Development Economic Policy Reform Analysis Project

Final Report

EGYPT: Strategy for Regional Economic Integration

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Ministry of Trade and Supply

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Acronyms

ACP	Asia, Caribbean, and Pacific
CBI	Caribbean Basin Initiative
CET	Common External Tariff
COMESA	Common Market of Eastern and Southern Africa
EC	European Community
EU	European Union
FCN	Friendship, Commerce, and Navigation
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTAA	Free Trade Arrangement of the Americas
GAFTA	Greater Arab Free Trade Area
G-15	Group of 15 Developing Nations
GATT	General Agreement on Tariffs and Trade
GATS	General Agreement on Trade in Services
GCC	Gulf Cooperation Council
GCEG	Gulf Cooperation Council Economic Group
GDP	Gross Domestic Product
GOE	Government of Egypt
GSP	Generalized System of Preferences
IADB	Inter-American Development Bank
IMF	International Monetary Fund
MENA	Middle East/North Africa
MERCOSUR	South American Common Market
MFN	Most Favored Nation
MGEG	Maghreb Union Economic Group
MSEG	Mashreq Economic Group
MWEG	MENA-Wide Economic Group
NAFTA	North American Free Trade Agreement
NTB	Non-Tariff Barrier
OAS	Organization of American States
PTA	Preferential Trade Area
RCA	Revealed Comparative Advantage
SITC	Standard International Trade Classification
TSM	Trade Simulation Model
UAE	United Arab Emirates
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UPTA	Unit [of account] of the [COMESA] Preferential Trade Area
USAID	United States Agency for International Development
VORSIM	Microsoft/Excel economic modeling software
WTO	World Trade Organization

PREFACE

This report is based upon a study conducted by the Development Economic Policy Reform Analysis ("DEPRA") Project, under contract to the United States Agency for International Development, Office of Economic Analysis & Policy, Cairo, Egypt ("USAID/Egypt") (Contract No. 263-C-00-00001-00), in response to a request from the Egyptian Minister of Trade and Supply.

The DEPRA Project is intended to encourage and support macroeconomic reform in Egypt through the provision of technical assistance and services to the Ministries of Economy and of Trade and Supply, with substantive focus on the areas of international trade/investment liberalization, deregulation of the economy, and financial sector strengthening. This study was led and supported by the staff of the DEPRA/MOTS office in the Ministry of Trade and Supply.

The instant study was conducted by a team of consultants comprised of James L. Kenworthy, Esq., of Nathan Associates Inc., Team Leader of DEPRA/MOTS and international trade and investment advisor to the DEPRA Project; Dean A. DeRosa, Ph.D., ADR International of Falls Church, Virginia; Mohamed Kamel Saber, Ph.D., economic and trade consultant, Cairo, Egypt; Amb. Adel S.Abdel-Meguid, regional trade arrangements specialist, Cairo, Egypt; and Abdel Wahab Heikal, export promotion advisor, DEPRA Project. The views expressed herein are solely those of the authors and are not intended as statements of policy or opinion of either USAID/Egypt, the Ministry of Trade and Supply, or the authors' parent institutions.

EXECUTIVE SUMMARY:
FINDINGS AND RECOMMENDATIONS

Findings

The goal of regional integration is to realize for member states, through the combined size of their collective productive capacities and markets and the sectoral complementarities that may exist among them, incremental trade possibilities that may be generated by (a) elimination or reduction of impediments to trade and investment; (b) encouragement and facilitation of such trade/investment through harmonization of their trade-related legal/regulatory systems; and (c) coordination of compatible macroeconomic and monetary policies. A secondary goal is to aggregate the collective economic influence of member countries for purposes of negotiating leverage in defining the global framework of rules for trade and investment.

Among the possible economic gains for regional trade arrangements are: (a) trade creation; (b) enhanced efficiency of production through increased specialization and intensified competition; (c) increased national production; (d) enhancement of product quality; (e) increased inward investment and transfer of new technologies; and (f) improved national terms of trade.

Major substantive areas addressed in trade arrangements negotiations may include: market access, rules-of-origin, schedules for implementation; specific sectoral commitments; and dispute resolution. Generally, the more nations involved in such negotiations, the more complex they become and the longer the time required to conclude agreements.

A major concern relating to regional integration agreements is the inconsistency of the regional versus the global approach to achieving trade liberalization. At issue is whether regional arrangements undercut multilateral efforts to promote global trade liberalization and trade creation through world-wide agreements and rules governing trade and investment. Regional arrangements, with their possibilities for trade creation among member states, may realize the goal of expanded exports, but do so in ways inconsistent with the basic GATT/WTO principles of Most Favored Nation and National Treatment and tariff binding commitments. However the GATT/WTO global rules for international trade, subject to certain criteria, waive such WTO requirements in Article XXIV of the GATT'94, Article V of the General Agreement on Services (GATS), and the so-called "Enabling Clause" of the GATT relating to special and differential treatment for developing nations.

Under the aegis of the Arab League, at least nine League-inspired agreements for preferential trade and economic integration have been concluded--in addition to at least another eight unrelated regional or subregional arrangements. But the majority of such agreements have been undermined by political differences, national animosities, infrastructural constraints, inconsistent and often opposed economic systems, lack of sectoral trade complementarities, and domestic protectionist pressures. Of all of those arrangements, only two recent agreements have managed to subsist: the Arab Maghreb Union and the Gulf Cooperation Council.

Recently, however, a new arrangement has been concluded--the Greater Arab Free Trade Area (GAFTA)--signed in February, 1997 and intended to go into effect on 01 January 1998. As of March, 1998, the GAFTA agreement had been signed by all Arab nations except Algeria, Mauritania, and Djibouti, but it is still not in full operation because of the failure of a number of signatories to complete procedures for ratification of the agreement, and of some signatories to table "positive lists" of goods eligible for GAFTA-wide tariff preferences.

In addition, Egypt and a number of other countries have taken advantage of the GAFTA provision authorizing--and, indeed, encouraging--Arab countries to accelerate the implementation of preferential intra-Arab trade through the conclusion of bilateral trade arrangements. Egypt has been heavily involved in pursuing such arrangements, having concluded preferential trade agreements with Jordan and Tunisia and pushing for similar agreements with Kuwait, Lebanon, Libya, Morocco, Saudi Arabia, Syria, and Yemen.

Certain extra-regional trade arrangements affect the possibilities for an effective MENA-wide regional trade agreement that might be beneficial for Egypt's program of economic growth through export expansion.

Under the umbrella of the European-Mediterranean Partnership Agreement signed in Barcelona in 1995 between the 15 countries of the European Community (now the European Union) and 12 countries of the Mediterranean region, including eight Arab nations, a number of implementing bilateral "Euro-Med" agreements have been signed by the EU with Jordan, Morocco, Tunisia, and Israel, while a similar agreement with Egypt has been in protracted negotiation for nearly two years. These agreements generally contemplate a 12-year transition period providing for the gradual elimination of all tariffs and quotas by the end of the transition period. The agreements reflect a "hub and spoke" strategy on the part of the EU to the development of preferential trade relations with individual MENA countries that could result in MENA country economic dependency on the EU, but they also encourage regional integration efforts by promoting trade and economic cooperation as long as such arrangements do not alter the preferences provided EU nations.

Recently, Egypt took action to extend its possibilities for preferential access for its products to the markets of the 21 Sub-Saharan African nations that are members of the Common Market of Eastern and Southern Africa (COMESA) by joining that grouping, the only MENA nation to have been admitted to membership in COMESA.

MENA region economic integration efforts, multilateral and bilateral, demonstrate the lack of an integrated, coherent approach to regional economic integration through mutual trade liberalization. More important, in clouding the expectations for regional initiatives, are certain structural and policy-based inhibitions currently found in most MENA countries that undermine efforts to achieve regional economic integration. These include: high nominal tariffs; high effective rates of protection; protectionist policies, especially in the agricultural sector; the proliferation of non-tariff barriers to trade (NTBs); and unnecessary and costly bureaucratic practices and "red tape".

But the effectiveness of actual integration initiatives has been constrained as well by a number of trade arrangement-specific obstacles. These include: lack of agreed timetables for gradual introduction of exemptions for goods from tariffs and NTBs; weakness of an implementing national and multinational legal/regulatory framework to facilitate integration arrangements; excessive country "exceptions" or "negative lists" for product eligibility for preferences; and lack of effective, consensus-based rules-of-origin to determine the "nationality" of products and, thereby, their eligibility for preferences.

Success factors for Arab nations that would permit them to achieve beneficial integration arrangements include: focusing on macroeconomic problems on a regional rather than a national "zero sum" basis; adopting policies and legal/regulatory regimes that encourage and facilitate private sector entrepreneurial activity, economic specialization, productivity, and sectoral competitiveness on a regional basis; eliminating policies that inhibit, rather than facilitate, cross-border trade and investment; overcoming the reluctance of MENA region investors to invest in their own region by adopting macroeconomic policies that encourage new investment; and reforming national bureaucracies to eliminate the red tape, delay, and corruption that impede trade and investment.

During 1994-96, intra-MENA trade amounted to less than ten percent of total trade of MENA countries with the world and less than one percent of global trade. The top five intra-MENA exporters were Saudi Arabia, Turkey, United Arab Emirates, Iran, and Egypt. The top five intra-MENA importers were Turkey, UAE, Saudi Arabia, Oman, and Kuwait.

Egypt's imports from the world at large totaled \$11.4 billion, but it imported only \$0.6 billion from MENA countries, or only 5 percent of its total imports. Conversely, it exports only \$ 0.9 billion to other MENA countries, representing less than 20 percent of its total exports to the world at large (\$4.9 billion).

Intra-MENA trade may be low relative to MENA's participation in world trade because it reflects the production structure of the MENA countries, the overall limited openness of the MENA economies to trade with other MENA nations and the rest of the world, the intense export competition among MENA countries in certain sectoral areas of common production, and a relative lack of intra-MENA trade complementarities.

Based on estimations of Revealed Comparative Advantage (RCA)[1] from available trade data, it appears that MENA countries achieve high levels of RCA in mineral fuels and petroleum. Several MENA countries also demonstrate relatively high levels of RCA in food, live animals, and

[1] The RCA index provides a rough indication of a nation's export prospects by comparing its share of world exports of a given product with its overall share of world exports. If the index exceeds unity (1) the country can be said to have a Revealed Comparative Advantage in the particular product being measured. If the comparison results in an RCA index of less than unity (less than 1.00) the country is said to have a revealed comparative disadvantage in that product.

selected agricultural products such as cereals, rice, vegetables, and fruit. Egypt has high RCA levels in rice, sugar, and cotton. RCA in overall manufactures does not appear significant in MENA countries except in traditionally labor-intensive categories of manufactures such as textiles, clothing and apparel. With the exception of Israel, no MENA country demonstrates a significant RCA in both skilled labor-intensive and technology-intensive products.

Egypt--in pursuit of its goal of increased exports--confronts basically four approach options to realize economic growth through expanded exports: unilateral liberalization; participation in one or more regional integration arrangements; focusing on other geographical markets with greater incremental gains possibilities; or concentrating on WTO-led global trade liberalization. These options are not necessarily contradictory, so that Egypt could employ more than one of these approaches.

On the issue of regionalism vs. multilateralism, the arguments for regionalism are:

- regional agreements take less time for realizing exports through enhanced market access as the number of countries and sectors are limited;

- regional agreements allow Egypt to target most promising markets for incremental exports;

- the fewer nations involved, the greater will be Egypt's influence in shaping the rules for such agreements;

- the likely short-term net economic benefits from a regional arrangement, and the political attractiveness of them, may outweigh the commercially and politically less certain, longer-term outcome of a truly multilateral, global trade liberalization process.

- a limited FTA may be more realistic for Egypt since it would likely provoke less domestic protectionist opposition; and

- there seems nothing to prevent Egypt from entering into more than one regional integration agreement.

Arguments for Egypt's concentrating on a multilateral approach are:

- a regional approach opens up very few markets, while a multilateral approach, when and if realized, opens up all the markets of the world;

- the ability of developed countries to manipulate the outcomes of multilateral negotiations in the development of global trade rules is decreasing as more and more developing nations join the WTO; and

- Egypt may be better enabled to protect its interests effectively within a framework of strong, enforceable global rules for trade shaped by the increasing influence of developing nations acting in concert.

It is important to note, however, that trade economists are concerned that there is considerable uncertainty surrounding the strategic trade and development interests of countries pursuing regionalism.

Classical economic theory of regional integration arrangements (Viner, Meade) causes trade economists to be reluctant to recommend regionalism, since quantitative and empirical economic studies often find that gains in national welfare from regional integration arrangements, while they may positive, are modest in comparison to welfare gains from pursuing nondiscriminatory trade liberalization--or "open regionalism."

Examination of the current RCA of MENA countries finds that, while there is some variance in precise commodity patterns of comparative advantage among countries of the region, the MENA countries are roughly similar in their comparative advantages (and competitive disadvantages).

The economic theory of regional integration suggests that, under such circumstances, all but the most highly protected (high tariffs, many NTBs) countries seeking to form free trade areas (FTAs) or customs unions (CUs) should expect to achieve <u>little improvement</u> in their economic welfare, e.g., (a) trade creation would occur principally in traditionally import-competing sectors among member countries; and (b) trade <u>diversion</u> is likely to dominate trade creation; so that (c) economic gains would be modest and would not be equitably shared among member countries without provisions for redistributing net economic benefits.

Moreover, regional integration arrangements in MENA could tend to stimulate domestic and foreign direct investment in <u>inefficient</u> sectors and, thereby, retard long-term growth and development prospects.

In the quantitative analysis model reported in Chapter 9, it appears that trade diversion dominates trade creation by wide margins under <u>all</u> regional integration scenarios except the "open regionalism" variant, predominantly because MENA countries are not internationally competitive in more than a few sectors (e.g., mineral fuels, textiles/apparel).

In the particular case of Egypt, the quantitative analysis concludes that the Arab Maghreb Union is the <u>sole</u> preferential free trade area in the MENA region for which it finds positive welfare gains for Egypt, primarily because Egypt and the Maghreb countries generally have the highest levels of tariffs in the MENA. Nevertheless, overall, there is limited employment generation potential for Egypt's participation in either the Arab Maghreb Union <u>or</u> the Greater Arab Free Trade Area, because, in either case, the trade created by these regional arrangements would likely occur in sectors with less potential for efficiently absorbing added numbers of Egyptian workers.

The theoretical and quantitative economic analyses presented herein suggest the preferability of Egypt's pursuing "open regionalism" in MENA, either unilaterally or on a concerted basis. Under open regionalism, MENA nations would eliminate their import barriers on a Most Favored Nation (MFN) basis rather than on a geographical preferential basis, and, thereby, expand their trade relations with countries outside of MENA, as well as with one another, in a manner consistent with the WTO's multilateral approach to global trade liberalization. But, assuming that implementation of open regionalism cannot or may not occur in the short to medium-term, the economic analysis suggests that Egypt's best choice for an integration possibility is the Arab Maghreb Union.

Recommendations

(1) Egypt should first concentrate on continuing to enhance its domestic economy (and thereby its attractiveness for both regional and multinational trade and investment) by adopting policies and a legal/regulatory regime that build up its domestic private sector and rewards entrepreneurially-oriented, investment-based, activity within a free-market economy that promotes economic specialization and productivity.

(2) Egypt should also continue to eliminate existing obstacles to international trade and investment through reforming its legal regime and bureaucratic practices so as to encourage and facilitate, rather than impede, such trade and investment.

(3) Egypt should also seek to harmonize as much as possible its overall free market macroeconomic policies and legal/regulatory regime and reforms therein with those of the countries with whom it is considering entering any form of regional trade agreement.

(4) Even as it focuses on the possibilities for regional preferential trade arrangements, Egypt should recognize that, according to economic theory backed up by the quantitative modeling and analysis of this study, the actual welfare impacts realizable from so-called "open regionalization," e.g., unilateral trade liberalization on a global MFN basis, may, in the medium and long term, actually exceed the welfare gains from a limited, regional arrangement in the short-term, and, so, give serious consideration to implementing such unilateral trade liberalization. Only if it is then determined that "open regionalism" would not prove a feasible policy approach in the short-run, should the GOE pursue the possibilities of regional arrangements.

(5) Also, while there may be political imperatives that suggest the benefits of regional arrangements, Egypt should prioritize its time and resources towards achieving enhanced market access in those geographical markets that actually provide the greatest likelihood for real and substantial incremental exports, e.g., the European Union, USA, Japan (eventually), and East Asia.

(6) But, in assessing whether, and with which countries, to enter into a regional preferential trade relationship, Egypt should concentrate on realizing its explicit and attainable short-term economic interests (economic development and job creation through expanded exports) by focusing its policy formation and negotiating efforts on those countries that are its most realistic incremental export markets--e.g., on those with which it has the clearest sectoral

and product trade complementarities and, with regard to which sectors and products, it has its clearest comparative advantages as compared with other potential suppliers to such markets.

Based upon the quantitative economic analysis undertaken herein, it would appear that Egypt's greatest realizable benefits would flow from becoming a member of, or negotiating an FTA with, the Arab Maghreb Union, whose countries have generally more advanced economies and demonstrated product complementarities with Egypt, e.g., food and processed food, and agricultural commodities.

(7) In approaching the possibilities for a regional trade arrangement relationship with other countries of the MENA region, Egypt should concentrate, at least at the beginning, on negotiation of a so-called "shallow" FTA arrangement that would enhance its access to target markets through effective, enforceable, tariff preferences and removal of NTBs rather than attempting to construct a more complex, "deep" arrangement that involves substantive areas and issues upon which there may be difficulties in achieving agreement and would take much longer to negotiate and realize in actual operation.

(8) Egypt should remain firm in its bargaining strategy in its negotiations with the European Union for an Egyptian Euro-Med Partnership Agreement in order to obtain greater and more immediate access to EU markets in areas of significant Egyptian comparative advantage, so as to negotiate an even more favorable agreement with the EU than have other such countries, thereby to enhance its attractiveness as a potential preferential trading partner with those regional countries whose markets offer Egypt the best incremental export possibilities.

(9) At the same time that Egypt undertakes negotiations for one or more regional trade arrangements, it should also continue to participate effectively in the GATT/WTO's multilateral efforts at realizing free trade in the long-run on a global basis, taking a leadership role therein on behalf of all developing countries in general and MENA developing countries in particular.

(10) And, while attempting to realize regional trade arrangements, Egypt should also concentrate on the necessity for realizing the trade creation and export expansion impacts of such agreements of building the international competitiveness of its export industries, not only in the sheltered preferential markets of trade arrangement member countries.

(11) Egypt should require and ensure that any regional trade arrangement of which it becomes a member is consistent with the multilateral disciplines and criteria for exemption therefrom of the GATT/WTO, so as to harmonize with and facilitate the eventual realization of global free trade.

(12) In order to integrate and coordinate its efforts in addressing the above matters, the GOE should establish an Inter-Ministerial Commission for Economic Integration to consider all aspects of regional trade and economic integration arrangements, and to suggest the policy reforms and negotiation strategies necessary to maximize the trade and economic gains therefrom.

(13) Egypt should provide all necessary support for confronting and resolving the many issues inherent in the negotiation and structuring of regional trade arrangements by availing itself of technical assistance from the GATT/WTO, UNCTAD, and other multilateral and national technical assistance agencies.

1.0 INTRODUCTION

Under the Structural Adjustment program initiated by the Government of Egypt ("GOE") in 1991 and in fulfillment of its commitments involved with its accession in 1995 to the World Trade Organization Agreement and its implementation of its Uruguay Round Agreements and the provisions of GATT '94, the GOE embarked on twin courses of trade liberalization and domestic market opening, on the one hand, and, on the other, an aggressive export expansion program designed to enhance Egypt's export competitiveness in and sales to the global market.

More recently, the GOE committed itself and its resources toward achieving a ten percent growth in Egyptian exports in support of its goals for job creation and economic growth and development. Its export expansion program reflects the GOE's recognition that its future domestic prospects and the well-being of its people depend directly on its ability to increase exports at a dramatic pace to generate the income needed to support economic transformation, raise standards of living, and reduce its dependence on more volatile sources of income--worker remittances and tourism. Growth (and diversification) of exports is viewed as a major catalyst for long-term sustainable development.

Pursuant to its policy goal of enhanced exports, the GOE formed the Higher Export Council, chaired by the President himself, to consider and to establish general GOE policies to encourage and facilitate exports and surmount the obstacles thereto. Its policy calls for maintaining Egypt's presence in existing markets while opening up new markets for its goods and services.

Part of the GOE's program for expanding exports is to try to realize the trade (and investment) creation effects of regional economic and trade integration through free trade agreements (FTAs) or customs unions (CUs) to take advantage of Egypt's geographically central location in the Middle East/North Africa (MENA) region to establish it as both a production and a regional marketing center for the Maghreb, Mashrik, and Gulf nations.

This study was specifically requested of DEPRA by the Minister of Trade and Supply, Dr. Ahmed Goweili, to survey possibilities for increasing Egyptian exports to other nations of the MENA and GCC region through maximizing the enhanced market access benefits of regional economic integration arrangements. The Minister, in making his request, noted that many of the existing regional trade arrangements in the MENA region were entered into more for political or solidarity reasons than for economic, with the result that a number of them do not reflect commercial realities and do not function well, if at all. As noted by the Minister, despite the proliferation over the last forty years of such arrangements, inter-Arab trade continues to comprise less than ten percent of the total external trade of the Arab nations of the MENA region.

As requested by the Minister, a major concern of the study is (1) to evaluate the effective growth potential for Egyptian exports in terms of these existing or possibly new arrangements, given the realities of trade complementarities among the nations of the region and (2) to suggest whether further efforts at MENA integration are justified from the standpoint of the incremental export and welfare impacts for Egypt likely to be realized by such arrangements. The Minister requested also the formulation of a recommended strategy for Egypt to pursue over the medium term in maximizing the returns to Egypt in negotiating and implementing one or more such arrangements or, indeed, whether Egypt should concentrate on extending its network of bilateral trade agreements in the region, or undertake a combination of both.

The Minister's concerns regarding the possibilities for Egypt of MENA regional arrangements are well taken. Since the beginning of this decade, regionalism has held as much, and, more recently, even more, attention in international trade relations than multilateralism. The conclusion of the Uruguay Round of multilateral trade negotiations in 1994 led to establishment of the World Trade Organization ("WTO") and committed its member nations, including Egypt, to further liberalizing their imports of goods and services on a non-discriminatory or Most Favored Nation ("MFN") basis. But in recent years, preferential regional integration and/or trading arrangements have proliferated in many areas of the world and, by recent count, more than fifty such arrangements have been notified to the WTO.

A number of such arrangements have been concluded in the MENA region since the end of World War II. They include: the Arab Common Market (1964), the Gulf Cooperation Council (1981), the Arab Organization for Economic Cooperation (1985), the Arab Maghreb Union (1989), a proliferating network of bilateral trade agreements, and, most recently, conclusion of the agreement for establishment of the Greater Arab Free Trade Area (1996), essentially an attempt to reorganize and revitalize the dormant Arab Common Market.

The point of regional integration for Egypt is to draw the connection between its export potential and the enhanced export possibilities that arise from the trade creation dynamics of trade liberalization and preferential market access arrangements. To the extent Egypt has unrealized trade potential and commercial sectoral complementarities with other MENA region and Gulf Cooperation Council (GCC) nations, regional economic integration could help to unleash and realize that potential, leading to economic growth.

This study, prepared in response to the request of the Minister for Trade and Supply, is designed as an aid for GOE (and MENA) policy makers interested in determining the possibilities for maximizing Egypt's economic and commercial interests in the MENA region through participation in one or more such arrangements, and for recommending a strategy for Egypt to pursue a leadership role in fostering greater inter-Arab trade through such arrangements. In addition to surveying the provisions and effectiveness of existing arrangements, and the sectoral complementarities that could promote increased trade among Arab nations, the study includes an exploratory quantitative analysis of the economic implications for Egypt of such arrangements, upon the basis of which more sophisticated forms of applied economic analysis could be undertaken by the DEPRA Project in future studies.

2.0 POLICY REASONS FOR ECONOMIC INTEGRATION

2.1 The Goals for Economic Integration

An early goal for regional integration was the regional of national import-substitution policies to stimulate and allocate industrialization while essentially excluding external trade and investment, a classic example of which was the ill-fated Andean Common Market. Another early goal was to express regional or ethnic consensus and political solidarity through treaties designed to express unity of purpose and goals which were based only secondarily, if at all, on economic goals or commercial realities. But, since the essential failure of the import-substitution model of economic development, a consensus has grown throughout the developing world that openness to trade and investment is crucial to achieving new technology, increased productivity, increased capital investment, greater competitiveness in global markets, job creation, and a higher standard of living. This consensus recognizes that the possibilities for economic growth for any individual nation remain essentially defined by considerations of market size, gross domestic product ("GDP"), supply of capital, productivity, and access to both regional and global markets.

The first goal of regional integration is to realize, through the combined size of their collective productive capacities and markets and the sectoral complementarities that may exist among them, a form of economic synergy among member nations and, thereby, incremental growth possibilities through both trade and investment creation generated by (a) eliminating or reducing impediments to trade and investment among them (tariffs, quotas, non-tariff barriers, poor investment climates); (b) encouraging and facilitating that trade/investment through harmonization of legal/ regulatory regimes; and (c) coordinating compatible (if not necessarily uniform) macroeconomic and monetary policies. Among the possible economic gains from such arrangements are: (a) realizing the trade creation possibilities of trade complementarities (e.g., commodities or services that one nation has to sell and another wants to buy); (b) realizing enhanced efficiency in production through (i) increased specialization derived from exploiting comparative advantages in liberalized (foreign) markets, and (ii) intensified competition in the domestic market with greater consumer choice and more competitive prices; (c) achieving increased production due to better exploitation of economies of scale made possible by expanded markets; (d) qualitative enhancement of production due to technological advances made possible through technology transfers resulting from liberalized foreign direct investment; and (e) improved national terms of trade based on cheaper imports and increased exports.

The second goal of customs unions and common markets (the more advanced forms of trade/investment arrangements) is to aggregate--by adopting common external tariffs ("CETs") and negotiating as economic and commercial units--the economic clout of their respective economies so as to derive enhanced negotiating leverage in pursuing access to global markets and reasonable treatment within the framework of global rules for trade and investment. This has become a political, as well as a commercial, imperative now that even most developing nations have cast off import substitution policies and protectionism in favor of gradually opening economies and must demonstrate tangible economic benefits for industries and workers that may be adversely affected thereby.

Writing for the Center for International Private Enterprise, Felix Pena argues that, ultimately, it is national self interest that is the “building block of integration.” He has written:

> The starting point for effective integration is national self interest of all members. This is a voluntary process between sovereign nations within which members decide to work together because they understand it is in their own best interest and that it is better to be a member of the group than to remain an outsider. And this is not only desirable in purely economic terms, it is desirable from the standpoint of the gains to be made from participating in reciprocal trade or of attracting new foreign investment. It is the shared vision of mutual gains reflecting self interest that is the dynamic for creating and maintaining the potential for a ‘win-win’ situation that explains the adherence toward integration over time. In the cases of successful integration, the sovereign members have opted to work together in systematically opening their markets and resources with a view to achieving commonly-held objectives of economic development, increased well-being, and greater negotiating capacity in global trade arrangements. It is to the extent that the group is perceived by the masses in each member country as providing mutual gains that it will be possible to withstand the natural tensions produced by integration, in particular, the occasional inequalities among member countries in the distribution of costs and benefits--for example, in trade flows or the location of investment -that can be mitigated over time through public support of the group as a whole.[2]

Moreover, economic integration is seen to have other practical benefits as well. An integration arrangement between nations may be the most effective tool for ensuring that hard-fought economic reforms are not reversed by subsequent weaker, more protectionist, political regimes, since an international treaty is harder to repudiate than merely repealing existing domestic legislation (so-called “locking-in” of trade liberalization). The immediate benefit of locking in liberalization is that it is likely to provide a stimulus for investment--domestic and foreign. Any arrangement that ensures that a particular structure of domestic prices and incentives will endure for a long time, rather than be changed overnight, will encourage investment. Finally, the economic opportunities created through integration tend to open up economies to greater competition and, thereby, to diffuse the influence of entrenched domestic interest groups, enabling other important reform initiatives such as improvements in industrial, labor, and environmental policies, the kinds of reforms that may otherwise be difficult to achieve unilaterally.

2.2 Pros and Cons: Trade Creation vs. Trade Diversion

The impulse for economic integration is based upon the underlying premise that such arrangements can lead to so-called "trade creation,” which, in turn, by increasing exports and imports, catalyzes economic growth. It has been suggested that trade expansion--whether via an integration scheme or otherwise--contributes to overall economic growth. For example, according to Hufbauer and Schott, when both exports and imports grow at a rate of five percent a year, real

[2] “Integration and Democracy: The Experience of MERCOSUR”, Felix Pena, Economic Reform Today, (date), Center for International Private Enterprise, Washington, D.C. 1997

GDP is increased by 2.3 percent annually. Specifically, according to them, an annual five percent real growth in exports contributes 1.3 percent to annual GDP growth, while and annual five percent growth in imports contributes one percent to real GDP growth.[3]

The concept of trade creation through integration is relatively simple: by eliminating all trade diverting restrictions (internal tariffs, non-tariff barriers) among member countries while maintaining individual country or common external tariffs on imports from all other countries, member nations will unleash and increase trade among themselves. For example, recent data indicates that MERCOSUR--the customs union formed by Argentina, Brazil, Paraguay, and Uruguay--is rapidly consolidating its position as the main market for member country products; indeed, between 1990 and 1996, reciprocal trade increased four-fold, more than offsetting export loses to NAFTA. Unquestionably, trade creation can occur and when it occurs, it can have very positive impacts for member countries and their economies. However, such arrangements can also generate negative impacts, for non-member countries or even for member nations themselves. And, if the negative impacts outweigh, in the aggregate, any positive impacts of such an arrangement, then--at least in the overall global context--the arrangement will not be seen as a good thing, even though providing some benefits for its members.

If, for example, the arrangement shifts production from higher cost non-member nations to lower-cost member nations, then such a situation may lead to: (a) increased internal trade between partner nations, e.g., "trade creation", and (b) reduced costs to consumers in member nations (including especially manufacturers dependent on imported inputs), increasing overall economic welfare and stimulating economic growth. And, if the trade creation that occurs is not generated at the expense of reduced trade in the aggregate of member countries with non-member countries (the rest of the world), then the arrangement will be seen as contributing to overall freer trade and expansion of world trade, so that both its internal and its external effects are positive.

But, if the external tariffs of the member nations on goods originally imported from outside the arrangement shift production thereof from external producers to internal producers, then this results in "trade diversion" if it effects a lowering of aggregate member trade with the rest of the world. Moreover, since foreign direct investment (FDI) tends to follow trade stimuli, this diversion of trade may also result in diverting FDI from third country nations to member countries ("investment diversion")--a matter of major concern currently to many Caribbean countries as a result of the NAFTA arrangement between Canada, Mexico, and the United States. And, if the trade diversion is from lower cost third country producers to higher cost member country producers, then the arrangement will increase the costs of such goods to internal consumers either directly, or, in the case of manufacturers dependent on imported inputs, indirectly, thereby decreasing overall economic welfare. To the extent the arrangement generates trade diversion effects greater than its trade creation effects among member countries and/or results in an overall decrease in welfare therein, it will be seen as impeding, rather than contributing to freer trade (the degree of trade diversion will depend, in large part, on the various member countries' particular level of tariff rates before the FTA/CU, e.g., the higher their external

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[3] Western Hemisphere Economic Integration: Starting Point, Long-Term Goals, Readiness Indicators, Paths to Integration", Gary C. Hufbauer & Jeffrey J. Schott, Inter-American Development Bank Occasional paper 10a, IADB, Washington, D.C. 1994.

tariffs, the greater the likelihood of trade diversion, the lower their external rates, the lesser the likelihood of trade diversion--thus, a member country can reduce the likelihood of trade diversion by reducing its external tariffs to non-members while at the same time removing its tariffs and NTBs to member countries). The goal of economic integration is to achieve incremental trade benefits from the synergy of association (internal trade creation) while avoiding the zero-sum diminution of trade with non-member trade partners (external trade diversion). These concerns are reflected in the GATT/WTO rules regarding regional arrangements discussed in section 5.0 hereof.

3.0 BACKGROUND ON REGIONAL ECONOMIC INTEGRATION ARRANGEMENTS

3.1 The Variants of Economic Integration

Nearly all of the WTO's 132 members have signed one form or another of regional trade agreement with other countries. To date, 144 such agreements have been notified to the GATT/WTO, of which some 80 are considered still in force. Among them, there is an ascending order of magnitude in terms of the "depth" of involvement of member countries that ranges from very loose (yet still structured) commercial relationships upward toward organic economic and political relationships. Each of these variants has its own particular set of logic, dynamics, requirements, and impacts. Basically, they include: (1) FCN treaties and economic cooperation agreements; (2) concessionary trade preference systems; (3) preferential trade arrangements (including trade preference associations and free trade areas); (4) customs unions; and (5) common markets. [Chart No. 1 summarizes these variants.]

3.1.1 **FCN Treaties and Economic Cooperation Agreements** are the basic "contact" arrangements that establish a basis for recognition and cooperation.

An FCN or **Friendship, Commerce, and Navigation Treaty** is a bilateral agreement between two nations that establishes a framework for commercial intercourse in terms of the rules that will apply in each country to traders from other countries and their goods. They provide for security and protection for their activities in the signatory countries. They generally extend MFN ("Most Favored Nation") and National Treatment to traders and goods of the parties to the agreement. "MFN" means that the offering country will extend to the receiving country, its traders and goods, treatment equal to that extended to its "most favored" trading partner with respect to the entry of goods into its market. "National Treatment" means that, once entered into the market of the offering country, the receiving country's traders and goods will receive treatment no different from that extended by the offering country to its own traders and domestically-produced goods, e.g., no better, no worse.

Economic Cooperation Agreements generally are intended to promote bilateral or regional cooperation in economic and commercial relations (e.g., payment and banking facilitation agreements; customs documentary harmonization) and, often, provide for joint development efforts in selected sectors, (e.g., fishing, transport, communications). While they are short of actual “integration” through tariff reduction, they nevertheless provide benefits that are shared among member countries and frequently serve as precursors to the negotiation of actual integration agreements.

Examples of economic cooperation agreements include: the Arab Economic Council, an organization of all Arab countries, primarily for consultation on economic development, coordination, and cooperation; the Economic Cooperation Organization, founded in 1985, composed of Iran, Turkey, Afghanistan, Pakistan, and six Central Asian countries, for bilateral

CHART 1

Economic Integration Variants

Variant	Treatment Internal Trade	Common Commercial Policy	Free Factor Mobility	Common Monetary/ Fiscal Policy	Politica Union
Assn.,Partnership, Framework Agmts.	Some Lower Tariffs	No	No	No	No
Trade Pref. Assoc.	Preferen- tial Lower Tariffs	No	No	No	No
Free Trade Area	Free of Tariffs and most NTBs	No	No	No	No
Customs Union	Free of all Tariffs and NTBs	Yes	No	No	No
Common Market	Same	Yes	Yes	No	No
Monetary Union	Same	Yes	Yes	Monetary Only	No
Economic Union	Same	Yes	Yes	Yes	No
Political Union	Same	Yes	Yes	Yes	Yes

(Based on: Economic Integration Worldwide, Ali M. El-Agraa, ed., St. Martin's Press, NYC - Table 1.1.)

trade and investment cooperation and sectoral cooperation; and the Trade Expansion & Cooperation Agreement, signed in 1985, between Egypt, India, and Yugoslavia.

3.1.2 **Concessionary Trade Preference Systems** are multilateral agreements between developed/industrial nations on the one hand, and developing nations on the other, that provide for non-reciprocal, tariff-free or lowered tariff treatment for the products of the developing nations when imported into the developed nations' markets. The purpose of the agreements are to encourage and facilitate the economic development of "developing" nations by affording them the opportunity to export and sell their products in developed country markets free of duties that would otherwise make their products non-competitive therein. They are non-reciprocal in that the developed nations do not expect tariff-free or other concessionary treatment in return for their exports to developing nations. The best known concessionary trade preference systems are the Generalized System of Preferences or "GSP", the Lome IV/ACP Convention, the United States' Caribbean Basin Initiative (CBI), and a Canadian preferential program for Caribbean and Central American countries.

3.1.3 **Preferential Trade Agreements** take several forms, but all involve a reciprocal "Quid pro Quo" among its members, e.g., mutually favoring the trade of member countries over that of non-members. They include: Association, Partnership, or Framework Agreements; Trade Preference Associations; and Free Trade Areas.

Association, Partnership, and Framework Agreements are agreements that usually establish a structured, time-defined process for the negotiation of future trade agreements, but may, themselves, also provide for the phased reduction, over time, of tariffs on goods of signatory countries. The first generation "Euro-Med" Agreements, so-called "cooperation" or "partnership" agreements signed between the European Union ("EU") and Egypt, among eight MENA countries, provided for some trade preference by the EU to the other countries on a non-reciprocal or limited-reciprocal basis. The Arab Cooperation Council, signed in 1989, between Egypt, Iraq, Jordan, and Yemen, created a "framework" for consultation and cooperation to promote investment in joint products and trade liberalization designed ultimately to lead to a "common market."

In a somewhat more structured arrangement, a **Trade Preference Association**, each participating country establishes lower barriers against imports from other participating countries than it applies to those from non-participants, but such "internal" tariffs may not be uniform among its members, nor are all non-tariff barriers (NTBs) affected. These agreements are often seen as "interim agreements" pending negotiation of more extensive free trade or customs union agreements. An Arab example of a trade preference association is the Gulf Cooperation Council ("GCC"), effective in 1981, which contemplates eventual "deep integration" (eventual common market) among member countries through free movement of goods, services, and factors of production.

In the best known variant, the **Free Trade Area**, established under a free trade agreement ("FTA") such as the NAFTA, member countries eliminate nearly all tariff barriers and most non-tariff barriers to imports from other member countries (internal trade), but continue to apply their respective individual country tariffs ("external") tariffs and other barriers to the products of non-member countries and to pursue their own foreign commercial policies. MENA area examples of FTAs include: the Arab Common Market (many such arrangements are misnamed for their ultimate goals rather than actual operation), founded in 1964 as a common market that never materialized. It was reorganized as an FTA in 1971. Again under the auspices of the Arab League, it has been replaced, in effect, by the Greater Arab Free Trade Area initiative resulting from the Arab Heads of State conference in 1996. At least one country in the MENA region, Israel, has signed FTAs with both the United States (1985) and the EU (1973). The Palestine Authority is partially involved in such an arrangement by reason of its accession to the U.S.-Israel FTA (1995).

A **Customs Union** not only requires elimination of internal tariffs and non-tariff barriers among its members, but establishes a uniform Common External Tariff or "CET", which is required to be applied by all its member countries against imports from all non-member countries. A customs union also typically harmonizes external commercial policies among its members. A MENA region customs union is the Arab Maghreb Union, founded in 1989, which includes Algeria, Libya, Mauritania, Morocco, and Tunisia.

A more advanced commercial relationship, the **Common Market**, goes beyond even the customs union to remove all internal impediments to transactions among member countries, including movement of capital, labor, and services as well as goods, resulting in the free mobility within the market of all factors of production. The European Union is the only current example of a functioning common market, although a number of other existing arrangements were conceptualized as such and take the name without having realized all of the elements thereof.

In the ultimate form of economic integration, short of actual political union, the common market may evolve into a form of **Monetary Union**, implementing a common monetary policy for member countries through a common central bank and currency. The EU appears to be evolving toward such a status with its new Common Currency.

Finally, there is a still closer form of relationship conceptualized as an **Economic Union**, which adds to the trade/investment/monetary unity of a relationship the unification of fiscal policy and legislation as well, through an organically centralized authority. There is no extant example of a completed, functioning economic union, but it seems clear from the Maastricht Treaty that the EU contemplates such an end result. [Chart No. 2 illustrates the Sequence of Evolving Economic Integration/Trade Relationships.]

3.2 The Process of Negotiations

The negotiation of regional trade arrangements is an exercise in intensive, highly-targeted commercial diplomacy. While the complexity of the process grows with the number of countries involved and the more substantive and sectoral issues addressed, nearly all such negotiations include the following elements: (1) determining the objectives sought for, and establishing the governments' bona fide commitment to, meaningful negotiations; (2) structuring the negotiation

CHART 2

The Sequence of Evolving Economic Integration/Trade Relationships

[1] Economic Cooperation/Trade Facilitation
(FCN, Economic Cooperation Agreements)

[2] Agreements for Partial (or eventual) Lowering of Tariff & Non-Tariff Barriers to Trade
(Association, Partnership, Framework Agreements)

[3] Reciprocal Reduction of Tariffs & NTBs Among "Cooperating" Countries
(Free Trade Areas)

[4] Coordinated Reduction of Tariffs & NTBs Among "Member" Countries
(Free Trade Areas)

[5] Elimination of All "Internal" Tariffs & Most NTBs Among Member Countries & Harmonization of "External" Tariffs& International Commercial Policies
(Customs Union)

[6] Elimination of All NTBs and Barriers to Free Movement of Capital & Labor with Gradual Harmonization of Trade/Investment-Related Legal/Regulatory Regimes
(Common Market)

[7] Coordinations of Macroeconomic & Social Policies
(Common Market "plus")

[8] Coordination of Monetary Policies, Integration of Currencies
(Monetary Union)

[9] Harmonization of Macroeconomic, Monetary, Fiscal, & Social Policies
(Economic/Monetary Union)

[10] Organic Unification of Sovereign States
(Political Union)

and allocating thereto the various levels of authorities and responsibilities necessary among (a) Heads of State or Government, (b) ministerial level officials (usually Trade Ministers), (c) sub-cabinet high-level officials, and (d) lead negotiators and/or technical experts; (3) establishment of substantive or sectorally-focused negotiating groups comprised of technical experts; (4) providing for analytical and policy support and private sector inputs; (5) elaboration of a "work plan" and schedules for negotiation; (6) agreement on an agenda for negotiations (substantive issues, sectoral coverage, and structural/management aspects of the relationship to be established); (7) signature of the agreement; and (8) ratification and effective implementation of the arrangement by signatory countries.

