

THE EU PROPOSAL IN THE EUROPE- MEDITERRANEAN FREE TRADE AREA

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INTRODUCTION

The analysis of the socioeconomical and political problems of the Mediterranean third countries (MTC) requires a double logical comprehension, inherent to the actual economic internationalization, that has been growing in the world through the last half decade. On one hand, we assist to a globalization process, that allows the companies to have a free localization of its plants beyond the barriers of the national frontiers. On the other hand, the commercial regional agreements are stimulated and the blocks in the free trade areas are formed, organized basically around Europe and its eastern and southern frontiers, Japan and its influence area of the Asiatic Southeast and the United States and some others countries of America.

The establishment proposal of the Euro-Mediterranean Association with the MTC on behalf of the European Union (CCE, 1994, CCE, 1995) on line with the recent regionalization phenomena of the worldwide economy, it establishes the bases of a new and more intense process

¹ We want to thank the valuable comments realized by the professors ALEJANDRO LORCA CORRONS (Universidad Autonoma de Madrid) y JOSE MARIA JORDAN GALDUF (Universidad de Valencia) to the first spanish version of this work, that allowed me to substantially improve it in its final writing. The insufficiencies and errors that it can have are of course an exclusive responsibility of the author.

of liberalization for the Mediterranean economy group: the overcome of the preferential regimes of the past, a bigger opening to the international competence and a stronger regional commercial integration. This free trade offer of the European Union entails to the MTC as opportunities as challenges -benefits, but also economic and extra-economic costs- that is appropriate to value conveniently at this moment before the realized reforms in some of these countries, with or without fortune, in the course of the last years.

Therefore, this work will concentrate its attention starting from the actual globalization and regionalization context: On the economical liberalization effects in the MTC because of the international experience, on the economical behaviour analysis of themselves in commercial terms, on investment and development (in the application framework of the structural adjustment programs), and on the Mediterranean economy perspectives' tests in front of the community offer of the Free Trade Association.

GLOBALIZATION AND REGIONALIZATION

In the last two decades, the globalization general movement has developed extraordinarily, it is shown very clear in the marketing deregulation, the accelerated diffusion of the information new technologies, the financial marketing internationalization and the oligopolistic competence evolution between the companies. However, in spite of the important role that the financial globalization carries, the real dynamic force of the globalization general process lies on the new microeconomical factors related to the behaviour and the companies strategies, or concretely with the international maturity and diffusion of the production organization flexible forms. The production flexible forms allow competitive profits, that have cause the "fordist" or "taylorist" production system (OMAN, 1994).

On the other hand, the recent phenomena as the world bipolar conception disappearance, the economic associations of "jure" or "de facto" in Europe, Pacific Asia and North America and the interest of the developing countries, especially, the one of the Mediterranean southern shore, to bound the cooperation ties with its northern developed neighbors, set up a crucial element that now is known as worldwide economical regionalization. These regionalization processes, as they can radically expand the national markets and stimulate the concurrence, can create the conditions so that the States can be able to weaken the monopoly power of the pressure national groups, adopt international harmony in the previously reserved matters to the internal circle (Labour Legislation, production and competence standards) and reinforce the political credibility and stability of the different countries (generating a bigger foreign investment attraction capacity).

As a consequence, the regionalization processes - when stimulating the market and competence inter-regional mechanisms between the companies - can be transformed in complementary pieces of the globalization process. In this way, avoiding the regionalization usage as a protection instrument in front of the rest of the world, the globalization is not only reinforced, but also the area growths and competence capacity in the worldwide market.

The sign up of the negotiations of Ronda Uruguay, the growing leadership of the flexible production as the force of the globalization, the production regionalization tendency, the reduction of the variable costs, part of the not qualified labours in the production total costs and the growing role of the proximity (between producers and consumers, between piece producers and suppliers, intermediate goods, and services) reduces the "comparative advantage" of the developing countries in terms of wage costs in the labour intensive production segment, it urges these countries to search some linking type with the northern regional associations (as well as the companies to establish inter-management cooperation agreements) and force them to increase their competitiveness level in the international markets to avoid the exclusion risks of the dragging and growing effects derived from the globalization.

