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الجمعية البرلمانية للبحر الأبيض المتوسط

**Joint Trade Conference
Parliamentary Assembly of the Mediterranean (PAM) and the United Nations Trade and
Productive Capacity Cluster
Organized by UNECE in Cooperation with UNCTAD and PAM**

4-5 May 2010

Conclusions

This Joint Trade Conference of PAM and the United Nations Trade and Productive Capacity Cluster brought together parliamentarians, government officials, and representatives from international organizations, the private sector, financial and market support institutions (e.g. chambers of commerce and investment promotion agencies) and the academia to explore avenues for addressing the development challenges facing the Mediterranean region. The aim is to enable governments to address development challenges from a regional perspective, by setting forth practical measures that need to be taken by individual governments or that require collective action at the regional level. The emphasis is on supporting the achievement of PAM's broader strategic objectives of: fostering regional integration as a stepping stone toward global integration; and bringing shared economic prosperity and increased welfare to the region and, therefore, contributing to ensuring peace, stability and security.

The Conference featured diverse keynote speeches addressing: the economic impact of recent political developments in the region; challenges to regional integration; and the role of water and energy development in supporting trade and sustained development. The most pressing challenges facing PAM governments are those generated by the economic crisis that has engulfed the region in the wake of social upheaval in a number of PAM countries. Dramatic falls in exports, investment inflows and tourism activities has left these countries with high levels of unemployment, expanding trade and budget deficits as well as eroding foreign currency reserves.

These challenges put governments in an awkward position to pursue development efforts, especially since access to external finance is hampered by negative credit ratings. At the global level, high food prices pose an imminent threat, especially to net food importers. In addition, the slow recovery of PAM's main trading partners from the global financial and economic crisis means that PAM exports are unlikely to pick up steam in the near future.

The discussions allowed for the exchange of views and the consolidation of a number of conclusions. While these conclusions vary in terms of the policy mix and modalities for implementation, they all point to the necessity of rooting development efforts in a strategic framework that seeks to improve the livelihoods of the poorest, develop the industrial and services sectors, and ensure a more growth-enabling integration with regional and world markets.

Below is a detailed description of the conference conclusions. These relate to: the role of the state; the imperative need to re-oriented trade policies to allow for development-led growth; regional integration; productive capacity development; priority sectors; trade facilitation; regulatory reform;

water and energy development; and, financing development. Special emphasis was given to the development of small and medium-sized enterprises (SMEs), as a key requisite for achieving sustained growth, and addressing the specific needs of post-crisis countries.

Role of the state

- ↪ A key message to PAM members is the necessity of re-instating the lead role of government in guiding economic development. This includes “protecting” the economy from market failures and ensuring equal access to basic social and utility services.
- ↪ This lead role requires reform efforts to ensure greater accountability, transparency, predictability of laws and policies, and due support of the democratisation process.

Development-led growth

PAM member countries need to adopt development-driven approaches, as opposed to focusing on economic liberalization and export promotion as an end in themselves. This approach implies:

- ↪ Abandoning “automatic” macro-economic stabilisation approaches to economic development: inflation targeting policies can undermine investment, in particular when they increase real interest rates to prohibitive levels. Similarly, an excessive focus on taxation can undermine income equitability as well as investment incentives.
- ↪ Focusing on the development of production capacity as a major requisite for sustained growth and for achieving macro-economic stability. In this respect, countries are advised:
 - To treat trade policy as only one element of a comprehensive policy package, which needs to create synergies with other policies and to have a sequenced approach to economic liberalisation.
 - To mainstream poverty alleviation into trade policies, since trade development does not automatically lead to increased welfare.
 - To avoid rapid and sweeping privatisation. Privatisation needs to be guided and tailored to take into account the social impact of rolling back the state from economic activities.
 - To embed Foreign Direct Investment (FDI) in the economy, so as to ensure spill-over benefits in the form of technology transfer, job creation and so on.
 - To implement explicit programmes for social protection, including conditional cash transfers to families and employment generation programmes, since higher growth rates do not automatically lead to reduced poverty or income equality.