For example, the three nation effort to develop the North American Free Trade Agreement began in June 1990 and continued as a full-time activity until signature of the basic agreement on 17 December 1992 with subsequent negotiation of "side agreements" that were signed in September 1993, final approval by Mexico and the United States in November, 1993, with the basic and side agreements entering into effect on 01 January 1994. [See Appendix A, Table 1: The Process of Negotiating an FTA: Steps in NAFTA Development] The process for a 34 nation Free Trade Area of the Americas began at the Summit of the Americas in Miami on 09 December 1994, has yet to begin substantive negotiations (now scheduled to begin in September 1998), and foresees signature of a Western Hemisphere FTA by the end of the year 2005.

3.3 Basic Issues Addressed in Integration Negotiations

As previously noted, the effort and the time required for development of a regional trade arrangement depends upon the number of areas to be addressed and settled in terms of substantive issues, sectoral coverage, and structural concerns (how such an arrangement is managed and administered by its member countries). A so-called "shallow" FTA will require negotiation of a minimal number of provisions usually related only to trade in goods and concession of preferential tariffs thereon, while a more complex, "deep" FTA arrangement or true common market, will be vastly more complicated and require considerably more time.

At a minimum, however, a <u>"shallow"</u> FTA would require negotiations on Market Access, Rules-of-Origin, Schedules for Implementation, and Dispute Resolution. Market Access issues would include sectors covered, provision of Most Favored Nation and/or National treatment, elimination or reduction of tariffs, elimination of some or all non-tariff barriers, and harmonization of Customs practices, etc. Rules-of-Origin are provisions that ensure that non-signatory countries are not able to utilize free trade or customs union arrangements to transship their products through member countries in order to gain duty-free treatment for which they would not otherwise qualify (the so-called "free rider" issue). "Dispute Resolution" refers to the institutional arrangements within the free trade or customs union framework through which to deal with disputes about obligations and commitments arising under the agreement, e.g., forum selection, panel procedures, decisions, enforceability of decisions, and rights of retaliation.

A <u>"deeper"</u> form of FTA or Customs Union will involve the foregoing areas of negotiation but, in addition, to some extent or other, discussion of so-called "sensitive" sectors like

Agriculture, Textiles/Apparel, Autos, Telecommunications, as well as provisions to include coverage of Services and/or Direct Investment, competition policy, Intellectual Property Rights protection/enforcement, Subsidies, Government Procurement, Technical Barriers to Trade, Sanitary and Phytosanitary Standards, Trade Remedies (Antidumping, Countervailing Duties, Safeguards), Movement of Persons, Labor and Environmental concerns, and overall harmonization of international trade/investment-related legal and regulatory regimes.

3.4 Structure of Negotiations

The simpler the arrangement, presumably the simpler the structure for negotiations. Nonetheless some recent examples of multilateral regional negotiations indicates a complex structure. For example, in the FTAA process, overall direction is given to the process by the occasional "Summits" of the Heads of State or of Government of the 34 participating countries. Effective, continuing direction is given by the Trade Ministerial (Trade Ministers) Conferences held every 18 months. The Final Joint Declaration of the [First] Summit of the Americas Trade Ministers, signed in Denver, Colorado, on 30 June 1995, included an agreement on a tentative "work plan" to prepare for negotiations. That and later ministerial summits established "work groups" (later "negotiating groups") and basic terms of reference for nine such groups: (1) Market Access (chaired by Colombia); (2) Investment (Costa Rica); (3) Services (Nicaragua); (4) Government Procurement (USA); (5) Dispute Settlement (Chile); (6) Agriculture (Argentina); (7) Intellectual Property Rights (Venezuela); (8) Subsidies and Anti-Dumping/Countervailing Duties (Brazil); and (9) Competition Policy (Peru).

The overall process is governed by a Trade Ministerial Conference, held every 18 months and composed of the Ministers of Trade of the 34 countries involved, presided over by a country Chair, which rotates approximately every two years until conclusion of the FTAA Agreement. The FTAA Chairs are: Canada (May 1998 to October 1999); Argentina (November 1999 to April 2001); Ecuador (May 200l to October 2002); and [Co-Chairs] Brazil and USA (November 2002 to December 2004 or the conclusion of the Agreement).

Effective management of the FTAA process is undertaken by the Trade Negotiation Committee, made up of the Vice-Ministers of Trade of the participating countries, which guides the agendas and work of the negotiating groups; has authority to establish more such groups, merge or dissolve them; will devise the overall "architecture" of the resulting FTAA Agreement; and decides most institutional issues of administrative structure to be established to manage the arrangement. An Administrative Secretariat will be established, to be located in Miami (to February/2001), Panama City (March 2001 to February 2003), and Mexico City (March 2003 until conclusion of the FTAA Agreement) that will provide logistical support for all aspects of the process. The negotiating groups will receive research and analytical technical assistance from professional staff of the Organization of American States (OAS), the Inter-American Development Bank (IADB), and the [United Nations] Economic Commission for Latin America and the Caribbean. A Committee on Government Representatives was established this year to receive "input" for the negotiations from business, labor, environmental, and academic groups. Finally, a Consultative Group on Smaller Economies has been formed to discuss and advise the

Trade Negotiation Committee and the negotiating groups on issues specific to the micro-economies of the Caribbean and certain other smaller countries.

The complexity and time required for negotiation of a "deep" trade arrangement like the NAFTA are illustrated in Appendix A entitled "The Process of negotiating an FTA: Steps in NAFTA Development."

3.5 Factors for Success

A number of criteria for measuring the ultimate success of an FTA arrangement have been developed. Clearly there will be concerns as to whether the arrangement does increase a country's reciprocal trade and economic growth as well as results in productivity and competitiveness gains while enhancing its attractiveness for foreign investment. But there are also certain aspects of the integration process itself that have been identified as necessary for ultimate success. According to Devlin and Estevadeoral, in a paper prepared for the Inter-American Development Bank as part of its technical assistance to the FTAA process, the basic requirements for successful integration include:

(1) The integration plan must be based on a <u>convergence of interests</u> -- economic, social, and political.

(2) The negotiating process must have a <u>clear goal</u>--e.g., agreement by a date certain and effective implementation when the agreement is concluded.

(3) The commitment to integration must be at the <u>highest</u> political level.

(4) There must be a <u>detailed Plan of Action</u>, with:

a) precise, agreed-upon terms of reference;

b) performance benchmarks; and

c) pre-programmed meetings of ministers and technicians.

(5) Those engaged in the process must have adequate <u>technical support</u> for good negotiations, e.g., to fully understand the substantive nature of the commitments considered, and their impacts--positive and negative -within the group and within their individual domestic economies.

(6) There must be adequate, effective, <u>communication</u> between negotiators, policymakers, and the business communities of each of the participating nations.

(7) There must be an adequate, effective, education campaign realistically describing:

a) the economic benefits of free trade, and

b) the costs of integration, and

c) the ways of dealing with them.

[Underlining for emphasis.]

According to the same authors, the extent to which countries maximize the benefits of an integration arrangement and minimize its costs "will depend on their abilities to consolidate their first round of economic reforms and vigorously pursue second generation reforms." Certainly there are other criteria to be considered as well. According to Pena, "an integration group's economic and political effectiveness will depend to a considerable extent on the perception of investors and third countries as to its effective capacity to dynamically preserve the potential for mutual gains among its members." [3]

[3] Pena, op cit.

4.0 CLASSICAL ECONOMIC THEORY OF REGIONAL INTEGRATION

4.1 Background

Today, strong centripetal forces are forging closer economic relations among countries, through not only expanding international trade flows between countries but also rapidly expanding foreign direct investment in both advanced countries and less developed countries that pursue relatively open, liberal economic policies. However, amid such strong centripetal forces, regionalism has emerged as a prominent force, potentially rivaling multilateralism, with uncertain implications for the world trading system and the process of globalization. At recent count, over 50 regional integration arrangements (including three regional integration arrangements in MENA–the Arab Maghreb Union, Arab Common Market, and Gulf Cooperation Council) were in force around the world, with the vast number of these arrangements involving mainly less developed countries (IMF 1994).

In principle, both multilateralism and regionalism should be expected to result in economic integration between neighboring economies. However, economic integration need not be the same under multilateralism and regionalism because of the fundamental gulf between reliance on non-discriminatory trade policies under multilateralism and reliance on discriminatory trade policies under regionalism. During the last 50 years, multilateralism has been pursued through multilateral trade negotiations based on the most-favored-nation (MFN) principle underlying the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO). Indeed, multilateralism has been widely regarded as the most appropriate means of achieving the "first-best" outcome of unfettered international trade, namely, world economic integration. However, since the late-1980s and frustrations growing out of the protracted length of the Uruguay Round negotiations concluded in 1994, regionalism has come to be regarded in many quarters as a "stepping stone" rather than "stumbling bloc" to achieving world economic integration, albeit by a more circuitous route involving, from an international political economy perspective, potential competition if not conflict with multilateralism as a means of achieving wider trade liberalization in the world economy.[4]

This section reviews the static theory of regional integration arrangements derived principally from the seminal contributions to the "customs union issue" by Viner (1950) and Meade (1955). It considers only the two most common forms of regional integration arrangements: ***free trade areas*** and ***customs unions***.[5] In a free trade area (FTA), countries eliminate all tariff and nontariff barriers to imports originating wholly or in substantial measure (as determined by so-called rules of origin) within the free trade area. A customs union (CU), on the

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[4] See, Lawrence (1991), Summers (1991), and Bhagwati (1992).

[5] In addition to free trade in goods (and services), regional economic integration can involve unrestricted movement of labor, capital, or other productive primary resources; and harmonization of sectoral and macroeconomic policies, economic institutions, and even civil and constitutional laws between neighboring countries. These dimensions of regional integration arrangements are usually considered with reference to four (increasing) degrees of economic integration: free (or preferential) trading area, customs union, common market, and economic union.

other hand, is a free trade area in which member countries also adopt a common set of external tariffs and nontariff barriers to imports from outside of the customs union.[6] Higher orders of regional integration arrangements include ***common market*** (a customs union in which unrestricted movement of labor, capital, and other primary factors of production is permitted) and ***economic union*** (a common market in which monetary, fiscal, and other economywide policies, and sectoral policies, such as industrial and competition policies, are harmonized or otherwise closely coordinated). For not only ease of exposition but also reasons of practical policy options in MENA today, the economic analysis here focuses on the economic implications of only free trade areas and customs unions, so-called "shallow" forms of regional integration arrangements.[7]

4.2 First Principles: The Viner Model

> The literature on customs unions…is a strange phenomenon which unites free-traders and protectionists in the field of commercial policy, and its strangeness suggests that there is something peculiar in the apparent economics of customs unions. The customs union problem is entangled in the whole free-trade-protection issue, and it has never yet been properly disentangled.
>
> Viner (1950, p.41)

So begins the celebrated contribution of Viner (1950) to the economic theory of regional integration arrangements. Viner's investigation of the customs union issue was devoid of modern-day diagrammatic and mathematical methods of analysis. Nonetheless, his analysis was also extremely rich in insights to important circumstances still surrounding the customs union issue today.[8] In what follows, the basic Vinerian analytical framework is introduced and extended to the

[6] With regard to the other two major institutional forms of economic integration between countries, a common market is a customs union in which unrestricted movement of labor and possibly other primary factors of production is permitted, and an economic union is a common market in which fiscal, monetary, and other major economic policies (e.g., industrial policies) are harmonized or otherwise closely coordinated. For further discussion, see for instance Robson (1987).

[7] Despite the complexity of higher orders of regional integration, some if not many policy and other conclusions derived from considering only free trade areas and customs unions might still be expected to hold in connection with common markets and economic unions. For instance, in neoclassical economic theory the mobility of labor and other primary resources between countries can be viewed as a perfect substitute for the unrestricted movement of goods between countries (Mundell 1957). Similarly, the harmonization of economy wide policies and especially monetary policies might be viewed as providing an "enabling environment," reducing concerns for differences in national monetary and other macroeconomic policies that are not usually considered in the pure (barter exchange) theory of international trade underlying most analyses of free trade areas and customs unions (e.g., Mundell 1961 and O'Connell 1997).

[8] Viner is duly credited with raising substantive questions about the welfare effects of customs unions, which were widely believed to be positive following World War II (not unlike today). However, the rather strident tone of his final rejection of regional integration arrangements on mainly political-economy grounds, found in the concluding paragraph of his volume on the customs union issue, is not often reported:

> …[I]f one looks only to the day, an apparently promising path to a solution can often be found whose first stages, if token in character, are fairly easy to pursue and whose last stages are pleasant to contemplate, though what is at its ultimate end is but a mirage. This, I fear, is the

typical circumstances of "small" trading countries such as Egypt and the MENA countries in general. These circumstances include the prevalence of increasing costs of production and the fact that trade takes place predominantly in homogeneous goods (i.e., non-differentiated products).

4.2.1 **Constant Costs of Production**[9]

In the Vinerian framework, the customs union is considered within a partial equilibrium framework, namely, one identifying demand, supply, and trade of homogeneous goods (for final consumption) by three representative countries: the home country (H), a partner member country (P), and a non-member country (N) representing the rest of the world.

In addition to several "orthodox" (but not inconsequential) assumptions shared with the pure theory of international trade,[10] the simple Vinerian framework assumes that exportable goods in each country are produced under constant cost conditions. In Figure 1, the non-member country is assumed to be the most efficient producer of good 1, which is imported by the home country after levying a specific tariff, T_H^1. Similarly, the home country is assumed to be the most efficient producer of good 2, which is imported by the partner country after levying a specific tariff, T_P^2.

Under either a customs union or a free trade area between the home country and partner country,[11] the home country reduces its tariff on imports of good 1 from the partner country to

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> present-day role of customs union. … [I]t will almost inevitably operate as a psychological barrier to the realization of the more desirable but less desired objectives of the Havana Charter—the balanced multilateral reduction of trade barriers on a non-discriminatory basis. (Viner 1950, p. 139)

[9] The discussion of the Vinerian framework here draws importantly on Robson (1987), Pomfret (1988), and Bhagwati and Panagariya (1996).

[10] As enumerated by Robson (1987), in addition to the homogeneous goods assumption, these assumptions include:

-- pure competition in commodity and factor markets;
-- mobility of factors of production within but not between countries;
-- no transportation costs;
-- trade restrictions only in the form of specific or ad valorem tariffs;
-- opportunity costs of production fully reflected in prices;
-- balanced trade in goods; and
-- full employment of resources.

[11] Customs unions and free trade areas are assumed mostly equivalent throughout the analysis of this paper. As mentioned in the introduction, countries forming a free trade area eliminate tariffs and other restrictions to intra-bloc trade, but they do not necessarily adopt a common external tariff system as do countries forming a customs union. To avoid trade "deflection," whereby exports by countries outside the free trade area to countries that are members of the free trade area might be re-routed through member countries with lower-tariff levels, free trade areas generally enforce so-called "rules of origin" that stipulate the extent of intra-bloc content or processing that goods must possess in order to qualify for duty-free importation by member countries. However, as noted by, among others, Bhagwati and Panagariya (1996), rules of origin do not prohibit diversion of domestically produced goods in countries forming a free trade area, in which case differing external tariff rates under a free trade area can lead to little or substantially different results than under a customs union depending upon the variance of external tariff rates and total capacity of FTA member countries to divert their output of exportables from domestic markets to markets in other member countries.

zero, providing would-be exporters of good 1 in the partner country with a "margin of preference" sufficient to overcome their cost disadvantage *vis-a-vis* more efficient producers in the non-member country.[12] This causes exports from the partner country to supplant exports of good 1 from the non-member country to the home country entirely. The replacement of erstwhile exports from efficient producers in non-member countries by exports from less efficient producers in member countries is termed ***trade diversion***. In Figure 1(a), trade diversion resulting from the regional integration arrangement is equal to the initial value of imports of good 1 (evaluated at the border price P_N^1) by the home country from country N or the area (k).[13]

The customs union may also give rise to ***trade creation***. In Figure 1(a), trade creation corresponds to the expansion of total home country imports of good 1 (evaluated at the border price P_P^1) or the area [(e+j) + (g+l)]. In economic terms, trade creation arises when domestic prices of imports fall as a result of trade preferences. Specifically, it involves the substitution in both production and consumption by the home country of lower-priced units of good 1 produced by country P than were previously available to the home country through domestic production [area (e+j)] or imports from the rest of the world [area (g+l)].

The hypothesized customs union has qualitatively different effects on imports of good 2 by the partner country (Figure 1(b)). Because the home country is the least-cost or most efficient producer of good 2, elimination of the partner country's tariff on imports of good 2 from the home country results solely in trade creation. That is, no diversion of erstwhile exports from non-member countries occurs in connection with the increase in imports by the partner country under the regional integration arrangement. Like in the home country, trade creation in the partner country involves substitution in both production and consumption in country P, namely, of lower-cost units of good 2 produced in the home country than were previously available to the partner country through domestic production or imports.

Trade creation and trade diversion have come to be synonymous with economic welfare impacts of customs unions and free trade areas. To the extent that a regional integration arrangement is trade creating on a net basis (i.e., trade creation is greater than trade diversion), the regional integration arrangement is considered welfare improving.[14] In Figure 1(b), the welfare of the partner country is unambiguously improved by the adoption of the regional integration arrangement because only trade creation occurs. In Figure 1(b), however, the change in welfare of the home country is not certain because trade diversion as well as trade creation occurs. Only if trade diversion and forgone tariff revenues (captured by inefficient partner country producers) are comparatively small will the regional integration arrangement result in increased economic welfare for the home country.

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[12] With reference to Figure 1, the home country margin of preference in favor of exports of good 1 from the partner country is equal to T_H^1-(P_P^1-P_N^1).

[13] For ease of exposition, the analysis here is conducted in terms of trade values rather than trade volumes.

[14] This judgment involves the formal measurement of traditional economic surpluses (so-called Harberger triangles of consumer and producer surpluses) or more sophisticated indices of economic welfare such as Hicksian equivalent variation in income. See, for instance, Harberger (1954, 1971) on the measurement of consumer and producer surplus and Shoven and Whalley (1984, 1992) on the measurement of Hicksian equivalent variation in income.

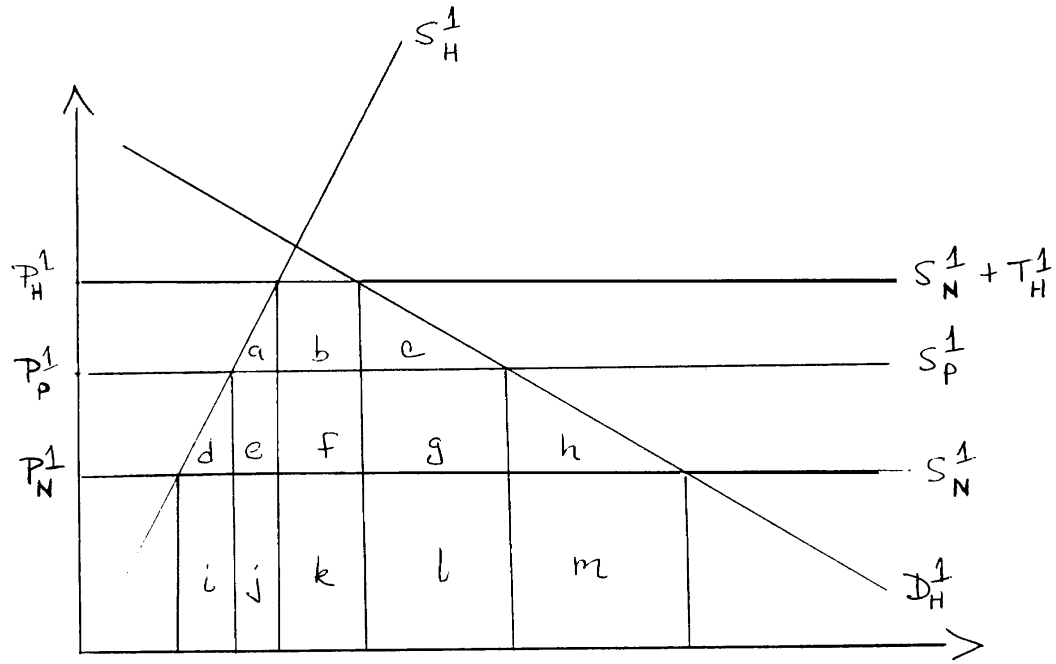

Figure 1(a). Home Country

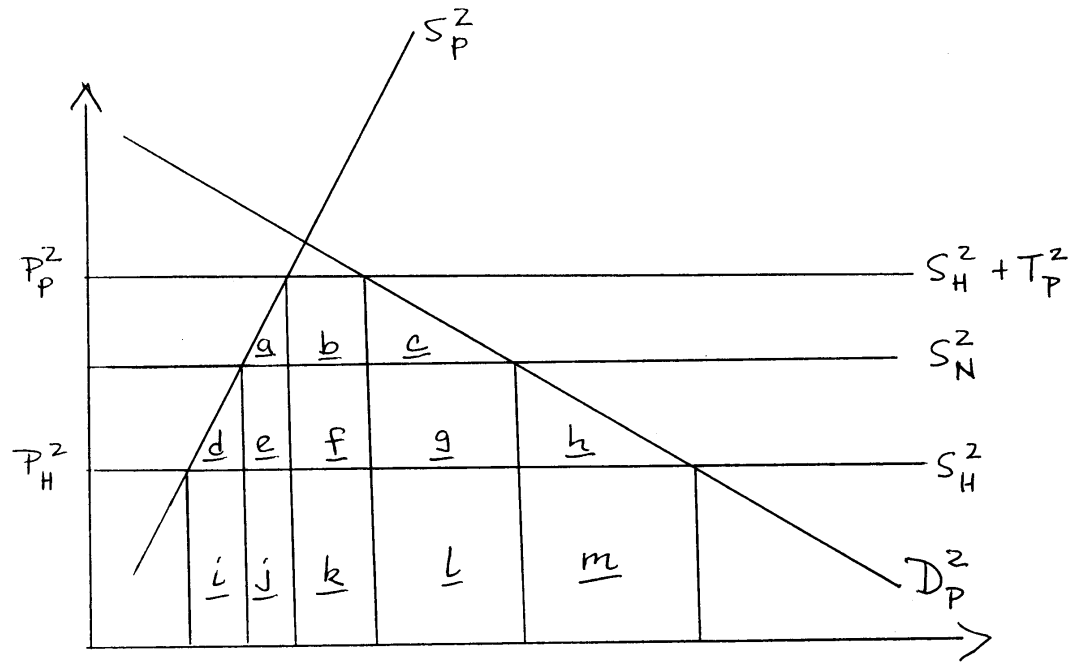

Figure 1(b). Partner Country

These results, of course, follow from the assumptions depicted in Figure 1, namely, regarding the relative efficiencies of producing exportables in the home country, partner country, and non-member country. For the partner country, the customs union gives rise to only trade creation and greater welfare because the home country is unambiguously the least cost producer of good 2. For the home country, the welfare change is uncertain because the partner country is assumed to be less efficient than the rest of the world in producing good 1. Thus, under assumed constant costs of production, complete diversion of trade takes place, imposing an economic cost on the home country that might be larger than the production-related and consumption-related benefits to the home country of a lower import price and an increased volume of imports from the partner country. In effect, in a customs union under constant cost conditions, gains in economic welfare attributable to trade creation will be partially offset, if not more than fully offset, by added costs of importing goods from high-cost producing countries within the customs union area and from forgone tariff revenues. Obversely, in a customs union formed among countries that are predominantly internationally competitive producers of exportables, the regional integration arrangement will be trade-creating on a net basis and unambiguously welfare-improving.[15]

Finally, it is important to note that the uncertainty of welfare effects under the regional integration arrangement depicted in Figure 1(a) and 1(b) contrasts sharply with the certainty of welfare effects under “open regionalism,” that is, trade liberalization on a non-discriminatory basis following the MFN principle underlying the GATT and WTO. Concerted MFN liberalization under open regionalism by would-be members of the regional integration arrangement is everywhere trade-creating and nowhere trade-diverting. That is, open regionalism results in net trade creation and improved economic welfare everywhere, including for each member of the regional integration arrangement. Consider, for instance, the home country in Figure 1. Under a customs union, its trade with non-member countries would be diverted in some if not substantial measure. On the other hand, under MFN liberalization consumers increase their consumption of traded goods guided solely by nondiscriminatory price considerations, eliminating the possibility of trade diversion. Thus, under MFN liberalization consumers increase their purchases of goods imported from not only prospective member countries but also non-member countries, fully reaping the potential consumption gains [area (c+g+h) in Figures 1(a) and 1(b)] and resource allocation gains [area (a+d+e) in the same two figures] in both the home country and the partner country.

4.2.2 **Increasing Costs of Production**

The Vinerian framework can be extended to consider the more plausible case of increasing costs of producing exportables in the countries forming a customs union (Figure 2). Assumption

[15] At this point, the partial equilibrium nature of the basic Vinerian framework begins to strain credulity on some important counts. For instance, comparative advantage theory suggests that neighboring countries are unlikely to be internationally competitive producers of the large number of products consumed by residents of most countries today. This consideration would limit the number of cases in which regional integration arrangements among especially small countries might be predominantly trade creating owing to member countries' international competitiveness in many products. Also, the assumption of unlimited production of exportables at constant unit costs is an extreme one. Moreover, the assumption creates a bias in favor of finding positive trade creation effects under regional integration arrangements. Specifically, the assumption causes erstwhile trade with non-member countries to be supplanted entirely by trade with member countries at reduced intra-bloc terms of trade, thereby giving rise to positive Harberger welfare triangles associated with induced production and consumption effects.

of increasing costs of production is appropriate to the circumstances of individual countries and small groups of countries whose natural resource base and other productive endowments are typically limited, especially compared to those of the world economy at large. The earlier assumption that unit costs of production are constant in the non-member country is maintained, to reflect the real world condition that the home country and the partner country, like most individual trading countries, are both price-takers in world markets.[16] Finally, for ease of exposition, the analysis here considers only the home country's imports of goods 1, as if formation of a customs union between the home country and partner country would result only in expanded imports of good 1 from the partner country by the home country.

As before, a customs union between the home country and partner country gives rise to trade diversion in the home country, area (e + f). However, it does not necessarily give rise to trade creation ***because the partner country's margin of preference does not necessarily result in a lower price for good 1 in the home country***. Indeed, so long as the partner country's capacity to increase exports is less than the home country's initial total demand for imports of good 1, the home country will continue to import good 1 from the non-member country (country N) and the equilibrium price of good 1 in the home country will remain unchanged at P_H^1 (equal to P_N^1 plus the specific tariff of the home country, T_H^1).

That trade with non-member countries is not entirely diverted in Figure 2 is a realistic depiction of the circumstances of many if not most individual trading countries forming a regional integration arrangement. For less developed countries and even advanced industrial countries, capabilities to produce traded goods are typically not sufficient to satisfy total intra-bloc demands for imports of tradables. Therefore, with the possible exception of categories of goods in which countries in a trading bloc have particularly strong comparative advantage (e.g., crude petroleum and natural gas in MENA countries), complete cessation of trade with non-member countries as predicted by the Vinerian framework under constant cost conditions is unlikely to occur with the formation of a trading bloc.

With regard to the trade and welfare effects of forming a customs union between the home country and partner country under the increasing cost conditions shown in Figure 2, from the home country's perspective, the customs union is trade-diverting on a net basis, and the customs union has no impact on the economic welfare of either individual producers or consumers. Because exports of good 1 by the partner country are insufficient to meet the home country's demand for imports fully under a regional integration arrangement, the price of good 1 in the home country is unchanged and, accordingly, both demand and production of good 1 in the home country are also unchanged. The improved competitiveness of producers of good 1 in the partner country simply goes to diverting a portion of the home country's former imports of good 1 from non-member countries.

Because only diversion of the home country's trade occurs in Figure 2, economic welfare in the home country is adversely affected. In extending a tariff preference to the partner country,

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[16] For ease of analysis and exposition, the partner country is assumed to have no domestic demand for good 1, and therefore in Figure 2 the partner country's supply schedule for good 1 is also the partner country's export supply schedule for good 1.

the home country gives up tariff revenues previously collected on imports from the partner country and on imports from the non-member country to the partner country [area (l+m+2(a+b)) in Figure 2]. The forgone tariff revenues are captured in their entirety by producers of good 1 in the partner country, at a comparatively small resource cost [area (a+b)]. Thus, the home country loses, and the partner country gains from formation of the customs union. In fact, the home country loses by more than the partner country gains, leaving no possibility that the partner country might compensate the home country for its lose. Specifically, it can be shown that the trading bloc formed by the home country and partner country loses economic welfare by an amount equal to the additional resources devoted to producing good 1 in the partner country.[17] In other words, economic welfare of the trading bloc and, by extension, economic welfare of the world economy are reduced by the incremental cost of the resources utilized to expand production of good 1 in the partner country. Fundamentally, this loss in economic welfare occurs because the additional production of good 1 in the partner country might have been accomplished at lower cost in the non-member country.[18]

At least one caveat is in order. Under extremely high protection in the home country (and therefore a substantially smaller volume of initial imports by the home country than depicted in Figure 2), a regional integration arrangement between the home country and partner country might result in a lower price for imports in the home country, assuming the partner country has sufficient productive capacity to divert trade from the non-member country entirely. That is, a regional integration arrangement between the home country and partner country might result in trade creation as well as trade diversion. In this circumstance, the home country might achieve net welfare gains similar to those found before under constant costs of production.

Finally, it is important to note that under increasing cost conditions MFN trade liberalization again results solely in trade creation in the home country.[19] Trade creation has its counterparts again in both positive production and consumption effects, and, notwithstanding forgone tariff revenues, MFN liberalization results again in a net welfare gain for the home country. This welfare gain derives from the improved allocation of domestic resources [area (a+k+m) in Figure 2] and increased consumption possibilities [area d]. Moreover, because production in the partner country is unaffected by MFN trade liberalization in the home country, both the customs union and world economy at large gain from unilateral trade liberalization in the

[17] In Figure 2, the home country loses tariff revenues equal to area (l + m + 2(a+b)), while producers in the partner country gain by an amount equal to area (1 + m + a + b). Thus, together the two countries lose by an amount equal to area (a+b), which corresponds to the amount of additional resources required by the partner country to expand output of good 1 to meet the home country's demand for imports of good 1 diverted from non-member countries as a result of the formation of the regional integration arrangement.

[18] Notwithstanding the fact that the customs union and world economy lose from the formation of the custom union under the increasing cost conditions depicted in Figure 2, it is interesting to note that the direct impact of the formation of the customs union on private economic surplus is either neutral (home country) or positive (partner country). The losses to the home country, the customs union, and the world economy, respectively, hinge crucially on the disposition of tariff revenues. Although it is generally assumed that tariff revenue gains and losses are shared through lump-sum transfers by the government to consumers, such transfers may be heavily discounted by consumers in the modern age of large government bureaucracies and deficit spending, in which case private sector support for regional integration arrangements might be stronger than otherwise.

[19] Production and exports of good 1 by the partner country are unchanged because the effective world price of good 1 is unaffected by MFN trade liberalization in the home country, as shown in Figure 2.

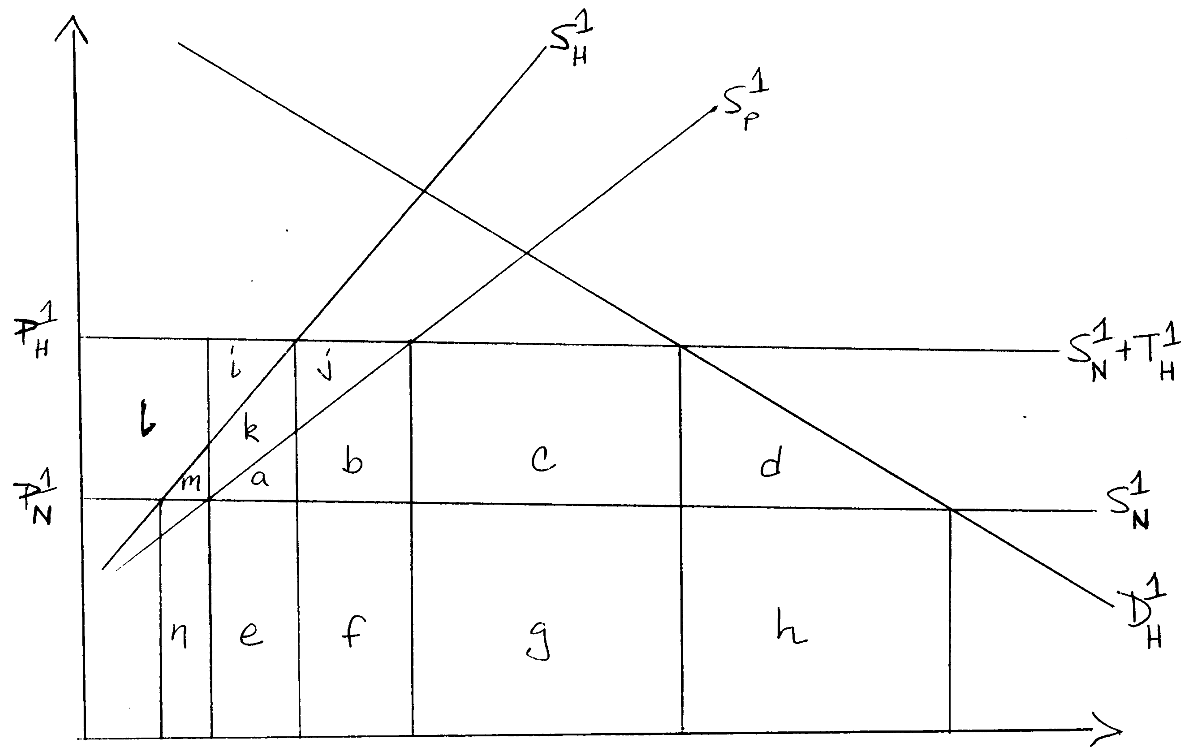

Figure 2. Home Country

home country, namely, by an amount equal to the total welfare gain of the home country [area (a+k+m+d)].

4.3 The Meade Model

The Vinerian framework for analyzing regional integration arrangements is insightful. However, it does not lie entirely comfortably within the bounds of modern neoclassical trade theory which are defined fundamentally by general equilibrium theory and modern neoclassical theory's emphasis on interrelationships among markets for goods and factors of production within and between trading countries. Thus, a more general framework for considering the static economic effects of regional integration arrangements is desirable, namely, one admitting substitution of goods in demand and supply, simultaneous adjustment of interrelated markets for goods and factors of production, and possible international terms of trade effects impinging significantly on trade and economic welfare in individual countries and the world at large.

In a less widely recognized volume on the theory of customs unions than the volume contributed by Viner, Meade (1955) outlined if not fully developed the modern static theory of regional integration arrangements.[20] Meade abandoned the Vinerian assumption of constant costs of production in trading countries and recognized the necessity of explicitly specifying equilibrium in international payments balances. Thus, Meade brought to the fore adjustment in both international and domestic relative prices to achieve (general) equilibrium under regional integration arrangements. Meade's refinements of the static economic theory of regional integration arrangements also recognized two important possibilities: spillover effects of regional integration arrangements on non-member countries and international feedback effects of regional integration arrangements on member countries themselves.

Meade's general or "large union" model is not easily represented in textbook or considered in policy discussions. More widely considered is Meade's "small union" model in which the conditions for international payments equilibrium by member countries are observed under increasing cost conditions in all sectors but in which the international terms of trade are held constant under the assumption that the countries forming a regional integration arrangement are "small" and thus unable to influence international terms of trade for primary commodities and manufactured goods.

Figure 3 illustrates the small union model for two small countries that form a preferential trading arrangement and trade in a two good world.[21] The schedules O_H and O_P in Figure 3 are general equilibrium trade offer curves rather than partial equilibrium demand and supply schedules. O_H and O_P indicate the volume of exports that the home country and the partner country are respectively willing to exchange for imports under very general demand and supply conditions in both countries at different international terms of trade, while maintaining balance of payments equilibrium. Initially, the home country and the partner country are assumed to enforce

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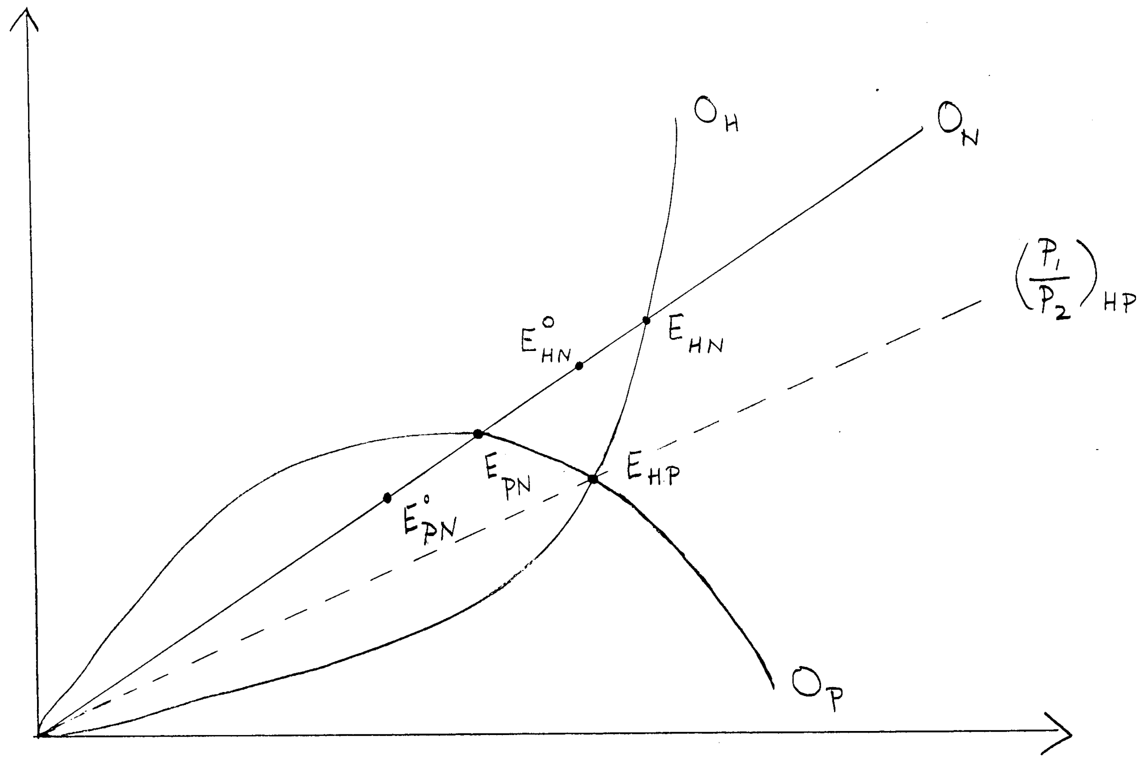
[20] See Panagariya (1996). Notably, notwithstanding the title of his volume, Meade did not analyze the implications of customs unions *per se* but rather the broader class of preferential trading arrangements which do not necessarily stipulate the adoption of common external tariffs or other import control measures.
[21] Figure 3 and the discussion of the figure in the text are adapted from Pomfret (1988).

Good 2
(Partner
Country's
Exports)



Good 1
(Home
Country's
Exports)

Figure 3. Home Country and Partner Country under a Regional Integration Arrangement with Complete Trade Diversion

substantial tariffs against imports, and to trade "short" of their free-trade offer curves, at points E_{HN}^{o} and E_{PN}^{o}, respectively, along the schedule O_N which represents the offer curve of the non-member country. That the slope of O_N is constant reflects the fact that the international terms of trade for goods 1 and 2 are not affected by the volume of trade by either the home country or the partner country.

4.3.1 **Regional Integration Arrangements with Complete Trade Diversion**

Under a customs union or free trade area in which external tariffs and other trade restrictions are sufficiently high that the home country and the partner country trade exclusively with one another (i.e., the regional integration arrangement is completely trade-diverting), the trade and intra-bloc payments equilibrium for the two countries occurs at point E_{HP}. This equilibrium determines the domestic and intra-bloc terms of trade for members of the regional integration arrangement given by the dashed line in Figure 3. From the perspective of the partner country, the equilibrium at E_{HP} is superior to equilibrium under either protection or free-trade.[22] However, from the perspective of the home country, the equilibrium at E_{HP} is inferior to equilibrium under both protection and free trade. First, the home country's "income terms of trade" (its external terms of trade multiplied by export volume) are lower, and, consequently, its volume of imports is lower, under the regional integration arrangement than under protection. And second, it is apparent in Figure 3 that under free-trade rather than the regional integration arrangement the home country could admit a greater volume of imports from all countries on a duty-free basis and, in so doing, expand its exports along the more favorable international terms of trade, O_N, until equilibrium is reached at E_{HN} at which point economic welfare of the home country would also be greater than under the regional integration arrangement.

4.3.2 **Customs Union under Incomplete Trade Diversion**

Under a customs union in which trade continues with non-member countries (i.e., the regional integration arrangement is not completely trade-diverting), the analysis becomes somewhat more complicated. Assume a customs union sets its common external tariff equal to the average tariff level of the home country and partner country. This case is important because it conforms to GATT Article XXIV which stipulates that a regional integration arrangement should not raise the average level of protection against non-member countries.

In the case depicted in Figure 4, the home country and the partner country both continue to trade along the international terms of trade O_N. Because the initial level of import tariffs is assumed higher in the home country than the partner country, equilibrium of the home country under the customs union occurs at a point such as E_{HN}' (closer to the free-trade equilibrium at E_{HN}), where economic welfare in the home country is greater than at the initial equilibrium of the home country at E_{HN}^{o}. At the same time, equilibrium of the partner country under the customs union occurs at a point such as E_{PN}' (further away from the free-trade equilibrium at E_{PN}), where

[22] If the partner country liberalizes its imports on a nondiscriminatory basis, its new trade equilibrium would occur at point E_{PN}. Figure 3 shows that the free trade equilibrium for the partner country is superior to the initial equilibrium at E_{PN}^{o}, but it is inferior to the equilibrium under the regional integration arrangement at E_{HP}. Thus, the partner country should be expected to prefer joining the regional integration arrangement depicted in Figure 3 to undertaking unilateral nondiscriminatory tariff reduction.