Nevertheless, the liberalization of the commercial policy, the conditions for the foreign direct investment improvement, the budget deficit reduction, the public company privatization and other inherent bounds for the structural adjustment plans, have been insufficiently revealed if they are not followed by a true offer policy that will higher the company's and MTC competitiveness level in the international circle. The empirical evidence shows that local small and medium size companies, as well as in the MTC as in the other developing countries, are not able to resist the liberation crash of the imports.

It is important to consider some questions that have a great interest, because of the previously discussed matters: What has been the recent behaviour of the MTC economy, as a consequence of the commercial and institutional reforms? Have been these reforms sufficient to situate these countries in the new situation derived from the globalization and regionalization process? What can be the Free Trade Area effect offered by the EU? The answers to these important questions need an Euro-Meditarranean economical relationship analysis, the adjustment processes test in the MTC, as well as the international insertion capacity in the new conditions of an economical higher opening and liberalization.

ECONOMICAL LIBERALIZATION EFFECTS IN THE MTC

Certainly, the euro-mediterranean economical association proposal launching is made based on the one already established by the northern and southern economy and for the structural reforms undertaken by the MTC. Nevertheless, it is difficult to mention a homogeneous reality of the different MTC economy, but important note is the one from the heterogeneous. In that way, being Europe still the MTC international integration natural space, the preferential regimes of the cooperation agreements or the European market preferences commerce opening to the

Mediterranean industrial products - allow in some way three of these economies (Morocco, Tunis, and Turkey) to move forward in its productivity specialization, to increase the market quota and take advantage of the labour factor costs (JORDAN, 1996). In the contrary, two countries (like Algeria and Egypt) have not obtained a benefit of these preferences, they have been blocked in their traditional specialization and have been limited to continue in the "vicious circle" proper of the income economy. Besides, the structural reform programs, in spite of their similarity (liberalization) and the general financial crisis that causes it - they are applied to the countries with different adaptation capacities and the international opening demands and the different development profiles. These are very important reasons that justifies the higher attention given in this work to the three mentioned countries.

Indeed, the adjustment processes started at the beginning of the eighties in Morocco, Tunis and Turkey which have as a result to reduce the "double deficit" that limited their growth: the foreign currency resources deficit to face up the import requirements and the national savings deficit in relation to the investment necessities (BENSIDOUN AND CHEVALLIER, 1995)

The reduction of the first deficit was faced by an export promotion strategy, more than an import contraction, based on the traditional advantages in the labour costs of the manufactured products (and in an increased reduction of the real wages), in the important currency devaluation and the preferential conditions of the exports in fiscal advantages terms, loan conditions favorable and subsidy regimes. The results of such strategies were not delayed in the course of the eighties: a higher increase on behalf of the manufacturing exports in the total exports, significant profits of the international marketing quotes (particularly, in the case of Turkey, see BARLOW AND SENSES, 1995) and a deficit reduction of the manufacturing goods balance. Nevertheless, specially this successful result of the adjustment processes was altered at the beginning of the nineties, with the new appearance, specially in Turkey and Tunis, of a manufacturing commerce deficit due to the modification in the competitive conditions; the appreciation of the effective real

change type - to control the external debt costs and the inflation, the European desinflation that automatically appreciates in real terms the Mediterranean currencies, the increase of the inflation "gap" between the Mediterranean North and South, the real wage increase, the internal demand pressure over the imports, particularly by the equipment good's investment, and the weakness of the external demand because of the European markets atony.

This commercial balance evolution clearly shows the difficulties that the TMP economies can have, in which the growth has a higher import content, if the commercial liberalization is made on an intense instability and high concentration context of its manufacturing exports in the European markets that make them very sensible to the economical evolution of the Mediterranean northern neighbors.

Otherwise, it must be mentioned that the contribution indicator for the current balance shows a similar configuration in the three countries (Morocco, Tunis and Turkey); a strong service and transference positive contribution (tourism) and very negative for the merchandises and also the interest charge. The future perspectives, that we will analyze later more detailed, are uncertain, but without a doubt the development process of these countries will need strong capital goods and consumer goods imports for a population with a higher income, favored by the Customs Union of the EU with Turkey and by the Free Trades Agreement with Morocco and Tunis that came into force; and if it does not have a compensation by the higher dynamism of the exports, it will cause a growing in the lack of balance of these economy exterior sectors.