Regional integration and development

- ↪ Regional integration needs to be geared toward supporting, and not substituting for national development strategies.
- ↪ Regional trade arrangements should be based on WTO multilateral trading system rules and principles of most-favoured nation treatment (MFN) and transparency. In particular, customs unions should comply with article 24 of GATT, which stipulates that common tariffs should not exceed the level of the bound tariffs of its members within the WTO. In addition, regional trade arrangements should be notified to the WTO, even if these arrangements do not involve WTO members.

Productive capacity development as a key requisite for sustained, inclusive growth

Productive capacity development requires cohesive strategies that create synergies between trade, industrial, labour and other policies in order to allow for a greater specialization in dynamic

products, understood as technology-intensive products with high value-added. Since most of the region faces unemployment and poverty problems, governments are advised to ensure that the expansion of dynamic sectors goes hand in hand with the development of relatively labour-intensive industries. To achieve tangible results, such strategies should be sector-focused, geared toward developing production capacities at the enterprise level, following a bottom-up approach.

- ↳ Efforts at different levels should be aligned to target an economy's structural weaknesses particularly at the micro level.
 - *At the micro level*, interventions should seek to develop SME's technological capabilities; i.e. their ability and scope for efficient specialization in technology - intensive activities with high value added.
 - *At the inter-intra industrial level*, efforts should foster inter-firm coordination by promoting flexible specialization, and collective efficiency.
 - *At the meso level* efforts should seek to expand and diversify the range of services offered by market support institutions to allow for developing enterprises' technological capabilities.
 - *At the macro level*, the focus should be on creating macro-economic incentives, such as credit and foreign exchange availability; as well as incentives for competition..

- ↳ Policies should be geared toward supporting the « high road » to competitiveness. Trade, investment, technology and skills/education policies should be sector focused to address all areas of capacity shortfalls.

Priority Sectors

- ↳ The **agricultural** sector should be accorded priority treatment as a key element for achieving sustained poverty reduction, and food security.
- ↳ **Tourism** has been hard hit by the recent social upheaval and the resulting economic crisis, and governments are advised to launch special programmes for revitalizing and developing this sector.
- ↳ In the **energy** sector:
 - Protect value at the source; develop the necessary laws to ensure compliance and prevent market abuse (anti-trust); enable transit; encourage innovation, efficiency, and diversity; separate regulation from supply/production and minimize subsidies/other distortions.
 - Raise awareness of the importance of promoting energy efficiency by maximising the availability of information about costs and benefits, and, in general, by promoting a green economy; pursuing energy efficiency improvements through an integrated approach, with multilateral organizations, governments, utilities, municipalities, industry and the public sector working together and in parallel; and promoting policy reforms and institution building as recommended by the UN Secretary-General's Advisory Group on Energy and Climate Change in April 2010.
 - Adopt a regional approach to energy infrastructure development. An example is the corridor approach (instead of point to point connections) for developing the electricity sector. The corridor approach strengthens north-south cooperation and can facilitate securing the required financial resources.
 - Activate the Rome Euro-Mediterranean Energy Platform (REMEEP), which was established in December 2003, to act as a forum for promoting Euro-Mediterranean Partnership in the area of energy development.
 - Harmonize legal and regulatory frameworks, in relation to which the Association of Mediterranean Regulators for Electricity and Gas (MEDREG) could play a leading role.

- ↳ In the **water** sector:
 - Develop a formal process to strike a balance between the multiple, and sometimes, competing uses of water.
 - Ensure that river basins' water uses are optimised at the basin level, rather than at the project or national level.
 - Ensure that cross-border issues are fully and fairly addressed.
 - Promote the elimination of subsidies that cause shortages of water, and increase reliance on market mechanisms for water allocations and pricing.
 - Engage the public in transparent, open, and inclusive consultation processes.
 - Promote accession to international conventions and agreements on water, such as the UNECE water conventions that provide a comprehensive framework for managing transboundary water resources.
 - Promote proper use of water use in agriculture as a key element for ensuring food security. Priority should be given to reforming dam policies, improving water and waste management systems, modernising irrigation techniques, and establishing a Mediterranean policy for the sound use of water in agriculture.
 - Promote the integration of the climate change dimension into water resource management.