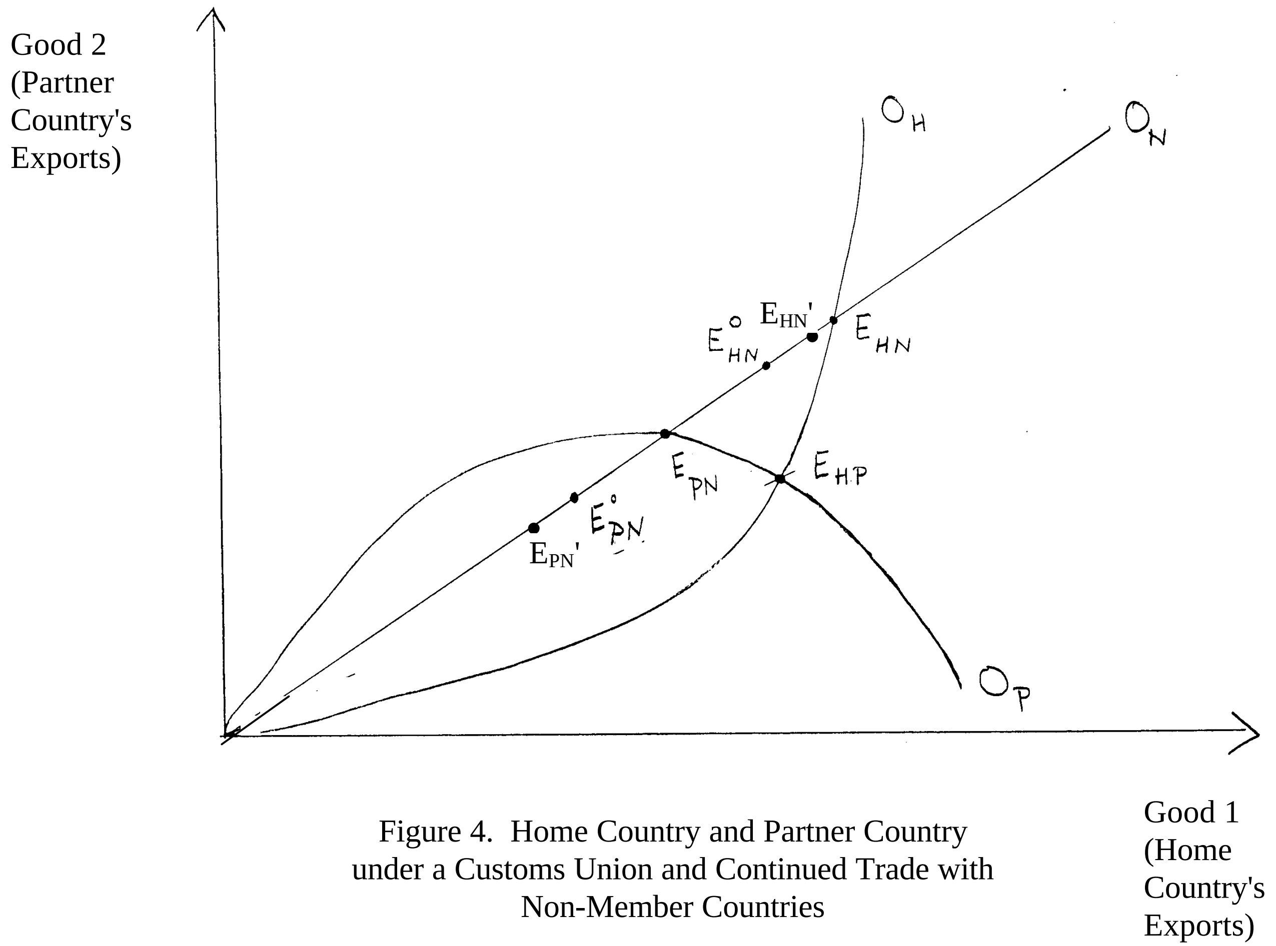


Figure 4. Home Country and Partner Country under a Customs Union and Continued Trade with Non-Member Countries

economic welfare in the partner country is less than at the initial equilibrium of the partner country at E_{PN}^{o}.

Thus, the home country gains while the partner country loses from the formation of the customs union. Unfortunately, it is not clear from Figure 4 whether the home country might compensate the partner country for its loss and thereby ensure formation of the regional integration arrangement. However, it is not difficult to demonstrate that, if the two countries adopt a common external tariff much closer to the initially lower tariff level of the partner country, the welfare gain of the home country would become sufficiently larger than the welfare loss of the partner country to guarantee existence of a compensatory scheme whereby the home country could more than compensate the partner country for any welfare loss associated with formation of the customs union.

4.3.3 **Free Trade Area under Incomplete Trade Diversion**

With continued trade between member countries and non-member countries, a free trade area is subject to a number of possible outcomes in the small union Meade model, depending upon the commodity composition of trade between member countries and non-member countries after the free trade area is formed.[23] If the assumption of this section is maintained, both before and after the free trade area is formed, that on a combined basis the home country and the partner country are net exporters of the first commodity and net importers of the second commodity, then under the free trade area the protection levels and domestic relative prices of the home country will prevail in both member countries of the regional integration arrangement. As depicted in Figure 5, the partner country will benefit from the opportunity to trade exclusively with the home country at the higher (to the partner country) intra-bloc terms of trade $(P_1/P_2)_{HH}$. However, it is likely that the home country will suffer a loss in economic welfare because under the free trade area, after account is taken of the home country's duty-free trade with the partner country, the home country can only exchange a smaller proportion of its exports of good 1 for imports of good 2 at the more favorable international of trade O_N. Thus, as found previously in the case of a customs union, it is not clear that the home country and the partner country will both benefit from a free trade area or that either country will gain sufficiently to compensate the other country for its possible economic loss under the free trade area.

4.4 Dynamic Effects of Regional Integration Arrangements

In the context of the emerging global economy in which direct foreign investment is often said to "lead" international trade flows, extension of the static theory of regional integration arrangements to dynamic theories of economic growth and investment is worthy of special mention.[24] Unfortunately, the dynamic theory of regional integration arrangements is not well developed beyond the rudimentary nexus between trade and growth in general.[25]

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[23] See Kemp (1969) for a comprehensive treatment of possible outcomes under different assumptions.
[24] The static theory of regional integration arrangements has been extended to a number of special cases that are too numerous (and complex) to explore here. See, among others, Baldwin and Venables (1995) and DeRosa (1998).
[25] See Baldwin (1989) and, for instance, Baldwin and Venables (1995).

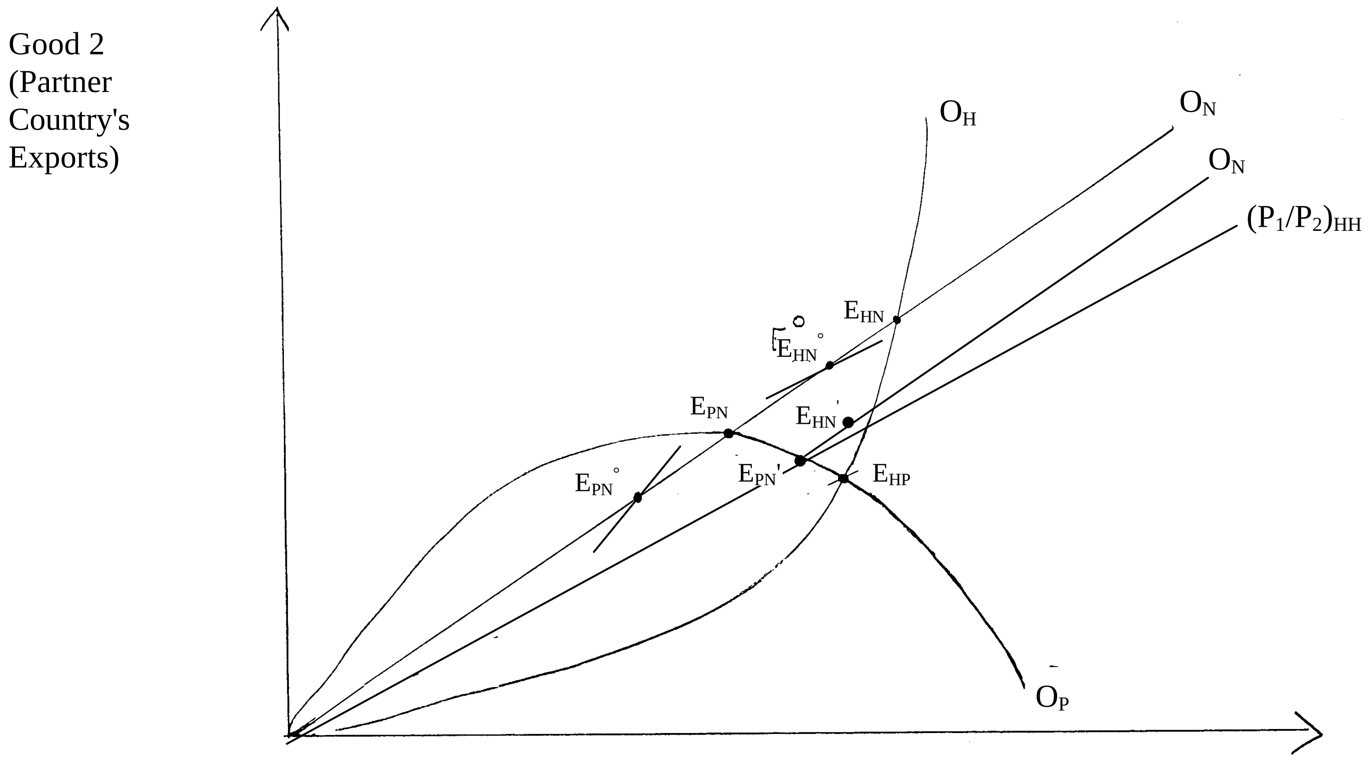

Figure 5. Home Country and Partner Country under a Free Trade Area and Continued Trade with Non-Member Countries

In principle, regional integration arrangements might appreciably if not significantly impact the rate of return to physical capital (in addition to other primary factors of production such as the services of different types of skilled and unskilled labor). Thus, regional integration arrangements should be expected to influence the magnitude and character of domestic and foreign investment in member countries. Where investment is stimulated, the potential for growth is also improved, at least in the interim until the domestic stock of capital reaches its new equilibrium and the rate of return on capital is equalized across countries forming a regional integration arrangement.

This adjustment process can give rise to so-called ***investment creation*** and ***investment diversion***. That is, customs unions and free trade areas can induce substantial new investments in member countries as local firms and multinational enterprises seek to take advantage of newly expanded markets (investment creation). At the same time, owing to the same changes in global and regional market opportunities, customs unions and free trade areas can also lead to the cancellation of planned (or expected) investments in non-member countries (investment diversion).

In the context of the MENA countries, the problem of investment diversion has been frequently mentioned in connection with the series of Euro-Med partnership agreements negotiated between the European Union and several individual MENA countries (Egypt, Israel, Jordan, Lebanon, Morocco, Tunisia, and Turkey).[26] These bilateral trading arrangements, under which the European Union and its individual trading partners in MENA exchange tariff preferences and other economic and political concessions across a wide spectrum of traded goods, form a "hub-and-spoke" pattern with the European Union as the hub. Accordingly, investment tends to be created in European Union and diverted in the MENA countries.

A MENA-wide regional integration arrangement would tend to counterbalance the investment diversion arising from Euro-Med partnership agreements. That is, by extending preferences or actual free trade to trade between any pair of countries in MENA, a MENA-wide regional integration arrangement would help to ensure that incentives for not only expanded trade but also expanded investment are distributed more efficiently in economic terms between the European Union and MENA countries.

[26] Hoekman and Djankov (1996) and Galal and Hoekman (1997).

5.0 GATT/WTO IMPLICATIONS

5.1 Global vs. Regional Trade Liberalization

The basic international rules governing global trade were developed in the framework of the General Agreement on Tariffs and Trade ("GATT"), concluded in 1947. The GATT was one of the four postwar institutions innovated for the purpose of preserving world peace through international political consultation (United Nations), monetary cooperation (IMF), economic development (the "World Bank"), and trade liberalization (the GATT). It was (and remains) a multilateral agreement the primary objective of which was to progressively reduce barriers to international trade, thereby to encourage the optimal allocation of global resources. It aimed to liberalize world trade through tariff reduction, the removal of non-tariff barriers to trade, and the development of global standards for fair practices in international trade. It provides an administrative framework to facilitate multilateral trade negotiations ("MTNs") and resolution of trade disputes. The fundamental premise of the GATT was that enforceable rules to reduce trade barriers and to facilitate trade liberalization and the opening of international markets are most likely and, therefore, best formulated through multilateral consensus in a global forum bringing together all trading nations, developed and developing, rich and poor. Since 1947 the GATT has served as that forum.

The World Trade Organization ("WTO") was established on 01 January 1995 upon conclusion in April 1994 and ratification of the GATT-sponsored Uruguay Round MTN. It succeeded the GATT as an organization and administers the various agreements and international "codes-of-conduct" originally derived from the GATT or negotiated in the Uruguay Round agreements, and facilitates consultation, negotiation, interpretation, application, and dispute resolution with regard to its 27 separate agreements, understandings, ministerial decisions, etc. that form the modern framework of rules governing international trade in goods and services.

GATT (and now the WTO) has changed considerably over its 50 years of existence--it originally only involved 22 signatory nations and covered only trade in goods, while the WTO now has 132 members (with another 25 or so awaiting accession) and covers trade in both goods and services, and trade-related aspects of intellectual property and foreign direct investment. In its 50 year history, the GATT has undertaken eight "rounds" of multilateral trade negotiations designed to liberalize world trade--the latest round, the Uruguay Round, involved 120 nations and lasted eight years. These various rounds suggests the difficulty of developing consensus among 120 plus trading nations to agree on the complexities of tariff reduction, removal of NTBs, intellectual property rights, foreign investment, and remedies for the protection of domestic producers in domestic markets. Rather, it has often happened that smaller groups of nations have been able to accelerate the scope and possibilities for trade liberalization on a more limited, regional, rather than global, basis. The drafters of the original GATT foresaw this possibility and undertook to build into the overall GATT framework of international trade rules, an acknowledgement that regional agreements could actually expand, more quickly, albeit for a limited number of countries, the possibilities for and process of trade liberalization so as to point the way for eventual global adoption of new rules liberalizing world trade. It is unlikely, however, that the drafters of the GATT foresaw the scope of the dramatic expansion of regional trade agreements, some 144, which has led to concerns about the breakdown of global consensus and the fractionalization of the world into competitive trading groups. As the number of regional arrangements increases, so does the concern for the system of multilateral consensus and an effective, truly global framework of trade rules.

5.2 Fundamental Principles of the GATT/WTO

The GATT'94/WTO comprises a framework of global trade principles and the rules and practices designed to implement them. These principles and rules are embodied in the Agreement Establishing the WTO, the Uruguay Round Agreements, and the provisions of the original GATT Agreement as amended by the Uruguay Round Agreements (GATT '94), altogether aggregating a total of 27 agreements, understandings, ministerial decisions, etc. The basic principles, the heart of GATT, are: Most-Favored-Nation and National Treatment, and the replacement of import bans, quotas, and other non-tariff barriers with tariffs as means of controlling access to national markets.

Egypt acceded to the WTO on 30 June 19and, as a member, is bound to apply these principles in implementing its obligations and commitments under the GATT'94/WTO agreements. Under the MFN principle, WTO members are required to grant to the products of other WTO members treatment no less favorable than that accorded to the products of any other country. Thus, no WTO member is to give special trading advantages to another country or to discriminate against it--all trading WTO trading partners should be treated on an equal basis and all share the benefits of any moves toward lower trade barriers. National Treatment requires that, once a WTO member country's goods or investments have entered another WTO member's market, they must be treated no less favorably than equivalent domestically-produced goods or investment. Obviously, these principles--to be applied on a broad general basis among all WTO member countries--are inconsistent with the nature of more generous preferences that may be agreed to among member countries of regional arrangements.

But the GATT '94/WTO Agreements provide certain exceptions to the MFN and National Treatment non-discrimination requirements for three different situations: (a) regional free trade arrangements and customs unions; (b) certain so-called "Safeguards" or "Escape Clause" purposes, wherein it becomes necessary to discriminate to nurture the development of infant industries or to mitigate the unintended consequences of trade concessions made within the framework of the Uruguay Round and GATT agreements; and (c) the special regime for developing countries.

5.3 Basic GATT/WTO Concerns

These exceptions are, as described more fully in section 5.4 hereof, intended to encourage liberalization of trade beyond implementation of the basic principles of the GATT/WTO and the ability of a complex, global trade forum to agree upon further liberalization--they are not to result in the closure of regional markets to global trade or to diminish the trading rights of member nations of the WTO. The concerns of the GATT/WTO about regional trade arrangements have to do with ensuring Trade Creation and avoiding Trade and Investment Diversion. The purpose of the exceptions is to avoid “zero sum” effects and promote a “win-win” impact for regional integration.

"Trade Creation" in this context means the realization of new, incremental trade among member countries (internal trade) which could be through the replacement of expensive domestic production by cheaper or higher quality imports from another member country. "Trade Diversion" means the replacement or reduction of traditional levels of trade with non-member countries (external trade) by reason of internal trade creation. "Investment Diversion" means the shifting of investment, e.g., foreign direct investment or FDI, from non-member countries to member countries, meaning those whose exports now benefit from the preferential tariffs of regional trade arrangements. An example of these concerns is the demand of the Caribbean and Central American countries for so-called "NAFTA parity" to compensate them for the trade and investment diversion they allege have occurred as a result of the preferential tariffs and other treatment of Mexico by the United States under the NAFTA.

The basic concerns regarding regional trade agreements have been stated succinctly by Robert Lawrence of Harvard University:

> . . . Regional agreements can make progress in harmonizing domestic policies and providing more credible and more effective supra-national governance mechanisms than the WTO. On the other hand, there is the concern of regulatory capture, that under the influence of [multinationals] new systems of rules will be set to help insiders and hurt outsiders. Sceptics . . . are particularly concerned that while masquerading as FTAs, the new arrangements have been severely compromised by intricate rules of origin and other loopholes that may actually represent a retreat from freer trade rather than a movement toward it. In addition to the traditional problem of trade diversion, therefore, there are two other major risks with regional agreements. The first is that they could implement new forms of protection, not by erecting new tariffs but by implementing rules of origin and administering anti-dumping and countervailing duties which have protectionist effects. The second is that some countries may join regional arrangements even where the rules they provide are inappropriate. [27]

[27] “Preferential Trading Arrangements: The Traditional and the New”, Robert Lawrence, in Regional Partners in Global Markets: Limits and Possibilities of the Euro-Med Agreements, ed. by Ahmed Galal & Bernard Hoekman, Centre for Economic Policy Research & the Egyptian Center for Economic Studies, 1997, p.28.

5.4 GATT/WTO Rules for Regional Arrangements

The rules of the GATT‘94/WTO applicable to regional integration arrangements are found in Article XXIV of the GATT’94, in Article V of the new General Agreement on Trade in Services (“GATS”), and in the so-called “Enabling Clause.” The WTO framework of rules for global trade has not yet established an investment regime that provides rules for preferential trade arrangements.

5.4.1 **Article XXIV of GATT’94--Trade in Goods**

While Article XXIV of the GATT '94 establishes certain non-discrimination exemptions to accommodate free trade arrangements and customs unions, it does so subject to certain conditions. The exemptions are premised on the idea that, while total global economic welfare can best be promoted by eventual total elimination of restrictions on trade among nations, free trade arrangements and other agreements that go beyond the accomplishments to date of the multilateral system in eliminating barriers to international trade should be accommodated. The GATT also acknowledges the so-called "free rider" problem because of the application of the MFN principle, e.g., the tendency of some WTO parties to demand the benefits of non-discrimination for themselves while denying it to other WTO members, recognizing that regional free trade arrangements can effectively prevent such tendencies among trading nations.

Therefore, Article XXIV, Paragraph 4, provides that:

> The contracting parties recognize the desirability of increasing freedom of trade by the development, through voluntary associations, of closer integration between the economies of the countries parties to such agreements. They also recognize that the purpose of a customs union or of a free-trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories.

It authorizes derogations from the MFN obligation of Article 1 of the GATT for free trade arrangements and customs unions as long as they meet two basic conditions: (1) they provide for the liberalization of "substantially all" of the trade among member countries; and (2) the common external tariffs (CETs) or individual tariffs of FTA members and other regulations made applicable to non-member countries "on the whole" cannot be more restrictive than the general incidence of such duties or regulations before entry into effect of the FTA or customs union.

FTA or customs union member countries must provide detailed notification to GATT '94/WTO signatory countries with explanation of the provisions and likely impacts of the arrangement and consult with WTO countries that request discussions of issues of specific concern.

A significant problem in the administration of Article XXIV has been that there is apparently no consensus on the meaning of "substantially all" trade and whether this permits, for example, the sometimes significant sectoral exclusions (or "negative lists") found in many such arrangements. There is similar uncertainty as to the meaning and application of "on the whole" in terms of the scope of restrictions allowed on external trade with non-arrangement members. While there is some precedent that it means that member countries may not raise their external tariffs to non-members above their "bound" Uruguay round or WTO accession tariff commitments, others have said that it requires WTO countries to apply substantially the same duties and other restrictions to trading partners who are not members of the FTA or customs union.

Article X, paragraph 7, requires signatories to a regional integration agreement to notify the GATT/WTO regarding details of their arrangement so that other GATT members may express their concerns and recommendations. These Article XXIV notifications are made to the Council on Goods, which, in practice, has referred them to “working parties” that prepare reports on the provisions of the arrangement for GATT members. Conceptually, the WTO has a right to reject a given free trade arrangement or customs union on the grounds it doesn't meet the conditions specified above. However, these conditions are obviously very flexible and open to broad interpretation, such that, of the now more than 100 preferential trade arrangements that have been notified to the GATT/WTO under Article XXIV, none has ever been rejected as inconsistent with GATT obligations. On the other hand, it also appears that none actually have ever been formally "approved" by the GATT.

During the Uruguay Round, GATT members adopted an “Understanding on the Interpretation of Article XXIV of the [GATT]” that provided some consensus interpretations of terms used in Article XXIV designed to “narrow” the scope of its exceptions from GATT principles. For example, it provided that the evaluation of the “general incidence of the duties and other regulations of commerce applicable before, and after, the formation of a customs union . . .” shall be based on “an overall assessment of weighted average tariff rates and of customs duties collected.” And it enunciated rules regarding compensation for trade diversion and for the procedures related to development of common external tariffs to non-member countries. It also developed a standard format for notifications of agreements and required submission of periodic reports reflecting the operation and impacts of such arrangements.

In February 1996, a decision was taken to establish a Committee on Regional Trade Agreements and to centralize under it the efforts of all Article XXIV working parties. As of January 1998, 144 regional agreements have been notified to the GATT/WTO and the GATT/WTO had completed or begun examination of 44 of them. In December 1995, the First (or “Singapore”) WTO Ministerial Conference took place to review developments related to implementation of the GATT’94/WTO agreements since their effective date. The Singapore Ministerial report included a statement on Regional Trade Agreements that stated:

> We note that trade relations of WTO Members are being increasingly influenced by regional trade agreements, which have expanded vastly in number, scope and coverage. Such initiatives can promote further liberalization and may assist least-developed, developing, and transition economies in integrating into the international trading system. In this context, we note the importance of existing regional trade agreements involving developing and least-developed countries. [But] The expansion and extent of regional trade

agreements make it important to analyze whether the system of WTO rights and obligations as it relates to regional trade agreements needs to be further clarified.

The Ministerial Conference also established a WTO Working Group to examine the "systemic implications" of regional trade agreements for the WTO trading system and on each other. The working group is to examine three aspects of regional trade arrangements: (1) a legal analysis of their consistency with WTO obligations; (2) an analysis of "horizontal rules," e.g., rules that apply within the arrangement; and (3) an analysis of the economic aspects of such arrangements. The ministerial's actions suggest a clear concern for the primacy of the multilateral trading system given the proliferation of such arrangements and a desire to tighten up on the application of Article XXIV's exceptions for them.

5.4.2 **Article V of GATS--Trade in Services**

For the first time in GATT history, the Uruguay Round General Agreement on Trade in Services extended basic GATT principles to trade in services. "Services" as used in the GATS includes: business (including professional and computer) services; communications; construction and engineering; distribution; education; environmental services; financial (insurance, banking) services; health services; tourism and travel; recreational, cultural, and sporting services; and transport. The GATS applies to government measures affecting services provided on a commercial basis, whether by a private or public sector entity (though not to services obtained by the State through government procurement).

The GATS comprises a framework consisting of: (a) rules requiring member countries generally to apply MFN and National Treatment by not discriminating between service products and their providers from foreign countries; (b) annexes that establish rules for specific sectors (financial services, telecommunications, maritime and air transport, and movement of natural persons); and (c) specific commitments liberalizing trade within the service sectors and sub-sectors listed in each country's specific schedule of commitments.

One objective in obligating countries to provide MFN and National Treatment only in the sectors to which they extend their commitments in the schedules they have tabled is to allow them to maintain the preferential treatment they may extend to certain countries under regional trade arrangements. However, since Article XXIV of the GATT'94 only applies to trade in goods, it was necessary to develop a parallel provision for trade in services. But, rather than referring to the "exemption" of regional arrangements from the GATT or GATS, Article V of the GATS provides that the obligation of MFN treatment "does not prevent Members from being a part to or entering into an agreement liberalizing trade in services between or among the parties to such an agreement," provided (a) it has substantial sectoral coverage and (b) has provisions to (i) assure elimination of existing discriminatory measures, and/or (ii) prohibits new or more discriminatory measures, either at entry into force or within a reasonable timeframe. Notifications regarding provisions of regional arrangements related to services are made to the WTO's Council on Services.

5.4.3 **<u>Applicability of the "Enabling Clause"</u>**

While Article XXIV and Article V of the GATS are considered as exceptions to basic GATT principles applying to all WTO member countries, the GATT/WTO also provides even more special exceptions to its basic principles of MFN and National Treatment focused specifically on developing nations. The "Enabling Clause" is more formally the "Decision of 28 November 1979 on Differential and More Favorable Treatment, Reciprocity and Fuller Participation of Developing Countries" [in the GATT]. As described in the Interpretative Note [regarding the Enabling Clause] from Annex I of the GATT'94, the Enabling Clause provides that:

> 1. Notwithstanding the provisions of Article I of the General Agreement, contracting parties may accord differential and more favourable treatment to developing countries, without according such treatment to other contracting parties. . .
>
> 2. The provisions of paragraph 1 apply to the following:
>
> (a) . . .
>
> (b) . . .
>
> (c) Regional or global arrangements entered into amongst less-developed contracting parties for the mutual reduction or elimination of tariffs and, in accordance with criteria or conditions which may be prescribed by the CONTRACTING PARTIES, for the mutual reduction or elimination of non-tariff measures, on products imported from one another. . .

Paragraph 3 of the Enabling Clause establishes certain conditions to the effectiveness of these exemptions, e.g., providing that "any differential and more favourable treatment provided under this clause:

> (a) shall be designed to facilitate and promote the trade of developing countries and <u>not to raise barriers to or create undue difficulties for</u> the trade of any other contracting parties;
>
> (b) shall <u>not constitute an impediment to the reduction or elimination</u> of tariffs and other restrictions trade on a most-favoured-nation basis . . . (emphasis added)

It seems clear that the original purpose of these provisions of the Enabling Clause was to provide specific GATT/WTO authorization to non-reciprocal, concessionary trade preferences accorded by <u>developed</u> nations to <u>developing</u> nations, but they have been interpreted by a number of developing nations as authorizing--under less rigid criteria than the exemptions of Article XXIV--reciprocal multilateral and even bilateral preferential trade arrangement among developing countries, and, it appears, the GATT/WTO acquiesced in this interpretation.

Like Article XXIV, the Enabling Clause requires notification of such arrangements to the GATT/WTO, except that the notification goes to the WTO Committee on Trade and Development rather than to the Committee on Regional Trade Arrangements. That Committee may "note" the arrangement, request additional information, establish a working party and adopt its report, as well as review the periodic reports made by member countries regarding developments under the arrangement. A precedent was established in 1992 in connection with the GATT review of the MERCOSUR Agreement which was notified to the Committee on Trade and Development under the Enabling Clause. In that case, the Trade and Development Committee established a working party to review the agreement, but indicated that the scope of its review should extend to the compatibility of the arrangement with <u>both</u> the Enabling Clause and Article XXIV and that its report should be transmitted to Committee on Trade and Development and the Council on Goods (prior to establishment of the Committee on Regional Trade Arrangements).

So, there is a potential cross-jurisdictional issue raised as to how strictly arrangements between developing countries should be measured against the GATT/WTO criteria for MFN and National Treatment exemptions and who should do the measuring--but it is apparent that developing countries are more comfortable with what they perceive as the more "development - oriented" focus of the Committee on Trade and Development than the presumably stricter application of exemption criteria by the Committee on Regional Trade Arrangements. So, in fact, most recent regional trade arrangements among developing nations have invoked the Enabling Clause rather than Article XXIV and have been notified to the Committee on Trade and Development. These include the: MERCOSUR Agreement, the Gulf Coordination Council Unified Economic Agreement, the Andean Group FTA, and the bilateral Thailand/Laos FTA.

5.4.4 **<u>Where Egypt Fits In</u>**

How is Egypt affected by these rubrics? In the case of its 1970 accession to the GATT, Egypt's existing trade preferences extended to Iraq, Jordan, Lebanon, Libya, Saudi Arabia, Syria, and Yemen were "waived" under a special exception to the Article I MFN principle of the GATT in paragraph 3 of Article 1, which provides that:

> 3. The provisions of paragraph 1 [the MFN requirement] shall not apply to preferences between countries formerly a part of the Ottoman Empire and detached from it on July 24, 1923, provided such preferences are approved [read "waived"] under paragraph 5 of Article XXV, which shall be applied in this respect in the light of <u>Article XXIV</u>. (emphasis added)

In this particular case, the Working Party on the Accession of the United Arab Republic noted that, although the United Arab Republic was detached from the Ottoman Empire <u>prior</u> to 24 July 1923, paragraph 3 of Article I could be considered as applying to the United Arab Republic "by analogy" since voting on a waiver under Article XXV:5 and on its accession required the same number of approval votes. The point here is that Egypt's then existing preferences were at least "waived" as against the requirements of Article XXIV before the adoption of the Enabling Clause.

The Arab Common Market was founded in 1964, before the Enabling Clause, and so was notified under Article XXIV. The Guide to GATT Law and Practice notes that later on, however, in a sort of nunc pro tunc review in the 1980s of Egypt's now defunct trade agreement with India and Yugoslavia, signed in 1967, that that agreement "although predating the Enabling Clause, has, since 1979, been treated as having a basis in the Enabling Clause."

But the applicability of the Enabling Clause is still an issue between developing and developed nations, and how the newly-strengthened WTO will treat future FTAs among developing countries given the proliferation of such agreements, in its effort to avoid their undermining the multilateral approach to global trade rules, remains to be seen. Egypt and other prospective signatories of free trade agreements or customs unions should take care that the preferences extended to members do, in fact, still meet the basic criteria of Article XXIV.

6.0 EGYPT'S OPTIONS FOR INTEGRATION

Egypt confronts three basic approach options toward attempting to realize economic growth and job creation through expanded exports: unilateral trade liberalization; participation in some form of regional economic integration--e.g., free trade agreement or customs union; or concentrating on achieving overall multilateral trade liberalization through the GATT/ WTO. These options are not necessarily contradictory such that Egypt could decide to employ one or more of these approaches. The options are summarized below.

6.1 The Possibilities/Basic Effects

Under unilateral trade liberalization, tariffs and some or all NTBs are reduced without any agreement with other nations for reciprocal actions or rights. This would reduce the cost of imported inputs used in the production of exports and, thus, would make Egyptian exports more competitive in world markets. However, since there is no reciprocity creating enhanced Egyptian access to other markets, there may be no effective trade creation for Egypt in the sense of increased exports to the extent Egypt's exports remain limited by market access restrictions, like high tariffs or quotas, in other countries. On the other hand, there may be increased competition for domestic producers in its home market from increased imports, but such increased competition may also lead to certain consumer and exporter welfare gains in the form of lower market prices and input costs. There would be no "locking in" of trade-related macroeconomic and/or legal/regulatory reforms, but there might be some distributable welfare gains in that reduced rent seeking and administrative costs associated with tariff and non-tariff import barriers would be reduced.

Regional Integration Approaches--a free trade agreement would appear to have two advantages over unilateral trade liberalization: (a) reciprocal opening of partner markets could result in realizable trade creation for Egypt through expanded market access (particularly in the case of labor-intensive, highly substitutable products) and, being based on an international treaty, could operate to restrain trading partners from restricting access to their markets in the future; and (b) the same treaty effect could lock-in Egyptian trade-related macroeconomic and/or legal/regulatory reforms. However, an FTA might require the elaboration and enforcement of complicated rules-of-origin designed to prevent transshipment by non-members into Egypt through the member country with the lowest applicable external tariffs. Imposition of such rules by all FTA members could subvert Egypt's goal of seeking the reduction of NTBs and administrative restrictions of its major member trading partners. Retention of each FTA member country's external tariffs and NTBs while internal tariffs and NTBs are repealed or reduced could result in trade diversion, which, if greater than the internal trade creation, would reduce welfare and violate GATT/WTO rules.

The customs union form of integration should, like an FTA, result in trade creation for Egypt, but, since members of a CU apply uniform external tariffs, it might not result in trade diversion for non-members if the common external tariff (CET) is not substantially higher than Egypt's prior tariffs and, since all member countries would be applying the CET, the problem of transshipment by non-members would be obviated, thus ensuring the effective reduction of member NTBs and administrative restrictions for Egypt.

The multilateral option--essentially refers to Egypt's continued participation in the ongoing GATT/WTO-sponsored multilateral negotiations designed to liberalize--over the long term--world trade through global trade rules and commitments. Until recently, the influence of developing nations has been such that the rules adopted to date have been seen as favoring the developed nations of the world (but which remain the major markets for the products of developing nations). Only recently have the developing nations, in the form of the Group of 77 in the GATT and the G-15, come together to exert effective influence to ensure that future negotiations result in rules that reflect the concerns and commercial realities of developing nations. Egypt has been an active participant and, by increasing its effective participation in GATT/WTO affairs, could create a central leadership role for itself in influencing the future development of the global system of rules for international trade and investment. As long as regional economic integration initiatives do not violate the requirements of the GATT/WTO, Egypt could pursue the twin courses of regional economic integration in the short term, while at the same time creating an effective advocacy role for the developing countries within the GATT/WTO over the long term.

6.2 The Policy Pros for Egypt

The Arguments FOR Regionalism are:

- Regional agreements take less time for realizing increased Egyptian exports through enhanced market access provided by a limited number of FTA or CU trading partners. But the more trading partners with which to negotiate, the more time it will take to achieve an agreement.

- Regional agreements permit Egypt to (at least try to) target specific markets that are more promising for expanding its exports in sectors of its comparative advantage.

- Egypt is more likely to have greater effective influence in writing the rules for a regional FTA or CU.

- The likely short-term net economic benefits from a regional arrangement, and the political attractiveness of them, may outweigh the commercially and politically less certain, longer-term outcome of a truly multilateral, global trade liberalization process.

- A limited FTA may be more realistic (at least in the short-run) for Egypt since it would likely provoke less protectionist opposition because of demonstrable targeted market possibilities than the long-term, generalized benefits of focusing only on the multilateral GATT/WTO forum for global liberalization (note the considerable anti-GATT rhetoric demonstrated to date in the Egyptian business community and media).

- Presumably there is nothing to prevent Egypt from entering into more than one regional integration arrangement--e.g., for example, with the Arab Maghreb Union and the Gulf Coordination Council--provided that it remains faithful to its pledges of preferential treatment to members of each such arrangement under the rules of each such arrangement. Unlike the global GATT/WTO arrangement, Egypt is not obligated to extend the equivalent of Most Favored Nation treatment to every member of arrangements to which it might become a party, only to extend the preferential treatment to member countries under the rules of each such agreement. In this regard, Egypt might well profit from becoming the country that links such arrangements.

The arguments FOR Reliance on Multilateralism

- An FTA or CU opens up only the markets of a very few (often essentially competitive) neighboring countries, while multilateralism, when (and if) realized, opens up all the markets in the world.

- The ability of developed countries to manipulate the outcomes of multi-lateral negotiations in the development of global trade rules is decreasing as more and more developing countries accede to the WTO and participate more effectively in such negotiation (whilst developed nations may still be in a position to control outcomes of regional arrangement negotiations, especially with developing countries like Egypt--note the significant bar-gaining power and results of U.S. negotiation with Mexico for NAFTA).

- Egypt may be better enabled to protect its interests effectively against de-veloped nations (and others) within the framework of strong, enforceable global rules for trade rather than in a weak and/or unenforceable frame-work of rules of a regional agreement, or as a “junior partner” to a deve-loped nation in such an agreement.

6.3 Egypt’s Trade Policy--Some Suggestions

As will be seen from the following section of this report, entitled “MENA Region Integration Efforts”, Egypt confronts the possibility of becoming marginalized in the region’s now active pursuit of trade and economic integration arrangements. Ultimately, Egypt must, in the exercise of its sovereign power, determine whether and how to proceed toward realizing its best economic interests through trade liberalization, whether multilateral or regional or both. It would appear that efforts of the Egyptian Government toward this end are diffused and somewhat uncoordinated. But certain suggestion can be advanced to help guide it in its decision:

- Egypt should concentrate on realizing its explicit and attainable short-term economic interests (economic development and job creation through expanded exports) by focusing on regional integration and targeting those countries that are its most realistic, incremental export markets. Such markets would be in those countries with which Egypt has commercial trade complementarities (Egypt has something to sell they want to buy) that Egypt has comparative advantages in compared to other possible suppliers to such markets. Contracting, in effect, with only a few realistic, profitable markets is more to its interests than simply multiplying the number of countries with which it can negotiate an arrangement.

- At the same time, Egypt should continue to participate effectively in the GATT/WTO's long-run efforts at realizing appropriate global trade rules and take a leadership role therein on behalf of developing countries in general and MENA countries in particular.

- Since the goal of short-term effective payout in increasing market access to profitable markets is in Egypt's interest, it follows it should concentrate, at least in the beginning, in negotiating so-called "shallow arrangements" that enhance market access through tariff and NTB reduction, rather than "deep" arrangements that address issues of investment, services, competition rules, etc. which would take longer to negotiate and could impact significantly throughout Egypt's economy.

- In pursuing regional economic integration, Egypt should also focus on increasing the international competitiveness of its export industries not only in the sheltered, preferential markets of a regional FTA, but eventually to compete effectively in global markets, since competitiveness is required to realize export sales even when there is enhanced market access.

- Egypt should ensure that any regional integration arrangements of which it is a member or may accede to in the future, are consistent with the multilateral disciplines of the GATT/WTO so that they will harmonize with and accommodate the process of eventual globalization of markets and trade rules. Otherwise, the world will simply reduce itself into regional "fortress" zero sum trading groups that will, in the end, have an overall depressing effect on world trade and restrain, rather than promote, Egypt's long-term goals for increased exports.

- In order to integrate GOE efforts to address the above matters, coordinate the activities of its various ministries directed toward trade arrangements and economic integration, provide adequate consideration of export expansion and investment promotion concerns, and ensure attention to major sectoral interests, the GOE should establish an Inter-Ministerial Commission for Economic Integration, to consider all aspects of regional trade and economic integration arrangements and to suggest the policy reforms and strategies to maximize the nation's interests in its approach to negotiations therefor. The Commission should be chaired by the Prime Minister or the Minister of Trade and Supply and include ministers from the Office of the Presidency, the Cabinet Counsel Technical Secretariat, and the ministers of Foreign Affairs, Finance, Industry, and other competent ministries with interests in the subject area as well as private sector representatives of major industrial sectors. There should be detailed to the Commission a permanent body of specialists competent to suggest policies and negotiating strategies addressing issues related to trade and economic integration.

7.0 MENA REGION INTEGRATION EFFORTS

The idea of joint Arab economic cooperation and eventual economic integration has tantalized Arab nations and their leaders throughout the Twentieth Century. It was a major purpose for the establishment of the League of Arab States (Arab League or "AL") in 1945, largely in response to an initiative from Egypt. The basic goals of the Arab League are to facilitate the consensus and cooperation necessary to achieve Arab political and diplomatic solidarity and to encourage the economic development of its member nations. The latter goal has resulted in the conclusion over the years since founding of the League of many economic cooperation and joint development agreements and at least nine League-inspired agreements for promotion of mutual trade and economic integration, as well as another eight unrelated regional or subregional agreements for trade liberalization. But the vast majority of these efforts were complicated, if not completely undermined, by an array of political differences, national animosities, infrastructural constraints, inconsistent economic systems, lack of trade complementarities, and/or overwhelming domestic protection pressures. As Minister of Trade and Supply Ahmed Goweilly noted in requesting this study, most of these arrangements were entered into for purely political or diplomatic reasons and failed because they did not reflect economic or commercial realities. Of this array of treaties, agreements, and other arrangements, those deemed most significant and examined herein include: the Arab Common Market, the Arab Maghreb Union, the Gulf Coordination Council, and the recently-founded Greater Arab Free Trade Area. [Appendix A, Table 2, contains a chart of multilateral and bilateral trade arrangements in the MENA Region]

7.1 Arab Common Market (1964)

The Arab League was founded in 1945. It is composed of 21 independent Arab nations and the Palestinian Authority. Article 2 of the League's Charter states that "one of the aims of the League is to achieve cooperation and strengthen ties among its members", "especially in the fields of (1) economic and financial matters, including commercial exchange, customs, currency, and agricultural and industrial sectors; and (2) transportation and communication sectors, which includes ties based on roads, railways, air, maritime, and telegrams." Article 4 of the Charter stated that a specialized committee should be established for each and every one of the above-described activities with the aim of drawing plans and suggesting projects for the Council's consideration.

The idea of an "Arab Common Market" was first voiced in 1951 at the inaugural meeting of the Union of Arab Chambers of Commerce. Later on that year, the Joint Defense and Economic Cooperation Treaty was signed by members of the League and an "Economic Council" established to undertake economic-related activities under the Treaty. As stated in Article 4 of that Treaty, the main purpose of the Economic Council (composed of Arab ministers of foreign affairs) is ". . . to maintain tranquility and assure prosperity within Arab countries and to raise the standard of living among their people through elevation of their economies, development of their natural resources, and facilitation of commercial exchange of industrial and agricultural products." The League Charter and the Economic Cooperation Treaty formed the framework and legal structure for Arab collective economic cooperation and coordination during the fifties and sixties, concentrating on trade, money and investment, and labor mobility.

In 1957, the Economic Council concluded the Agreement on Arab Economic Unity which was ratified by six Arab countries in 1962. Under the Economic Unity Agreement, the Council on Arab Economic Unity was established on 30 April 1964 to encourage an integrated economy of all League member states. The Economic Unity Council, in turn, in its Resolution No. 17 of 13 August 1964, ordained the creation of the Arab Common Market. The initiative for creation of the Arab Common Market appears to have occurred as a result of concerns elicited by the development of the European Common Market. Four Arab countries immediately joined the Common Market in 1964--Egypt, Iraq, Jordan, and Syria--with Libya joining in 1975 and Sudan and Yemen in 1977. Lebanon and Mauritania also eventually joined.