The second objective of the adjustment processes consists of the reduction on the savings deficit, that has been charged with a certain financial system liberalization - to increase the banking deposit and the loan funds, to sufficiently remunerated interest types - and with a public deficit control, through the expenses reduction and incomes increment. - Nevertheless, the savings and the investment evolution depends a lot on the relation that exists between the public and private

sectors of each economy. For example, that is how Turkey has presented a very positive savings and investment evolution but has shown also an evident incapacity to control the continuous progression of the fiscal deficit, because of an excessive increment in the personal expenses and the strong transference of the public companies, that together with the inflation deterioration, caused the country to have a confidence crisis in the national currency on behalf of the international markets (year 1994). The fiscal reform is fundamental, if one wants to achieve an adjustment good quality and face the growing lack of balance of some public accounts generating constant inflation's pressures.

This is the basic contents of the Stabilization Plan adopted by the Turkish authorities on April, 1995, with the help of FMI, in which an energetic privatization programs that will establish reasonable expenses limits, is started to contain the public companies' deficit and Social Security reform, with the fiscal reform that expands the taxpayers base and stabilize the public incomes. That Plan, that is benefited by the Custom Union Agreement with the EU, can improve the Turkish economical investment and commercial attraction and establish better bases for a higher growth (ICE 1995, OCDE 1995).

Tunis has seen its internal capacity limited to finance the investment in the Central Administration incapacity to avoid the decrease of the fiscal incomes, that in the contrary in the case of Morocco has been improved by a sensible increase of the income taxes and the goods and services taxes. In any case, either in one country or in the other, the expenses limitation capacity has been insufficient.

Morocco has an excessive debt interest charge in the State budget, that converts the internal resources as insufficient for financing, forces the use of some diminished exterior capitals and even a generated inflation monetary financing (ICE 1996). The World Bank Inform about the Morocco economy of 1995 shows the basic priorities of a future strategy: The restoration of the

macroeconomical stability (the public expenses control, the fiscal reform and the real and competitive change type re-establishment),
the public sector rationalization that makes it quicker and efficient and the growing opening of the economy to the rest of the world toward the free trade agreement with the EU.

The Algeria and Egypt cases constitute two good examples of the Mediterranean income economy: in the first case, the petroleum income and in second the geopolitical income. And with opposite results to the one in Morocco, Tunis and Turkey, they higher its exports and imports and maintaine a progressive level of per capita income; while Algeria and Egypt have suffered a recession in the exports and imports and a regression of their income levels. The external help and the debt cancellation allowed to improve the external and public accounts situation of the Egyptian economy, but not its growing capacity. Because really this "improvement" from the exterior happens because an increase on the national savings has been produced by an increase on the private transference and the net incomes received from the foreign countries, promoted by the change of type policy and the financial liberalization, with a continuous drop on the interior savings. Egypt needs to extent structural reforms, to finish with the actual block of "statu quo", to compromise definitively with the economic opening policy and the export capacity of the country, in that way situating the commercial policy and the change in the "core" of the economic policy.

Definitively, the MTC economical situation has improved a lot in the course of the last years as a consequence of the structural adjustment programs, which have allowed to stimulate the exports, improve the financial situation, control the internal and external deficits and increase the growing taxes in the lower inflation context. The progress realized in the administrative economy transition parallel to other economies in which the companies have a more favorable environment to the private initiative is indisputable. Nevertheless, the reform process, as it will be explained later, has been insufficient and has found in its development important stumbling blocks: on one side the enormous social cost very difficult to integrate without compensation extents and social aid; and on

the other side, the proposed reforms execution rhythm frequently had and has not in mind the administration capacity of the slow and bureaucratic public administrations and the resistance for the economic stockbrokers - accustomed to the non productive income search situations - in order to not to loose their privilege position in the new more competitive environment (Zaim and Jaidi, 1995).

FREE TRADE EUROMEDITERRANEAN ASSOCIATION PERSPECTIVES

The free trade area logic between the EU and the southern and eastern economy submits the commercial relation to the market imperatives -finishing the preferential discriminatory treatment that these countries had on behalf of the EU, otherwise a practically settlement treatment because of the sign up of the last GATT agreement in Marraquech (Morocco)-, brings an approach change in which the supply policies are more important in relation with the demand, it implies a strategic reorientation of the economic policy of the MTC toward the overcoming of import substitution protectionist phase or the auto focused development improvement - or if preferred, to reinforce the chosen via with the exterior opening structural adjustment programs - and finally supposes the expressed declaration of a common will to build a regional cooperation space on the geographical proximity economic valorization.