Trade procedures and trade facilitation

Without improving market access conditions in the region, trade agreements will be defeated by prohibitive transaction costs that pose trade barriers of a greater magnitude than tariffs. Effective trade facilitation calls for simultaneous efforts at multiple levels. At the highest level, neighbouring countries could subscribe to multilateral agreements and international conventions, which guarantee observance of standard procedures for customs clearance and movement of freight consignments across borders. At the middle-level, simplified and harmonized procedures could be embodied in bilateral agreements between neighbouring countries. In addition, countries should strive at the national level to simplify and harmonize procedures while using the international standards to the greatest extent possible. Then, finally, at the level of individual transport organizations, there could be arrangements between organizations for joint operations and facilities designed in harmony with global standards and regional specifications. It is essential that regional cooperation arrangements motivate the member countries to work on trade facilitation at each of these levels. Ideally, this would include:

- ↳ Assigning the task of harmonising trade procedures and regulations across the region to a regional committee or a task force.
- ↳ Establishing national trade facilitation bodies to coordinate and harmonize trade facilitation efforts at the national level, and to liaise with relevant regional and international bodies (UNECE Recommendation 4 provides a useful framework for guiding the establishment of national trade facilitation bodies).
- ↳ Adopting relevant international conventions, agreements, electronic business tools and standards to guide national and regional trade facilitation and harmonisation efforts. In this respects, PAM members could consider:
 - Accessing to international conventions and agreements on transport as a way for harmonising and streamlining overland and maritime transport procedures. Among the key conventions that governments should consider acceding to, and then implementing, is the United Nations Economic Commission for Europe (UNECE) TIR convention for transit goods. PAM members should also assume an active role in the formulation and computerisation of the TIR procedures (eTIR).

- Harmonizing import and export procedures, documents and trade data requirements across the PAM region. This could start with the Customs declaration and Certificate of Origin, and could be carried out under the aegis of an existing regional organization.
 - Encouraging the implementation of Single Windows for export and import clearance, based on UNECE Recommendations such as Recommendation 33 (on Single Window implementation), 34 (on data harmonization), and 35 (on legal aspects of the implementation of Single Windows).
 - Complementing Single Window arrangements with the harmonisation of trade documents. In this respect, the UNECE Layout Key Document provides a useful reference for guiding the simplification, streamlining and harmonization of trade documents.
 - Adopting internationally advanced IT systems to modernise customs procedures. In this context, a useful system is ASYCUDA, developed by the United Nations Conference on Trade and Development (UNCTAD), which allows for automating and centralizing customs procedures under one virtual roof, based on international standards.
- ↪ Giving priority treatment to the development of national and regional ICT infrastructure .

Regulatory reform

- ↪ Harmonize technical regulations and standardization policies across the region. The focus should be on streamlining and simplifying trade regulations; making them more transparent; and ensuring their predictability.
- ↪ Conduct a substantive analysis of legislation covering all areas of trade procedures and trade facilitation (data filing and exchange, public-private cooperation, transit, border-crossing rules and interagency cooperation, etc.) and prepare texts for amending existing legislation to enable trade facilitation.
- ↪ Adopt bills on electronic commerce; electronic signatures; and/or electronic documents (if not yet adopted), drawing upon the experience and legal texts (e.g. relevant directives) of the European Union; and inviting countries to become parties to instruments enabling electronic commerce, such as the United Nations Convention on the Use of Electronic Communications in International Contracts, or use the UNCITRAL Model Law on electronic signatures, if not yet adopted.
- ↪ Create a regional settlement centre to resolve commercial disputes among PAM members, as well as between PAM members and international trading partners.
- ↪ Reform investment laws and bring them up to international best practice, particularly in the context of the WTO- administered multilateral trading system.
- ↪ Reform labour laws where needed. Priority areas include labour laws governing port workers, as existing laws often undermine port modernisation and privatisation efforts.
- ↪ Facilitate the establishment of a regional database by PAM to act as a clearing mechanism for portfolio investments and foreign trade on the model of a similar database in Portugal.