But the Arab Common Market never came into effective operation to realize the goals for its establishment. It clearly was based upon a driving force of Pan-Arab solidarity political and diplomatic goals; moreover, it failed for economic reasons as well--primarily as a result of the unwillingness of its members to agree on a list of products that would be permitted to circulate free of tariffs or other restrictions between their economies. According to Abdessatar Grissa, "Every product proposed for [such] circulation was met by an objection by one or more countries as being contrary to its effort to promote an 'infant industry'." [28]

7.2 Trade Facilitation and Development Agreement (1981)

In 1980, for the first time in Arab League history, an Arab Economic Summit was called for and held (without Egyptian involvement because of the suspension of its League membership). The Summit resulted in the adoption of four major instruments: (a) the Charter of Inter-Arab Economic Unity; (b) a "strategy" for Arab economic activities; (c) declaration of a "Decade of Joint Arab Economic Development"; and (d) the Arab Unified Treaty for Investment of Arab Capital in Arab Countries. The Summit also directed the League's Economic and Social Council to revise all existing economic agreements, incident to which the Council produced in 1981 an Agreement on Facilitating and Developing Trade Exchange Among Arab Countries. The Agreement was signed on 27 February 1981 by all Arab countries except Algeria, Cape Verde, Egypt, Djibouti, Mauritania, and Oman and, upon ratification by the requisite number of countries, entered into effect on 16 November 1982. (Egypt was not an original signatory because of its suspension from the League, but later signed the Agreement in 1996 at the time of President Mubarak's call for another Arab Summit in Cairo in June, 1996--however it appears Egypt has never formally ratified the Agreement).

The League's Economic and Social Council monitors implementation of the Facilitation Agreement through a technical committee--the Trade Negotiation Committee--which manages both the rules for trade negotiation and the process for liberalization of trade in manufactures and semi-processed commodities. Under the Facilitation Agreement, agricultural and livestock

[28] "Arab Economic Integration: Current Reality & Future Prospects", Abdessatar Grissa, Economic Research Forum Working Paper No. 9405, Cairo, Egypt 1993.

commodities were to be liberalized “spontaneously” as determined by Customs rules “without need for further negotiation.” The implementation strategy provided for:

- gradual and complete liberalization of trade among Arab countries with respect to customs duties, taxes, and fees having the same effects . . . as well as non-tariff barriers imposed on imports from other Arab countries;

- initiating selective and gradual protection of Arab producers by imposition of the equivalent of a common external tariff representing a minimum level of duties and restrictions; and

- implementation of the equivalent of Rules-of-Origin for preferential import treatment based on a 40 percent national value-added to qualify as a product of an Arab country (to be reduced to 20 percent for “strategic” and “collective” industries.

However, the Facilitation Agreement did not contain provisions providing for an actual implementation work plan or agenda or prescribing a time schedule for realizing the trade liberalization actions described in that agreement. And, thus, the Facilitation, like the Arab Common Market, failed to achieve its goals.

7.3 Arab Maghreb Union (1964, 1989)

The Maghreb Permanent Consultative Committee, composed of Algeria, Libya, Morocco, and Tunisia, was established in 1964 to coordinate the members’ respective development programs. The members set up a number of specialized subcommittees to develop common policies relating to Trade, Industry, Transport, and National Accounts. The Committee also addressed the reduction of barriers to trade among them. But, after concluding that their efforts to liberalize trade on a sector-by-sector basis would not attain the desired level of liberalization, on 18 February 1989, the four countries plus Mauritania concluded a treaty establishing the Arab Maghreb Union to function as a common market. According to some, the motivating factor was their fear that creation of the Single European Market would adversely affect their economies and that only through substantial unity could they bargain effectively with the European Union.

The treaty instituting the Arab Maghreb Union (Union) set the following objectives: to strengthen the ties of brotherhood; to achieve progress and prosperity of their societies and to defend their rights; to pursue a common policy in all fields and, gradually, to achieve free movement of persons and transfers of goods, services, and capital. The treaty articulated the goal of progressive realization of the free circulation of goods, services, capital, and labor through a scenario of intermediate stages, e.g., a free trade area by the end of 1992; a customs union by the end of 1995; a common market by the year 2000; and, eventually, the harmonization of macroeconomic and monetary policies in a manner reminiscent of the evolution of the European Union. The treaty also envisioned that pre-existing bilateral trade agreements should be incorporated gradually into the framework of the Union. The Union has an organic structure composed of political bodies (Presidential Council, Council of [Foreign] Ministers, and a

Consultative Council), management entities (Supervisory Committee, General Secretariat), and a form of judicial structure (magistrates). The design of its organic structure also closely resembles that of the European Union.

The Union experienced problems from the start because of conflict between Algeria and Morocco related to Algeria's support for the Polisario Front, which was attempting to split its Saharan territory from Morocco. The treaty establishing the Union declared that it was intended as a "stepping stone" to economic union with other Arab countries. But, although Morocco invited Egypt to apply for membership in the Union, Tunisia is said to have opposed Egypt's membership and it failed to receive the unanimous support required for membership. Although eligible to apply for "observer status" with the Union--a threshold for membership--Egypt so far has declined to request such status.

The preponderance of Intra-Union trade is in manufactures, which account for nearly 57 percent of trade flows, while primary commodities and raw materials account for 33 percent and food products, beverages, tobacco, and animal and vegetable oils and fats account for some 10 percent of the total. This reflects a basic dependence within the Union on imports of food and processed food products

7.4 Gulf Coordination Council (1981)

The Charter for the Gulf Coordination Council (GCC) was signed on 25 May 1981 by the Heads-of-State of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates at which time the GCC formally came into existence.

As stated in the Charter, the objectives of the GCC are to: (1) effect coordination, integration, and "interconnection" between its member states in all fields in order to achieve unity between them; (2) to deepen and strengthen relations, links, scopes of cooperation between their people; (3) to formulate similar regulations in various fields including economic and financial affairs, agriculture, industry, commerce, customs and communications, education and culture, social and health affairs, information and tourism, and legislative and administrative affairs; (4) to stimulate scientific and technological progress in various fields and encourage cooperation by the private sector.

Under the rubric of the GCC, an "Unified Economic Agreement" was signed in November 1981. Its goals include free trade among member states in all agricultural, animal, industrial, and natural resource products of GCC origin. Such products are to be exempted from customs duties and other equivalent charges. The Agreement contemplated a customs union based upon implementation of a common external tariff and trade policy and coordination of economic development.

The organic structure of the GCC comprises a Supreme Council, Ministerial Council, Secretariat-General, and a Commission for the Settlement of Disputes. The Supreme Council is the organization's highest authority and is composed of the Heads-of-State of member countries, with the presidency rotated on an annual basis. The Supreme Council provides policy direction, reviews reports and recommendations submitted by subsidiary bodies, appoints and approves the budget of the Secretary General, and nominates members of the commission for the Settlement of Disputes and approves its rules of procedure. The Ministerial Council is composed of foreign ministers or such other ministers as member nations may nominate. The Ministerial Council proposes policies and prepares recommendations, studies, and projects designed to develop cooperation among members and endeavors to encourage, develop, and coordinate activities among them. The Ministerial Council meets every three months, and in extraordinary session as needed. The Secretariat General is headed by the Secretary General who is appointed by the Supreme Council for a three year term renewable once.

The Secretariat is comprised of the Office of the Secretary General; an Information Center; and the Directorates for Political Affairs, Economic Affairs, Military Affairs, Environmental and Human Resources, Legal Affairs, and Financial and Administrative Affairs. In September 1997, preparatory meetings were held that contemplated the establishment of a thirty-member Consultative Council. The Committee for Financial and Economic Cooperation is the primary forum for member country negotiations relating to the unification of tariffs, classification and valuation of goods for tariff purposes, unification of GCC customs laws, harmonization of customs regulations and procedures, rules-of-origin and intellectual property rights issues, and stabilization of exchange rates.

Since 1981, a number of subordinate bodies have been established to implement and achieve the goals of the GCC Charter. These include: (a) the Gulf Standards Organization, established in November 1982, when the Saudi Arabian Standards and Measures Organization was transformed into a regional body serving all GCC members; (b) the Gulf Investment Corporation, established in 1984, which has the goal of consolidating economic activities of the member countries with regard to agricultural, commercial, industrial, mining, and other investment; (c) the Patent Office of the GCC, established in December 1992, to implement patent regulation for member countries and for the authentication and publication of related data; and (d) the Commercial Arbitration Center, created in December 1993, to settle trade disputes between GCC citizens and between them and foreigners.

Although the GCC contemplated the removal of internal tariffs on GCC-origin goods over a period of time as well as the establishment of a common external tariff, progress in these two areas has been slow. Signatories have been trying since 1983 to remove internal tariffs and other NTB restrictions on GCC-origin goods, unify customs taxes (which vary from four to 20 percent), and establish a common external tariff (CET), thereby to establish a common market. Recent discussions have centered on external protection for GCC domestic industries, customs tariffs on re-exported goods, and finding means of substituting for customs duties. A draft 213 article Customs Law has been developed and some 90 percent of the effort to classify commodities for purposes of customs administration has been completed. But, despite several rounds of talks over recent years, the GCC remains split on proposals to reduce the percentage of national contribution to industrial commodities to qualify them for customs exemption in member countries. Currently, generally reduced tariffs are applicable to products if local value-added for services or raw material inputs constitute no less than 40 percent of total value. Consideration is being given to lowering that percentage to 30 percent, but such action is being opposed by Saudi Arabia.

7.5 Greater Arab Free Trade Area (1997)

The decade of the 1990s has witnessed renewed stirrings within the Arab world for economic integration. At the end of the 58th session of the Arab Economic Unity Council in December 1993, the Council stressed the desirability of establishing free trade among Arab countries. Then, during the 56th Session of the Arab League Economic & Social Council in September 1995, the Egyptian Minister of Economy and Foreign Trade proposed the establishment of an Arab Free Trade Area. The Council authorized the formation of a working group (a Ministerial Political Committee made up of the Ministers of Economy of Egypt, Morocco, Saudi Arabia, Syria, and the UAE) to study the design of an action plan to promote and facilitate trade relations among Arab countries. Egypt then produced a draft of such a plan for consideration at the Cairo Pan-Arab Summit held in Cairo in June 1996. The Cairo Summit endorsed the concept of a new effort to re-invigorate Arab trade and economic integration through development of a Greater Arab Free Trade Area (GAFTA) as a successor to the moribund Arab Common Market and directed the Economic & Social Council to take the necessary measures to establish the GAFTA according to a workplan and timetable to be agreed among the parties. To this end, the Arab League Ministerial Council (made up of the foreign ministers of member states) called for the formation of free trade areas between Arab countries, first on a bilateral level, and then expanding them to include all of the Arab states. In February 1997, the Economic & Social Council discussed Egypt's draft plan for setting up an Arab free trade area as an "initial stage for the establishment of a common Arab community."

One problem quickly confronted, however, was that two different bodies of the Arab League--the Economic & Social Council and the Arab Unity Council--had each drafted its own version of the proposed free trade area. The Arab Unity Council had developed a proposal to permit non-members of the old Arab Common Market to join that entity. So a joint meeting of Arab trade officials and experts from Arab chambers of commerce, industry, and agriculture was convened which combined the proposals to formulate the Executive Action Program adopted in September 1997, which set the date of 01 January 1998 for the GAFTA to come into effect. That program provided for the gradual liberalization over 10 years of inter-Arab trade in agriculture, animal, and raw materials, and industrial manufactures, meaning that, if fully implemented, imports of all signatory goods into the markets of other signatory nations would be tariff free by 31 December 2007, except that agricultural commodities were exempted from such liberalization during their "productive seasons." The Program encouraged Arab countries to accelerate the process through conclusion of bilateral arrangements among them. The Program was incorporated into, and the GAFTA actually established by, the Agreement on Development and Facilitation of Arab Commercial Exchange concluded in Tunis on 27 February 1997. The formal announcement of the establishment of the GAFTA was made at the inaugural meeting of the 34 Arab Chambers of Commerce, Agriculture, and Industry in Cairo under the sponsorship of the Egyptian Prime Minister, Dr. Kemal El-Ganzouri. Original signatories of the Agreement were Bahrain, Egypt, Iraq, Jordan, Libya, Morocco, Oman, Syria, and Yemen, with Lebanon and Tunisia joining later.

As of the end of March 1998, the Agreement had been signed by all Arab nations except Algeria, Mauritania, and Djibouti.

Under the Agreement, the GAFTA has the following organic structure: the primary managerial/administrative body is the Arab League Economic & Social Council, which formulates policy for the GAFTA and has final decision authority with respect to the settlement of disputes arising out of the operation of the program. The Council conducts the semi-annual reviews of implementation of the program, addresses obstacles to its successful functioning, and establishes executive and operating committees. The GAFTA utilizes the services of the Arab League's General Administration for Economic Affairs as its secretariat, which is responsible for: preparing the agendas for all meetings; preparing the Annual Report; coordinating and cooperating with Arab private sector organizations; seeking the assistance of outside Arab technical experts; and upgrading its information/data base and facilitating the exchange of trade data and commercial information among member countries. The Council has established four operating committees--the Executive Committee and the Committees on Commercial Negotiations, Arbitration, and Rules-of-Origin. The Executive Committee exercises the powers of the Council by delegation, studies the trade-related laws and regulations of member countries and how they may be harmonized for facilitating inter-Arab trade, and, in general, implements the Executive Program for the GAFTA. The Commercial Negotiation Committee provides the primary forum for negotiations regarding the phasing out of tariffs, setting the import ban (negative) lists, and eliminating non-tariff barriers. The Arbitration Committee handles disputes between member countries subject to the review authority of the Council. The Rules-of-Origin Committee deals in the development of rules for determining whether goods may be designated as "Arab" and eligible for the preferential tariff and NTB treatment provided under the Agreement.

The GAFTA provides that commodities enjoying the privileges of trade liberalization should not be exposed to either tariffs (according to the phase-out schedule of 10 percent a year) or non-tariff barriers, except for commodities whose import is banned for reasons of health, security, or environment. The following categories of goods are specifically mentioned as subject to the gradual tariff reduction scheme:

1. Agricultural and animal products, either in their primary form or after processing;

2. Mineral and non-mineral raw materials, either in their primary form or after processing; and

3. Selected goods that have been agreed to by the Council.

One problem, however, is that it appears that--to-date--the Council has not identified any specific goods as includable within such categories.

The program encourages development of common product standards among members and authorizes the establishment of three committees: one for following up implementation; one for conducting commercial negotiations; and a third for developing rules-of-origin. It also provides a mechanism for dispute settlement and provides for semi-annual assessments of the progress in implementing the program. Under program for implementing the GAFTA, countries are required to implement the Harmonized System of Tariffs to facilitate commercial interchange among them. It also provides that the customs duties subject to gradual reduction are those effectively applied as of 01 January 1998; that member countries may “adopt” international rules and procedures to deal with dumping and to address imbalances of payments caused by implementation (Safeguards); and provides for special treatment for under-developed member countries. The Agreement also authorizes consultation among member countries with regard to services, technical cooperation and scientific research, intellectual property rights protection, and coordination of commercial systems, legislation, and policies.

As of March 1998, however, the GAFTA appeared to be only in partial operation. Libya has announced the full exemption of all Arab-origin goods from its customs tariffs. Egypt has notified its customs tariffs and structure and has issued a decree to its Customs Authority to initiate reductions in tariffs on eligible Arab goods by 10 percent this year. (According to a statement by the Chairman of the Egyptian Council of Chambers of Trade and Industry, Egypt will unilaterally lift all of its tariffs on all Arab goods produced by GAFTA signatories by the year 2000--almost five years ahead of the GAFTA schedule.) Reports indicate that Kuwait, Morocco, and Tunisia have all implemented the first year’s 10 percent reduction in tariffs. But several countries still have not notified their positive lists for goods that will be granted reduced duties or exempted from existing non-tariff barriers in accordance with the Agreement. And, as of March 1998, at least nine countries have not completed the legislative/executive measures necessary to implement the first year’s 10 percent reductions in tariffs on eligible goods.

According to some observers, the delay in effective operation of the GAFTA results from a number of unresolved problems: (a) the so-called “restrictive” approach of the Agree-ment, under which the provisions of the Agreement and resolutions of the Council for its management and operations are binding only on those countries that “approve” (accept) them--this is particularly a problem with regard to the determination of product eligibility for preferential duty treatment; (b) the policy of extending national treatment to the products of all member nations whether or not they have implemented trade liberalization obligations specified in the Agreement; (c) the significant number of “negative” lists, especially for agricultural products, many of which remain subject to import bans or high tariffs (for example, it has been alleged that Egypt has demanded exclusion of textiles and ready-made garments); (d) the continuing applicability of a large number of non-tariff barriers (quantitative, monetary, standards or other administrative restrictions) despite the require-ments of the Agreement for their elimination; (e) disputes over rules-of-origin and their application; and (f) issues regarding the eligibility for preferential entry of the products of free (foreign) trade zones.

7.6 Other Area-Related Trade Initiatives

A number of other commercial diplomacy undertakings have occurred in the last twenty or so years that have had as a goal the development of liberalized trade between countries of the

MENA region or other groupings, most of which have never advanced from the "drawing board." Some of these include:

7.6.1 **The "Islamic Common Market"**

The Market is an effort on the part of some members (Iran in particular) of the 55 nation Organization of the Islamic Conference that envisions an "Islamic Common Market." An agreement developed in 1996 and available for signature of member nations encourages trade among members, calls for equal treatment and benefits for all signatories, and has provisions for preferential treatment for trade among them. The Conference currently operates its "Trade Promotion System," which publicizes trade opportunities among member countries and provides certain commercial finance and export credit facilities. As a grouping, the Conference represents approximately 11 percent of world trade, 23 percent of the world's population, and 23 percent of its land mass. However, a number of important Conference members have expressed doubts about the effectiveness of an arrangement that would have such a broad membership, with members at such a wide spectrum of economic development and commercial capacities and with so many divergent and often contentious economic, commercial, and political interests.

7.6.2 **The Developing 8 (D-8)**

A summit conference of heads of state and foreign ministers of the Group of Eight of the Major Islamic States (subsequently re-named the Developing 8 or D-8 in emulation of the G-7 group of developed nations) called for an economic alliance among the D-8 to coordinate among them in the fields of trade and investment and "strong enough to compete with other economic groupings." Areas of focus include trade, industry, communications, information, financing, banking, privatization, and science and technology. The eight member countries--each of which represents a sub-region of the world--are the largest Islamic countries in the world and include: Egypt, Bangladesh, Indonesia, Iran, Malaysia, Nigeria, Pakistan, and Turkey. Individually, all represent major markets, although none of the members has significant trade with the others. The grouping was the result of a proposal by former Turkish Prime Minister, Necmettin Erbakan, who urged the establishment of "an emerging economic and political bloc which bears the mark of Islam", presumably, according to most observers, to elevate Turkey's relationship with other Islamic states. The future of the grouping appears cloudy in terms of any real relevance to the enhancement of inter-Arab trade and investment.

7.6.3 **The Damascus Declaration Proposal**

At a June 1997 meeting of the eight Damascus Declaration countries in Latakia, Syria, the Syrian Foreign Minister proposed establishment of a common market uniting Egypt and Syria with the six nations of the Gulf Coordination Council--Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. However the proposal appears to have been subsumed since then into the more general Arab effort to establish the GAFTA.

7.6.4 **Indian Ocean Community**

The Indian Ocean Commission was founded in 1982 as a grouping of nations fronting on the Indian Ocean to develop regional approaches to common problems of pollution control, maritime piracy, and drug trafficking. Original member countries of the Commission included Australia, India, Kenya, Mauritius, Oman, Singapore, and South Africa. In September 1997, Indonesia, Malaysia, Madagascar, Mozambique, Tanzania, Sri Lanka, and Yemen became members of the Commission. In August 1995, representatives of member nations met under the chairmanship of India to explore enhanced economic cooperation and began work on a charter for an "Indian Ocean Regional Economic Association" to develop some form of preferential trade relationship among members. No concrete results in terms of an actual trade arrangement have been realized as of the date of this study.

7.6.5 **Middle East Regional Cooperation Project**

The "1994 Middle East/North Africa Economic Summit" (sometimes referred to as the "MENA I" or "Casablanca Summit") marked the first formal engagement of Arab and Israeli officials to discuss trade, investment, and cooperation projects. At the Conference, the United States proposed a "Middle East Regional Cooperation Project" to draw the Arab nations and the State of Israel into a system of regional economic cooperation as part of the overall Middle East Peace Process. Then Israeli Foreign Minister, Shimon Peres, suggested that the MENA countries (including, of course, Israel) should form a common market modeled after the European Community. The U.S. proposal provided for: (1) facilitation of the movement of goods and labor across the borders of the Middle East and North Africa; (2) establishment a MENA regional bank for economic cooperation and development; (3) establishment of a MENA Tourism Board to facilitate tourism to that region; and (4) establishment of a regional business council or chamber of commerce to promote trade and commercial opportunities. At the MENA II Conference held in Amman, a Regional Economic Development Working Group (REDWG) was established to support the Project and address matters related to trade, infrastructure, and tourism. Little progress has occurred on furthering the goals of the Project since the effective collapse of the Middle East Peace Process.

7.6.6 **Intra-Arab Trade Facilitation Initiatives**

A number of initiatives are afoot among Arab nation public and private sectors to develop a supportive framework for intra-Arab trade and facilitate the emergence of an Arab free trade area. Parliamentary Liaison--Egypt's Speaker of the People's Assembly, Dr. Ahmed Fathi Sorour, at a meeting of the Arab Parliamentary Union in May 1997, proposed the establishment of an "Arab Parliamentary Authority" to provide information and documentary resources to MENA region parliamentarians in order to facilitate legislative consideration of measures necessary to put an Arab free trade area into operation. Trade Data--In the area of Trade Data sharing, The Arab Trade Information Network was established in 1996 by a number of MENA area governmental trade promotion/export development agencies to provide information about international markets, national import/export policies, international trade agreements, and exchange rates. A second initiative involves a cooperative project between the Arab Monetary Fund's Programme of Financing Arab Trade and the Egyptian Businessmen's Association to establish a trade and investment data base to provide information on trade and investment opportunities through the Arab world. An Arab-European Union Data Network, a cooperative initiative between the EU and trade data agencies of various MENA governments has just gone into operation. Investment Financing--The Arab Investors Federation has proposed establishment of one or more Arab Holding Companies to facilitate intra-Arab trade by providing export and investment financing.

Egypt's General Federation of Chambers of Commerce has recommended establishment of an "International Islamic Holding Company to assist inter-Arab and external trade through marketing and trade financing activities. Energy Sharing--The Arab Ministers of Electricity and Energy Council has initiated discussions designed to link the power grids of Egypt, Jordan, Syria, and Iraq and those of the Maghreb nations to one another and ultimately to the European power grid through Turkey, with the goal of making surplus power available to member countries. The Council has also advanced discussion of regional cooperation to manufacture the equipment required to operate power stations.

7.6.7 **Other Arab Organizations**

At least two other Arab organizations with some potential relationship to intra-Arab trade have appeared with tenuous existence in recent years. The "Arab Union" was founded in 1988 and composed of Egypt, Iraq, Jordan, and Yemen, but was dissolved following the Iraqi invasion of Kuwait. The exact purpose of the Union remains unclear. The Council of Arab Cooperation was established in 1989, composed of Egypt, Jordan, and Iraq and later joined by Yemen. The areas of cooperation and the structure of the Council have not been determined in this study.

7.7 Bilateral Approaches to MENA Trade Liberalization

In 1995, the 56th Session of the Arab League Economic & Social Council, in proposing an Arab free trade area, called for the formation of free trade areas between Arab states, first on a bilateral basis, and then expanding them to include all of the Arab states. The Executive Action Program elaborated in September 1997 to advance the establishment of the GAFTA, encouraged Arab countries to accelerate the process of inter-Arab trade through the conclusion of bilateral arrangements. Article 3 of the Agreement on Development and Facilitation of Arab Commercial Exchange concluded in Tunis on 27 February 1997, which established the GAFTA, provide that member states of the GAFTA shall have the right to "grant more privileges and preferences to any other Arab state(s) by means of bilateral or multilateral agreements they conclude among themselves." Article 7(4) of the Agreement states that any party to the Agreement "shall have the right to grant to any other Arab country or countries additional privileges under bilateral or multilateral agreements, whether or not it is a party to the Agreement" except that it may not confer preferences upon any non-Arab country superior to those granted under the Agreement to GAFTA states.

A number of Arab countries have been active, even before conclusion of the Agreement, in attempting to secure reciprocal trade preferences on a bilateral basis. While some free trade agreements have been concluded, many of pacts reached are not so much actual free trade agreements as they are agreements to negotiate eventual free trade agreements. Tunisia, a member of the Arab Maghreb Union, has been indefatigable in negotiating such agreements, and apparently has concluded agreements with Iraq, Jordan, Kuwait, Saudi Arabia, Syria, Sudan, and the UAE. Syria has concluded agreements with Jordan, Lebanon, Libya, Morocco, and Tunisia. Lebanon has agreements with Jordan, Kuwait, Syria, and Sudan, while Jordan has agreements with Israel, Lebanon, Morocco, Syria, and Tunisia. Morocco has agreements with Jordan, Syria, and Sudan. A recent example is an agreement signed between Lebanon and Syria that would phase out customs duties on covered local products over a four year period beginning in January 1999. Another recent example is an agreement between Jordan and Saudi Arabia in early July 1998 “to sign a free-trade accord by the end of the year” that would phase out customs charges over a six year period. Generally, such FTAs as are actually agreed to come with extensive negative lists excluding products from tariff-free or reduced tariff treatment that often represent more products and/or more product value than those made eligible for tariff exemptions.

Egypt has been heavily involved in bilateral trade agreements. In November 1997, it signed an agreement with Tunisia to lift customs duties over the next five years on some 100 goods. In June 1998, it signed an agreement with Morocco that also looks to the creation of a free trade zone between them in the future. In their discussions, the two countries are focusing on three “lists,” e.g., a “ positive” list of goods that will be completely exempted from duties; a second list of goods with respect to which duties will be reduced gradually over a five year period; and a third list–essentially a “ negative” list–that exempts certain goods deemed “sensitive” and excluded from any liberalization. Also in June 1998, Egypt signed a number of economic cooperation agreements with Libya that contemplate eventual conclusion of an FTA between them. Egypt and Jordan are expected to conclude an agreement in November 1998 to realize a free trade area by 2005. Under that agreement, in January 1999, tariffs will be decreased by 25 percent on all but a few “sensitive” goods. Starting in January 2000, customs duties are to be reduced by 15 percent per year for three years and then by 10 percent a year for another three years. It is contemplated the remaining 25 percent of customs duties will be reduced gradually down to zero. Egypt is in the process of discussing trade arrangements with Lebanon, Kuwait, Syria, and Yemen and has initiated talks with Bahrain and Saudi Arabia. According to press reports, the talks underway with Lebanon are currently focusing on the eligible or “positive” list, with a goal of an arrangement that would gradually remove tariffs on eligible products over a five-year period.

Egypt’s bilateral agreements concluded to date or in negotiation generally appear to have a uniform structure and a gradual, phased approach toward eventual free trade, usually over a five year period--providing for a more rapid approach to trade liberalization than that found in the ten-year approach of the GAFTA.

The number of bilateral agreements in the MENA region raises the same issues with regard to the viability of a regional accord as do regional agreements for the overall multi-lateral trading system (discussed in section 5.1 hereof). The question is, does their proliferation essentially complement or detract from the regional approach to economic integration through trade liberalization? Also, like the GATT/WTO, which provides an exception authorizing regional arrangements because they are likely to accomplish large scale trade liberalization faster than the more cumbersome global approach of the GATT/WTO, the Agreement on Development and Facilitation of Arab Commercial Exchange of February 1997 recognizes the MENA region bilaterals are becoming, in effect, the building blocks of a truly multilateral, regional approach to integration. This is because, even if on a limited product basis, they condition trading partners to accept the validity of reduced tariffs and elimination of non-tariff barriers as key to realizing their economic development and job creation goals based on their developing competitiveness in global markets. The aggregate of these agreements lays the basis for the broader coverage and scope of a multilateral regional arrangement like the GAFTA. So, in this sense, they must be seen as complementing the multilateral regional approach rather than detracting from it. Indeed, Egypt is more likely to realize tangible market access possibilities in the short run by its policy of attracting potential trading partners into bilateral FTA arrangements than in awaiting the mid to long-term effective operation of the GAFTA. Thus it makes sense for Egypt to continue its "two track" approach toward market opening, on the one hand, continuing its strategy of multiplying bilateral arrangements, while, on the other hand, seeking and influencing the development of the GAFTA into an effective regional arrangement.

7.8 Extra-Regional Trade Arrangements

7.8.1 **Euro-Med/Barcelona Agreements**

Egyptian trade with the European Community had been governed by the Comprehensive Cooperation Agreement with the EC concluded in 1977. That agreement offered Egypt limited, non-reciprocal preferential access to the EC market by removing all tariffs on certain specific items of Egyptian industrial production and providing for Egyptian agricultural exports to the EC subject to rigid quotas. The EC maintained similar agreements with a number of other North African and other MENA region countries.

In September 1993, a delegation of the European Commission of the EC invited Egypt to enter into discussions to develop a new framework of relations aimed at developing a political dialogue, liberalized trade, and a wider scope of cooperation. Egypt accepted the invitation and the first meeting took place in Brussels on 16 May 1994.

In 1995, the European-Mediterranean Partnership Agreement was signed in Barcelona, Spain, between the 15 countries of the [now] European Union and 12 countries of the Southern and Eastern Mediterranean: Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey, and the Palestinian Authority. The Barcelona Agreement provides an overall framework for the various individual "association" agreements concluded between the EU and Israel, Jordan, Morocco, and Tunisia, and the one currently being negotiated between the EU and Egypt.

The Euro-Med-based association agreements are all substantially similar in structure and terms except for differences in the various schedules (annexes) for EU and the partner country's products covered under the agreement and the schedules for the phase-out of tariffs on industrial products. The agreements contemplate a 12-year transition period providing for the elimination of all tariffs and quotas by the end of the transition period--except for many agricultural products whose treatment is to be "reassessed" at the end of the transition period.
The association agreements have eight major titles: (1) Political Dialogue; (2) Free Movement of Goods; (3) Right of Establishment and Supply of Services; (4) Payments, Capital, Competition, and Other Provisions; (5) Economic Cooperation; (6) Cooperation in Social and Cultural Matters; (7) Financial Cooperation; and (8) Institutional, General, and Final Pro-visions. Of particular concern here are the provisions affecting commercial relations--establishment of the FTA;

treatment of industrial and agricultural products; and the provisions relating to right of establishment, services, capital flows, competition policies, and workers.

The agreements provide for the establishment of a free trade area by the end of 12 years from entry into force (except for many agricultural products). All industrial products are given immediate tariff-free treatment without quantitative restrictions (quotas) <u>except for</u> products described in the various annexes of the agreement, while the parties agree to a standstill provision that no <u>new</u> duties or other charges on imports will be imposed. Either side is authorized to maintain certain "agricultural components" listed in their respective annexes designed to exempt agricultural products from duty-free or tariff reduction treatment. The agricultural component may take the form of a flat rate amount or an <u>ad</u>-<u>valorem</u> duty. Tariffs on excepted industrial products are phased out, according to schedules established for each annex list of products, over periods of time ranging from three to five to eight or twelve years.

There are also lists of industrial products not subject to tariff phase-out, but which will be "re-examined" during or after the expiry of the 12-year transition period. Parties to the agreements are permitted to restore tariffs for safeguards purposes to protect "infant industries" or sectors "facing difficulties" as a result of their phase-out commitments. Separate rules are established for listed agricultural products, but the agreements provide that beginning some five years after entry into effect, the parties shall "assess the situation with a view toward determining the liberalization measures" on a product-by-product basis.

The agreements permit parties to undertake certain trade remedies including anti-dumping (in accordance with GATT'94 requirements), safeguards (additional duties, quotas) in the event any product under the agreement is being imported in such increased quantities as to injure domestic producers or where there are "serious disturbances" in any sector of the economy or "difficulties that would bring about serious deterioration in the economic section of a region. Note that the safeguards options are authorized without relating them to the requirements of the GATT'94/WTO governing such actions. Remedies are also authorized to enable parties to deal with transshipments designed to avoid quotas or exports which might result in "domestic shortages." The agreements also provide that nothing in them shall prevent parties from prohibiting or restricting imports, exports, or goods-in-transit for reasons of public morality; public policy (no criteria applied); public security; protection of health or life of humans, animals, and plants; protection of historical treasures or of intellectual, industrial, or commercial property; or actions relating to gold and silver. Rules-of-Origin are made applicable via certain provisions relating to "originating products" contained in protocols to, but not provisions of, the agreement.

The agreements provide relatively innocuous, unenforceable provisions that the parties will agree eventually to widen the scope of the agreement to cover the right of establishment and to liberalize the provision of services. Essentially, the agreement incorporates the obligations and commitments of the parties to those positive and negative schedules tabled under the GATT/WTO's General Agreement on Services (GATS). It is left to the agreement's management body--the Association Council composed of representatives of all 15 EU member countries and the counterpart country--to make recommendations for liberalizing services beyond this regime no later than five years after entry into force, based upon its assessment of the parties' record of reciprocal implementation of their GATS obligations and commitments.

Under the agreement's provisions relating to capital flows, the parties essentially agree to allow current account payments transactions and transfers of capital for investment [e.g., foreign direct investment or FDI] ("in accordance with current laws") as well as repatriation of the profits from such investments or of the liquidation of such investments, subject to certain balance of payments safeguards. The agreement provides that the parties "shall consult" with a view to facilitating and fully liberalizing the investment of capital "when the time is right." The provisions governing competition policy essentially require the counterpart country to adopt the basic EU competition laws and policies and the Association Council to develop rules therefor within five years of the entry into force of the agreement. It also requires that the parties "adjust" within five years any state monopolies of a commercial character to ensure no discrimination in the procurement or marketing of the goods of either party. Similarly, the agreement provides that the parties shall promote use of EC technical rules and European standards for industrial and agri-food products and certification procedures.

The EU association agreements have as their goals--as expressed in their premises clauses--"to establish the conditions for the gradual liberalization of trade in goods, services, and capital; to promote trade and expansion of harmonious economic . . . relations among the Parties . . ." and--of specific relevance to the area addressed in this study--to "encourage integration . . . by promoting trade and cooperation . . . [with] other countries of the region."
Two provisions of the agreements relate directly to the process of MENA economic integration. Article 23 provides that:

> l. This Agreement <u>shall not preclude</u> the maintenance or establishment of customs unions, free trade areas or arrangements for frontier trade <u>insofar as they do not have the effect of altering the trade arrangements provided for in this Agreement.</u>
>
> 2. Consultations between the Parties shall take place within the Association Committee concerning agreements establishing customs unions or free trade areas and, where appropriate [the Morocco agreement says "requested"], on other major issues related to their respective trade policies with third countries. . .

Perhaps even more important, Article 29 refers to the Protocol attached to the agreements (Protocol No. 3 for Jordan, and No. 4 for Israel, Morocco, and Tunisia) wherein the term "originating products" is defined for purposes of implementing the "free movement of goods" provisions of Title II with the methods of administrative cooperation designed to apply that term. Attached to, and incorporated by reference therein, each agreement are certain "Declarations" either of the parties or of the EU or the counterpart country, respectively, designed to clarify or enhance the understanding of provisions of the agreements. The EU Declaration on Article 29 regarding what are essentially the rules-of-origin for "originating products" states that:

> If [the counterpart country] concludes agreements with other Mediterranean

> countries with a view to establishing free trade, the European Community <u>is willing to consider</u> cumulation of origin in its trade with those countries. . . The Community has decided it will propose to [in this case, Morocco] that there be a <u>harmonization</u> of rules-of-origin with those established by the [EU] agreements with other Mediterranean countries . . . once those rules become applicable in a Mediterranean country.

The importance of this commitment by the EU is that trade "liberalization" agreements negotiated by it on a purely bilateral basis with individual MENA countries essentially establishes a "hub and spoke" relationship among them, that is, each MENA country becomes separately dependent on the EU for accessing its market under EU rules-of-origin. In the absence of modern productive capacities, this promotes the dependency of MENA country producers on the use of EU inputs in order to benefit from duty-free treatment and, in effect, makes each such country a competitor with all other MENA countries for accessing the EU market. This, in effect, encourages investment in the EU as this gives barrier-free access to the markets of all the spokes. Under the "cumulation" concept, if the EU negotiates agreements with various MENA countries, the determination of "originating product" may be extended to include inputs from other MENA countries with whom the EU has agreements in determining "origin," thus multiplying the opportunities for inter-Arab trade in such inputs into finished products exported to the EU as well as investment in the input-producing MENA countries. The negotiation, therefore, by MENA governments of trade and economic integration agreements among themselves to encourage inter-Arab trade, including appropriate rules-of-origin, is essential to forward this process.

An arrangement further opening up EU markets to Egyptian products would be especially important to Egypt since the EU is already Egypt's major trading partner. It receives half of all Egypt's exports and is the source for some 40 percent of Egypt's imports. In the aggregate, Egypt's total 1996 trade with the EU--imports plus exports--totaled US$ 17.5 billion or approximately 35 percent of Egypt's GDP. Egypt has been negotiating an association agreement with the EU since 1996, but the talks appear to have stalled primarily over Egypt's desire to realize a three-fold increase in its present agricultural export quotas in the EU market, as well as over some remaining issues relating to protection of intellectual property rights and immigration.

7.8.2 <u>**COMESA--The African Connection**</u>

In June 1998 Egypt was admitted to membership in COMESA, the Common Market for Eastern and Southern Africa. It is the only MENA region nation with membership in the COMESA.

The agreement establishing the COMESA was signed in November 1993 and it entered into effect as of December 1994. COMESA essentially replaced the former Preferential Trade Area for Eastern and Southern Africa (PTA), formed in 1982. The PTA contemplated elimination of most tariffs by an average of 70 percent on intra-PTA trade by the year 1992, but its efforts in that direction were frustrated by difficulties in determining product tariffs from a common list and the continuing reliance of most of its members on customs duties as their main source of government revenue. A new COMESA schedule for tariff reductions contemplated a 60 percent reduction from base tariffs by October 1993 and further reductions of 10 percent a year until complete elimination by October 2000. But COMESA continues the step-by-step approach of the

PTA for the eventual realization of a common market. The first step was establishment of the PTA, involving: (a) trade liberalization through tariff reduction and eventual reduction of customs duties; (b) elimination of NTBs to trade; (c) establishment of rules-of-origin to determine the eligibility of products for internal tariff preferences; and (d) adoption of common tariff classification and valuation methods, and simplification and harmonization of customs procedures and documentation. The second stage in the process involves the transformation of the preferential trade arrangement into a common market involving deeper integration measures to facilitate the free movement of capital and labor and right of establishment; standardization of technical specializations and quality controls; elimination of goods and individuals; cooperation in the areas of company laws, intellectual property rights, investment laws and taxation; adoption of a single currency; and eventual monetary union. The third step envisioned establishment of an Economic Community and more advanced integration and cooperation.

COMESA's goals include realization of the following: (a) a customs union with a common external tariff by 2004; (b) free movement of capital and finance; (c) mutual economic cooperation in agriculture, industry, natural resources, transport, finance, and customs administration; (d) application of the MFN principle among member nations and abolition of impediments to trade such as quotas and administrative restrictions; (e) gradual phasing out of all customs tariffs on COMESA-origin commodities; (f) harmonization of customs administration; and (g) establishment of a common trade (import/export) clearing and reconciliation entity. To facilitate internal trade, COMESA contemplates establishment and utilization of a special COMESA monetary unit (the UPTA). Preferential trade is based upon a 132 unit commodities list that includes certain agricultural products, livestock, fertilizers, iron and steel, but is subject to change based on domestic market considerations. Origin of goods for purposes of qualifying for COMESA preferences is determined by lists submitted by member countries.

COMESA currently includes the following Sub-Saharan countries: Angola, Botswana, Burundi, the Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Rwanda, Seychelles, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe.

8.0 THE CONTEXT FOR MENA ECONOMIC INTEGRATION

8.1 Trade and Comparative Advantage in MENA

8.1.1 **Intra-MENA Trade**

During 1994-96, the most recent period for which official international trade data are available for MENA and other less developed countries, total intra-MENA trade (exports and imports between MENA countries, combined) amounted to $38.8 billion, or less than 1 percent of total world trade (Appendix B, Table 1).

The top five intra-MENA exporters are Saudi Arabia (21.2 percent or $3.9 billion), Turkey (14.7 percent or $2.9 billion), United Arab Emirates (14.0 percent or $2.3 billion), Iran (7.2%), and Egypt (4.9 percent or $0.9 billion), while the top five intra-MENA importers are Turkey (20.3 percent or $3.9 billion), United Arab Emirates (10.8 percent or $2.1 billion), Saudi Arabia (9.8 percent or $1.9 billion), Oman (6.8 percent or $1.3 billion), and Kuwait (5.9 percent or $1.2 billion). It should be noted that the top eight intra-MENA exporters account for nearly 75 percent of total intra-regional trade in MENA, while the top eight intra-MENA importers account for just over 60 percent of total intra-regional imports.

There is a great difference between intra-MENA trade and MENA trade with the rest of the world. For instance, while Turkey imports $2.9 billion from other MENA countries, it imports more than 10 times this amount ($34.0 billion) from the world at large. Also, Saudi Arabia imports $26.2 billion from the world at large, compared to only $1.9 billion from MENA countries.

Egypt's total imports from the world equal $11.4 billion, but its imports from within the MENA region amount to only $0.6 billion, only about 6 percent of its total imports. Also, Egypt's exports to other MENA countries, amounting to $0.9 billion, represent less than 20 percent of Egypt's total exports to the world ($4.7 billion).

Israel's total imports from the world amount to $27.4 billion, of which only $0.3 billion (less than 1 percent) originated in MENA. This insignificant amount of intra-regional trade occurs mainly for political reasons.

Finally, to a considerable extent, intra-MENA trade reflects the production structure of the MENA countries and the limited openness of their economies to trade with other MENA countries and the rest of the world.