In effect, because of the unilateral condition of the process iniciating with the euromediterranean association agreements - by virtue of the free trade concentrated in the MTC marketing opening to the European manufactured products, it is well known that for these countries the EU market has already been open to the industrial goods - immediately the question is done in relation with the macro and microeconomic effects of a commercial liberalization policy with the MTC.

The main results obtained by the available simulation studies, recently realized about Morocco and Tunis (KEBABDJIAN, 1995a, 1995b); RUTHERFORD ET AL., 1994, 1995; FONTAGNE and PERIDY, 1995; COGNEAU, TAPINOS, 1995)² are basically three: it is difficult to sustain the free trade without corrective steps, the free trade profits are to be considered only if an important new allocation caused the production factors, basically the work; and the exports and direct foreign investments have an important role that determines the adjustment of the economy for the new free trade conditions. Therefore, the macroeconomic effects of the commercial opening and the fiscal incomes decreases, by the tariff with no protection, have an influence in the economic activity level, associated with the change type policy to the budgeted policy and to other policies and accompaniment steps. The microeconomic effects, that are shown how the supply does not present the same reaction capacity to the commercial opening in all the countries, depend on the existing regulation mechanism in the domestic markets, on the industrial structure, on the rigid grade of the labour market and in general, on the price system operation freedom in the goods, services and factors markets.

In accordance with the Euromediterranean Association conditions, the studies mentioned allow to affirm that the imports progression is stronger than the exports one, the depreciation produced by the medium custom tariff reduction is insufficient for containing the normal balance deterioration, the public accounts degradation produces a great negative impact on the private investment and the exterior debts increase in uncontrollable levels. At this point, corrective measures have to be taken; even though they will involve the recession risks (by the effects leaded by the private consumption and the investment), even if the budgeting adjustment is done by the public expense reduction as if it is done by the indirect fiscal increase or from a devaluation.

² These studies are found as a synthesis in BENSIDOUN, I., CHEVALLIER, A. 1995), op. cit., pp. 100-101.

The export and foreign direct investment evolution limit the necessary devaluation understanding, as they accelerate the productive apparatus transformation and the productivity elevation, and as a consequence the export competitiveness and the exterior markets penetration. The creation of the best possible conditions for the export promotion and the foreign investments attraction comes will be in first place in the future agenda of the MTC economic policy.

In the other hand, the income growing is higher, while the labour market operation rigidity, the insufficiency in the capital mobility and the restrictions for a competitive development of the financial system are lower.

Likewise, the profits derived from the free trade come from the external tariff structure rationalization as well, more by the tariff harmonization than by its reduction, and the internal tax. As a consequence, the structural reforms of the commercial policy and the fiscal policy are an inevitable step if it is wanted the free trade zone to produce the desired effects.

And it is also important to have in mind that the fiscal and commercial effects will not be the same in the countries. In that way, according to the estimations of BENSIDOUN AND CHEVALLIER (1995), the fiscal income reduction, that depends on the higher or lower weight of the taxes and custom rights that will have in the industrial products imports that come from the EU - is higher in the countries like Morocco or Tunis than in Turkey, where the import protection grade is lower. The commercial lack of balance evolution will depend on the petroleum price (being Algeria and Egypt the ones more affected) and the multilateral liberalization effects over the textile sectors (Morocco and Tunis are the main losers) and agro-food (emphasizing the losses of Algeria and Egypt).

It is also evident that the profits will be superior as higher the EU and MTC economy liberalization and integration will be. Of course this affirmation is applicable to the agricultural

sector - more openings of the European markets to the Mediterranean agricultural products will increase the exports, the sector and MTC economy development, as well as the European rules adoption, for the improvement of the transportation and telecommunication infrastructure and for the labour education and training level elevation.