Financing development

- ↪ Promote South-South cooperation and public-private partnerships to address the lack of financial resources for development. In this respect, the UNECE Center of Excellence on Public-Private Partnerships could be called upon for advice and technical assistance in designing sector-focused public-private partnership models.
- ↪ Establish a regional financial institution dedicated to supporting SME development and long term investments. It was suggested that this institution could be established in partnership with other financial institutions, as a branch of the European Investment Bank.

Small and Medium-Sized Enterprises (SMEs)

- ↪ Encourage the establishment of targeted trade finance schemes to support the development of SMEs productive capacity and import-export activities.
- ↪ Complement financial schemes with training programmes to strengthen SMEs' entrepreneurship, managerial skills and IT systems.
- ↪ Create skill matching programmes to ensure the continuous supply of essential skills required for developing priority sectors. Such programmes should involve training programmes to address mismatches between demand and supply of skills; maintain institutions and policies to anticipate and meet future labour market skills needs; and help workers and enterprises adjust to change.
- ↪ Adopt a cluster approach to SME development, as a key prerequisite for fostering backward and forward linkages between and among enterprises as well as between different SME clusters.
- ↪ Support linkages programmes between SMEs and transitional corporations to facilitate the transfer of technology, and attract FDI. In this respect, PAM members could consider promoting the establishment of regional entrepreneurial initiatives to link Northern and Southern Mediterranean PAM members, with the objective of stimulating joint investments and increased trade
- ↪ Promote innovation policies to encourage innovation, both through the supply and demand for innovation.

Post-crisis countries

The Conference also noted specific challenges facing post crisis countries, where economic vulnerability is aggravated by eroded productive capacity and weakened institutional infrastructures. While the immediate relief and emergency needs of these countries continue to dominate national and international agendas, they should not overshadow the necessity of laying the foundation for long-term economic development. There is an urgent need for linking relief efforts to long-term development objectives. Relief interventions should be designed to address sources of economic vulnerability and create the required institutional capacities to address these vulnerabilities, as opposed to having a sole focus on distributing food packages and emergency job creation. In this context, PAM countries are advised to:

- ↪ Examine the extent to which the crisis has led the poor to pursue damaging coping strategies such as selling their assets and withdrawing their children from schools. Enhancing the economy's coping strategies at the household and enterprise levels, also means supporting the informal sector that has been expanding as a survival mechanism in response to lost job opportunities. This support should be based on a clear understanding of the types of activities being undertaken, as opposed to being preoccupied with their legal status (as unregistered).
- ↪ Consider the establishment of a RAPID¹ Response Facility to create trade-led employment objectives for the Southern and Eastern Mediterranean - identifying sensitive sectors where opportunities for downstream employment exist and linking trade interventions to job creation in targeted geographic districts, emphasizing regional trade benefits arising from reconstruction and development.

¹ Alternative names: Reconstruction and Peace Investment Directive, Regional Arab PRO-INVESTMENT Drive and Realizing Arab Potential in Development.

Conference Follow-Up

It was suggested that one approach to following up on the Conference could be to request the three regional United Nations Economic Commissions, namely UNECE (Europe), UNECA (Africa) UNESCWA (West Asia), in their regional coordination roles, to set up a joint programme to support economic development in the Mediterranean, working with the regions countries and PAM to identify actions to be taken and supporting these based on their respective areas of expertise. Regional Commissions also have a special role within the UN system for coordination at the regional level and in this context could also involve other UN organizations. An existing model is the United Nations Special Programme for the Economies of Central Asia (SPECAs). This Special Programme for the Mediterranean could have PAM as its parliamentary partner which would contribute to building the political consensus required to support economic development and by determining specific actions to be taken in support of regional integration and economic development, for example by promoting the adoption by all countries of agreed upon conventions and supporting activities such as the establishment of national and regional trade and transport facilitation committees