8.1.2 **Revealed Comparative Advantages**

The commodity patterns of MENA international and intra-regional trade can be employed to examine the "revealed" comparative advantage (RCA) of the MENA countries. The RCA index provides a rough indication for a nation's export prospects by comparing its share of world exports of a given product with its overall share of world exports. If the index exceeds unity (1), the country can be said to have a revealed comparative advantage in the particular product measured for RCA purposes. If the comparison results in an RCA of less than unity (less than 1.00), the country is said to have a revealed comparative disadvantage in the product. This RCA "test" suggests where sectoral and product-specific trade complementarities exist, e.g., a country with a low RCA would likely import a product from a country with a high RCA and vice-versa.

The RCA indicator employed here is one commonly employed in applied analyses of international trade relations, beginning with Balassa (1979). It relates the importance of each MENA country as a supplier of primary products or manufactures to the world market relative to all competing exporting countries. In symbols, the RCA indicator is computed as

$$RCA_j\ (i,w) = [\ X_j\ (i,w) / TX\ (i,w)\ ]\ \ /\ \ [X_j\ (w,w) / TX\ (w,w)\ ]$$

where X_j (i,w) represents exports of commodity j by country i to the world (w), X_j (w,w) represents exports of commodity j by the world (that is, exports of the commodity by all competing producers) to the same world market, and TX(i,w) and TX (w,w) represent total exports of all commodities by country i and the world, respectively. Broadly speaking, RCA values greater than unity indicate comparative advantage, and RCA values less than unity indicate comparative disadvantage.

Appendix B, Table 2 provides an overview of the results of the RCA calculations, by MENA country. Appendix B, Table 3 entitled "Revealed Comparative Advantage of Mena Countries in International Trade 94--96" provides complete details of the results of the calculations.

It is obvious that the majority of MENA countries achieve high levels of revealed comparative advantage in mineral fuels and petroleum; for instance, Saudi Arabia, Yemen, Oman, and Libya achieve RCA levels in the exceptionally high range of 10 to 15.

Several MENA countries achieve significant levels of revealed comparative advantage in food, live animals, and selected agricultural products such as cereals, rice, vegetables and fruits. For example, Morocco, Lebanon, Turkey and Egypt record high RCA levels in vegetables and fruits. Syria and Jordan evidence international competitiveness in live animals. Similarly, Lebanon, Syria and Turkey are revealed to be competitive producers of cereals; Egypt of rice, Turkey, Iraq, Lebanon, and Egypt of sugar; and Syria and Egypt of agricultural crude materials (e.g., cotton).

Although some MENA countries export substantial amounts of manufactured products, comparative advantage in overall manufactures does not appear significant. Only in individual categories of manufactures, especially traditionally labor-intensive categories of manufactures, such as miscellaneous manufactures, does the RCA of MENA countries appear to be greater than unity with some regularity. Thus, Egypt, Turkey, and Lebanon are found to be internationally competitive producers of textiles, and Morocco, Tunisia, Turkey, Egypt, and Jordan are found to be internationally competitive producers of miscellaneous manufactures, including especially clothing and apparel.

Several MENA countries appear to be internationally competitive producers of crude or manufactured fertilizers (Egypt, Israel, Jordan, Kuwait, Lebanon, and Saudi Arabia), which can require considerable investment in physical capital. Israel appears to be the only MENA country that produces a manufactured product that is skilled labor-intensive and highly technology-intensive, namely, telecommunication equipment. Israel is also revealed to be a competitive producer of chemicals and certain material manufactures and metal products.

8.2 MENA Region Trade Regimes: Problems

The trade policies of many MENA region nations tend to inhibit the competitiveness of firms located in such countries thereby reducing the utility of regional trade arrangements in achieving economic growth through trade creation. A number of constraints to export development are embedded in the trade policy system, reflecting, in large part, the legacy of socialist era centrally-planned, command economies, which involved large scale public sector participation in and control of the economy. While structural reform programs have whittled away many import-substitution-based controls, they often continue to exist and, thereby, form significant impediments to both national and regional trade liberalization efforts. Among the major impediments are:

- High "Nominal" Tariffs--High tariffs are prevalent in nearly every MENA country, other than the import-dependent countries of Bahrain, Oman, and the United Arab Emirates, with average tariffs not exceeding 10 percent, and, in many cases, no tariffs at all and average Non-Tariff Barrier (NTB) rates of five percent or under. But most other countries in the region are inward-looking, with average tariff rates exceeding twenty percent and average NTB rates of more than thirty percent. There are often numerous tariff bands in the tariff schedules of MENA countries. Average rates for the four MENA countries of Egypt, Jordan, Morocco, and Tunisia, for example, are in the 25 to 30 percent range. While lower than the average rate in South Asian countries, they remain substantially higher than the average tariff now applied in Latin American countries. Data on collected tariff revenue as a share of exports is even more revealing, since it better reflects the actual tax burden on trade by allowing for the existence of exemptions and possible biases in customs classification and valuation. The unweighted average burden in MENA countries is about 17 percent, more than three times higher than the average recorded for Mexico, Chile, Indonesia, Malaysia, and Korea.

In addition to nominal tariffs, imports are often subject to a variety of additional taxes, fees, and other charges. These, in the aggregate, range from a low of eight percent (Egypt) to 30 percent (Tunisia), with Yemen imposing as many as ten additional taxes and surcharges. Such additional taxes and charges or fees reduce the overall transparency of the tariff structure, especially since they frequently are not applied uniformly to all products. In the aggregate, these high levels of protection constitute a tax on export production.

- High Effective Rates of Protection--Many countries have high effective rates of protection that exceed the level of nominal protection by a substantial margin, and which, beyond skewing investment across sectors and industries, result in disincentives to local firms to attempt penetration of global markets, since profit rates are often (artificially) higher for production and sales to sheltered home markets. The result is a dual economic structure, with export-oriented firms maintaining few linkages with the rest of their nation's economy, and most firms continuing to focus on the local market.

- Protectionist Policies--MENA region countries maintain high rates of protection for domestic producers in a number of sensitive import sectors. Agricultural trade tends to be significantly distorted in many such countries--a well-known example is Saudi Arabia--through policies of import protection and large-scale subsidization. And, where subsidization of agriculture is less significant in other countries, many of their governments intervene through import quotas, licensing, or bans on specific products; state monopolies for imports and distribution--often in conjunction with price controls--and input subsidies (including charges for water and energy that do not reflect scarcity values).

MENA countries tend to enforce high rates of protection for food, frequently by administered protection measures that include commodity subsidization, and state trading. This protection reflects national concerns for food security and is often enforced in conjunction with Socialist era direct controls on domestic food prices.

- Non-Tariff Barriers--Many industrial product imports are subject to licensing requirements related to enforcement of health and safety standards or subject to inspection to determine their conformity with local product and quality standards. Some countries still employ import licenses for both safety and standards purposes as well as a support for exchange controls. Non-recognition of internationally-known certification bodies or international standards raises costs for importers and consumers, and reduces the incentives for domestic enterprises to increase product quality to a level competitive in global trade.

- Bureaucratic "Red Tape"--Nearly every MENA country, in varying degrees, is characterized, in terms of its processing of imports and exports, by burdensome, costly, and dilatory customs administration and procedures. Too many government entities are involved in the import clearance process, either classifying, evaluating, or collecting taxes and import duties; inspecting for health, safety, or quality conformity, or facilitating the release of imported products, often in a wholly un-transparent and arbitrary manner that invites corruption. In Egypt alone, some eight or more agencies exercise regulatory responsibilities affecting imports, often with conflicting and sometimes competitive policies and procedures. Customs clearance is unnecessarily cumbersome in most MENA countries--for example, in Lebanon, 18 signatures are required before goods can be released. Valuation procedures give rise to substantial uncertainty for importers, exporters, and consumers alike, with Customs authorities assuming under-invoicing as a matter of routine and relying on so-called "constructed values." An important constraint raising the costs of both importers and exporters in MENA countries is the level of port service fees for handling and storage of goods given the quality of services provided. Egyptian exporters, for example, suggested that the additional costs associated with the high fees charged by these generally State-owned and operated entities raises their costs by over ten percent.

In contrast to tariffs on intermediate inputs, the extra costs associated with customs clearance, quality control, valuation, and monopoly service providers in ports cannot be recovered through a duty drawback or similar scheme. These NTBs are particularly costly and thereby frustrating for liberalized international trade because, unlike ad-valorem tariffs, they limit the extent to which the price system allocates resources among alternative uses and encourage and facilitate informal, rent-seeking behavior on the part of bureaucrats. They constitute, therefore, a major disadvantage for firms seeking to produce for export and are a major disincentive for foreign firms that might otherwise be interested in investing in export-oriented production.

The MENA region countries confront a threshold necessity of looking inward to remove domestic constraints and inhibitions to trade and enhance the competitiveness of their industries as well as to seek regional arrangements through which to market their products. Significant and concerted liberalization of their trade policies and enhancement of their trade-related legal/regulatory regimes are essential for achieving the level of harmonization thereof among member countries of an arrangement that will produce the rewards and meet the goals for regional economic integration.

8.3 Requirements for Successful MENA Integration

The historical record of MENA region economic integration, multilateral and bilateral, appears more one of random atomic motion than the result of an integrated, coherent approach to regional economic integration through trade liberalization. An haphazard, often “go-it-alone,” approach has typified Arab region action, as opposed to rhetoric, ever since the founding of the Arab Common Market. This lack of an integrated, coherent approach is the single greatest constraint operating to complicate real integration. It has resulted, in turn, in some significant trade-arrangement-specific obstacles to successful integration that include:

- lack of agreed timetables for the gradual introduction of exemptions for goods from customs duties and non-tariff barriers [this appears to have been addressed in the GAFTA].

- weakness of an implementing national and multinational legal framework for integration and the failure to harmonize legal and regulatory regimes to facilitate integration arrangements.

- excessive country “exceptions” requirements or “negative lists” that effectively undermine basic agreements negotiated, by significantly reducing the meaningful reach of preferences and coverage of products.

- lack of effective, consensus rules-of-origin that determine the “nationality” of products and, therefore, their eligibility or not for preferences under such agreements.

But, in addition, notwithstanding that there are factors that should promote such integration--geographical proximity, cultural and religious ties--there appear to be many more basic factors that, for the moment at least, operate to impede, rather than facilitate, effective inter-Arab economic integration. These include:

- the continuing failure of some Arab nations to subordinate historic national animosities and political differences to the modern economic development of their peoples and the commercial realities of the global market.

- sometimes dramatically unequal levels of economic development and growth--in some countries commercially viable markets really don't exist.

- similarities of productive structures and the lack of significant trade complementarities--e.g., too many countries produce similar labor-intensive, low-tech, easily substitutable products so that there is little incentive to liberalize import policies.

- disparate and often conflicting economic and political ideologies with significant differences between their economic and social systems and respect for the rights and freedom of commercial activities and private investment--e.g., some remain centrally-planned, State-dominated while others have adopted entrepreneurially-driven, private investment-based free market economies [although now most are market-oriented economies].

- the overall lack of a commercial infrastructure and facilitative legal/regulatory regimes (brokers, agents, distributors, freight forwarders, combination export managers, customs facilitators) and adequate banking and financial institutions (insurance, trade finance) that weaken the possibilities for harmonizing such systems as the mechanism for implementing integration arrangements.

- lack of coordination among nations of their economic, monetary, and fiscal policies.

- the unwillingness of Arab governments to yield some of their executive powers to new, supra-national bodies established to manage and regulate the integration process.

- the general failure of wealthy firms and individuals to invest locally in their own or other Arab countries, resulting in the flight of capital from the region.

The collective impact of these trade-specific and more general constraints on inter-Arab trade are reflected in the decided preference of Arab country nationals to search for, deal with, and invest their capital in markets outside the region, in Western Europe, North America, and Asia. Assuming, therefore, the eventual WILL and effective political capacity to deal with these constraints, what are the success factors or action indicators required of Arab nations to actually realize the benefits of regional economic integration through trade and investment liberalization? Certainly these would include:

- focusing attention on macroeconomic problems of the region, rather than on purely nationalist, zero-sum/merchantilist goals.

- adopting policies and legal/regulatory regimes that encourage and facilitate economic specialization and productivity and private sector commercial activity while working to harmonize such policies and regimes on a regional basis.

- eliminating or ameliorating government policies that inhibit entrepreneurially-driven, private investment-based, free market activity, removing thereby national restrictions on the inflow of capital, transfer of technology, and mobility of labor.

- overcoming the reluctance of national investors to invest locally and regionally by adopting macroeconomic and fiscal policies that encourage new investment (including foreign direct investment) and rewards investment in needed physical and commercial infrastructure.

- reforming national bureaucracies to eliminate their ability to impede trade and private enterprise and motivate them to facilitate commerce and investment.

General success on the part of Arab governments in these areas of reform, in effect, “gets the horse back in front of the cart” in terms of developing a climate conducive to the success of efforts to liberalize and integrate trade and investment in the region. Efforts to develop widespread integration in the face of the constraints mentioned above--no matter how great the enthusiasm therefor--will be essentially unavailing, as demonstrated by the history of Arab integration efforts to date.

9.0 ECONOMIC ANALYSIS--MENA TRADE SIMULATION MODEL

9.1 Introduction

Although regional integration arrangements can take on both “shallow” and “deep” forms (Lawrence 1996), shallow-type free trade areas, in which member countries eliminate their import tariffs and other trade barriers to goods traded with one another but not the rest of the world, are the principal focus here. Also, in keeping with the exploratory nature of the analysis, rather stylized analytical methods are employed. In this section, taking comparative advantage as a fundamental element determining the underlying competitiveness or complementarity of national economies in MENA, we examine the revealed comparative advantage of the MENA countries following the popular methodology of Balassa (1979). And second, we formulate a computable partial equilibrium model of MENA international trade in the tradition of Viner (1950), to quantify the expected trade and welfare effects of current and hypothetical regional integration arrangements in MENA in which Egypt is presently participating or might accede to in the future, including the new Greater Arab Free Trade Area (GAFTA) among Egypt, Kuwait, Morocco, Saudi Arabia, Syria, and Tunisia, sponsored by the Arab League. Notably, consideration is also given to the possibility of “open regionalism” in MENA, whereby Egypt and its regional trading partners would eliminate their import barriers on a most-favored-nation (MFN) basis rather than a preferential basis and thereby expand their trade relations with countries outside of MENA as well as with one another.

With sufficient time and resources, more sophisticated analytical methods might be marshaled to investigate the potential of regional economic integration in MENA for improving the trade and development prospects of Egypt and other countries in the region. However, notwithstanding the shortcomings of the stylized, partial equilibrium, analyses employed in the present paper, the “impact” effects reported here can provide Egyptian policymakers with valuable economic insights not expected to be disputed by more sophisticated analyses, especially in regard to the relative trade and welfare gains that preferential approaches versus nondiscriminatory approaches to regional economic integration hold for Egypt and other countries in MENA.

9.2 Trade Simulation Model (MENA TSM)

MenaTSM is a Vinerian computable partial equilibrium model developed for the present study to analyze hypothetical regional integration arrangements in MENA. Although international trade by MENA countries is the central focus of the model, trade by non-MENA countries, including the European Union, other industrial countries, and other less developed countries, is also featured in the model.

MenaTSM is based on familiar (log-linear) import demand and export supply schedules for traded goods and is disaggregated by ten broad categories of commodities and manufactures

(Appendix C, Table 1). Market-clearing conditions for each traded good category determine intra-bloc prices under regional integration arrangements, and a balance of payments equilibrium condition determines the exchange rate for each country in the model. In addition to determining changes in trade creation and trade diversion under regional integration scenarios, the model computes changes in economic welfare for MENA countries based on familiar notions of consumer surplus and producer surplus, and changes in import tariff revenues owing to trade diversion. Finally, the model also considers the comparative trade and welfare effects of trade liberalization that might be undertaken by MENA countries on a nondiscriminatory or MFN basis.

9.2.1 Core Model Specifications

The essential elements of MenaTSM are contained in "core" equations describing import demand, export supply, and equilibrium conditions for goods markets and the international balance of payments of countries. Although MenaTSM is flexible enough to simulate the effects of either customs unions or free trade areas, the discussion here focuses on the model's application to simulating the effects of free trade areas because such trade areas appear to be the most relevant to the recent history of regional integration arrangements in MENA and to the "medium-term" (to the year 2010) regional trade policy options currently being discussed by MENA countries and the European Union.

Import demand ($M^{d}_{k(i)}$) for traded good k by each MENA country i is given in MenaTSM by the relationship:

(1) $$M^{d}_{k(i)} = [M^{da}_{k(i)}]^{fk(i)} [M^{do}_{k(i)}]^{[1-fk(i)]}$$

where $M^{da}_{k(i)}$ denotes quantity of imports of good k by country i subject to administered protection measures, $M^{do}_{k(i)}$ denotes quantity of imports of good k by country i subject to market prices, and $f_{k(i)}$ is the proportion of imports of good k by country i subject to administered protection measures.

The demand for market-determined imports is a function of domestic prices for imports:

(2) $$M^{do}_{k(i)} = a^{do}_{k(i)} (P^{m}_{k(i)})^{\eta k(i)}$$

where

$$P^{m}_{k(i)} = P^{*}_{k} [1 + t^{*}_{k(i)}] / e_{(i)} ,$$

and where P^{*}_{k} is the international price of good k denominated in U.S. dollars, $t^{*}_{k(i)}$ is the MFN (or nondiscriminatory) ***ad valorem*** tariff rate of good k in country i, $e_{(i)}$ is the exchange rate of country i's currency in terms of the U.S. dollar, and $\eta_{k(i)}$ is the own-price elasticity of import demand for good k in country i.

With the assumption that the volume of administered imports of good k in country i is exogenously determined, total demand for imports of good k in country i is given by the equation:

(3) $$M^{d}_{k(i)} = a^{m}_{k(i)} (P^{m}_{k(i)})^{\eta k(i)[1-fk(i)]}$$

where

$$P^{m}{}_{k(i)} = P^{*}{}_{k}\,[1 + t^{*}{}_{k(i)}] \,/\, e_{(i)}\,.$$

Equation (3) states that import demand in each country i is a positive function of the exchange rate expressed in terms of U.S. dollars per unit of local currency and the (absolute value of the) price elasticity of import demand, and a negative function of the international price of good k in U.S. dollars, the tariff rate, and the frequency of nontariff barriers.

Export supply ($X^{s}{}_{k(i)}$) of good k in each country i is given by the relationship:

(4) $$X^{s}{}_{k(i)} = a^{x}{}_{k(i)}\,(P^{x}{}_{k(i)}\,)^{\alpha k(i)}$$

where

$$P^{x}{}_{k(i)} = P^{*}{}_{k} \,/\, e_{(i)}\,,$$

and where $\alpha_{k(i)}$ is the own-price elasticity of export supply of good k in country i. Equation (4) states that export supply is a positive function of the international price of good k and the elasticity of export supply, and a negative function of the U.S. dollar exchange rate for the currency of country i.

In MenaTSM, all countries are assumed to be price-takers in international markets. Thus, the international price of good k expressed in U.S. dollars, $P^{*}{}_{k}$, is determined largely independently of the behavior of consumers and producers in any single country or small group of countries. Under a free trade area among MENA countries, trade of member countries with non-member countries might be entirely diverted and a separate intra-bloc price for good k, $P^{r}{}_{k}$ (denominated in U.S. dollars), might be established so long as the intra-bloc price falls within acceptable bounds.

If good k lies in the comparative advantage of member countries of the free trade area as a bloc (i.e., the trading bloc is a net exporter of good k), then $P^{r}{}_{k}$ could not fall below the international price $P^{*}{}_{k}$ because regional producers would still have recourse to selling their goods in international markets at the higher price $P^{*}{}_{k}$. Also, if good k lies outside of the comparative advantage of member countries of the free trade area as a bloc (i.e., the trading bloc is a net importer of good k), then $P^{r}{}_{k}$ could not rise boundlessly above $P^{*}{}_{k}$ because regional consumers would still have recourse to importing good k from outside the region and would do so if the regional price were to climb above the MFN-tariff-adjusted international price, $(1 + t^{r}{}_{k})P^{*}{}_{k}$, where $t^{r}{}_{k}$ is an index of MFN tariff rates for good k in member countries of the regional free trade area.[29]

Such bounds on levels of intra-bloc prices relative to international prices are enforced in MenaTSM through constraints on the model's solutions for intra-bloc prices of traded goods.

[29] Strictly speaking, the MFN-tariff-adjusted international price, $(1 + t_{k(r)})P^{*}{}_{k}$, might vary from one member country to another, with $t_{k(r)}$ equal to $t_{k(j)}$ for each member country j. However, by its formulation as a homogeneous goods model, MenaTSM is not capable of precisely identifying bilateral trade relationships between countries that would be necessary to observe strict bilateral bounds on intra-bloc prices for traded goods under a free trade area.

Specifically, MenaTSM first solves for hypothetical intra-bloc prices assuming complete diversion of trade with non-member countries. If intra-bloc prices for traded goods are found to be infeasible (the expected case), then MenaTSM sets intra-bloc prices for imports and exports between MENA countries forming a free trade area based on considerations for comparative advantage as a bloc of the MENA countries in question and their MFN tariff rates.

With regard to exports, the intra-bloc price of exports is set equal to the international price of the traded good if the member countries are net exporters of the good as a bloc to the world at large, as would be the case, for instance, for exports of mineral fuels (crude petroleum) by Gulf Cooperation Council (GCC) countries. On the other hand, if member countries are net importers of a good as a bloc from the world at large, the intra-bloc price of exports is set equal to the international price multiplied times one plus the import-weighted average of MFN tariff rates for the good in bloc member countries.

With regard to imports, domestic (or consumer) prices must be distinguished from border prices for traded goods in member countries. For goods in which the member countries are net exporters as a bloc to the world at large, domestic prices and border prices must both equal the international price. In other words, the free trade area succeeds in lowering the cost of imports to regional consumers in goods for which regional producers are internationally competitive.

However, for goods in which member countries are net importers as a bloc from the world at large, domestic prices continue to be determined at the margin by the MFN-tariff-adjusted international price, while border prices must rise from the international price to an index of the international price and the intra-bloc price for exports of the given good. In MenaTSM, this index is essentially determined by the initial ratio of intra-regional imports to total imports of member countries for each good following the definition:

(5) $$P^r_{k(j)} = P^{*\,(1-wj)}_k \, P^{r\,wj}_k$$

where

$$P^r_k = (1 + t^r_k)P^*_k \,,$$

and where $P^r_{k(j)}$ is the border price (in U.S. dollars) for imports of good k faced by member country j, P^r_k is the intra-bloc price (in U.S. dollars) for exports of good k by member countries, w_j is the base period ratio of intra-regional imports of good k to total imports of good k in member country j, and t^r_k is an regional-import-weighted average of MFN tariff rates for good k in the free trade area.

Simply stated, the foregoing intra-bloc price relationships for imports posit (1) lower consumer prices and unchanged border prices for internationally competitive goods produced by intra-bloc exporters, and (2) unchanged consumer prices but higher border prices for non-internationally competitive goods produced by intra-bloc exporters. In the second case, higher border prices for non-internationally competitive goods produced by intra-bloc exporters reflect forgone tariff revenues of importing member countries captured by noncompetitive exporters in other member countries. Also in the second case, MenaTSM assumes that, while member countries continue to import from non-member countries, member countries divert the entire volume of their exports in noncompetitive goods categories to importing member countries in response to the higher intra-bloc than international prices for their exports occasioned by the preferential free trade area, thereby maximizing their export revenues.

The balance of payments equilibrium condition of each country i in MenaTSM is given by the definition:

Member countries

(6a) $$\Sigma_{k=nc} \{ P^r_k X^s_{k(j)} - P^r_{k(j)} M^d_{k(j)} \} + \Sigma_{k=c} \{ P^*_k X^s_{k(i)} - P^*_k M^d_{k(i)} \} + K^*_{(j)} = 0$$

Non-member countries

(6b) $$\Sigma_k \{ P^*_k X^s_{k(i)} -- P^*_k M^d_{k(i)} \} + K^*_{(i)} = 0$$

where the subscripts c and nc denote, respectively, internationally competitive and internationally noncompetitive goods sectors of the member countries in the free trade area as a bloc, and $K^*_{(i)}$ are exogenously determined long-term inflows of international resources (denominated in U.S. dollars) available to finance the country i's trade imbalance. (If country i is in trade surplus, then $K^*_{(i)}$ is net outflows of international resources available to finance trade imbalances of other countries.) The balance of payments condition in equation (6) predominantly determines the nominal (and real) exchange rate.[30]

9.2.2 Other Model Specifications

The last elements of MenaTSM are equations describing trade creation, trade diversion, and economic welfare in member countries under regional integration arrangements. These elements of MenaTSM are determined in a recursive manner, once the model solves for core variables (i.e., fully simultaneously determined variables) such as prices and exchange rates. Notwithstanding nominal existence of the Arab Common Market, Maghreb Union, and Gulf Cooperation Council, MenaTSM assumes that no regional trading arrangements are initially in force in MENA.

On a bloc-wide basis, **trade diversion** (TD_k) for good k is equal to the decrease in imports of good k by member countries from non-member countries. In MenaTSM, trade diversion is equivalently computed as the increase in member country exports of good k in response to higher intra-bloc prices for non-internationally competitive exports of the trade bloc:

(7) $$TD_{k=nc} = \Sigma_j \{\Delta X^s_{k(j)}\}$$

where Δ denotes change-in-variable between the base case simulation of MenaTSM (no free trade area) and the free trade area simulation of MenaTSM.

On a member country basis, trade diversion is not easily determined in MenaTSM because the model does not simulate changes in bilateral trade. However, in the present version of the

[30] The real exchange rate is the relative domestic price of nontraded goods to traded goods.

model, bloc-wide trade diversion is apportioned among importing member countries according to their share in total imports of each good k under the free trade area less their base period imports of good k from member exporting countries.

Trade creation ($TD_{k(j)}$) in goods category k for member country j occurs when the regional integration arrangement causes the domestic price ($P^m_{k(j)}$) of good k in country j to fall and imports of good k to rise. Thus, trade creation in MenaTSM is computed simply as the increase in imports:

$$TC_{k(j)} = \Delta M^d_{k(j)} \tag{9}$$

wherever $\Delta P^m_{k(j)}$ is less than zero.

In MenaTSM, impacts on **economic welfare** are divided into three familiar components: changes in consumer surplus, changes in producer surplus, and forgone tariff revenues on imports from member countries of the free trade area. Consumer surplus refers to the total benefit consumers derive from purchases of a good at market prices less than their personal marginal benefit (i.e., the Harberger triangle formed by the area beneath the demand curve and above the market price). Producer surplus refers to earnings individual producers enjoy at market prices above their marginal variable costs (i.e., the Harberger triangle formed by the area above the marginal cost curve and below the market price). Finally, uncollected tariff revenues on imports from member countries in a regional integration arrangement represent a loss to consumers in member countries because they do not enjoy lower prices for their purchases of noncompetitive imports from member countries of the regional integration arrangement.[31]

On a combined basis, changes in consumer surplus and producer surplus, less forgone tariff revenues, equal the change in national economic welfare resulting from a regional integration arrangement. More specifically, the change in consumer surplus corresponds to the change in national welfare occasioned mainly by trade creation, the change in producer surplus corresponds to the change in national welfare associated with increased output of exports occasioned mainly by trade diversion, and forgone tariff revenues correspond to the change in national welfare owing to foreign producers in the free trade area capturing rents on their privileged sales of duty-free imports that would otherwise be captured by the government and redistributed to domestic consumers in one form or another.

9.2.3 <u>**Baseline Data and Parameter Values**</u>

Base period trade data employed by MenaTSM consist of average 1994-96 data on international trade by MENA countries and their principal trading partners outside of the region, disaggregated by broad categories of primary commodities and manufactures, and denominated in U.S. dollars. These data are compiled from the Comtrade database of the UN Statistics Department, following the Standard International Trade Classification (SITC) System, Revision 3. All international prices for traded goods (denominated in U.S. dollars) and all U.S. dollar

[31] In contrast, tariffs paid on imports from non-member countries are assumed redistributed to domestic consumers.

exchange rates for national currencies in the model are set equal to unity in the base period by appropriately scaling trade quantities and national currency units.

Information on tariff rates and nontariff barriers are compiled from UNCTAD *Trade Information and Analysis System* (1995). The coverage of the "Trains" system information is limited to eight MENA countries (Algeria, Egypt, Israel, Morocco, Oman, Saudi Arabia, Tunisia, and Turkey). For MENA countries not covered, it is assumed that average protection measures enforced in developing countries worldwide covered by the Trains system apply. Trains system information is also relied upon for tariffs and nontariff barriers in non-MENA countries included in MenaTSM, including European Union countries and other industrial countries (see Appendix C, Table 2).

The remaining parameters of MenaTSM consist of uncompensated own price elasticities of demand and supply for traded goods (Appendix C, Table 3). Values of these parameters, which are assumed uniformly for all countries and groups of countries in MenaTSM, are *a priori* values based on compilations of estimates of price elasticities of demand and supply in international trade compiled by Stern et al. (1976) and Goldstein and Khan (1985), and also based on best guesses of the authors.

MenaTSM is constructed using VORSIM (Roningen 1998), a Microsoft Excel-based economic modeling software that employs Excel utilities for solving systems of nonlinear equations in a spreadsheet framework and enables users to specify variable names and algebraic formulas for model equations.

9.3 Quantitative Analysis

9.3.1 **Regional Integration Scenarios**

MenaTSM has been applied to "estimate" the trade and welfare effects of six regional integration scenarios in MENA, each involving Egypt in a free trade area with several partner countries in the region. It is important to emphasize that MenaTSM is a quantitative simulation model. Not unlike other computable economic models, it simulates economic outcomes that are contingent upon not only base period data but also an assumed economic framework, here, the popular but highly stylized Vinerian framework described in the earlier review of the economic theory of regional integration arrangements. Alternative economic frameworks might be specified, for instance, emphasizing traded goods differentiated by their place of production, with possibly appreciable differences in outcomes. Also, with the adoption and effective implementation of free trade areas in MENA, empirical methods of analysis might be applied on an ***ex post*** basis to assess more rigorously, arguably, the impacts of regionalism in MENA.

The six regional integration scenarios, whose main features are summarized in Appendix C, Table 4, present a spectrum of hypothetical possibilities for free trade areas in MENA involving Egypt. The Greater Arab Free Trade Area (GAFTA), which is scheduled to become fully operational in the year 2007, has in fact been adopted and ratified by several members of the Arab League, including Egypt. The other hypothetical regional integration arrangements envision

Egypt forming a free trade area with, alternatively, the Gulf Cooperation Council countries (GCEG-FTA), the Maghreb Union countries (MGEG-FTA), the Mashreq countries including Israel and Turkey (MSEG-FTA), and all MENA countries (MWEG-FTA). Finally, the analysis here considers a MENA-wide regional integration arrangement in which Egypt and the other MENA countries mutually reduce their trade barriers on a nondiscriminatory or MFN basis (MWEG-MFN), sometimes termed "open regionalism."

Regional integration is assumed to occur through complete elimination of tariffs on imports from member countries in the free trade area. As noted in the presentation of MenaTSM, the simulation analysis first considers whether the free trade area might result in complete cessation of trade with non-member countries, in which case significant trade creation might be expected to occur. However, in the more usual case in which trade continues between member countries and non-member countries under a regional integration arrangement, the number of sectors in which member countries are internationally competitive is very important, because it is in such sectors that trade creation should be expected to occur most prominently.

By way of introduction to the simulation results, Appendix C, Table 5, indicates that, in the base period data underlying MenaTSM, which are aggregated by 1-digit SITC categories, few sectors in the trading bloc defined by each regional integration scenario are internationally competitive. Indeed, regardless of the hypothetical MENA free trade area in which Egypt might look to participate in coming years, only two major traded goods sectors appear to be internationally competitive: mineral fuels and miscellaneous manufactures. This finding is broadly consistent with the previously noted similarity of computed revealed comparative advantage for MENA countries in these two, respectively, natural resource-intensive and labor-intensive traded goods sectors based on highly disaggregated trade data. In other words, the starting point of simulations using the MenaTSM is the fact that blocs of MENA countries tend to export mineral fuels and labor intensive manufactures to the rest of the world in exchange for imports of all other traded primary commodities and manufactures. [Therefore, ***a priori***, the scope for net trade-creating–and, hence, typically welfare-improving –regional integration arrangements among different blocs of MENA countries might be deemed limited.]

Finally, before turning to examine the simulation results found by MenaTSM, it should be emphasized that the model has been applied using only the "best" or central estimates of its parameters for own price elasticities of import demand and export supply. In future work, consideration might be given to analyzing the sensitivity of the simulation results presented here to alternative values for MenaTSM's price elasticity parameters.

9.3.2 **Simulation Results**

Among the most important outcomes of the simulation analysis is the finding that none of the MENA regional integration scenarios examined using MenaTSM are viable without continued trade with non-member countries. Specifically, the model finds (in results not tabulated here) that regional integration through complete cessation of trade with especially countries outside of MENA would be uneconomic for both regional consumers and regional producers in that intra-bloc prices in internationally competitive sectors would tend to decline below international prices for the same goods while intra-bloc prices in noncompetitive sectors would tend to rise substantially above international prices for the same goods.

Thus, simulations of the trade and welfare effects of hypothetical regional integration arrangements in MENA using MenaTSM rely explicitly on the assumption that trade persists between member countries and non-member countries to the benefit of either consumers or producers in the MENA bloc under study (if not also the rest of the world). In brief, in the regional integration scenarios 1-5 in Appendix C, Table 4, intra-bloc prices for noncompetitive exports are raised from unity (the international price) to unity plus the average level of external tariffs in the trading bloc (reflecting the margin of preference for regional producers and assumed unchanged domestic price for noncompetitive imports in member countries), providing a significant stimulus to export production–and trade diversion –in the region. At the same time, intra-bloc prices for internationally competitive exports are unchanged, giving rise to significant expansion of demand for imports (i.e., trade creation) in member countries as lower tariffs on internationally competitive goods are passed through to consumers in member countries.

Notably, complicating trade and welfare outcomes in the model are changes in exchange rates in response to initial disruption of balance of payment positions of MENA countries. Where the initial impact of a regional integration arrangement is to stimulate export production more than import demand, the (real and nominal) exchange rate appreciates to maintain international payments equilibrium and, thereby, curbs to some extent the initial stimulus to net exports.

The simulation results for the last regional integration scenario, MENA-wide general trade liberalization (MWEG-MFN), are analytically very distinct from the simulation results for the five preferential regional integration arrangements. Under "open regionalism," nondiscriminatory trade liberalization uniformly results in initial decreases in net exports. This gives rise to uniform declines in national currency values against the U.S. dollar (i.e., real exchange rate depreciation). As discussed further below here, it also gives rise to the most remarkable trade and welfare effects simulated by MenaTSM.

Appendix C, Table 5 presents a summary of the simulation results found under the six regional integration scenarios for Egypt and other major MENA countries for several key variables: real exports, the real exchange rate, trade creation and trade diversion (where trade creation is also equal to the change in real imports), and the components of national economic welfare. These variables are reported in Appendix C, Table 6 with reference to the impacts on all traded products combined. The simulation results for individual product categories are found in Appendix C, Table 7, which provides complete details of the simulation results by each of the six regional integration scenarios.

In Appendix C, Table 5, it is apparent that trade diversion dominates trade creation by wide margins under all regional integration scenarios except when MENA-wide trade is liberalized on an MFN basis (so-called open regionalism). The dominance of trade diversion results because the MENA countries are not internationally competitive in more than a few sectors (e.g., mineral fuels and miscellaneous manufactures). Thus, the typical case is that a free trade area results in overwhelming diversion of exports by member countries to other member countries as regional producers of noncompetitive products expand their export production in response to their margin of preference under the free trade area, supplanting erstwhile exports from non-member countries. At the same time, trade creation is comparatively limited in magnitude because total imports by member countries increase predominantly only in the small number of internationally competitive sectors. The one important exception to this rule is that in a number of instances imports of member countries in all product categories increase marginally where member countries experience an appreciation in their real exchange rate. Thus, for instance, in the several cases in which the real value of the Egyptian pound appreciates, trade creation includes not only expansion of imports in internationally competitive sectors but also general expansion of imports in response to the appreciation of the local currency.[32]

No trade diversion occurs under open regionalism because nondiscriminatory trade liberalization is inherently trade creating. That is, uniform reduction of barriers to imports regardless of their country of origin provides no possibilities for preferences in favor of regional suppliers and, hence, for trade diversion. Thus, open regionalism in MENA results solely in net trade creation, namely, by about $13.5 billion (see net trade creation for all regions, Appendix C, Table 5, last column). In contrast, the five preferential regional integration scenarios all result in net trade diversion, ranging from $39.2 billion in the case of the hypothetical MENA-wide free trade area to $7.6 billion in the case of the hypothetical Maghreb Union-Egypt free trade area.

It is widely assumed that net trade creation and improvement in national welfare are closely correlated. The calculated changes in national welfare in Table 7 do not entirely support this assumption. Indeed, only in the case of the hypothetical GCC-Egypt free trade area does bloc-wide net trade diversion correspond to a decline in total bloc welfare. Both producer surplus (arising from the expansion of exports) and consumer surplus (arising from the expansion of imports) are uniformly positive. However, trade diversion results in forgone tariff revenues that are captured by regional foreign producers, thus substantially offsetting the positive increments to producer surplus and consumer surplus.

Notwithstanding negative net trade creation found for the five hypothetical regional integration arrangements, total change in welfare is positive on a bloc-wide basis in all cases except the GCC-Egypt free trade area (see again Appendix C, Table 5, last column). Thus, in principle, it is conceivable that a regional facility could be established to make lump-sum re-distributions of economic gains among member countries whereby those members that gain might compensate those members that lose from the regional integration arrangement.

At the same time, it is apparent that the total gains in economic welfare from the five preferential free trade areas are small by comparison to the total gains in economic welfare from the MFN-based free trade area. For the largest preferential free trade area, the MENA-wide free trade area, the total improvement in economic welfare in MENA is simulated at $3.1 billion. Under open regionalism, however, trade liberalization undertaken on an MFN basis is simulated

[32] Currency appreciation results when the initial impact of the regional integration arrangement is to expand the value of a country's exports by more than the value of its imports, with all values measured in U.S. dollars. Conversely, currency depreciation results when the initial impact of the regional integration arrangement on the U.S. dollar value of net exports works in the other direction.

to yield total improvement in economic welfare in MENA that is more than ten times greater in amount, $34.1 billion.

From the perspective of Egypt, only two regional integration scenarios emerge as desirable in Appendix C, Table 5, a Maghreb Union-Egypt free trade area and an MFN-based free trade area. The former is estimated to yield a total improvement in economic welfare of $0.2 billion in Egypt, while the latter is estimated to yield a total improvement in economic welfare nearly ten times greater, $1.9 billion.

That Egypt should have a particular economic affinity for forming a free trade area with the Maghreb Union countries can be traced to the fact that Egypt and the other North African countries generally have highest levels of tariffs in MENA, including the highest levels of tariffs on mineral fuels and miscellaneous manufactures (see Appendix C, Table 2). Thus, in MenaTSM, a free trade area formed among the North African countries yields higher than average economic gains, especially in connection with opportunities for trade creation. Note, for instance, that in Table 7 trade creation under the hypothetical Maghreb Union-Egypt free trade area for not only Egypt but also Morocco and Tunisia is nearly as great as trade creation under the MFN-based free trade area for the three countries. For Egypt, trade creation is $0.7 billion under both free trade area scenarios, compared, say, to $0.2 billion under the MENA-wide free trade area scenario.

Finally, it is instructive to consider the sectoral results of the alternative regional integration scenarios for Egypt, presented in Appendix C, Table 6, because the results by sector provide essential information about the distribution of economic gains and losses among producers and consumers in the Egyptian economy. They also provide insights to the possibilities of the alternative regional integration scenarios for significant employment generation in Egypt, as judged by the expected labor-intensity of production in sectors whose exports are significantly expanded.

Consider, for instance, the employment generation potential of the two regional integration scenarios identified previously as being most beneficial to Egypt, the hypothetical Maghreb-Egypt free trade area and the MENA-wide nondiscriminatory (i.e., MFN-based) free trade area. Appendix C, Table 6 indicates that under the Maghreb-Egypt free trade area Egyptian exports would be expanded most in material manufactures ($354 million) and food products ($129 million), and expanded least in mineral fuels (-$35 million) and miscellaneous manufactures (-$20 million). The employment generating potential of agriculture in a country such as Egypt is well known. However, the labor-intensity of output in material manufactures is less certain, and significant employment generation in the sector might be achieved only at the cost of considerable additional investment in sophisticated or otherwise highly expensive capital equipment. At the same time, the reduced exports of miscellaneous manufactures under the Maghreb-Egypt free trade area poses a particular threat to significant employment gains because the category of miscellaneous manufactures, corresponding to such manufacturing sectors as clothing and apparel, furniture, toys, and sporting goods, is among the most labor-intensive sectors in the 1-digit SITC system of traded goods used in MenaTSM.

In contrast, Table 6 indicates that open regionalism adopted in a MENA-wide free trade area would stimulate Egyptian exports in all sectors, led by (again) material manufactures ($206 million), mineral fuels ($197 million), and miscellaneous manufactures ($117 million). In connection with other sectors, expanded exports of Egyptian food products ($74 million), for example, would also be expected to contribute appreciably to greater employment in Egypt. Thus, notwithstanding the fact that both of the two regional integration scenarios would yield overall gains in economic welfare for Egypt, their employment generating capabilities would be quite different.

The distribution of producer and consumer gains under the two regional integration scenarios would also be very different. In Table 6, it is apparent that rankings of gains in producer surplus follow closely the previous ranking of gains in exports. Thus, under the Maghreb-Egypt free trade area scenario Egyptian producers in material manufactures and food products gain most, while those in mineral fuels and miscellaneous manufactures gain least. Under the MENA-wide open regionalism scenario, Egyptian producers in mineral fuels, material manufactures, and miscellaneous manufactures gain most.

From a political economy perspective, the impacts of the alternative regional integration scenarios on consumer gains by sector are less meaningful than those on producer gains by sectors because consumers seldom organize politically according to their sectoral interests in consumption, with the possible exception of the interests of low-income urban and rural households in consuming staple foods.

It is remarkable that the Maghreb-Egypt regional integration scenario yields gains in consumer surplus that rival those yielded by the MENA-wide open regionalism scenario. For instance, owing to trade creation in the miscellaneous manufactures sector and appreciation in the international value of the Egyptian pound, the Maghreb-Egypt regional integration scenario yields gains for consumers of miscellaneous manufactures of $241 million, or two times more than the gain to consumers of miscellaneous manufactures under the MENA-wide regionalism scenario ($111 million).

