVESTMENTS IN THE MEDITERRANEAN

7. In the last two years, a sustainable world economy growth has been recorded, following the global economic crisis of 2008. In the Mediterranean region, the consequences of the Arab Spring represented an additional stress element that slowed down or postponed economic recovery. In particular, economic growth in the MENA region, between 2013 and 2015, signed a 2.4 percent on average, also due to war, violence and low oil prices. In 2018, the situation is expected to continue improve slightly and growth to surge above 3 percent, as indicated by several specialized analysts over the forecast period⁴.
8. Egypt is the PAM member country in the MENA region with the highest economic growth forecast for 2018. This is the result of a number of reforms put in place by the government in order to reduce an oversized public sector and improve business environment, particularly through a new investment law that foresees easier procedures to access investment and reduces bureaucracy⁵. These measures were, *inter alia*, the basic conditions of an agreement signed by Egypt with the International Monetary Fund.
9. The current situation in the Mediterranean region is not homogeneous in a number of economic sectors, and trade is no exception. According to World Bank data⁶, for instance, the cost to export varies from the zero of countries like Croatia, France, Italy, Romania and Slovenia to over USD 500 in Libya, Algeria and Mauritania. The same fragmentation can be seen in the WB Trading across Borders rank, with a clear separation between North Mediterranean countries and MENA Mediterranean countries.
10. This scenario is the result of a combination of factors. The most important elements are related to EU membership, bilateral/multilateral trade agreement in place, trade infrastructure, trade procedures. Better trade procedures are directly linked to economic integration, being the EU membership the main example of integration in the Mediterranean region.

³ The report and the main recommendations of the Rabat conference can be found at the link <http://www.pam.int/welcome.asp?m=documents&a=cat&cid=363>

⁴ <https://www.focus-economics.com/regions/middle-east-and-north-africa> (last access 6 December 2017)

⁵ *Ibidem*

⁶ World Bank Doing Business Report www.doingbusiness.org

11. With specific regard to trade, the term of reference is the Trade Facilitation Agreement TFA within the WTO, which entered into force in February 2017. It contains provisions for the simplification of procedures for import, export and transit operations, including movements, clearance and release of goods. Its full implementation is expected to reduce over 14% of total trade costs for low-income countries⁷.
12. As emerged in the UN Global Survey on Trade Facilitation and Paperless Trade Implementation, there is a strong correlation between the implementation of Trade Facilitation and GDP per capita⁸.
13. Trade facilitation measures are mainly related to: a) documents; b) automation; c) information availability and d) procedures.
14. Regulatory frameworks play an essential role in Trade Facilitation, and therefore this puts parliamentarians in a crucial position to address the issue, due to their legislative prerogative. The need for coherent and harmonized legislation at a regional level has been always identified as a top priority at PAM events and its reports, in a number of sectors. MPs should and must directly contribute to trade facilitation on the points a), c) and d) listed above.
15. Infrastructure is another key element for trade. Its importance has already been addressed on the occasion of several meetings of the PAM 2nd Standing Committee, notably the two conferences jointly organized by PAM and UNECE in Geneva in 2011 and 2013, and in Morocco last October. Modern and efficient infrastructure implies a significant amount of financial resources that needs to be allocated.
16. Investments are therefore crucial to support economy, not only in terms of funding the development and expansion of SMEs and other businesses, as mentioned in the introduction of this report, but also for the realization of the critical infrastructure needed to support trade. In this regard, PAM has established a beneficial partnership with two of the major International Financial Institutions active in the Mediterranean region, notably the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB). PAM has also established cooperation with the World Bank and its MENA Chapter. This partnership saw PAM participating in the Spring Sessions of the World Bank Group and the International Monetary Fund held in Washington in the last two years.
17. International Financial Institutions sustain economic growth through the funding of major infrastructure projects and also through their support to SMEs, thanks to cooperation agreements with a wide range of financial intermediaries (mainly local banks) that offer financial products targeting small and medium-sized companies.