POLICIES FOR A NASCENT REGION

The empirical evidence of the MTC and other countries in the international circle shows us that the structural adjustment programs, based in the "Washington consensus" are necessary for the macroeconomic stability achievement, but are insufficient for the economic development (KRUGMAN, 1995, SID AHMED 1995).

If we also have in mind, that the studies made allow to affirm the free trade area creation, that just will have important effects on the MTC economy only in certain conditions - certainly not easy to achieve and related very much between them - such as the non recessive macroeconomical policy, a competitive re-conversion of the productive specializations and an elevated foreign direct investment increase (KEBABDJIAN 1995b).

We can say then, that the "Macroeconomic policies with a commercial, monetary and financial conditions have to be dependent of the discriminatory and selective industrial policies, that will increase the learning effects and the dynamic externalities that overcomes the market failures, allowing the management capacities to emerge, as well as the technological and research capacities ..." (SID AHMED, 1995).

The difficulties of a non recessive macroeconomic policy come from the custom income reduction due to a no protection and to the important fiscal increases, basically the one coming from the VAT application, that can affect negatively the investment expenses necessary for the

economy growth. The fiscal reform becomes a delicate and key part, not only from the updated MTC economic policy point of view but also as a growing "scenario" base, achieving in this way the public account balance. And the supply competitive new conversion or the productive specializations is directly linked to the investment processes, specially from the foreign countries origin.

As mentioned before, the problem consists on that while the globalization processes that are in function with the companies' strategies process, the regionalization dynamics (as the free trade area) depend on the state and institutions will, and create "per se" conditions not sufficient for the foreign investment flow attraction.

We also know that the factors that determine the more dynamic productive activities international localization have moved on from a comparative costs logic to a "know how" creation capacity logic, based on the qualified work and on the knowledge development. The majority of the econometric studies (MARKUSEN, 1995) suggest that new factor group, such as the qualified labour and the quality infrastructure availability, the R + D expenses proportion in the final product, an important applied labour of engineers and technicians, the advertisement expenses and the product differentiation, the market's proximity and the distribution channels - have a fundamental role in the attraction of the direct foreign investments in the manufacturing and service sectors. The multi-nationalization phenomena is strictly associated with the intangible assets endowment and the knowledge stock of the different countries.

On the other hand, the MTC regional insertion - in the way the euro-mediterranean free trade agreements allow to dispel the EU protectionist practices - can be a technology transference efficient mechanism. This is a basic presumption of the endogenous growing models, when indicating that the economic integration of a backward country in the developed regional area increases the technology convergence possibilities, or -in other words- the brake possibilities of the

accumulative condition of the divergence. It can be explained that the scale economy existence in the human and foreigner capital usage when increasing its stock with the integration also increases the efficiency and the economy growing rates. The technological information flow liberalization and the available knowledge stock for the associated countries is increased. It can facilitate the less developed countries comparative advantages' exploitation (KRUGMAN, 1991). The foreign direct investments would be directed in a higher way toward the less developed countries, but incorporated in the regional area, rather than in the other developing countries. This is the experience, at least in Spain and Portugal, since their adhesion to the CEE.

Therefore, the MTC Public Administration function is crucial for the proper environment creation so that the investment international flows will reach a higher possible intensity, the technologic transference is enforced and the technological convergence possibilities between the north and south will increase. This appropriate environment can be generated by the economy elements conjunction (infrastructure, transportation and telecommunications), social (professional, educational and training level elevation; that is, the human capital accumulation) and institutions (authentic science and technology national systems creation, well founded in the quality improvement and the university system quantity and research).

However, if this new socio-economic and institutional environment are fundamental, it will be insufficient without a competitive incentive economic and trade policy (MOWERY AND OXLEY, 1995). The science and technology national systems, linked very much with the private company R + D activities, are essential, because they have an important role in the "know-how" transference flow mediation and allow to efficiently exploit the technological progress international sources. Now, what is more important is the existence of a policy group directed for the domestic company competitiveness strong pressure environment creation (proceeding from the national companies, foreign country companies or from the export market incentive) and to the stability macroeconomical policy stimulus. An economic and commercial policy based on a long term

compromise to avoid import substitution strategies, provides an environment or framework in which the national companies -when experimenting the competence pressure- tend to realize higher investment rhythms that allow to improve the production, innovation and management direction capacity. At the same time, this competence higher pressure national environment over the domestic companies generates in that an increased demand on technical services, that only the science and technology , innovation and research national systems can provide.