However, as noted previously, these results are misleading for judging the desirability of the Maghreb-Egypt free trade area scenario, because they do not take into account forgone tariff revenues, amounting to $1,162 million, lost to the Egyptian economy and consumers under the Maghreb-Egypt free trade area scenario. Indeed, that the MENA-wide open regionalism scenario involves no forgone tariff revenues for the Egyptian economy and consumers goes a long way to explaining why the simulation results find that the MENA-wide open regionalism scenario yields the greatest improvements in economic welfare, by sector and for the overall Egyptian economy.

9.4 Conclusions

Today regionalism is sweeping many areas of the world, as both advanced and less developed countries seek to expand their international trade relations and, ultimately, seek to improve their long-term economic growth and development prospects. Yet, considerable uncertainty surrounds the strategic trade and development interests of countries in pursuing regionalism. The economic theory of regional integration arrangements, beginning with the seminal contributions of Viner and Meade, has long been reluctant to recommend wholeheartedly the pursuit of regionalism. And, quantitative and empirical economic studies most often find that gains in national welfare from regional integration arrangements are positive but essentially modest in comparison to gains from pursuing nondiscriminatory trade liberalization following the MFN principle underlying GATT and WTO. Recently, a controversial empirical study of the emerging trade patterns among member countries of the new South American Common Market (MERCOSUR) has found that emerging intra-Mercosur trade is taking on the characteristics of regional import substitution rather than more hoped-for characteristics, such as high utilization of South America's abundant agricultural land and low-wage labor (Yeats 1997).

The combined theoretical and quantitative analyses of this paper point to similar concerns arising in connection with reinvigorated or new regional integration arrangements in the Middle East and North Africa. Examination of the current revealed comparative advantage of the MENA countries finds that, while there is some variance in precise commodity patterns of comparative advantage among countries in the region, especially when highly disaggregated data form the basis for the comparative advantage calculations, the MENA countries are roughly similar in their comparative advantages (and competitive disadvantages). Specifically, the MENA countries tend to be internationally competitive producers (and hence exporters) of mineral fuels and labor-intensive manufactures, and significantly less competitive producers (and hence mainly importers) of most other traded goods, especially capital-intensive and technology-intensive goods.

The economic theory of regional integration arrangements suggests that under such circumstances all but the most highly protected countries seeking to form customs unions or free trade areas should expect to achieve little improvement in their economic welfare. In familiar Vinerian terms, under such circumstances, trade diversion is likely to dominate trade creation. In the quantitative analysis undertaken for the present study, using a Vinerian computable partial equilibrium model of MENA trade (termed MenaTSM), this is nearly precisely what emerges for Egypt and many of its trading partners in MENA. MenaTSM simulations indicate that, at best, potential overall economic gains from pursuing regional integration arrangements in MENA are modest and would not be equitably shared among member countries without establishing special regional facilities for redistributing net economic benefits, through some form of lump-sum transfers, from the "winners" to the "losers" in the regional integration arrangements. Moreover, the simulation results evoke images of regional import substitution, not unlike the recent empirical findings for the Mercosur countries. That is, they indicate that under reinvigorated or new regional integration arrangements in MENA expanded trade would occur principally in traditionally import-competing sectors. This would provide little impetus for achieving greater output in MENA's truly internationally competitive sectors or for realizing higher returns for MENA's most abundant natural resources, including, in some cases, agricultural resources, and, in applicable countries (such as Egypt), for realizing higher real wages for unskilled urban and rural workers. Finally, from a dynamic perspective, regional integration arrangements in MENA would clearly tend to stimulate domestic and foreign direct investment in many inefficient sectors and, thereby, after a possible initial upturn, retard long-term growth and development prospects of MENA countries, not unlike traditional import-substitution policies.

The foregoing conclusions apply particularly to Egypt. Indeed, the quantitative analysis reported in this paper points at some length to the limited employment generation potential of Egypt's participation in not only the Greater Arab Free Trade Area but also a hypothetical free trade area with the Maghreb Union countries, the sole preferential free trade area in MENA for which the quantitative analysis finds positive welfare gains for Egypt. Consistent with the regional import substitution view of current and hypothetical regional integration arrangements in MENA, MenaTSM simulations indicate that trade would be stimulated by these regional preferential trading arrangements mainly in sectors with less than desirable potential for efficiently absorbing significant added numbers of Egyptian workers.

Notwithstanding political economy obstacles to completely liberalizing trade in MENA on a nondiscriminatory basis, the theoretical and quantitative analyses presented here reveal the superiority on nearly all counts of pursuing open regionalism in MENA, either unilaterally or on a concerted basis. Though considerable refinement might be added to the quantitative analyses undertaken for the present paper, including through exploring the sensitivity of MenaTSM simulation results to alternative values for the model's parameters or applying all together more sophisticated computable economic models, it is unlikely that the "first-best" option for advancing Egypt's strategic trade and development interests identified by the analysis here would be contradicted. Thus, Egypt and other countries in MENA have at hand not only the trade policy option likely to improve their trade and development prospects most significantly and dependably in the medium-to-long-term, but also knowledge of what that first-best trade policy option is. The challenge that remains to Egyptian and other policy makers in MENA is to craft a politically feasible means of successfully implementing that first-best trade policy option, to achieve open regionalism in the greater Middle East and North Africa.

10.0 FINDINGS AND RECOMMENDATIONS

10.1 Study Findings

Egypt's export expansion program properly reflects the GOE's recognition that its future domestic prospects and the well-being of its people depend directly upon its ability to increase exports to generate the income needed to support economic liberalization and transformation, raise the standard of living, invite new investment, and reduce its dependency on more volatile sources of income.

A part of the GOE's program for expanding its exports is to realize and profit from the possible trade and investment-creation effects of regional economic and trade integration through free trade arrangements or customs unions.

A number of such arrangements have been concluded in the MENA region since World War II--including the Arab Common Market, the Gulf Cooperation Council, and the Arab Maghreb Union--but most of these were entered into more for political or solidarity reasons than for economic reasons or commercial reality. As a result, most of them have failed to fulfill their expectations of trade creation and increased intra-Arab trade or investment. Just recently, yet a new effort resulted in the conclusion of the Greater Arab Free Trade Area (GAFTA), still only in the organizational stage, such that its possibilities are yet to be determined, let alone realized.

The goal of regional integration is to realize for member states, through the combined size of their collective productive capacities and markets and the sectoral complementarities that may exist among them, a form of economic and commercial synergy and incremental trade possibilities that may be generated by (a) elimination or reduction of impediments to trade and investment; (b) encouragement and facilitation of such trade/investment through harmonization of their trade-related legal/regulatory systems; and (c) coordination of compatible macroeconomic and monetary policies. A secondary goal is to aggregate the collective economic influence of member countries for purposes of negotiating leverage in defining the global framework of rules for trade and investment.

Among the possible economic gains for regional trade arrangements are: (a) trade creation; (b) enhanced efficiency of production through increased specialization and intensified competition; (c) increased national production; (d) enhancement of product quality; (e) increased inward investment and transfer of new technologies; and (f) improved national terms of trade.

Nearly all of the World Trade Organization's (WTO) 132 members have signed one form or another of regional trade agreements. Reciprocal preferential arrangements (as opposed to concessionary non-reciprocal arrangements like Lome IV and GSP) include free trade areas or agreements (FTAs) and Customs Unions (CUs), while deeper integration may lead to establishment of a common market or even a monetary or economic union.

In the shallower FTA or CU variant, major substantive areas addressed in negotiations may include: market access, rules-of-origin, schedules for implementation; specific sectoral commitments; and dispute resolution. Negotiations for an FTA or CU must address a number of sensitive subjects and, generally, the more nations involved in such negotiations, the more complex they become and the longer the time required to conclude agreements (and the more problematical an effective, enforceable agreement).

A major concern relating to regional integration agreements is the basic inconsistency of the regional versus the global approach to achieving trade liberalization. The issue is basically whether regional arrangements essentially undercut multilateral efforts to promote global trade liberalization and trade creation through world-wide agreements and rules governing trade and investment. Regional arrangements, with their possibilities for trade creation among member states, may realize the goal of expanded exports therefrom, but do so in ways inconsistent with the basic GATT/WTO principles of Most Favored Nation and National Treatment and tariff binding commitments. However the GATT/WTO global rules for international trade, subject to certain criteria, waive such WTO requirements in Article XXIV of the GATT'94, Article V of the General Agreement on Services (GATS), and the so-called "Enabling Clause" of the GATT relating to special and differential treatment for developing nations.

Under the aegis of the Arab League, a number of economic cooperation and joint development agreements have been signed and at least nine league-inspired agreements for preferential trade and economic integration concluded--in addition to at least another eight unrelated regional or subregional arrangements. But the majority of such agreements have been undermined by political differences, national animosities, infrastructural constraints, inconsistent and often opposed economic systems, lack of sectoral trade complementarities, and domestic protectionist pressures. Of all of those arrangements, only two recent agreements have managed to subsist, meeting in varying degrees their goals: the Arab Maghreb Union and the Gulf Cooperation Council. More recently, however, a wholly new arrangement has been concluded--the Greater Arab Free Trade Area (GAFTA)--signed in February 1997 and intended to go into effect on 01 January 1998. As of March 1998, the GAFTA agreement had been signed by all Arab nations except Algeria, Mauritania, and Djibouti, but it was still not in full operation because of the failure of a some signatories to complete procedures for ratification of the agreement, and of most signatories to table "positive lists" of goods eligible for GAFTA-wide tariff preferences.

According to some observers, the delay in effective institution of the GAFTA results from a number of unresolved problems: (a) the requirement that provisions of the Agreement are binding only on those signatories that accept them (a particular problem for determination of product eligibility for preferential tariffs); (b) the GAFTA's extension of National Treatment to products of all member nations whether or not they have implemented the trade liberalization obligations enjoined in the Agreement; (c) the large number of "negative lists" withholding products from tariff exemptions or reductions, especially in the agricultural sector; (d) the continuation of a large number of NTBs despite agreement provisions for their removal; (e) disputes over rules-of-origin and their application; and (f) issues relating to the GAFTA treatment of products of foreign trade and assembly/processing zones.

In addition to multilateral regional trade arrangements in MENA, Egypt and a number of other countries have taken advantage of the GAFTA provision authorizing--and, indeed, encouraging--Arab countries to accelerate the implementation of preferential intra-Arab trade through the conclusion of bilateral trade arrangements. Egypt has been heavily involved in pursuing such arrangements, having concluded preferential trade agreements with Jordan and Tunisia and pushing for similar agreements with Kuwait, Lebanon, Libya, Morocco, Saudi Arabia, Syria, and Yemen. The number of such bilateral trade agreements among MENA countries raises the issue of the viability of any region-wide trade arrangement in terms of the fractionalization of preferential arrangements and their ability to retain the principles of National treatment and MFN under a regional arrangement.

Certain extra-regional trade arrangements affect the possibilities for an effective MENA-wide regional trade agreement that might be beneficial for Egypt's program of economic growth through export expansion.

Under the umbrella of the European-Mediterranean Partnership Agreement signed in Barcelona in 1995 between the 15 countries of the European Community (now the European Union) and 12 countries of the Mediterranean region, including eight Arab nations, a number of implementing bilateral "Euro-Med" agreements have been signed by the EU with Jordan, Morocco, Tunisia, and Israel, while a similar agreement with Egypt has been in protracted negotiation for nearly two years. These agreements generally contemplate a 12-year transition period providing for the gradual elimination of all tariffs and quotas by the end of the transition period. All industrial products are given immediate tariff-free treatment without quantitative restrictions, except for those reserved by either side as set forth in various annexes to the agreements, while the parties also agree to a standstill provision that no new duties or other charges shall be introduced. Agricultural products are generally exempted from the agreement with only a commitment to "discuss" liberalization by the end of the transition period. Although the agreements reflect a kind of "hub and spoke" strategy on the part of the EU to the development of preferential trade relations with individual MENA countries, they also encourage regional integration efforts by promoting trade and economic cooperation as long as such arrangements do not alter the preferences provide EU nations. Some of the Euro-Med agreements provide that the EU would "consider" cumulation of origin in establishing the regional origin of products for purposes of Euro-Med preferences if the rules-of-origin of such countries are "harmonized" within some form of regional integration agreement. Conclusion of an effective MENA integration agreement would not only permit member countries to qualify for the EU's cumulation/rules-of-origin preferences, but would tend to reduce the individual economic dependency of the various MENA nations that would develop under the EU's "hub and spoke" network of bilateral agreements.

In just the last few months, Egypt has taken action to extend its possibilities for preferential access for its products to the markets of the 21 Sub-Saharan African nations that are members of the Common Market of Eastern and Southern Africa (COMESA), the only MENA nation to have been admitted to membership in that regional trade arrangement.

The historical record of MENA region economic integration efforts, multilateral and bilateral, appears more one of “random atomic action” than the result of an integrated, coherent approach to regional economic integration through mutual trade liberalization. Moreover, and perhaps more important in clouding the expectations for current regional initiatives, are certain on-going structural and policy-based inhibitions currently found in most MENA countries that undermine efforts to achieve regional economic integration. These include: high nominal tariffs; high effective rates of protection; protectionist policies, especially in the agricultural sector; the proliferation of NTBs to trade; and unnecessary and costly bureaucratic practices and “red tape.”

But the effectiveness of actual integration initiatives has been constrained as well by a number of trade arrangement-specific obstacles. These include: lack of agreed timetables for gradual introduction of exemptions for goods from tariffs and NTBs; weakness of an implementing national and multinational legal/regulatory framework to facilitate integration arrangements; excessive country “exceptions” or “negative Lists” for product eligibility for preferences; and lack of effective, consensus-based rules-of-origin to determine the “nationality” of products and, thereby, their eligibility for preferences.

What, therefore, are the success factors and/or actions indicators for Arab nations that would permit them to take beneficial integration arrangements? These would include: focusing on macroeconomic problems on a regional rather than a national “zero sum” basis; adopting policies and legal/regulatory regimes that encourage and facilitate private sector entrepreneurial activity, economic specialization, productivity, and sectoral competitiveness on a regional basis; eliminating policies that inhibit, rather than facilitate, cross-border trade and investment; overcoming the reluctance of MENA region investors to invest in their own region by adopting macroeconomic policies that encourage new investment; and reforming national bureaucracies to eliminate the red tape, delay, and corruption that impede trade and investment.

During 1994-96, intra-MENA trade amounted to US$ 19.4 billion, or less than ten percent of total trade of MENA countries with the world and less than one percent of global trade. The top five intra-MENA exporters were Saudi Arabia (21.2 percent); Turkey (14.7 percent); United Arab Emirates (14.0 percent); Iran (7.2 percent); and Egypt (4.9 percent).
The top five intra-MENA importers were Turkey (20.3 percent); UAE (10.8 percent); Saudi Arabia (9.8 percent); Oman (6.8 percent); and Kuwait (5.9 percent).

There is a great difference between intra-MENA trade patterns and the volume of MENA trade as a whole with the world. Turkey imports $2.9 billion from other MENA countries, but imports more than ten times this amount ($34.0 billion) from the world at large. Saudi Arabia imports only $1.9 billion from other MENA countries, but $26.3 billion from the world at large.

Egypt’s imports from the world at large totaled $11.4 billion, but it imported only $0.6 billion from MENA countries, or only 5 percent of its total imports. Conversely, it exports only $ 0.9 billion to other MENA countries, representing less than 20 percent of its total exports to the world at large ($4.9 billion).

Intra-MENA trade may be low relative to MENA's participation in world trade because it reflects the production structure of the MENA countries and the overall limited openness of the MENA economies to trade with other MENA nations and the rest of the world. It also probably reflects intense export competition among MENA countries in certain sectoral areas of common production and a relative lack of intra-MENA trade complementarities in terms of what they have to offer for sale competitively and what they can afford to import.

What MENA countries need to import or have to offer to other markets--the basic determinants of trade possibilities--can be suggested by determinations of Revealed Comparative Advantage (RCA). The RCA index provides a rough indication for a nation's export prospects by comparing its share of world exports of a given product with its overall share of world exports. If the index exceeds unity (1), the country can be said to have an RCA in the particular product while the more its RCA exceeds 1, the better export prospect it has in the product indexed. An RCA below unity reflects a comparative disadvantage in a product that suggests that it should import rather than attempt to export the product.

Based on determinations of RCA from available trade data, it appears that MENA countries achieve high levels of RCA in mineral fuels and petroleum. But several MENA countries demonstrate relatively high levels of RCA in food, live animals, and selected agricultural products such as cereals, rice, vegetables, and fruit. Egypt has high RCA levels in rice, sugar, and cotton.

While some MENA countries export substantial amounts of manufactured products, comparative advantage in overall manufactures does not appear significant. Only in traditionally labor-intensive categories of manufactures does the RCA of MENA countries appear greater than unity--thus, Egypt, Turkey, and Lebanon are found to be internationally competitive producers of textiles, while Morocco, Tunisia, Turkey, Egypt, and Jordan are found to be internationally competitive producers of clothing and apparel. With the exception of Israel, no MENA country demonstrates a significant RCA in either skilled labor-intensive and technology-intensive products.

Egypt--in pursuit of its goals for increased exports--confronts basically three approach options to realize economic growth through expanded exports: unilateral liberalization; participation in one or more regional integration arrangements; or concentrating on WTO-led global trade liberalization. But these options are not necessarily contradictory, so that Egypt could employ more than one of these approaches.

In the issue of regionalism vs. multilateralism, the arguments for <u>regionalism</u> are:

- regional agreements take less time for realizing exports through market access commitments, as the number of countries and sectors are limited;

- regional agreements allow Egypt to <u>target</u> more promising markets for incremental exports;

- the fewer nations involved, the greater will be Egypt's influence in shaping the rules for such agreements;

- The likely <u>short-term</u> net economic benefits from a regional arrangement, and the political attractiveness of them, may outweigh the commercially and politically less certain, longer-term outcome of a truly multilateral, global trade liberalization process.

- a limited FTA may be more realistic for Egypt since it would likely provoke less domestic protectionist opposition; and

- there seems nothing to prevent Egypt from entering into more than one regional integration agreement.

The arguments, on the other hand, for Egypt's concentrating on a multilateral approach are:

- an regional FTA or CU opens up the markets of a very few countries, while a multilateral approach, when and if realized, opens up all the markets of the world;

- the ability of developed countries to manipulate the outcomes of multilateral negotiations in the development of global trade rules is decreasing as more and more developing nations join the WTO; and

- Egypt may be better enabled to protect its interests effectively *viz-a-viz* developed nations within a framework of strong, enforceable global rules for trade shaped by the increasing influence of developing nations acting in concert.

The above represents a general policy analysis. However, trade economists also note that, while regionalism is sweeping many areas of the world, there remains considerable uncertainty surrounding the strategic trade and development interests of countries pursuing regionalism.

The classical economic theory of regional integration arrangements (Viner, Meade) causes trade economists to be reluctant to recommend the pursuit of regionalism, since quantitative and empirical economic studies most often find that gains in national welfare from regional integration arrangements, while they may positive, are essentially modest in comparison to welfare gains from pursuing nondiscriminatory trade liberalization--or "open regionalism"--(the ultimate objective of the multilaterally-based, WTO process toward global free trade based on a universal MFN principle) and may, in fact, take on the characteristics of regional import substitution.

Indeed, the combined theoretical and quantitative economic analyses presented in Chapter 9, point to similar concerns arising in connection with the revived or new regional integration arrangements described herein. Examination of the current revealed comparative advantage of MENA countries in Chapter 8 finds that, while there is some variance in precise commodity patterns of comparative advantage among countries of the region, especially when highly disaggregated data form the basis for the comparative advantage calculations, the MENA countries are roughly similar in their comparative advantages (and competitive disadvantages).

The economic theory of regional integration arrangements suggests that, under such circumstances, all but the most highly protected (high tariffs, many NTBs) countries seeking to form FTAs or CUs should expect to achieve <u>little improvement</u> in their economic welfare, e.g., (a) trade creation would occur principally in traditionally import-competing sectors among member countries; and (b) trade <u>diversion</u> is likely to dominate trade creation; so that (c) economic gains would be modest and would not be equitably shared among member countries without provisions for redistributing net economic benefits between "winners" and "losers."

Moreover, from a dynamic perspective, regional integration arrangements in MENA would tend to stimulate domestic and foreign direct investment in many <u>inefficient</u> sectors and, thereby, after a possible initial upturn, retard long-term growth and development prospects of MENA countries, not unlike traditional import-substitution policies.

In the quantitative analysis model, it appears that trade diversion dominates trade creation by wide margins under <u>all</u> regional integration scenarios except the "open regionalism" variant, predominantly because MENA countries are not internationally competitive in more than a few sectors (e.g., mineral fuels, textiles/apparel).

In the particular case of Egypt, the quantitative analysis reported in Chapter 9 concludes that the Arab Maghreb Union is the <u>sole</u> preferential free trade area in the MENA region for which it finds positive welfare gains for Egypt, primarily because Egypt and the Maghreb countries generally have the highest levels of tariffs in the MENA. Nevertheless, overall, there is limited employment generation potential for Egypt's participation in either the Arab Maghreb Union <u>or</u> the Greater Arab Free Trade Area, because, in either case, the trade created by these regional arrangements would likely occur in sectors with less than desirable potential for efficiently absorbing added numbers of Egyptian workers.

The theoretical and quantitative economic analyses presented herein suggest the superiority of Egypt's pursuing "open regionalism" in MENA, either unilaterally or on a concerted basis. Under open regionalism, MENA nations would eliminate their import barriers on a Most Favored Nation (MFN) basis rather than on a geographical preferential basis, and, thereby, expand their trade relations with countries outside of MENA as well as with one another in a manner consistent with the WTO's multilateral approach to global trade liberalization. But, assuming that implementation of open regionalism cannot or may not occur in the short to medium-term, the economic analysis suggests that Egypt's best choice for an integration possibility is the Arab Maghreb Union.

10.2 Study Recommendations

(1) Egypt should <u>first</u> concentrate on continuing to enhance its domestic economy (and thereby its attractiveness for both regional trade and investment) by adopting policies and a legal/regulatory regime that builds up its domestic private sector and rewards its entrepreneurially-oriented, investment-based, activity within a free-market economy that promotes economic specialization and productivity.

(2) Egypt should also continue to eliminate existing obstacles to international trade and investment through reforming its legal regime and bureaucratic practices so as to encourage and facilitate, rather than impede, such trade and investment.

(3) Egypt should also seek to harmonize as much as possible its overall free market macroeconomic policies and legal/regulatory regime and reforms therein with those of the countries with whom it is considering entering any form of regional trade agreement.

(4) Even as it focuses on the possibilities for regional preferential trade arrangements, Egypt should recognize that, according to economic theory backed up by the quantitative modeling and analysis of this study, the actual welfare impacts realizable from so-called "open regionalization", e.g., unilateral trade liberalization on a global MFN basis, may, in the medium and long term, actually exceed the welfare gains from a limited, regional arrangement in the short-term, and, so, give serious consideration to implementing such unilateral trade liberalization. Only if it is then determined that "open regionalism" would not prove a feasible policy approach in the short-run, should the GOE pursue the possibilities of regional arrangements.

(5) Also, while there may be political imperatives that suggest the desirability of regional arrangements, Egypt should prioritize its time and resources towards achieving enhanced market access in those geographical markets that actually offer the greatest likelihood for real and substantial incremental exports, e.g., the European Union, USA, Japan (eventually), and East Asia.

(6) But, in assessing whether, and with which countries, to enter into a regional preferential trade relationship, Egypt should concentrate on realizing its explicit and attainable short-term economic interests (economic development and job creation through expanded exports) by focusing its policy formation and negotiating efforts on those countries that are its most realistic incremental export markets--e.g., on those with which it has the clearest sectoral and product trade complementarities and, with regard to which sectors and products, it has its clearest comparative advantages as compared with other potential suppliers to such markets.

Based upon our RCA analysis, it would appear Egypt's best export market development possibilities (in terms of individual countries) would lie in: Libya, Algeria, Kuwait, Oman, Yemen, UAE, Qatar, and Saudi Arabia. But, based upon the regional integration quantitative economic analysis undertaken herein, it would appear that Egypt's greatest realizable benefits would flow from becoming a member of, or negotiating an FTA with, the Arab Maghreb Union, whose countries have generally more advanced economies and demonstrated product complementarities with Egypt.

(7) In approaching the possibilities for a regional trade arrangement relationship with other countries of the MENA region, Egypt should concentrate, at least at the beginning, on negotiation of a so-called "shallow" FTA arrangement that would enhance its access to target markets through effective, enforceable, tariff preferences and removal of NTBs rather than attempting to construct a more complex, "deep" arrangement that involves substantive areas and issues upon

which there may be difficulties in achieving agreement and would take much longer to negotiate and realize in actual operation.

(8) Egypt should remain firm in its bargaining strategy for its negotiations with the European Union for an Egyptian Euro-Med Partnership Agreement in order to obtain greater and more immediate access to EU markets in areas of significant Egyptian comparative advantage, so as to negotiate an even more favorable agreement with the EU than have other such countries, thereby to enhance its attractiveness as a potential preferential trading partner with those regional countries whose markets offer Egypt the best incremental export possibilities.

(9) At the same time that Egypt undertakes negotiations for one or more regional trade arrangements, it should also continue to participate effectively in the GATT/WTO's multilateral efforts at realizing free trade in the long-run on a global basis, taking a leadership role therein on behalf of all developing countries in general and MENA developing countries in particular.

(10) And, while attempting to realize regional trade arrangements, Egypt should also concentrate on the necessity for realizing the trade creation and export expansion impacts of such agreements of building the international competitiveness of its export industries, not only in the sheltered preferential markets of trade arrangement member countries.

(11) Egypt should require and ensure that any regional trade arrangement of which it becomes a member is consistent with the multilateral disciplines and criteria for exemption therefrom of the GATT/WTO, so as to harmonize with and facilitate the eventual realization of global free trade.

(12) In order to integrate and coordinate its efforts in addressing the above matters, the GOE should establish an Inter-Ministerial Commission for Economic Integration to consider all aspects of regional trade and economic integration arrangements and to suggest the policy reforms and negotiation strategies necessary to maximize the trade and economic gains therefrom.

(13) Egypt should provide all necessary support for confronting and resolving the many issues inherent in the negotiation and structuring of regional trade arrangements by availing itself of technical assistance from the GATT/WTO, UNCTAD, and other multilateral and national technical assistance agencies.

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APPENDIX TABLES

APPENDIX A: Table 1

The Process of Negotiating an FTA: Steps in NAFTA Development

Date:	Activity:
June 10, 1990	President Bush and President Salinas issue a joint statement endorsing the idea of a comprehensive free trade agreement between the United States and Mexico and direct their trade ministers to undertake consultations and preparatory work
August 08, 1990	U.S.Trade Representative Hills and Mexican Secretary of Commerce Serra-Puche report back to the two presidents, jointly recommending the initiation of formal negotiations.
August 21, 1990	President Salinas writes to President Bush formally proposing that Mexico and the United States enter into negotiations for an FTA.
September 25, 1990	President Bush formally notifies the Congress of his intention to enter FTA negotiations (required under U.S. law) and indicating Canada's desire to join in the negotiations.
February 05, 1991	President Bush, President Salinas, and Prime Minister Mulroney announce jointly their intention to commence negotiations for a North American Free Trade Agreement. President Bush formally notifies the Congress of his intention to enter into trilateral negotiations for a NAFTA.
February 6 & 21, 1991	U.S. Senate Finance Committee holds public hearings on proposed negotiations. U.S. House Ways & Means Subcommittee on International Trade holds public hearings on proposed negotiations.
March 01, 1991	President Bush formally requests U.S. Congress to extend Fast Track authority for negotiation and implementation of trade agreements. President Bush submits letter to Congress promising to consult extensively with it during the negotiations and stating his intentions with regard to achieving specific substantive provisions in the agreement.
May 03, 1991	U.S. Labor Secretary and Mexican Minister of Labor and Social Welfare sign a Memorandum of Understanding to promote higher living standards and a safe and healthy workplace for workers in the two countries.
May 23-24, 1991	U.S. Congress votes to extend Fast Track negotiating/implementation authority for two years for NAFTA and other trade negotiations.
June 12, 1991	NAFTA negotiations formally commenced in Toronto, Canada, with trilateral meeting of trade ministers; 19 Working Groups convene.
June 23-25, 1991	USTR and Secretary of Commerce lead U.S. delegation of 19 industry sector and functional advisory committee members to Mexico for intensive two-day round of meetings with Mexican Government negotiators, Mexican private sector, and U.S. companies operating in Mexico.

APPENDIX A: Table 1
The Process of Negotiating an FTA: Steps in NAFTA Development
(Cont.)

Date:	**Activity:**
July 8-9, 1991	Plenary negotiation session in Washington, D.C. chaired by chief negotiators.
August 6-7, 1991	Plenary negotiation session in Oaxtepec, Mexico chaired by chief negotiators.
August 18-20, 1991	Second Trilateral Ministerial Oversight meeting, Seattle, Washington.
August - September, 1991	U.S. Trade Policy Staff Committee conducts public hearings in San Diego, Houston, Atlanta, Washington, D.C., Cleveland, and Boston.
September 19, 1991	U.S., Canada, and Mexico exchange initial tariff staging proposals and non-tariff barrier request lists at meeting of the Tariffs and Non-Tariff Barriers Negotiating Group, Dallas, Texas.
October 25-28, 1991	Third Trilateral Ministerial Oversight meeting in Zacatecas, Mexico.
December 14, 1991	Presidents Bush and Salinas meet at Camp David to agree on importance of NAFTA and the need for a broad, comprehensive agreement.
December 31, 1991	Negotiators complete composite bracketed texts of agreement.
January 6-10, 1992	Meetings at Georgetown University in Washington, D.C. to prepare composite texts.
January 15-17, 1992	Chief negotiators meet to review status of negotiations, Washington, D.C.
February 2-3, 1992	USTR leads delegation of 11 members of Congress and 26 private sector representatives to Mexico to meet with President Salinas, Minister of Commerce, and other key Mexican government officials and private sector representatives.
February 9-10, 1992	Fourth Trilateral Ministerial Oversight meeting, Chantilly, Virginia.
February 10-12, 1992	U.S. and Mexican officials meet with organized labor on hazardous materials treatment - emphasis on iron and steel industries.
February 17-21, 1992	Plenary negotiation session in Dallas, Texas, chaired by Chief Negotiators.
February 26, 1992	President Salinas and Minister Serra discuss NAFTA progress with President Bush and USTR in San Antonio, Texas.
March 4-5, 1992	Plenary negotiation session in Washington, D.C. chaired by chief negotiators.
March 23-27, 1992	Plenary negotiation session in Washington, D.C. chaired by chief negotiators.

APPENDIX A: Table 1
The Process of Negotiating an FTA:
Steps in NAFTA Development
(cont.)

Date:	**Activity**:
April 6-8, 1992	Fifth Trilateral Ministerial Oversight meeting, Montreal, Canada.
April 27 - May 01, 1992	Plenary negotiation session in Mexico City, chaired by chief negotiators.
May 13-5, 1992	Plenary negotiation session in Toronto, Canada chaired by chief negotiators.
June 1-5, 1992	Plenary negotiation session in Crystal City, Virginia chaired by chief negotiators.
June 17-19, 1992	Chief negotiators meet to review negotiations, Washington, D.C.
June 29 - July 3, 1992	Chief negotiators meet to review negotiations, Washington, D.C.
July 7-10, 1992	Chief negotiators meet to review negotiations, Washington, D.C.
July 14, 1992	Presidents Bush and Salinas and their Trade ministers meet to discuss status of NAFTA talks and announce beginning of the final stage of negotiations.
July 25-26, 1992	Sixth Trilateral Ministerial Oversight meeting, Mexico City.
July 29-Aug. 12, 1992	Chief negotiators meet to review and finalize negotiations, Washington, D.C.
August 2-12, 1992	Seventh Trilateral Ministerial Oversight meeting, Washington, D.C.
August 12, 1992	Two Presidents and Prime Minister Mulroney announce completion of the negotiations for NAFTA. Several documents issued including a negotiated summary of the Agreement.
August 13, Sept. 16-18 1992	Legal staff work on draft agreement. President Bush officially notifies the U.S. Congress of his intent to enter into the NAFTA and transmits reports of the 38 U.S. private sector advisory committees on the draft agreement.
October 7, 1992	Presidents and Prime Minister meet in San Antonio, Texas to discuss plans for implementing NAFTA. Three Trade ministers initial the legal text of the draft Agreement.
December 17, 1992	Two Presidents and Prime Minister sign NAFTA in their respective capitals. President-Elect Clinton reaffirms his support for NAFTA, but reiterating that three side agreements are required relating to environmental and labor problems and safeguards from surges in imports.
January, 1993	Presidents Clinton and Salinas meet in Austin, Texas to discuss NAFTA status and negotiation of side agreements.

APPENDIX A: Table 1
The Process of Negotiating an FTA:
Steps in NAFTA Development
(cont.)

Date:	**Activity**:
February, 1993	Side agreements negotiation starts. USTR begins informal, staff-level consultation with committees of U.S. Congress on required changes in U.S. law to implement NAFTA obligations.
March 8, 1993	The Speaker of the U.S. House of Representatives reconvenes a Trade Agreement Coordinating Group chaired by the Ways and Means Committee Chair.
March 17-18, 1993	Trade representatives negotiate provisions of side agreements, Washington.
April, 1993	Chief negotiators direct deputies to begin the drafting of final texts of side agreements.
May 19-22, 1993	Chief negotiators meet in Ottawa to review and finalize side agreements.
May 27, 1993	Canadian House of Commons approves basic NAFTA agreement.
June, 1993	Chief negotiators meet in Washington, D.C. to finalize side agreements.
August 13, 1993	Trade ministers announce agreement by the three governments on labor and environmental cooperation and on import surges/safeguards.
September 14, 1993	Three NAFTA side agreements are signed in respective capitals.
November 4, 1993	President Clinton submits two letters of transmittal to the Congress conveying the text of NAFTA, the side agreements. their implementing legislation, and the Fast Track-required Statement of Administrative Action as a package to be considered by Congress in deciding upon approval of the Agreement and implementing legislation. Resolutions to approve and implement the NAFTA are submitted in the U.S. Senate and House of Representatives.
November 15, 1993	House Ways and Means Committee recommends passage of implementing legislation. Senate Finance Committee approves NAFTA and implementing legislation.
November 17, 1993	U.S. House of Representatives votes approval of NAFTA implementing legislation.
November 20, 1993	U.S. Senate votes approval of NAFTA and implementing legislation.
November, 1993	Mexican Senate approves NAFTA and side agreements.
January 01, 1994	NAFTA takes effect.

(Based on “Appendix: Key Points in the NAFTA Negotiations”, from Negotiating NAFTA: A Mexican Envoy’s Account, Hermann von Bertrab, Washington Papers series, the Center for Strategic and International Studies, Washington, D.C., Praeger, 1997.)

<u>Appendix A</u>: Table <u>2</u>

<u>Multilateral and Bilateral Trade Arrangements</u>

<u>in the MENA/Gulf Region (P. 01)</u>

Multilateral/Regional	ALG	BHR	EGY	IRN	IRQ	ISR	JOR	KWT	LBN	LBY	MOR	OMN	QAT	SAU	SYR	TUN	TUR	UAE	YEM	Notified to GATT/WTO?
Multilateral/Regional																				
Member/WTO	*	Yes	Yes	No	No	Yes	*	Yes	No	No	Yes	*	Yes	*	No	Yes	Yes	Yes	No	
African Econ. Community ’91	Yes		Yes							Yes						Yes				
Arab Common Market ’64			Yes		Yes		Yes		Yes	Yes					Yes				Yes	Yes
Arab Maghreb Union ’89	Yes									Yes	Yes					Yes				
Arab Free Trade Area ’97																				
Arab Econ. Unity Agmt. ’57			Yes[UAR]		Yes		Yes	Yes	Yes	Yes	Yes			Yes	Yes[UAR]	Yes			Yes	
Gulf Coop. Council ’81		Yes						Yes				Yes	Yes	Yes				Yes		
Indian Ocean Community ’95		Yes	?					Yes				Yes	Yes	Yes				Yes		
African Common Mkt. ’62	Yes		UAR								Yes				UAR					Yes
EEC Assn. Agmts (1st generation)			72			70			73		69					69	64/70			
EEC Pref. Non-recp. (2nd generation)	76		77				77		77		76				77	76				
EURO-Med. Petner Agmts (3rd generation)											X					X				
Econ. Coop. Org. ’85				Yes													Yes			
Free Trade Agmts																				
EU						75											73			
USA						85											91			
EFTA						92											96			
Customs Union																				
EU																				
Canada FTA						X														
GAFTA ’97		Yes	Yes		Yes		Yes		Yes	Yes	Yes	Yes			Yes	Yes			Yes	

* Applied for Accession

Appendix A: Table 2

Bilateral FTA/Common Market or other Preferential Trade Agreements (P. 02)

	ALG	BHR	EGY	IRN	IRQ	ISR	JOR	KWT	LBN	LBY	MOR	OMN	QAT	SAU	SYR	TUN	TUR	UAE	YEM	Sudan
Algeria										X	X					X				
Bahrain																				
Egypt																				X
Iran																				
Iraq																X				
Israel																				
Jordan									X		X				X	X				
Kuwait																X				
Lebanon							X							X	X					X
Libya	X										X				X	X				
Morocco	X						X			X					X	X				X
Oman																				
Qatar																				
Saudi Arabia									X							X				
Syria							X		X	X	X					X				
Tunisia	X				X		X	X		X	X			X	X			X		X
Turkey																X				
UAE																				
Yemen																				
EU FTA						X														
EU Customs Union																	X			
EFTA FTA						X											X			
U.S. FTA						X														
U.S. Framework Agmts.											X									

APPENDIX B

Table 1. Mena Intra-Regional and International Trade, 1994-96

	Intra-Regional Trade				International Trade			
	Exports		Imports		Exports		Imports	
Country	$ Mill.	Percent	$ Mill.	Percent	$ Mill.	Percent	$ Mill.	Percent
Algeria	691	3.5	617	3.1	11,027	6.0	9,828	5.1
Bahrain	485	2.5	382	1.9	1,937	1.1	3,761	2.0
Egypt	925	4.9	646	3.3	4,934	2.7	11,448	6.0
Iran	1,509	7.2	765	3.9	15,041	8.2	8,914	4.6
Iraq	794	4.1	547	2.8	807	0.4	652	0.3
Israel	186	0.9	256	1.3	16,539	9.0	27,357	14.2
Jordan	616	3.1	913	4.7	1,032	0.6	3,539	1.8
Kuwait	359	1.7	1,157	5.9	10,039	5.5	7,614	4.0
Lebanon	601	3.1	908	4.6	946	0.5	5,388	2.8
Libya	819	4.3	891	4.5	8,709	4.7	4,440	2.3
Morocco	462	2.3	999	5.1	6,728	3.7	7,995	4.2
Oman	807	4.2	1,309	6.7	5,769	3.1	4,247	2.2
Qatar	311	1.4	352	1.8	3,619	2.0	1,927	1.0
S. Arabia	3,961	21.2	1,890	9.7	48,456	26.4	26,297	13.7
Syria	1,032	5.3	646	3.4	3,454	1.9	4,708	2.5
Tunisia	482	2.3	611	3.1	5,121	2.8	7,361	3.8
Turkey	2,859	14.7	3,943	20.3	17,972	9.8	33,968	17.7
U. A. E.	2,295	14.0	2,097	10.8	19,665	10.7	21,322	11.1
Yemen	53	0.3	441	2.1	1,920	1.0	1,290	0.7
Total	19,381	100.0	19,381	100.0	183,724	100.0	192,066	100.0
Memorandum Item ($ Billions):								
World Trade	…	…	…	…	4,398	…	4,398	…

Source: United Nations, Statistics Department, Comtrade Data Base.
Notes: Data are period averages.

APPENDIX B

Table 2. Summary of Revealed Comparative Advantage Findings for Mena Countries

Algeria (5*, 0). RCA in 5 goods categories, all in primary product categories and nearly all in mineral fuel products, such as petroleum, natural gas, and related products.	**Bahrain (5*, 3)**. RCA in 8 goods categories, distributed between mainly mineral fuels in primary commodities, and mainly clothing, material manufactures, and non-ferrous metals in manufactures.
Egypt (10, 5). RCA in 15 goods categories, third highest number of categories with positive RCA among Mena countries. RCA is distributed among food and agricultural products (mainly rice, vegetables, and fruits), petroleum and gas products, textiles, and miscellaneous manufactures, especially clothing.	**Iran (5*, 1)**. RCA in 6 goods categories, predominantly mineral fuels and textiles.
Iraq (12, 2). RCA in 14 goods categories. In primary products, RCA occurs in food categories, such as live animals, vegetables, and fruit, petroleum, and gas. In manufactures, RCA occurs in material manufactures, and iron and steel.	**Israel (4, 8)**. RCA in 12 goods categories. In primary products, RCA is found for vegetables, fruit, and crude fertilizers. In manufactures, RCA is found for several categories, including chemicals, fertilizers, material manufactures, metal products, clothing, and, telecommunications equipment.
Jordan (9, 6). RCA in 15 goods categories distributed almost equally between primary products and manufactures. In primary products, RCA is apparent in food and live animals, vegetables and fruit, fats and oils, crude materials, crude fertilizers, and metal ores. In manufactures, it is apparent in textiles and clothing, and several categories of chemical products.	**Kuwait (4*, 1)**. RCA in 5 goods categories, chiefly mineral fuels and manufactured fertilizers.
Lebanon (14, 12). RCA in 26 goods categories, largest number of categories with positive RCA among Mena countries. The 26 categories are distributed widely between primary products and manufactures. Primary products with high RCA include food and live animals, cereals, vegetables and fruit, coffee, tobacco, crude materials, and metal ores. Manufactures with high RCA include chemicals, pharmaceuticals, miscellaneous manufactures, leather, textiles, iron steel, and material manufactures.	**Libya (5*, 1)**. RCA in 6 goods categories: petroleum, petroleum products, gas, fats and oils, and manufactured fertilizers.
Morocco (7, 5*). RCA in 12 goods categories. In primary products, these include food and agricultural products such as vegetables and fruit, crude materials, crude fertilizers, and metal ores. In manufactures, they include fertilizers, miscellaneous manufactures, leather, clothing, and foot-wear.	**Oman (5*, 0)**. RCA in 5 goods categories, all in primary products: mainly mineral fuels but also live animals, and beverages and tobacco.
Qatar (4*, 2). RCA in 6 goods categories, mainly petroleum and gas, manufactured fertilizers, and iron and steel.	**Saudi Arabia (4*, 1)**. RCA in 5 goods categories, concentrated in mineral fuels but also manufactured fertilizer.