⁷ https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm (last access 15 December 2017)

⁸ <https://unnex.unescap.org/content/un-global-survey-trade-facilitation-and-paperless-trade-implementation-2017> (last access 7 December 2017)

III. POSSIBLE FUTURE SCENARIOS

18. While northern Mediterranean countries are on a solid – yet slow – path in terms of economic recovery, southern countries have a much higher potential growth but, on the other hand, also characterized by a higher level of uncertainty, connected to internal (political stability, social reforms) and external (oil price) factors⁹.
19. These factors are strongly interconnected: higher oil prices mean, for oil producing countries, more financial resources to be allocated on social reforms, and this is one element that undoubtedly leads to political stability. However, these countries should try to switch to a more diversified economy, in order to minimize the negative impact of such factors, especially in view of the current situation in which the whole world talks about energy transition.
20. From a legislative perspective, there is significant room for improvement in all PAM member countries with regard to trade facilitation and investment promotion, although differences – both in terms of methods and scale – are clearly visible.

IV. THE CONTRIBUTION OF PAM AND PARLIAMENTARIANS

21. In the long term, regional legislative action must focus even more on creating the best possible conditions for economic growth and integration of all Mediterranean countries. Micro and macroeconomic policies should be implemented to support and stimulate economy and trade on several aspects.
22. The business climate can be significantly improved across the entire Mediterranean region. This, in addition to a direct and positive impact on the private sector, is also fundamental for the public sector, because in many business areas the private sector investments complement services offered by the state, not to mention the unique role of PPPs. These reforms should also include measures aimed at narrowing the gap between salaries in the private and public sectors¹⁰.
23. Investing in Education and Vocational Training policies is also a priority. This is a necessity to match offer and demand on a labour market increasingly influenced by automation and technology. The market requires a new set of new skills, and the education system needs to be reshaped in order to match the evolving needs.
24. With regard to the labour market, it must be noted that it is impacted by the migratory flows that are currently happening in the region. The impact will depend on the skills of migrants, the skills of existing workers and the characteristics of the host economy.

⁹ https://www.wto.org/english/res_e/booksp_e/trade-costs-incl-growth_chap8_e.pdf (last access 14 December 2017)

¹⁰ *Ibidem*

25. As mentioned above, regional and national legislative action is urgently needed to support trade facilitation measures, mainly aimed at smoothing administrative procedures at the border (simplification, harmonization, transparency and digitalization). These elements are more restrictive than tariffs and other barriers¹¹.
26. Effective trade facilitation measures increase government revenues and the ability of a country to attract foreign direct investment (FDI), diversify its exports and integrate into global production supply chains. Furthermore, they enhance the role of SMEs in trade¹².
27. PAM has already proven to be a very effective practices exchange and information sharing platform in which parliaments from all Mediterranean countries can discuss best practises, and lessons learned. The numerous partnerships that PAM has in place with international organizations with a specific mandate on economy and trade is an additional added value of the services provided by PAM to its delegates.
28. The organization of parliamentary conferences dedicated to specific topics, such as trade facilitation, have been successful and therefore PAM has to continue on this path, with the useful contribution of its partners, such as the agencies of the UN system and other international and sectorial organizations (energy, trade, industry, business, waste management), which regularly contribute to PAM events providing state of art expertise and recommendations on legislative actions required.
29. In order to increase the effectiveness of its meetings, PAM must now also focus on specific Mediterranean sub-regions, in order to address the many particular features that each sub-region presents, for instance the south-south trade or sub-regional FTAs. This could be put in place only with the active collaboration of national parliaments. A specific task, in this regards, has been entrusted to PAM by the President of the UN General Assembly for the Western Balkans. On this, PAM is at present working with WTO, UNCTAD, UNECE and the EU at the organization of a dedicated event that will be hosted by the Parliament of Serbia, tentatively in June 2018, in order to facilitate trade and speed border procedures between EU and non-EU countries of the former Yugoslavia.
30. In light of the paramount importance of securing investments in the region, PAM's partnership with EIB and EBRD is considered necessary. On this, the Assembly must continue to work in order to institutionalize the same level of cooperation with other comparable institutions, such as the World Bank, the International Monetary Fund and the African Development Bank.

¹¹ <http://www.pam.int/welcome.asp?m=documents&a=cat&cid=363>

¹² *ibidem*