Finally, the policies for the nascent region, as the one set up by the EU and MTC, requires on behalf of these last ones to start the policy whole group, as a macro or micro-economical condition, that will reinforce its competitive stability and capacity in an international opening growing market.

FINAL REMARKS

The free trade area supply represents a MTC international insertion opportunity, by its incorporation to a regional association with the developed EU. This opportunity can only be gained with the adequate strategies.

It is evident that the fundamental strategy can be based on an integrated package - it has been said - that the policies (commercial, budgetary, monetary, industrial, infrastructural, technological and with human capital), found on the wide national consensus (social and political) and in a strong international credibility, these are conditions without excuse for the macroeconomic and institutional stability. Therefore, it is not about a simple reactive position, in which the MTC will be limited to a passive adaptation of the dynamics arrival "from the outside", with the consequent risk of conflicts because the euro-mediterranean relation and the Association Agreement in general will be considered by southern public opinions as a "scapegoat" of all the national problems, but as a real "proactive" project in which the Association Agreement will be appreciated

as a real development and shared progress opportunity, so that the MTC governments will be compromised to the politic and institutional serious reforms. Of course, on this perspective it must be noticed the project limits simply based in the adoption on behalf of the EU of the volunteer policies and the establishment of important regulation and transference instruments. Moreover, the European private sector must have an interest in investing and producing in the MTC, to be willing to challenge protectionist lobbies such as unions and other opposing greater trade integration, and to see MTC markets as vital. Until they don't do, increases in trade and investment will remain elusive (GREEN AND TINDELL, 1995).

To put these reforms into practice the provoked confidence and the execution terms have to be kept on mind. In effect, it must be noticed, that the MTC have lost its former geographic proximity advantage in relation to the Easter European countries and have to compete with them in strong conditions of labour costs, human capital amount granted, foreign investment attraction, private sector development and export capacity. This is what present the basic problem of the credibility in the economic policy application, because the insistence in the social breach threat can imply a gradual reform, insufficiently clear and without sufficient political support (HOEKMAAN, 1995). On these conditions, a great company's and domestic economy's uncertainty and a lack of credibility is generated. There is a trade-off between the political viability of a quick reform and the gradual opportunity costs, as the reform execution slowness of the reform will be translated into a private sector weak answer, an insufficient foreign country capital attraction capacity, a limited reform institutional and political support, and definitely, a loose of competitiveness in relation to the rest of the world.

In this way, the MTC participation in the Commercial Worldwide Organization (CWO) and the Euro-mediterranean Association is fundamental. The participation in the CWO, by adopting its commercial norms and practices, the bureaucratic formalities can significant diminish and because the forced establishment - by the international normative - of the tariffs will also diminish the local

companies pressure capacity to lobby and find the incomes and so increase a determined tariff, will have an incentive on them to make investments, adjustment efforts and productivity increases.

The participation of the Association Agreement can force the economy functioning efficiency criteria incorporation, improve the reforms resistance with the financial transferences provision and provide warranties for the investors - because of the liberalization compromises acquire by the MTC with the EU. Therefore, it is very important for the MTC to understand that the international environment is extraordinarily dynamic (the globalization, Ronda Uruguay, the competence of the East European countries, the fast growth of Asia) and it demands decisive and quick answers. Decision and speed - as well as the reform extents- are indispensable to avoid the competitiveness differential expansion between the MTC and the rest of the world; it is expected that the disadvantages will be less in countries like Morocco, Tunis and Turkey than in others like Egypt and Algeria.

The Euro-Mediterranean Association represents without a doubt an authentic challenge - as well as an opportunity for the MTC, in the way it demands from them an adequate response for the new demands derived from the globalization and regionalization processes; the adoption of a coherent economic policy with a framework characterized by the economy opened every time more; a profound reform of the public administrations, and the active concourse of the private sector; a wide partnership between the north and south Mediterranean and the creation of a confidence, credibility and stability environment.

Opportunity and challenge, that can encourage the hope and cherish the ambition, on the co-development based on the two shores of "Mare Nostrum" and from an extraordinary intellectual and policy effort to achieve the prosperity and peace future in the euro-mediterranean region.

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