Table 2 (Cont.). Summary of Revealed Comparative Advantage Findings for Mena Countries

Syria (13, 1*). RCA in 14 goods categories, mainly primary commodities (food and live animals, cereals including wheat, crude materials, crude fertilizer, textile fibers, and mineral fuels). Among manufactures, RCA is found only for clothing.	**Tunisia (6, 6*)**. RCA in 12 goods categories distributed equally between primary products and manufactured products. In primary products, high RCA in vegetable, fruits, crude fertilizers, petroleum, petroleum products, and fats and oil. In manufactures, high RCA in manufactured fertilizers, textiles, and especially miscellaneous manufactures -- clothing, travel goods, and footwear.
Turkey (11, 6*). RCA in 17 goods categories, second highest number of categories among Mena countries. In primary products, RCA is found for agricultural commodities such as cereals and vegetables, food, live animals, crude fertilizers, and textile fibers. In manufactures, high RCA is found for textiles, iron and steel, miscellaneous manufactures, and clothing.	**U.A.E. (5*, 0)**. RCA in 5 goods categories. Like other Gulf countries, high RCA occurs principally in mineral fuels. petroleum, petroleum products, gas, and natural gas.
Yemen (5*, 0). RCA in 5 goods categories, including not only of mineral fuels, petroleum, and petroleum products, but also live animals, coffee, tea, and spices.	

Source: Appendix, Table XX.

Notes: Numbers in parentheses indicate number of categories in primary products and manufactures, respectively, with RCA greater than unity. Asterisks denote cases in which RCA is predominantly in mineral fuels or labor-intensive manufactures.

APPENDIX (B)
TABLE 3
Revealed Comparative Advantage Of Mena Countries In International Trade 94 - 96

CD	SITC \ COUNTRY	ALG	BHR	EGY	IRN	IRQ
0	Food	0.031	0.145	1.138	0.459	1.327
00	Live Animal	0.010	0.037	0.572	0.856	6.053
01	Meat Products	0.001	0.027	0.115	0.011	0.050
02	Dairy Products	0.000	0.173	0.077	0.029	0.227
04	Cereals	0.003	0.228	0.703	0.101	0.882
041	Wheat	0.000	0.062	0.018	0.015	0.307
042	Rice	0.000	0.043	7.288	0.009	0.008
05	Vegetables & Fruits	0.092	0.093	3.592	1.604	3.522
054	Fresh Vegetables	0.035	0.028	7.745	0.484	6.686
057	Fresh Fruits	0.212	0.024	2.209	3.505	2.995
06	Sugar	0.015	0.075	1.987	0.135	1.571
07	Coffee , Tea & Spices	0.000	0.115	0.589	0.233	0.415
1	Beverages & Tobacco	0.073	0.138	0.164	0.028	0.359
2	Crude Materials	0.092	0.900	0.902	0.396	0.242
22	Oil Seeds	0.000	0.001	0.392	0.009	0.020
26	Textile Fibers	0.000	0.267	4.886	0.769	0.647
27	Crude Fertilizer	0.298	0.267	0.984	0.325	0.932
28	Metal Ores	0.252	3.525	0.359	0.444	0.044
3	Mineral Fuels	9.490	3.853	4.958	7.713	6.745
33	Petroleum & Petroleum Products	8.417	3.413	6.046	9.938	7.181
333	Petroleum	6.708	0.000	6.196	13.431	9.108
34	Gas	26.130	1.683	0.127	0.738	1.423
343	Natural Gas	30.621	0.000	0.051	0.000	2.335
4	Fats & Oils	0.000	3.768	0.074	0.424	4.141
5	Chemicals	0.061	0.724	0.297	0.060	0.266
54	Pharmaceuticals	0.001	0.021	0.400	0.054	0.262
55	Perfumes , Toiletries	0.025	0.194	0.619	0.054	0.335
56	Fertilizers	0.013	0.000	2.780	0.067	1.358
6	Material Manufactures	0.052	2.729	1.052	0.293	0.569
61	Leather	0.252	0.024	0.367	0.234	0.132
63	Wood Products	0.037	0.032	0.158	0.010	0.104
65	Textiles	0.008	0.176	3.367	1.035	0.913
66	Non-Metallic Mineral Products	0.001	0.877	0.367	0.082	0.414
67	Iron & Steel	0.175	0.735	0.913	0.339	1.211
68	Non-Ferrous Metals	0.066	18.108	1.278	0.205	0.286
69	Metal Products	0.018	0.620	0.303	0.042	0.380
7	Machinery & Equipment	0.006	0.148	0.058	0.007	0.046
72	Specialized Industrial Machinery	0.006	0.040	0.031	0.012	0.073
75	Office Machines & Computers	0.000	0.065	0.013	0.006	0.009

Revealed Comparative Advantage Of Mena Countries

In International Trade 94 - 96

CD	SITC \ COUNTRY	ISR	JOR	KWT	LBN	LBY
0	Food	0.687	1.874	0.033	2.500	0.020
00	Live Animal	0.127	16.331	0.010	1.663	0.042
01	Meat Products	0.217	0.537	0.014	0.127	0.001
02	Dairy Products	0.096	0.635	0.025	0.434	0.002
04	Cereals	0.090	0.162	0.103	2.100	0.010
041	Wheat	0.006	0.001	0.000	0.312	0.000
042	Rice	0.002	0.025	0.068	0.092	0.083
05	Vegetables & Fruits	2.544	5.318	0.026	7.038	0.039
054	Fresh Vegetables	1.373	11.453	0.002	10.434	0.097
057	Fresh Fruits	3.104	3.710	0.003	7.876	0.021
06	Sugar	0.287	0.121	0.017	5.373	0.002
07	Coffee , Tea & Spices	0.240	0.164	0.012	1.185	0.015
1	Beverages & Tobacco	0.056	0.623	0.014	1.878	0.001
2	Crude Materials	0.738	3.026	0.098	1.485	0.047
22	Oil Seeds	0.643	0.115	0.000	0.288	0.061
26	Textile Fibers	0.697	0.429	0.029	0.692	0.037
27	Crude Fertilizer	2.436	31.364	0.325	0.328	0.013
28	Metal Ores	0.323	1.627	0.243	3.868	0.005
3	Mineral Fuels	0.171	0.001	10.034	0.181	8.851
33	Petroleum & Petroleum Products	0.190	0.001	11.081	0.118	11.197
333	Petroleum	0.165	0.000	11.075	0.000	13.613
34	Gas	0.001	0.000	5.857	0.902	2.269
343	Natural Gas	0.000	0.000	0.000	1.358	2.326
4	Fats & Oils	0.023	26.416	0.049	11.971	0.000
5	Chemicals	1.259	3.277	0.100	1.188	0.277
54	Pharmaceuticals	0.523	6.733	0.003	1.169	0.002
55	Perfumes , Toiletries	0.520	1.084	0.042	1.449	0.004
56	Fertilizers	5.390	60.300	2.450	11.657	2.430
6	Material Manufactures	2.377	0.665	0.040	1.323	0.074
61	Leather	0.037	0.065	0.009	1.361	0.018
63	Wood Products	0.172	0.018	0.002	0.109	0.002
65	Textiles	0.816	0.432	0.015	1.060	0.005
66	Non-Metallic Mineral Products	15.697	3.335	0.108	3.987	0.012
67	Iron & Steel	0.053	0.165	0.004	1.458	0.358
68	Non-Ferrous Metals	0.211	0.212	0.006	0.582	0.005
69	Metal Products	1.272	0.649	0.074	0.930	0.019
7	Machinery & Equipment	0.611	0.127	0.030	0.136	0.002
72	Specialized Industrial Machinery	0.706	0.080	0.031	0.286	0.006
75	Office Machines & Computers	0.543	0.025	0.004	0.022	0.000

Revealed Comparative Advantage Of Mena Countries

In International Trade 94 - 96

CD	SITC \ COUNTRY	MOR	OMN	QAT	SAU	SYR
0	Food	3.275	0.235	0.011	0.090	1.272
00	Live Animal	0.014	1.574	0.217	0.019	4.738
01	Meat Products	0.036	0.046	0.004	0.048	0.009
02	Dairy Products	0.061	0.113	0.000	0.183	0.136
04	Cereals	0.150	0.188	0.012	0.263	1.535
041	Wheat	0.079	0.004	0.000	0.727	1.841
042	Rice	0.000	0.138	0.002	0.024	0.000
05	Vegetables & Fruits	7.152	0.134	0.002	0.050	3.737
054	Fresh Vegetables	9.142	0.226	0.002	0.049	6.458
057	Fresh Fruits	6.806	0.089	0.003	0.053	3.728
06	Sugar	0.514	0.033	0.000	0.054	0.343
07	Coffee , Tea & Spices	0.952	0.049	0.003	0.026	0.791
1	Beverages & Tobacco	0.123	1.255	0.001	0.033	0.129
2	Crude Materials	2.212	0.091	0.025	0.092	1.519
22	Oil Seeds	0.006	0.001	0.000	0.010	0.369
26	Textile Fibers	0.096	0.002	0.000	0.032	8.820
27	Crude Fertilizer	17.050	0.302	0.180	0.469	1.890
28	Metal Ores	1.843	0.274	0.018	0.183	0.018
3	Mineral Fuels	0.136	7.815	8.245	8.553	6.600
33	Petroleum & Petroleum Products	0.180	10.119	10.042	10.158	8.663
333	Petroleum	0.000	13.089	12.647	13.061	10.127
34	Gas	0.000	0.063	6.364	5.869	0.000
343	Natural Gas	0.000	0.000	0.000	0.020	0.000
4	Fats & Oils	0.575	0.364	0.001	0.053	0.435
5	Chemicals	0.985	0.046	0.404	0.565	0.028
54	Pharmaceuticals	0.146	0.117	0.003	0.005	0.017
55	Perfumes , Toiletries	0.466	0.251	0.089	0.271	0.094
56	Fertilizers	17.438	0.022	6.157	1.259	0.000
6	Material Manufactures	0.345	0.088	0.251	0.097	0.102
61	Leather	1.587	0.015	0.011	0.242	0.242
63	Wood Products	0.623	0.020	0.000	0.006	0.018
65	Textiles	0.917	0.043	0.006	0.029	0.315
66	Non-Metallic Mineral Products	0.216	0.086	0.002	0.112	0.148
67	Iron & Steel	0.029	0.022	1.120	0.115	0.007
68	Non-Ferrous Metals	0.447	0.321	0.271	0.109	0.065
69	Metal Products	0.108	0.103	0.024	0.181	0.099
7	Machinery & Equipment	0.202	0.132	0.013	0.035	0.021
72	Specialized Industrial Machinery	0.026	0.116	0.006	0.031	0.049
75	Office Machines & Computers	0.048	0.007	0.002	0.015	0.073

Revealed Comparative Advantage Of Mena Countries

In International Trade 94 - 96

CD	*SITC* \ *COUNTRY*	TUN	TUR	UAE	YEM	EUR
0	Food	0.581	1.901	0.212	0.246	1.139
00	Live Animal	0.641	2.393	0.515	1.128	1.276
01	Meat Products	0.044	0.119	0.184	0.000	1.340
02	Dairy Products	0.129	0.070	0.161	0.010	2.068
04	Cereals	0.435	1.181	0.146	0.009	0.960
041	Wheat	0.018	0.661	0.009	0.000	0.726
042	Rice	0.000	0.087	0.559	0.009	0.471
05	Vegetables & Fruits	1.032	6.514	0.308	0.052	1.070
054	Fresh Vegetables	0.247	3.506	0.270	0.035	1.282
057	Fresh Fruits	2.319	9.886	0.361	0.105	0.848
06	Sugar	0.068	1.008	0.427	0.169	1.055
07	Coffee , Tea & Spices	0.212	0.536	0.167	1.202	0.982
1	Beverages & Tobacco	0.245	2.095	0.770	0.038	1.605
2	Crude Materials	0.475	0.860	0.112	0.188	0.714
22	Oil Seeds	0.013	0.280	0.017	0.035	0.212
26	Textile Fibers	0.319	1.781	0.028	0.066	0.708
27	Crude Fertilizer	3.119	3.469	0.354	0.301	0.950
28	Metal Ores	0.619	0.800	0.267	0.286	0.612
3	Mineral Fuels	0.858	0.151	7.792	9.006	0.581
33	Petroleum & Petroleum Products	1.070	0.169	8.956	11.305	0.596
333	Petroleum	1.020	0.000	11.345	14.238	0.457
34	Gas	0.038	0.131	8.103	0.466	0.444
343	Natural Gas	0.000	0.000	6.332	0.000	0.454
4	Fats & Oils	11.668	2.465	0.292	0.003	0.839
5	Chemicals	0.904	0.273	0.152	0.003	1.507
54	Pharmaceuticals	0.025	0.100	0.067	0.002	1.887
55	Perfumes , Toiletries	0.289	0.346	0.438	0.013	1.734
56	Fertilizers	16.626	0.321	0.655	0.000	0.862
6	Material Manufactures	0.464	1.631	0.268	0.006	1.236
61	Leather	0.734	0.353	0.041	0.053	1.042
63	Wood Products	0.237	0.192	0.091	0.000	0.920
65	Textiles	1.035	3.462	0.193	0.005	1.017
66	Non-Metallic Mineral Products	0.874	1.295	0.315	0.004	1.233
67	Iron & Steel	0.259	3.165	0.106	0.001	1.337
68	Non-Ferrous Metals	0.104	0.500	0.945	0.006	1.052
69	Metal Products	0.364	0.715	0.251	0.006	1.277
7	Machinery & Equipment	0.216	0.229	0.087	0.004	0.985
72	Specialized Industrial Machinery	0.082	0.120	0.110	0.007	1.388
75	Office Machines & Computers	0.008	0.007	0.032	0.001	0.652

Revealed Comparative Advantage Of Mena Countries

In International Trade 94 - 96

CD	SITC \ COUNTRY	OIC	OLC
0	Food	0.821	1.108
00	Live Animal	0.856	0.804
01	Meat Products	1.077	0.581
02	Dairy Products	0.454	0.087
04	Cereals	1.645	0.470
041	Wheat	2.214	0.187
042	Rice	0.712	2.408
05	Vegetables & Fruits	0.573	1.301
054	Fresh Vegetables	0.524	1.050
057	Fresh Fruits	0.680	1.428
06	Sugar	0.553	1.600
07	Coffee , Tea & Spices	0.191	2.188
1	Beverages & Tobacco	0.728	0.477
2	Crude Materials	1.443	1.121
22	Oil Seeds	2.201	1.114
26	Textile Fibers	1.603	0.880
27	Crude Fertilizer	0.841	1.151
28	Metal Ores	1.367	1.387
3	Mineral Fuels	0.460	0.941
33	Petroleum & Petroleum Products	0.238	0.887
333	Petroleum	0.176	0.775
34	Gas	0.900	1.099
343	Natural Gas	1.047	1.459
4	Fats & Oils	0.509	1.910
5	Chemicals	0.876	0.443
54	Pharmaceuticals	0.580	0.225
55	Perfumes , Toiletries	0.684	0.324
56	Fertilizers	1.214	0.613
6	Material Manufactures	0.768	0.996
61	Leather	0.487	1.743
63	Wood Products	0.639	1.797
65	Textiles	0.493	1.668
66	Non-Metallic Mineral Products	0.540	0.957
67	Iron & Steel	0.759	0.859
68	Non-Ferrous Metals	1.010	1.043
69	Metal Products	0.910	0.816
7	Machinery & Equipment	1.388	0.793
72	Specialized Industrial Machinery	1.276	0.246
75	Office Machines & Computers	1.429	1.321

Revealed Comparative Advantage Of Mena Countries

In International Trade 94 - 96

CD	*SITC* \ *COUNTRY*	ALG	BHR	EGY	IRN	IRQ
76	Telecommunications Equipment	0.001	0.055	0.020	0.006	0.031
77	Electrical Machinery	0.002	0.084	0.024	0.007	0.070
78	Road Vehicles & Parts	0.004	0.359	0.023	0.004	0.035
8	Miscellaneous Manufactures	0.004	0.589	0.709	0.037	0.250
82	Furniture	0.001	0.211	0.499	0.015	0.071
83	Travel Goods	0.000	0.042	0.212	0.007	0.066
84	Clothing	0.001	1.146	2.129	0.050	0.748
85	Footwear	0.003	0.010	0.226	0.022	0.293
89	Miscellaneous Manufactures	0.008	0.771	0.208	0.057	0.086
9	Commodities Not Classified	4.348	0.517	0.410	0.190	0.084
	TOTAL	0.756	0.969	0.769	0.625	0.742

Revealed Comparative Advantage Of Mena Countries

In International Trade 94 - 96

CD	SITC \ COUNTRY	ISR	JOR	KWT	LBN	LBY
76	Telecommunications Equipment	1.735	0.069	0.028	0.106	0.000
77	Electrical Machinery	0.645	0.039	0.025	0.206	0.001
78	Road Vehicles & Parts	0.020	0.083	0.033	0.059	0.002
8	Miscellaneous Manufactures	0.987	0.413	0.026	1.605	0.004
82	Furniture	0.626	0.160	0.038	0.860	0.005
83	Travel Goods	0.084	0.033	0.005	0.489	0.001
84	Clothing	1.195	1.018	0.017	2.212	0.004
85	Footwear	0.155	0.291	0.005	1.389	0.001
89	Miscellaneous Manufactures	1.189	0.226	0.032	2.473	0.006
9	Commodities Not Classified	0.888	0.366	0.268	0.393	0.031
	TOTAL	0.979	0.954	0.709	0.933	0.629

Revealed Comparative Advantage Of Mena Countries

In International Trade 94 - 96

CD	*SITC* \ *COUNTRY*	MOR	OMN	QAT	SAU	SYR
76	Telecommunications Equipment	0.028	0.080	0.004	0.014	0.004
77	Electrical Machinery	0.769	0.033	0.008	0.033	0.007
78	Road Vehicles & Parts	0.033	0.343	0.012	0.010	0.002
8	Miscellaneous Manufactures	2.653	0.224	0.120	0.048	0.305
82	Furniture	0.054	0.186	0.010	0.018	0.081
83	Travel Goods	0.844	0.003	0.001	0.005	0.066
84	Clothing	9.319	0.552	0.373	0.007	1.006
85	Footwear	1.840	0.008	0.005	0.003	0.241
89	Miscellaneous Manufactures	0.165	0.052	0.058	0.074	0.063
9	Commodities Not Classified	0.099	0.095	0.129	0.064	0.0036
	TOTAL	0.926	0.653	0.649	0.669	0.665

Revealed Comparative Advantage Of Mena Countries

In International Trade 94 - 96

CD	*SITC* \ *COUNTRY*	TUN	TUR	UAE	YEM	EUR
76	Telecommunications Equipment	0.190	0.279	0.104	0.007	0.610
77	Electrical Machinery	0.659	0.331	0.037	0.001	0.708
78	Road Vehicles & Parts	0.056	0.249	0.116	0.001	1.229
8	Miscellaneous Manufactures	3.745	2.277	0.234	0.008	0.898
82	Furniture	0.196	0.439	0.101	0.000	1.249
83	Travel Goods	1.152	0.380	0.065	0.000	0.645
84	Clothing	12.914	8.155	0.487	0.005	0.630
85	Footwear	2.346	0.197	0.041	0.005	0.815
89	Miscellaneous Manufactures	0.168	0.268	0.200	0.005	0.973
9	Commodities Not Classified	0.166	0.295	0.489	0.063	1.092
	TOTAL	0.924	0.893	0.677	0.626	1.044

Revealed Comparative Advantage Of Mena Countries

In International Trade 94 - 96

CD	***SITC*** ***COUNTRY***	**OIC**	**OLC**
76	Telecommunications Equipment	1.189	1.643
77	Electrical Machinery	1.401	1.237
78	Road Vehicles & Parts	1.455	0.311
8	Miscellaneous Manufactures	0.731	1.621
82	Furniture	0.590	1.287
83	Travel Goods	0.103	2.899
84	Clothing	0.167	2.502
85	Footwear	0.061	2.643
89	Miscellaneous Manufactures	0.915	1.355
9	Commodities Not Classified	1.203	0.738
	TOTAL	1.041	0.947

APPENDIX C

Table 1. MenaTSM: Countries and Product Categories

Countries and Product Categories	Abbreviation
Countries and Regions	
Algeria	AL
Bahrain	BH
Egypt	EG
Iran	IN
Iraq	IR
Israel	IS
Jordan	JO
Kuwait	KW
Lebanon	LN
Libya	LY
Morocco	MO
Oman	OM
Qatar	QA
Saudi Arabia	SA
Syria	SY
Tunisia	TN
Turkey	TR
United Arab Emirates	UA
Yemen	YE
Western Europe/European Union	EU
Other Industrial Countries	OI
Other Less Developed Countries	OL
Middle East	ME
North Africa	NA
Gulf Countries	GC
All Countries and Regions	AR
Product Categories	
Primary Products	
Food (SITC 0)	FO
Beverages & Tobacco (SITC 1)	BT
Crude Materials (SITC 2)	CM
Mineral Fuels (SITC 3)	MF
Fats & Oils (SITC 4)	OF
Manufactures	
Chemicals (SITC 5)	CH
Material Manufactures (SITC 6)	MM
Machinery & Equipment (SITC 7)	ME
Miscellaneous Manufactures (SITC 8)	MC
Commodities and Transactions Not Classified (SITC 9)	OT
All Products	AP

Table 2. Tariffs and Nontariff Barriers

	Primary Products					Manufactures and Other Goods					Ref.
	FO	BT	CM	MF	OF	CH	MM	ME	MC	OT	Year
Tariffs and Para-Tariffs (percent) 1/											
Algeria	30.5	81.9	12.5	4.0	18.7	15.1	31.0	18.8	43.3	25.5	1993
Egypt	35.6	46.1	14.0	13.3	18.0	16.4	36.8	20.9	45.7	17.4	1995
Israel	2.2	10.2	1.9	1.1	3.2	0.8	6.4	7.0	19.3	0.0	1993
Morocco	86.7	73.2	31.0	29.6	47.5	50.0	70.5	55.3	85.3	17.1	1993
Oman	7.1	69.3	5.5	3.9	1.9	5.1	5.3	5.0	5.0	4.2	1992
Saudi Arabia	10.2	12.6	11.8	12.0	12.0	11.9	12.3	12.0	12.7	11.0	1994
Tunisia	38.3	42.7	21.1	11.8	30.3	21.2	32.2	26.4	34.9	36.3	1995
Turkey	24.1	61.9	16.3	21.0	22.0	22.6	20.1	16.6	28.8	1.2	1993
Other Mena Ctys 2/	22.6	34.3	12.8	10.1	18.6	15.1	20.5	16.3	24.2	13.4	...
European Union	8.8	22.3	1.4	1.0	7.3	7.4	7.0	5.0	8.1	1.6	1995
Other Industrial Ctys	7.7	7.0	1.1	1.5	4.7	4.4	8.3	5.6	10.5	2.0	1994-95
Other LDCs	22.6	34.3	12.8	10.1	18.6	15.1	20.5	16.3	24.2	13.4	1993-95
Frequency of Nontariff Barriers (percent)											
Algeria	96.6	66.7	0.0	0.0	61.2	1.0	2.0	0.0	0.0	0.0	1993
Morocco	0.0	0.0	0.3	0.0	0.0	0.0	8.0	3.9	5.5	0.0	1994
Oman	0.0	48.1	3.9	0.0	0.0	3.1	0.3	2.5	5.0	0.0	1992
Saudi Arabia	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1995
Tunisia	10.1	0.0	0.5	0.0	0.0	0.0	20.1	0.3	25.9	0.0	1992
Turkey	0.0	0.0	0.4	0.0	0.0	0.0	0.9	2.5	0.0	0.0	1994
Other Mena Ctys 2/	5.7	7.2	3.4	6.9	11.1	3.0	3.7	4.0	3.9	5.2	...
European Union	43.5	18.1	4.3	0.0	11.0	3.7	33.5	2.6	26.6	0.0	1993
Other Industrial Ctys	3.3	1.8	1.0	0.5	1.6	0.9	15.5	2.3	11.3	0.0	1993-95
Other LDCs	5.7	7.2	3.4	6.9	11.1	3.0	3.7	4.0	3.9	5.2	1993-95

Source: UNCTAD, *Trade Analysis and Information System*, Version 3.0, Fall 1995 (cd-rom), Geneva.

Notes: Product codes denote foods (FO), beverages and tobacco (BT), crude materials (CM), mineral fuels (MF), fats and oils (OF), chemicals (CH), material manufactures (MM), machinery and equipment (ME), miscellaneous manufactures (MC), and other goods and transactions (OT).

1/ Para-tariffs are customs surcharges, internal taxes on imports, decreed customs values, and other charges levied on imports that increase the cost of imports in a manner similar to ordinary import tariff measures.

2/ Based on values for other less developed countries.

Table 3. Own-Price Elasticities of Import Demand and Export Supply

Product Category	Import Demand	Export Supply
Primary Products		
Food	-0.75	0.75
Beverages and Tobacco	-0.75	0.75
Crude Materials	-0.75	0.50
Mineral Fuels	-0.50	0.50
Fats and Oils	-0.75	0.75
Manufactures		
Chemicals	-1.50	1.00
Material Manufactures	-1.50	1.00
Machinery and Equipment	-1.50	1.00
Miscellaneous Manufactures	-1.50	1.00
Commodities Not Classified	-1.50	1.00

Sources: Stern et al. (1976), Goldstein and Khan (1985), and authors' judgement.

Table 4. Mena Regional Integration Scenarios

Regional Integration Scenario	Arrangement Members	Internationally Competitive Sectors
1. Greater Arab Free Trade Area (GAFTA)	**Egypt**, Jordan, Kuwait, Morocco, Saudi Arabia, Syria, and Tunisia	Mineral Fuels, Misc. Manufactures
2. Gulf Cooperation Council-Egypt Free Trade Area (GCEG-FTA)	Bahrain, **Egypt**, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates	Mineral Fuels
3. Maghreb Union-Egypt Free Trade Area (MGEG-FTA)	Algeria, **Egypt**, Libya, Morocco, Tunisia	Mineral Fuels, Misc. Manufactures, Goods Not Classified
4. Mashreq-Egypt Free Trade Area (MSEG-FTA)	**Egypt**, Iran, Iraq, Israel, Jordan, Lebanon, Syria, Turkey, Yemen	Mineral Fuels, Misc. Manufactures
5. Mena-Wide Free Trade Area (MWEG-FTA)	Algeria, Bahrain, **Egypt**, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, Turkey, United Arab Emirates, Yemen	Mineral Fuels, Misc. Manufactures, Goods Not Classified
6. Mena-Wide Open Regionalism (MWEG-MFN)	Algeria, Bahrain, **Egypt**, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, Turkey, United Arab Emirates, Yemen	Mineral Fuels, Misc. Manufactures, Goods Not Classified

Table 5. Trade and Welfare Effects of Hypothetical Regional Integration Arrangements in Mena

	Major Mena Countries								Mena Regions			
	Egypt	Israel	Jordan	Kuwait	Morocco	Saudi Arabia	Tunisia	Turkey	Middle East	North Africa	Gulf Countries	All Regions
Change in Real Exports -- All Products (U.S.$ Thousands)												
GAFTA	464,208	1	154,452	277,930	456,574	875,306	330,777	1	282,000	1,251,559	1,153,238	2,686,817
GCEG-FTA	328,634	1	0	125,516	0	507,591	0	1	2	328,634	1,401,488	1,730,144
MGEG-FTA	521,209	1	0	0	448,933	1	355,037	1	2	1,924,955	3	1,924,979
MSEG-FTA	396,211	1,362,132	130,705	0	0	1	0	1,327,251	3,482,445	396,212	3	3,878,678
MWEG-FTA	397,617	1,408,301	135,465	280,102	434,059	928,254	325,591	1,413,879	3,593,222	1,728,314	2,472,659	7,794,214
MWEG-MFN	699,184	748,407	124,314	612,615	1,833,484	1,776,793	808,965	2,169,190	4,399,116	4,638,906	4,435,205	13,473,242
Percent Change in Real Exchange Rate (U.S.$/Local Currency)												
GAFTA	0.6	0.0	2.5	-3.1	5.2	1.9	1.7	0.0	…	…	…	…
GCEG-FTA	3.7	0.0	0.0	-0.7	0.0	2.1	0.0	0.0	…	…	…	…
MGEG-FTA	3.4	0.0	0.0	0.0	9.2	0.0	3.6	0.0	…	…	…	…
MSEG-FTA	-1.8	4.0	0.4	0.0	0.0	0.0	0.0	2.7	…	…	…	…
MWEG-FTA	-0.5	5.8	1.3	-3.7	3.4	0.8	0.3	3.8	…	…	…	…
MWEG-MFN	-16.4	-4.5	-12.4	-10.6	-23.9	-6.1	-14.6	-11.6	…	…	…	…
Trade Creation -- All Products (U.S.$ Thousands)												
GAFTA	340,594	1	193,058	59,852	1,083,529	1,245,115	497,149	3	341,944	1,921,272	1,304,969	3,568,203
GCEG-FTA	438,111	1	0	-63,222	0	735,307	0	3	4	438,111	1,808,677	2,246,811
MGEG-FTA	677,880	1	0	0	1,453,307	-2	672,061	3	4	2,806,072	0	2,806,094
MSEG-FTA	59,148	2,060,397	110,511	0	0	-2	0	2,228,258	4,635,744	59,148	0	4,694,910
MWEG-FTA	214,087	2,695,187	155,629	10,903	921,654	1,020,729	384,083	2,669,912	6,015,081	1,434,683	2,290,274	9,740,056
MWEG-MFN	699,184	748,408	124,314	612,613	1,833,484	1,776,781	808,965	2,169,194	4,399,118	4,638,903	4,435,188	13,473,242
Trade Diversion -- All Products (U.S $ Thousands)												
GAFTA	3,944,544	0	921,553	1,358,868	2,592,868	7,072,584	1,988,479	0	2,044,491	8,525,892	8,431,451	19,001,834
GCEG-FTA	3,077,863	0	0	1,229,696	0	6,508,294	0	0	0	3,077,863	13,082,596	16,160,459
MGEG-FTA	3,268,610	0	0	0	2,112,809	0	1,693,548	0	0	10,429,590	0	10,429,590
MSEG-FTA	4,637,965	11,882,603	1,117,833	0	0	0	0	10,358,814	30,189,606	4,637,965	0	34,827,571
MWEG-FTA	3,549,097	9,357,577	696,894	1,267,717	2,447,603	6,407,183	2,121,607	9,352,319	23,870,239	11,970,896	13,091,117	48,932,252
MWEG-MFN	0	0	0	0	0	0	0	0	0	0	0	0
Net Trade Creation -- All Products (U.S.$ Thousands)												
GAFTA	-3,603,950	1	-728,495	-1,299,015	-1,509,340	-5,827,468	-1,491,330	3	-1,702,547	-6,604,620	-7,126,482	-15,433,631
GCEG-FTA	-2,639,751	1	0	-1,292,917	0	-5,772,987	0	3	4	-2,639,751	-11,273,919	-13,913,648
MGEG-FTA	-2,590,729	1	0	0	-659,502	-2	-1,021,487	3	4	-7,623,518	0	-7,623,496
MSEG-FTA	-4,578,817	-9,822,206	-1,007,322	0	0	-2	0	-8,130,556	-25,553,863	-4,578,816	0	-30,132,661
MWEG-FTA	-3,335,010	-6,662,389	-541,266	-1,256,814	-1,525,949	-5,386,455	-1,737,524	-6,682,407	-17,855,157	-10,536,213	-10,800,843	-39,192,195
MWEG-MFN	699,184	748,408	124,314	612,613	1,833,484	1,776,781	808,965	2,169,194	4,399,118	4,638,903	4,435,188	13,473,242

Table 5 (Cont.). Trade and Welfare Effects of Hypothetical Regional Integration Arrangements in Mena

	Major Mena Countries								Mena Regions			
	Egypt	Israel	Jordan	Kuwait	Morocco	Saudi Arabia	Tunisia	Turkey	Middle East	North Africa	Gulf Countries	All Regions
Change in Producer Surplus -- All Products (U.S.$ Thousands)												
GAFTA	583,360	0	200,859	457,914	665,453	686,648	416,069	0	391,668	1,664,881	1,144,562	3,201,112
GCEG-FTA	354,555	0	0	171,736	0	192,841	0	0	0	354,555	1,013,740	1,368,295
MGEG-FTA	653,480	0	0	0	695,738	0	463,474	0	0	2,739,545	0	2,739,545
MSEG-FTA	510,342	1,509,481	168,472	0	0	0	0	1,686,138	4,247,744	510,342	0	4,758,086
MWEG-FTA	502,396	1,566,825	174,952	483,794	615,458	918,094	400,046	1,801,719	4,345,907	2,445,871	3,028,990	9,820,768
MWEG-MFN	1,038,404	793,856	155,137	1,227,768	2,404,757	3,202,243	942,504	2,493,600	5,865,791	6,816,980	7,915,342	20,598,113
Change in Consumer Surplus -- All Products (U.S.$ Thousands)												
GAFTA	311,134	0	201,285	11,303	1,341,994	941,151	550,586	0	332,178	2,203,714	952,453	3,488,346
GCEG-FTA	484,561	0	0	-55,009	0	596,186	0	0	0	484,561	1,559,529	2,044,089
MGEG-FTA	666,507	0	0	0	1,779,682	0	726,254	0	0	2,987,009	0	2,987,009
MSEG-FTA	5,864	1,543,803	119,407	0	0	0	0	2,418,357	4,246,259	5,864	0	4,252,123
MWEG-FTA	174,923	2,003,829	162,314	-34,221	1,144,532	748,730	430,554	2,811,769	5,385,561	1,474,355	1,676,428	8,536,344
MWEG-MFN	823,884	547,527	118,034	566,126	2,218,238	1,381,248	847,259	2,110,456	4,141,415	5,475,902	3,882,323	13,499,641
Forgone Tariff Revenue -- All Products (U.S.$ Thousands)												
GAFTA	-1,303,859	0	-240,173	-419,540	-2,496,875	-992,961	-745,765	0	-536,618	-4,546,499	-1,412,501	-6,495,618
GCEG-FTA	-1,085,602	0	0	-461,810	0	-1,002,234	0	0	0	-1,085,602	-3,361,696	-4,447,298
MGEG-FTA	-1,161,792	0	0	0	-2,164,840	0	-678,188	0	0	-5,149,154	0	-5,149,154
MSEG-FTA	-1,961,860	-693,903	-316,134	0	0	0	0	-2,562,051	-5,726,731	-1,961,860	0	-7,688,591
MWEG-FTA	-1,509,125	-519,434	-253,063	-522,511	-2,756,411	-1,060,425	-926,828	-2,444,003	-4,935,672	-6,744,496	-3,540,541	-15,220,709
MWEG-MFN	0	0	0	0	0	0	0	0	0	0	0	0
Change in Economic Welfare -- All Products (U.S.$ Thousands)												
GAFTA	-409,365	0	161,970	49,676	-489,429	634,838	220,890	0	187,228	-677,903	684,514	193,840
GCEG-FTA	-246,486	0	0	-345,083	0	-213,207	0	0	0	-246,486	-788,428	-1,034,914
MGEG-FTA	158,195	0	0	0	310,580	0	511,540	0	0	577,399	0	577,399
MSEG-FTA	-1,445,654	2,359,380	-28,255	0	0	0	0	1,542,444	2,767,272	-1,445,654	0	1,321,618
MWEG-FTA	-831,805	3,051,220	84,204	-72,937	-996,421	606,399	-96,228	2,169,485	4,795,796	-2,824,270	1,164,878	3,136,404
MWEG-MFN	1,862,288	1,341,383	273,171	1,793,894	4,622,994	4,583,491	1,789,763	4,604,056	10,007,206	12,292,882	11,797,665	34,097,754

Source: Simulations of MenaTSM.

Notes: Hypothetical regional integration arrangements are Greater Arab Free Trade Area (GAFTA), Gulf Cooperation Council-Egypt Free Trade Area (GCEG-FTA), Magreb Union-Egypt Free Trade Area (MGEG-FTA), Mashreq-Egypt Free Trade Area (MSEG-FTA), Mena-Wide Free Trade Area (MWEG-FTA), and Mena-Wide Open Regionalism (MWEG-MFN).

Table 6. Egypt: Trade and Welfare Effects under Hypothetical Regional Integration Arrangements

	Regional Integration Arrangement					
	GAFTA	GCEG-FTA	MGEG-FTA	MSEG-FTA	MWEG-FTA	MWEG-MFN
Change in Real Exports (U.S.$ Thousands)						
Food	106,474	62,565	128,871	95,566	95,757	74,265
Bevs. & Tobacco	2,792	2,676	3,983	3,210	3,259	1,537
Crude Materials	22,293	11,074	19,825	19,676	19,645	24,612
Mineral Fuels	-5,846	-38,000	-34,671	19,336	5,343	197,016
Fats & Oils	413	220	371	380	379	358
Chemicals	35,316	18,162	36,867	32,413	31,971	37,021
Material Manufs.	271,544	154,873	354,024	187,607	213,709	205,507
Machinery & Equip.	27,557	15,268	33,604	23,634	24,183	28,916
Misc. Manufs.	-3,324	97,731	-19,576	11,059	3,046	117,427
All Products	464,208	328,634	521,209	396,211	397,617	699,184
Percent Change in Real Exchange Rate (U.S.$/LE)						
All Products	0.6	3.7	3.4	-1.8	-0.5	-16.4
Trade Creation (U.S.$ Thousands)						
Food	9,700	64,239	58,497	-31,622	-8,809	227,306
Bevs. & Tobacco	534	3,537	3,221	-1,742	-485	20,494
Crude Materials	3,187	21,111	19,223	-10,387	-2,894	-27,082
Mineral Fuels	9,163	11,419	11,183	7,442	8,393	-3,665
Fats & Oils	1,489	9,857	8,977	-4,858	-1,353	-3,669
Chemicals	10,967	73,484	66,835	-35,437	-9,920	-52,771
Material Manufs.	14,336	96,034	87,346	-46,323	-12,966	378,643
Machinery & Equip.	20,677	138,508	125,977	-66,820	-18,704	38,905
Misc. Manufs.	270,541	19,916	296,590	248,896	260,799	121,026
All Products	340,594	438,111	677,880	59,148	214,087	699,184
Trade Diversion (U.S.$ Thousands)						
Food	1,057,617	467,309	992,752	1,751,497	1,174,496	0
Bevs. & Tobacco	15,698	60,881	18,816	88,170	73,879	0
Crude Materials	642,936	354,102	457,535	463,613	475,340	0
Mineral Fuels	0	0	0	0	0	0
Fats & Oils	225,639	66,803	147,021	122,125	147,416	0
Chemicals	1,251,715	1,130,381	573,429	330,422	683,256	0
Material Manufs.	439,658	565,350	552,293	1,322,537	900,386	0
Machinery & Equip.	311,247	286,598	335,863	533,804	428,403	0
Misc. Manufs.	0	120,838	0	0	0	0
All Products	3,944,544	3,052,306	3,077,710	4,612,244	3,883,176	0
Net Trade Creation (U.S.$ Thousands)						
Food	-1,047,917	-403,070	-934,255	-1,783,119	-1,183,305	227,306
Bevs. & Tobacco	-15,164	-57,344	-15,595	-89,911	-74,364	20,494
Crude Materials	-639,750	-332,991	-438,311	-474,000	-478,234	-27,082
Mineral Fuels	9,163	11,419	11,183	7,442	8,393	-3,665
Fats & Oils	-224,149	-56,946	-138,045	-126,983	-148,768	-3,669
Chemicals	-1,240,748	-1,056,897	-506,595	-365,859	-693,176	-52,771
Material Manufs.	-425,323	-469,316	-464,948	-1,368,860	-913,352	378,643
Machinery & Equip.	-290,570	-148,090	-209,886	-600,624	-447,107	38,905
Misc. Manufs.	270,541	-100,922	296,590	248,896	260,799	121,026
All Products	-3,603,950	-2,614,195	-2,399,829	-4,553,096	-3,669,089	699,184

Table 6 (Cont.). Egypt: Trade and Welfare Effects under Hypothetical Regional Integration Arrangements

	Regional Integration Arrangement					
	GAFTA	GCEG-FTA	MGEG-FTA	MSEG-FTA	MWEG-FTA	MWEG-MFN
Change in Producer Surplus (U.S.$ Thousands)						
Food	161,935	90,254	201,210	143,474	143,793	108,673
Bevs. & Tobacco	4,389	4,180	6,683	5,165	5,259	2,249
Crude Materials	48,481	23,097	42,722	42,378	42,306	53,986
Mineral Fuels	-11,660	-74,634	-68,204	39,028	10,714	432,152
Fats & Oils	612	311	544	559	558	524
Chemicals	38,624	19,037	40,473	35,200	34,683	40,657
Material Manufs.	306,784	166,335	413,922	204,428	235,535	225,691
Machinery & Equip.	30,136	16,060	37,440	25,531	26,169	31,756
Misc. Manufs.	-3,315	105,720	-19,256	11,161	3,054	128,960
All Products	583,360	354,555	653,480	510,342	502,396	1,038,404
Change in Consumer Surplus (U.S.$ Thousands)						
Food	18,546	120,933	110,303	-61,186	-16,931	409,255
Bevs. & Tobacco	1,118	7,290	6,649	-3,689	-1,021	38,905
Crude Materials	5,000	32,616	29,748	-16,494	-4,565	-43,653
Mineral Fuels	20,895	25,641	25,150	17,174	19,242	-9,166
Fats & Oils	2,628	17,129	15,624	-8,676	-2,400	-6,539
Chemicals	8,749	57,717	52,580	-28,610	-7,957	-42,799
Material Manufs.	13,539	89,294	81,348	-44,272	-12,310	334,877
Machinery & Equip.	17,311	114,172	104,013	-56,617	-15,744	32,493
Misc. Manufs.	223,347	19,764	241,069	208,236	216,590	110,514
All Products	311,134	484,561	666,507	5,864	174,923	823,884
Forgone Tariff Revenue (U.S.$ Thousands)						
Food	-517,177	-232,214	-485,865	-852,138	-573,599	0
Bevs. & Tobacco	-13,820	-44,251	-15,919	-62,630	-53,005	0
Crude Materials	-104,397	-58,299	-74,807	-75,777	-77,649	0
Mineral Fuels	0	0	0	0	0	0
Fats & Oils	-48,068	-14,331	-31,370	-26,082	-31,454	0
Chemicals	-264,077	-240,915	-134,595	-88,206	-155,561	0
Material Manufs.	-269,778	-333,054	-326,481	-714,240	-501,719	0
Machinery & Equip.	-86,535	-80,307	-92,755	-142,771	-116,138	0
Misc. Manufs.	0	-82,222	0	0	0	0
All Products	-1,303,859	-1,085,602	-1,161,792	-1,961,860	-1,509,125	0
Change in Economic Welfare (U.S.$ Thousands)						
Food	-336,696	-21,027	-174,352	-769,850	-446,738	517,927
Bevs. & Tobacco	-8,312	-32,781	-2,587	-61,155	-48,767	41,154
Crude Materials	-50,916	-2,587	-2,338	-49,893	-39,908	10,333
Mineral Fuels	9,235	-48,992	-43,054	56,202	29,955	422,987
Fats & Oils	-44,828	3,109	-15,202	-34,199	-33,296	-6,015
Chemicals	-216,704	-164,161	-41,542	-81,616	-128,834	-2,142
Material Manufs.	50,545	-77,425	168,789	-554,084	-278,494	560,568
Machinery & Equip.	-39,088	49,926	48,697	-173,856	-105,713	64,249
Misc. Manufs.	220,032	43,262	221,813	219,397	219,644	239,473
All Products	-409,365	-246,486	158,195	-1,445,654	-831,805	1,862,288

Source: Simulations of MenaTSM.

Notes: Hypothetical regional integration arrangements are Greater Arab Free Trade Area (GAFTA), Gulf Cooperation Council-Egypt Free Trade Area (GCEG-FTA), Magreb Union-Egypt Free Trade Area (MGEG-FTA), Mashreq-Egypt Free Trade Area (MSEG-FTA), Mena-Wide Free Trade Area (MWEG-FTA), and Mena-Wide Open Regionalism (MWEG-MFN).

Appendix C, Table 7-1

Greater Arab Free Trade Area

AFTZ	EG	JO	KW	MO	SA	SY	TN	ME	NA	GC	AR
Change in Real Exports ($Th)											
FO	106,474	27,100	7,816	279,716	89,529	90,815	44,673	117,915	430,864	97,345	646,150
BT	2,792	1,665	590	1,989	6,120	1,694	3,460	3,359	8,241	6,710	18,312
CM	22,293	11,068	6,595	44,325	23,554	27,857	9,406	38,925	76,024	30,149	145,111
MF	-5,846	-1	148,695	-1,632	-380,826	-20,879	-2,602	-20,880	-10,081	-232,130	-263,093
OF	413	22,221	717	2,770	3,100	1,818	52,607	24,039	55,790	3,817	83,646
CH	35,316	57,835	32,433	95,776	695,645	2,487	86,372	60,322	217,464	728,079	1,005,903
MM	271,544	26,282	27,041	79,290	264,349	19,926	97,887	46,209	448,721	291,390	786,279
ME	27,557	8,871	38,553	77,965	171,524	7,218	81,800	16,090	187,321	210,077	413,480
MC	-3,324	-1,442	1,553	-124,692	-8,407	-3,818	-45,004	-5,259	-173,020	-6,854	-185,144
OT	6,989	851	13,937	1,067	10,718	429	2,178	1,280	10,234	24,656	36,173
AP	464,208	154,452	277,930	456,574	875,306	127,546	330,777	282,000	1,251,559	1,153,238	2,686,817
% Change in Exchange Rate ($/Lc)											
AP	0.6	2.5	-3.1	5.2	1.9	1.9	1.7	0.0	0.0	0.0	0.0
Real Trade Creation ($Th)											
FO	9,700	9,982	-23,287	37,165	45,545	8,801	6,332	18,782	53,197	22,258	94,255
BT	534	285	-2,116	3,530	2,583	389	719	674	4,784	467	5,925
CM	3,187	1,882	-2,334	23,094	7,164	1,331	4,147	3,212	30,428	4,830	38,467
MF	9,163	26,170	1,368	166,409	3,551	2,304	35,964	28,475	211,535	4,920	244,897
OF	1,489	2,069	-817	7,170	2,632	594	1,489	2,663	10,148	1,815	14,626
CH	10,967	15,079	-24,834	69,716	68,823	11,895	15,351	26,974	96,034	43,989	167,028
MM	14,336	20,168	-64,550	98,275	138,231	28,862	39,768	49,029	152,379	73,681	275,129
ME	20,677	31,255	-134,445	144,539	271,289	36,917	50,044	68,179	215,260	136,844	420,255
MC	270,541	84,684	312,835	533,629	677,733	57,779	342,921	142,463	1,147,090	990,568	2,280,115
OT	1	1,483	-1,968	1	27,565	10	414	1,493	416	25,597	27,506
AP	340,594	193,058	59,852	1,083,529	1,245,115	148,883	497,149	341,944	1,921,272	1,304,969	3,568,203
Real Trade Diversion ($Th)											
FO	1,057,617	188,433	252,942	420,344	1,154,000	245,566	219,929	434,000	1,697,890	1,406,942	3,538,832
BT	15,698	1,778	214	12,847	22,961	4,130	8,562	5,907	37,107	23,176	66,190
CM	642,936	58,821	71,930	441,363	417,347	79,603	247,204	138,424	1,331,503	489,276	1,959,204
MF	0	0	0	0	0	0	0	0	0	0	0
OF	225,639	63,157	17,223	107,956	103,703	22,438	67,617	85,595	401,211	120,926	607,733
CH	1,251,715	372,884	451,701	927,134	2,421,343	377,560	594,582	750,445	2,773,432	2,873,043	6,396,920
MM	439,658	118,015	188,242	415,700	1,361,788	223,701	581,535	341,716	1,436,893	1,550,031	3,328,640
ME	311,247	105,063	362,583	267,519	1,274,583	170,083	263,576	275,145	842,341	1,637,166	2,754,653
MC	0	0	0	0	0	0	0	0	0	0	0
OT	34	13,401	14,033	5	316,858	-143	5,475	13,258	5,514	330,891	349,663
AP	3,944,544	921,553	1,358,868	2,592,868	7,072,584	1,122,939	1,988,479	2,044,491	8,525,892	8,431,451	19,001,834

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Greater Arab Free Trade Area

AFTZ	EG	JO	KW	MO	SA	SY	TN	ME	NA	GC	AR
Net Real Trade Creation ($Th)											
FO	-1,047,917	-178,451	-276,229	-383,179	-1,108,455	-236,766	-213,597	-415,217	-1,644,693	-1,384,684	-3,444,576
BT	-15,164	-1,493	-2,331	-9,317	-20,378	-3,740	-7,842	-5,233	-32,324	-22,709	-60,266
CM	-639,750	-56,940	-74,263	-418,268	-410,183	-78,272	-243,057	-135,212	-1,301,075	-484,446	-1,920,737
MF	9,163	26,170	1,368	166,409	3,551	2,304	35,964	28,475	211,535	4,920	244,897
OF	-224,149	-61,088	-18,040	-100,786	-101,071	-21,844	-66,128	-82,932	-391,063	-119,111	-593,106
CH	-1,240,748	-357,805	-476,535	-857,418	-2,352,520	-365,665	-579,231	-723,470	-2,677,398	-2,829,054	-6,229,891
MM	-425,323	-97,847	-252,792	-317,425	-1,223,557	-194,839	-541,767	-292,687	-1,284,514	-1,476,350	-3,053,512
ME	-290,570	-73,808	-497,028	-122,979	-1,003,295	-133,165	-213,532	-206,967	-627,081	-1,500,322	-2,334,398
MC	270,541	84,684	312,835	533,629	677,733	57,779	342,921	142,463	1,147,090	990,568	2,280,115
OT	-33	-11,919	-16,001	-4	-289,293	154	-5,061	-11,765	-5,098	-305,294	-322,157
AP	-3,603,950	-728,495	-1,299,015	-1,509,340	-5,827,468	-974,056	-1,491,330	-1,702,547	-6,604,620	-7,126,482	-15,433,631
Change in Producer Surplus ($Th)											
FO	161,935	40,781	12,135	415,078	135,181	137,136	67,529	177,916	644,543	147,316	969,776
BT	4,389	2,590	947	3,050	9,551	2,644	5,407	5,234	12,845	10,498	28,577
CM	48,481	23,828	14,627	94,155	50,871	60,170	20,337	83,998	162,973	65,498	312,470
MF	-11,660	-2	302,132	-3,184	-754,576	-41,374	-5,161	-41,375	-20,005	-452,444	-513,824
OF	612	32,622	1,085	4,011	4,566	2,678	77,574	35,300	82,197	5,651	123,149
CH	38,624	62,597	36,199	102,251	755,427	2,701	93,899	65,298	234,774	791,626	1,091,698
MM	306,784	29,377	31,193	87,386	296,480	22,350	109,910	51,726	504,079	327,674	883,479
ME	30,136	9,601	43,025	83,228	186,248	7,839	88,921	17,440	202,285	229,274	448,999
MC	-3,315	-1,424	1,578	-121,620	-8,329	-3,782	-44,633	-5,207	-169,567	-6,751	-181,525
OT	7,372	889	14,993	1,099	11,228	449	2,284	1,338	10,756	26,221	38,315
AP	583,360	200,859	457,914	665,453	686,648	190,809	416,069	391,668	1,664,881	1,144,562	3,201,112
Change in Consumer Surplus ($Th)											
FO	18,546	17,090	-41,007	90,200	66,698	15,114	12,881	32,205	121,627	25,691	179,522
BT	1,118	542	-4,149	7,949	3,842	744	1,357	1,287	10,424	-307	11,403
CM	5,000	2,893	-3,691	39,448	10,579	2,052	6,673	4,945	51,122	6,889	62,956
MF	20,895	58,264	3,133	369,436	7,446	5,146	75,423	63,410	465,753	10,580	539,743
OF	2,628	3,635	-1,476	13,749	3,893	1,047	2,565	4,682	18,942	2,418	26,042
CH	8,749	11,781	-19,955	67,963	50,862	9,323	12,301	21,104	89,013	30,906	141,023
MM	13,539	16,615	-54,698	118,368	102,521	23,854	43,502	40,470	175,410	47,824	263,703
ME	17,311	24,929	-110,297	151,805	200,671	29,539	41,946	54,469	211,061	90,374	355,904
MC	223,347	64,367	245,036	483,075	474,431	44,066	353,566	108,432	1,059,988	719,467	1,887,886
OT	1	1,168	-1,595	1	20,207	8	373	1,176	374	18,613	20,163
AP	311,134	201,285	11,303	1,341,994	941,151	130,894	550,586	332,178	2,203,714	952,453	3,488,346

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Greater Arab Free Trade Area

AFTZ	EG	JO	KW	MO	SA	SY	TN	ME	NA	GC	AR
Forgone Tariff Revenue ($Th)											
FO	-517,177	-68,934	-124,572	-703,268	-160,556	-81,309	-130,539	-150,244	-1,350,985	-285,128	-1,786,357
BT	-13,820	-1,136	-6,548	-17,909	-3,910	-2,080	-5,251	-3,216	-36,980	-10,458	-50,653
CM	-104,397	-12,584	-12,085	-209,331	-56,086	-11,907	-70,970	-24,491	-384,698	-68,171	-477,361
MF	0	0	0	0	0	0	0	0	0	0	0
OF	-48,068	-15,645	-4,790	-76,178	-14,303	-6,008	-26,696	-21,654	-150,942	-19,092	-191,688
CH	-264,077	-75,132	-93,848	-730,124	-337,270	-79,110	-162,893	-154,242	-1,157,094	-431,118	-1,742,454
MM	-269,778	-42,324	-102,775	-525,991	-206,759	-80,850	-256,811	-123,174	-1,052,580	-309,534	-1,485,288
ME	-86,535	-22,301	-72,789	-234,073	-174,389	-35,161	-89,895	-57,462	-410,503	-247,178	-715,143
MC	0	0	0	0	0	0	0	0	0	0	0
OT	-7	-2,117	-2,133	-1	-39,688	-20	-2,709	-2,136	-2,717	-41,821	-46,674
AP	-1,303,859	-240,173	-419,540	-2,496,875	-992,961	-296,445	-745,765	-536,618	-4,546,499	-1,412,501	-6,495,618
Change in Economic Welfare ($Th)											
FO	-336,696	-11,063	-153,444	-197,990	41,323	70,941	-50,129	59,877	-584,815	-112,121	-637,059
BT	-8,312	1,996	-9,749	-6,911	9,482	1,308	1,512	3,304	-13,711	-267	-10,673
CM	-50,916	14,137	-1,149	-75,728	5,365	50,316	-43,960	64,452	-170,603	4,216	-101,935
MF	9,235	58,263	305,266	366,251	-747,130	-36,228	70,262	22,035	445,748	-441,864	25,919
OF	-44,828	20,612	-5,180	-58,418	-5,843	-2,284	53,444	18,328	-49,802	-11,023	-42,498
CH	-216,704	-754	-77,605	-559,910	469,019	-67,087	-56,693	-67,840	-833,307	391,414	-509,734
MM	50,545	3,668	-126,280	-320,237	192,242	-34,646	-103,399	-30,978	-373,091	65,963	-338,106
ME	-39,088	12,230	-140,061	960	212,531	2,217	40,971	14,447	2,843	72,469	89,760
MC	220,032	62,943	246,614	361,455	466,102	40,283	308,933	103,226	890,420	712,716	1,706,361
OT	7,366	-60	11,265	1,099	-8,253	438	-52	377	8,413	3,013	11,803
AP	-409,365	161,970	49,676	-489,429	634,838	25,258	220,890	187,228	-677,903	684,514	193,840

Appendix C, Table 7-2

GCC-Egypt Free Trade Area

GCEG	BH	EG	KW	OM	QA	SA	UA	ME	NA	GC	AR
Change in Real Exports ($Th)											
FO	1,766	62,565	5,145	18,293	547	61,803	58,414	0	62,565	145,967	208,557
BT	591	2,676	579	28,602	8	6,514	60,113	0	2,676	96,407	99,085
CM	1,664	11,074	4,072	1,616	298	15,207	7,442	0	11,074	30,298	41,386
MF	-19,646	-38,000	31,573	-73,557	-41,515	-429,298	-156,675	0	-38,000	-689,118	-727,121
OF	2,141	220	449	1,537	4	2,030	4,473	0	220	10,634	10,855
CH	7,309	18,162	20,228	4,088	23,706	458,917	49,545	0	18,162	563,793	581,994
MM	85,009	154,873	17,502	18,384	34,358	180,350	200,368	1	154,873	535,972	690,804
ME	6,743	15,268	25,340	49,484	3,145	120,732	120,309	0	15,268	325,753	341,014
MC	17,837	97,731	10,437	43,691	15,318	82,290	162,125	0	97,732	331,697	429,418
OT	494	4,065	10,190	1,391	1,285	9,045	27,678	0	4,065	50,083	54,152
AP	103,907	328,634	125,516	93,528	37,155	507,591	533,792	2	328,634	1,401,488	1,730,144
% Change in Exchange Rate ($/Lc)											
AP	8.2	3.7	-0.7	3.3	2.8	2.1	2.1	0.0	0.0	0.0	0.0
Real Trade Creation ($Th)											
FO	17,393	64,239	-5,019	13,386	4,891	51,419	23,032	-1	64,239	105,101	169,357
BT	3,379	3,537	-456	2,857	491	2,916	4,167	0	3,537	13,353	16,891
CM	11,112	21,111	-503	2,346	1,321	8,088	4,377	0	21,111	26,741	47,848
MF	4,649	11,419	1,903	1,808	734	3,618	16,091	0	11,419	28,803	40,189
OF	1,686	9,857	-176	800	190	2,971	1,661	0	9,857	7,132	16,989
CH	21,786	73,484	-5,402	13,282	5,436	77,769	43,427	-1	73,484	156,299	229,813
MM	63,150	96,034	-14,039	32,022	16,600	156,200	149,391	-1	96,035	403,323	499,396
ME	98,466	138,508	-29,239	84,645	29,783	306,555	257,389	6	138,507	747,599	886,084
MC	38,227	19,916	-9,861	13,673	9,274	94,623	115,788	0	19,917	261,723	281,633
OT	1,331	5	-428	15,649	11	31,148	10,892	0	5	58,604	58,610
AP	261,179	438,111	-63,222	180,468	68,730	735,307	626,215	4	438,111	1,808,677	2,246,811
Real Trade Diversion ($Th)											
FO	1,642	467,309	4,334	88,383	2,153	354,203	134,708	0	467,309	585,423	1,052,732
BT	23,141	60,881	31,318	104,578	9,908	81,926	130,283	0	60,881	381,155	442,036
CM	87,117	354,102	34,762	44,996	29,046	224,774	101,041	0	354,102	521,736	875,837
MF	0	0	0	0	0	0	0	0	0	0	0
OF	4,315	66,803	1,957	3,136	493	28,420	16,237	0	66,803	54,559	121,362
CH	131,575	1,130,381	399,922	221,623	104,328	2,105,412	1,072,041	0	1,130,381	4,034,902	5,165,283
MM	144,009	565,350	281,254	187,607	109,878	1,638,452	1,544,291	0	565,350	3,905,490	4,470,840
ME	88,032	286,598	331,784	180,962	79,244	1,132,859	864,256	0	286,598	2,677,137	2,963,735
MC	103,987	120,838	273,151	89,451	62,543	904,958	1,182,175	0	120,838	2,616,265	2,737,104
OT	4,436	45	18,542	136,591	111	407,903	153,427	0	45	721,010	721,055
AP	588,255	3,052,306	1,377,024	1,057,327	397,705	6,878,908	5,198,459	0	3,052,306	15,497,677	18,549,984

Appendix C, Table 7-2

GCC-Egypt Free Trade Area

GCEG	BH	EG	KW	OM	QA	SA	UA	ME	NA	GC	AR
Net Real Trade Creation ($Th)											
FO	15,752	-403,070	-9,353	-74,998	2,737	-302,784	-111,676	-1	-403,069	-480,322	-883,375
BT	-19,763	-57,344	-31,775	-101,721	-9,417	-79,010	-126,116	0	-57,344	-367,802	-425,145
CM	-76,005	-332,991	-35,265	-42,650	-27,725	-216,686	-96,664	0	-332,991	-494,995	-827,989
MF	4,649	11,419	1,903	1,808	734	3,618	16,091	0	11,419	28,803	40,189
OF	-2,630	-56,946	-2,133	-2,336	-304	-25,449	-14,575	0	-56,946	-47,427	-104,373
CH	-109,789	-1,056,897	-405,324	-208,341	-98,892	-2,027,643	-1,028,614	-1	-1,056,897	-3,878,603	-4,935,470
MM	-80,859	-469,316	-295,293	-155,585	-93,278	-1,482,252	-1,394,900	-1	-469,315	-3,502,167	-3,971,443
ME	10,434	-148,090	-361,023	-96,317	-49,461	-826,304	-606,867	6	-148,090	-1,929,539	-2,077,651
MC	-65,760	-100,922	-283,012	-75,779	-53,269	-810,334	-1,066,388	0	-100,922	-2,354,542	-2,455,471
OT	-3,105	-39	-18,970	-120,942	-100	-376,755	-142,534	0	-39	-662,406	-662,445
AP	-327,076	-2,614,195	-1,440,246	-876,859	-328,974	-6,143,600	-4,572,245	4	-2,614,195	-13,689,000	-16,303,173
Change in Producer Surplus ($Th)											
FO	2,491	90,254	7,597	26,444	793	89,890	84,962	0	90,254	212,177	302,431
BT	901	4,180	927	44,778	13	10,265	94,721	0	4,180	151,605	155,785
CM	3,396	23,097	8,684	3,377	625	31,968	15,645	0	23,097	63,695	86,791
MF	-37,794	-74,634	63,360	-144,753	-81,900	-849,608	-310,075	0	-74,634	-1,360,770	-1,435,404
OF	2,959	311	648	2,176	5	2,892	6,371	0	311	15,052	15,364
CH	7,495	19,037	21,693	4,294	24,965	484,934	52,354	0	19,037	595,736	614,773
MM	89,281	166,335	19,242	19,787	37,079	195,305	216,987	0	166,335	577,682	744,017
ME	6,939	16,060	27,272	52,159	3,324	128,028	127,581	0	16,060	345,302	361,362
MC	18,865	105,720	11,558	47,363	16,651	89,760	176,844	0	105,720	361,041	466,761
OT	499	4,195	10,755	1,438	1,333	9,408	28,789	0	4,195	52,221	56,416
AP	95,033	354,555	171,736	57,064	2,888	192,841	494,178	0	354,555	1,013,740	1,368,295
Change in Consumer Surplus ($Th)											
FO	28,983	120,933	-8,729	18,806	8,362	75,209	39,504	0	120,933	162,134	283,067
BT	6,267	7,290	-883	12,226	934	4,332	7,956	0	7,290	30,832	38,122
CM	16,630	32,616	-786	3,379	2,029	11,929	6,743	0	32,616	39,925	72,540
MF	10,076	25,641	4,303	3,626	1,633	7,577	35,891	0	25,641	63,106	88,748
OF	2,882	17,129	-314	1,070	333	4,390	2,924	0	17,129	11,285	28,414
CH	16,560	57,717	-4,288	9,448	4,241	57,404	33,993	0	57,717	117,359	175,076
MM	50,620	89,294	-11,751	22,181	13,658	115,709	123,310	0	89,294	313,726	403,020
ME	76,416	114,172	-23,694	59,785	23,724	226,484	205,691	0	114,172	568,405	682,577
MC	31,648	19,764	-8,524	9,911	7,881	70,345	98,714	0	19,764	209,974	229,739
OT	1,020	4	-342	10,694	8	22,806	8,595	0	4	42,782	42,786
AP	241,104	484,561	-55,009	151,126	62,802	596,186	563,320	0	484,561	1,559,529	2,044,089

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GCC-Egypt Free Trade Area

GCEG	BH	EG	KW	OM	QA	SA	UA	ME	NA	GC	AR
Forgone Tariff Revenue ($Th)											
FO	-16,977	-232,214	-55,689	-8,061	-13,415	-70,656	-82,290	0	-232,214	-247,087	-479,301
BT	-13,599	-44,251	-20,876	-124,177	-5,553	-12,276	-61,406	0	-44,251	-237,887	-282,138
CM	-13,064	-58,299	-6,718	-2,653	-4,363	-30,681	-18,829	0	-58,299	-76,310	-134,609
MF	0	0	0	0	0	0	0	0	0	0	0
OF	-1,196	-14,331	-1,422	-106	-379	-4,185	-4,322	0	-14,331	-11,610	-25,941
CH	-31,068	-240,915	-84,849	-13,697	-21,380	-295,200	-221,947	0	-240,915	-668,141	-909,056
MM	-51,332	-333,054	-125,751	-13,319	-37,224	-244,975	-435,336	0	-333,054	-907,938	-1,240,992
ME	-20,457	-80,307	-66,951	-11,240	-17,071	-155,341	-191,725	0	-80,307	-462,785	-543,092
MC	-34,025	-82,222	-96,735	-5,037	-22,773	-138,116	-369,500	0	-82,222	-666,186	-748,408
OT	-795	-9	-2,819	-5,988	-18	-50,804	-23,330	0	-9	-83,753	-83,762
AP	-182,514	-1,085,602	-461,810	-184,278	-122,175	-1,002,234	-1,408,685	0	-1,085,602	-3,361,696	-4,447,298
Change in Economic Welfare ($Th)											
FO	14,497	-21,027	-56,822	37,189	-4,260	94,444	42,176	0	-21,027	127,224	106,197
BT	-6,430	-32,781	-20,831	-67,172	-4,607	2,321	41,270	0	-32,781	-55,450	-88,231
CM	6,962	-2,587	1,180	4,102	-1,710	13,216	3,560	0	-2,587	27,310	24,723
MF	-27,718	-48,992	67,663	-141,127	-80,267	-842,031	-274,184	0	-48,992	-1,297,664	-1,346,656
OF	4,645	3,109	-1,088	3,140	-41	3,097	4,974	0	3,109	14,728	17,837
CH	-7,013	-164,161	-67,444	45	7,827	247,138	-135,600	0	-164,161	44,954	-119,207
MM	88,569	-77,425	-118,261	28,649	13,513	66,040	-95,040	0	-77,425	-16,531	-93,955
ME	62,898	49,926	-63,373	100,704	9,976	199,170	141,546	0	49,926	450,922	500,847
MC	16,488	43,262	-93,701	52,237	1,759	21,988	-93,942	0	43,262	-95,171	-51,908
OT	724	4,190	7,594	6,145	1,323	-18,590	14,054	0	4,190	11,250	15,440
AP	153,623	-246,486	-345,083	23,912	-56,486	-213,207	-351,187	0	-246,486	-788,428	-1,034,914

Appendix C, Table 7-3

Maghreb-Egypt Free Trade Area

MGEG	AL	EG	LY	MO	TN	ME	NA	GC	AR
Change in Real Exports ($Th)									
FO	10,526	128,871	5,763	335,625	56,401	0	537,187	0	537,212
BT	4,943	3,983	83	2,879	5,114	0	17,003	0	17,005
CM	7,159	19,825	2,963	33,941	8,874	0	72,761	0	72,775
MF	204,503	-34,671	42,714	-2,814	-5,481	0	204,251	2	204,250
OF	7	371	4	2,240	49,595	0	52,216	0	52,217
CH	25,906	36,867	94,788	93,576	95,777	0	346,914	0	346,953
MM	52,639	354,024	62,925	103,786	133,786	1	707,161	0	707,121
ME	11,081	33,604	3,573	94,130	106,116	0	248,505	0	248,497
MC	362	-19,576	70	-212,955	-94,371	0	-326,471	0	-326,482
OT	69,655	-2,088	111	-1,475	-775	0	65,427	0	65,430
AP	386,782	521,209	212,994	448,933	355,037	2	1,924,955	3	1,924,979
% Change in Exchange Rate ($/Lc)									
AP	-4.3	3.4	-1.0	9.2	3.6	0.0	0.0	0.0	0.0
Real Trade Creation ($Th)									
FO	-2,896	58,497	-6,322	65,575	13,486	-1	128,341	0	128,358
BT	-624	3,221	-97	6,229	1,533	0	10,261	0	10,262
CM	-11,374	19,223	-505	40,747	8,838	0	56,929	0	56,926
MF	-236	11,183	8,499	188,280	41,375	0	249,101	0	249,068
OF	-3,512	8,977	-1,016	12,651	3,173	0	20,274	0	20,274
CH	-63,905	66,835	-6,533	124,792	32,949	-1	154,138	0	154,168
MM	-123,082	87,346	-12,153	175,506	85,115	-1	212,731	-1	212,769
ME	-183,321	125,977	-19,780	258,434	107,408	6	288,718	1	288,697
MC	227,375	296,590	194,051	581,086	367,101	0	1,666,203	1	1,666,197
OT	428	32	7,826	6	11,083	0	19,375	0	19,375
AP	-161,146	677,880	163,970	1,453,307	672,061	4	2,806,072	0	2,806,094
Real Trade Diversion ($Th)									
FO	1,000,589	992,752	266,173	397,491	203,378	0	2,860,383	0	2,860,383
BT	8,661	18,816	-4,670	15,136	9,818	0	47,761	0	47,761
CM	158,703	457,535	33,859	298,175	167,249	0	1,115,520	0	1,115,520
MF	0	0	0	0	0	0	0	0	0
OF	96,411	147,021	51,595	70,866	43,928	0	409,821	0	409,821
CH	399,263	573,429	137,243	457,672	279,745	0	1,847,352	0	1,847,352
MM	517,158	552,293	151,870	513,815	695,491	0	2,430,627	0	2,430,627
ME	335,671	335,863	121,515	291,215	279,466	0	1,363,730	0	1,363,730
MC	0	0	0	0	0	0	0	0	0
OT	0	0	0	0	0	0	0	0	0
AP	2,516,456	3,077,710	757,584	2,044,370	1,679,074	0	10,075,193	0	10,075,193

Appendix C, Table 7-3

Maghreb-Egypt Free Trade Area

MGEG	AL	EG	LY	MO	TN	ME	NA	GC	AR
Net Real Trade Creation ($Th)									
FO	-1,003,485	-934,255	-272,495	-331,916	-189,891	-1	-2,732,042	0	-2,732,025
BT	-9,285	-15,595	4,573	-8,907	-8,285	0	-37,499	0	-37,498
CM	-170,077	-438,311	-34,364	-257,427	-158,411	0	-1,058,591	0	-1,058,595
MF	-236	11,183	8,499	188,280	41,375	0	249,101	0	249,068
OF	-99,923	-138,045	-52,610	-58,214	-40,754	0	-389,547	0	-389,547
CH	-463,168	-506,595	-143,776	-332,879	-246,795	-1	-1,693,213	0	-1,693,183
MM	-640,240	-464,948	-164,022	-338,309	-610,377	-1	-2,217,896	-1	-2,217,858
ME	-518,992	-209,886	-141,295	-32,781	-172,058	6	-1,075,012	1	-1,075,033
MC	227,375	296,590	194,051	581,086	367,101	0	1,666,203	1	1,666,197
OT	428	32	7,826	6	11,083	0	19,375	0	19,375
AP	-2,677,602	-2,399,829	-593,614	-591,063	-1,007,013	4	-7,269,121	0	-7,269,099
Change in Producer Surplus ($Th)									
FO	17,177	201,210	9,224	508,355	87,964	0	823,930	0	823,930
BT	8,686	6,683	144	4,680	8,571	0	28,764	0	28,764
CM	16,075	42,722	6,534	71,094	19,104	0	155,528	0	155,528
MF	418,228	-68,204	85,881	-5,389	-10,772	0	419,744	0	419,744
OF	10	544	6	3,193	72,725	0	76,479	0	76,479
CH	29,689	40,473	106,597	99,756	105,032	0	381,548	0	381,548
MM	64,386	413,922	75,458	117,656	156,246	0	827,669	0	827,669
ME	12,895	37,440	4,079	101,803	118,100	0	274,317	0	274,317
MC	370	-19,256	70	-203,996	-92,737	0	-315,548	0	-315,548
OT	71,231	-2,054	111	-1,413	-761	0	67,114	0	67,114
AP	638,749	653,480	288,104	695,738	463,474	0	2,739,545	0	2,739,545
Change in Consumer Surplus ($Th)									
FO	-151,555	110,303	-11,017	156,193	27,179	0	131,102	0	131,102
BT	-4,644	6,649	-189	13,764	2,865	0	18,445	0	18,445
CM	-17,442	29,748	-791	68,306	14,090	0	93,911	0	93,911
MF	-491	25,150	19,259	410,253	85,968	0	540,139	0	540,139
OF	-14,646	15,624	-1,816	23,808	5,417	0	28,386	0	28,386
CH	-50,633	52,580	-5,195	119,351	26,155	0	142,258	0	142,258
MM	-112,122	81,348	-10,191	207,398	92,239	0	258,672	0	258,672
ME	-148,416	104,013	-16,060	266,292	89,186	0	295,015	0	295,015
MC	183,989	241,069	150,315	514,313	374,762	0	1,464,448	0	1,464,448
OT	326	24	5,885	4	8,392	0	14,631	0	14,631
AP	-315,634	666,507	130,201	1,779,682	726,254	0	2,987,009	0	2,987,009

Appendix C, Table 7-3

Maghreb-Egypt Free Trade Area

MGEG	AL	EG	LY	MO	TN	ME	NA	GC	AR
Forgone Tariff Revenue ($Th)									
FO	-408,669	-485,865	-93,834	-666,277	-121,772	0	-1,776,417	0	-1,776,417
BT	-14,049	-15,919	-1,023	-20,811	-6,017	0	-57,818	0	-57,818
CM	-27,531	-74,807	-5,538	-151,182	-50,540	0	-309,598	0	-309,598
MF	0	0	0	0	0	0	0	0	0
OF	-21,715	-31,370	-11,488	-50,191	-17,343	0	-132,108	0	-132,108
CH	-81,541	-134,595	-36,686	-378,027	-81,997	0	-712,847	0	-712,847
MM	-259,153	-326,481	-68,289	-643,928	-305,321	0	-1,603,170	0	-1,603,170
ME	-81,342	-92,755	-33,478	-254,423	-95,197	0	-557,195	0	-557,195
MC	0	0	0	0	0	0	0	0	0
OT	0	0	0	0	0	0	0	0	0
AP	-893,999	-1,161,792	-250,337	-2,164,840	-678,188	0	-5,149,154	0	-5,149,154
Change in Economic Welfare ($Th)									
FO	-543,047	-174,352	-95,627	-1,729	-6,629	0	-821,384	0	-821,384
BT	-10,007	-2,587	-1,068	-2,367	5,420	0	-10,610	0	-10,610
CM	-28,898	-2,338	204	-11,782	-17,345	0	-60,159	0	-60,159
MF	417,737	-43,054	105,140	404,864	75,196	0	959,883	0	959,883
OF	-36,350	-15,202	-13,299	-23,190	60,799	0	-27,242	0	-27,242
CH	-102,485	-41,542	64,716	-158,921	49,190	0	-189,042	0	-189,042
MM	-306,888	168,789	-3,021	-318,873	-56,835	0	-516,829	0	-516,829
ME	-216,862	48,697	-45,459	113,672	112,089	0	12,136	0	12,136
MC	184,360	221,813	150,385	310,316	282,026	0	1,148,900	0	1,148,900
OT	71,557	-2,030	5,997	-1,409	7,630	0	81,745	0	81,745
AP	-570,884	158,195	167,969	310,580	511,540	0	577,399	0	577,399

Appendix C, Table 7-4

Mashreq-Egypt Free Trade Area

MSEG	EG	IN	IQ	IS	JO	LN	SY	TR	YE	ME	NA	GC	AR
Change in Real Exports ($Th)													
FO	95,566	126,426	13,603	110,741	23,740	38,232	79,434	394,428	10,744	797,349	95,566	0	892,941
BT	3,210	1,899	965	2,366	1,910	6,405	1,931	110,089	374	125,938	3,210	0	129,150
CM	19,676	26,341	519	25,080	9,367	6,279	23,566	40,068	2,216	133,435	19,676	0	153,125
MF	19,336	-48,210	-9,895	-3,722	0	306	1,602	-2,649	33,797	-28,770	19,336	2	-9,436
OF	380	6,916	2,401	213	19,911	11,395	1,625	29,588	9	72,059	380	0	72,440
CH	32,413	20,221	2,987	223,559	51,332	24,979	2,201	65,544	195	391,017	32,413	0	423,469
MM	187,607	162,310	10,651	704,091	17,116	45,116	13,066	648,680	537	1,601,565	187,607	0	1,789,131
ME	23,634	8,781	1,836	387,112	7,280	10,679	5,925	198,439	966	621,017	23,634	0	644,643
MC	11,059	-920	-1,447	-84,806	-231	10,909	294	-157,798	116	-233,884	11,059	0	-222,836
OT	3,330	2,776	-19	-2,502	280	830	156	864	334	2,718	3,330	0	6,051
AP	396,211	306,540	21,600	1,362,132	130,705	155,129	129,800	1,327,251	49,287	3,482,445	396,212	3	3,878,678
% Change in Exchange Rate ($/Lc)													
AP	-1.8	0.8	4.2	4.0	0.4	-4.9	-0.1	2.7	-3.6	0.0	0.0	0.0	0.0
Real Trade Creation ($Th)													
FO	-31,622	8,567	6,083	39,478	1,570	-34,274	-667	21,711	-6,384	36,084	-31,622	0	4,480
BT	-1,742	766	212	3,016	45	-8,194	-30	4,103	-685	-767	-1,741	0	-2,508
CM	-10,387	1,639	39	17,802	296	-4,049	-101	50,189	-921	64,893	-10,387	0	54,503
MF	7,442	3,649	39	1,240	21,540	7,886	1,894	456,319	2,856	495,424	7,442	0	502,832
OF	-4,858	3,044	6,695	2,088	326	-1,506	-45	9,449	-1,203	18,847	-4,858	0	13,989
CH	-35,437	13,579	9,225	142,903	2,353	-34,021	-895	176,221	-5,298	304,067	-35,437	0	268,661
MM	-46,323	16,311	1,445	477,835	3,148	-68,653	-2,172	175,690	-14,916	588,688	-46,323	-1	542,404
ME	-66,820	34,509	741	534,562	4,878	-96,771	-2,778	438,193	-15,036	898,297	-66,821	1	831,449
MC	248,896	141,413	2,886	811,740	76,124	196,971	52,079	888,917	23,633	2,193,763	248,897	1	2,442,653
OT	-3	1,408	190	29,732	231	-2,561	-1	7,467	-18	36,448	-3	0	36,446
AP	59,148	224,885	27,554	2,060,397	110,511	-45,174	47,284	2,228,258	-17,971	4,635,744	59,148	0	4,694,910
Real Trade Diversion ($Th)													
FO	1,751,497	1,119,828	142,826	1,038,013	350,431	525,033	436,977	777,216	155,946	4,546,268	1,751,497	0	6,297,765
BT	88,170	95,884	2,508	76,054	10,513	159,145	20,132	142,451	16,786	523,473	88,170	0	611,643
CM	463,613	174,730	450	383,354	35,064	45,835	57,165	1,446,928	18,987	2,162,513	463,613	0	2,626,126
MF	0	0	0	0	0	0	0	0	0	0	0	0	0
OF	122,125	177,712	-68,818	24,730	30,793	7,122	10,019	148,373	12,498	342,430	122,125	0	464,555
CH	330,422	339,532	1,509	898,752	85,615	127,293	75,293	1,467,802	1,220	2,997,016	330,422	0	3,327,438
MM	1,322,537	1,178,265	19,028	7,073,945	402,243	691,495	767,864	3,664,388	186,329	13,983,557	1,322,537	0	15,306,095
ME	533,804	683,768	2,889	2,185,387	182,345	280,969	292,359	2,594,424	21,842	6,243,983	533,804	0	6,777,788
MC	0	0	0	0	0	0	0	0	0	0	0	0	0
OT	76	96,304	2,541	415,191	31,081	26,623	22	145,782	138	717,683	76	0	717,758
AP	4,612,244	3,866,023	102,933	12,095,426	1,128,085	1,863,515	1,659,830	10,387,365	413,746	31,516,924	4,612,244	0	36,129,168

Appendix C, Table 7-4

Mashreq-Egypt Free Trade Area

MSEG	EG	IN	IQ	IS	JO	LN	SY	TR	YE	ME	NA	GC	AR
Net Real Trade Creation ($Th)													
FO	-1,783,119	-1,111,261	-136,743	-998,534	-348,861	-559,307	-437,644	-755,505	-162,329	-4,510,184	-1,783,118	0	-6,293,285
BT	-89,911	-95,117	-2,296	-73,038	-10,468	-167,339	-20,161	-138,349	-17,471	-524,240	-89,911	0	-614,150
CM	-474,000	-173,091	-411	-365,551	-34,768	-49,884	-57,266	-1,396,739	-19,909	-2,097,620	-474,000	0	-2,571,623
MF	7,442	3,649	39	1,240	21,540	7,886	1,894	456,319	2,856	495,424	7,442	0	502,832
OF	-126,983	-174,668	75,513	-22,643	-30,468	-8,628	-10,064	-138,924	-13,701	-323,583	-126,983	0	-450,566
CH	-365,859	-325,953	7,716	-755,848	-83,262	-161,314	-76,188	-1,291,581	-6,519	-2,692,949	-365,859	0	-3,058,777
MM	-1,368,860	-1,161,954	-17,583	-6,596,111	-399,096	-760,148	-770,036	-3,488,698	-201,245	-13,394,869	-1,368,860	-1	-14,763,691
ME	-600,624	-649,259	-2,148	-1,650,825	-177,467	-377,741	-295,137	-2,156,231	-36,878	-5,345,686	-600,625	1	-5,946,338
MC	248,896	141,413	2,886	811,740	76,124	196,971	52,079	888,917	23,633	2,193,763	248,897	1	2,442,653
OT	-78	-94,896	-2,351	-385,459	-30,850	-29,185	-23	-138,316	-155	-681,235	-78	0	-681,313
AP	-4,553,096	-3,641,138	-75,379	-10,035,030	-1,017,574	-1,908,689	-1,612,546	-8,159,108	-431,717	-26,881,180	-4,553,096	0	-31,434,258
Change in Producer Surplus ($Th)													
FO	143,474	187,115	19,774	161,137	35,211	58,400	118,160	577,902	16,294	1,173,994	143,474	0	1,317,468
BT	5,165	3,011	1,500	3,684	3,035	10,495	3,078	172,679	608	198,089	5,165	0	203,254
CM	42,378	55,960	1,083	52,419	19,942	13,749	50,309	84,303	4,819	282,583	42,378	0	324,961
MF	39,028	-96,040	-19,388	-7,299	0	627	3,206	-5,228	68,855	-55,267	39,028	0	-16,238
OF	559	10,033	3,423	304	28,949	17,055	2,369	42,502	14	104,649	559	0	105,207
CH	35,200	21,653	3,142	235,424	55,084	27,595	2,369	69,493	213	414,973	35,200	0	450,173
MM	204,428	174,385	11,242	743,900	18,428	50,012	14,108	690,038	591	1,702,705	204,428	0	1,907,133
ME	25,531	9,354	1,922	405,571	7,771	11,734	6,343	209,310	1,054	653,058	25,531	0	678,589
MC	11,161	-916	-1,418	-83,165	-230	11,187	295	-155,728	118	-229,858	11,161	0	-218,697
OT	3,417	2,811	-19	-2,494	284	866	158	866	346	2,818	3,417	0	6,235
AP	510,342	367,365	21,262	1,509,481	168,472	201,720	200,395	1,686,138	92,911	4,247,744	510,342	0	4,758,086
Change in Consumer Surplus ($Th)													
FO	-61,186	14,793	10,328	55,932	2,716	-60,909	-1,158	35,451	-11,271	45,883	-61,186	0	-15,302
BT	-3,689	1,473	400	4,682	86	-16,209	-57	8,739	-1,347	-2,233	-3,689	0	-5,922
CM	-16,494	2,541	59	24,549	460	-6,463	-157	77,105	-1,461	96,632	-16,494	0	80,138
MF	17,174	8,194	87	2,626	48,459	18,224	4,273	990,641	6,558	1,079,062	17,174	0	1,096,235
OF	-8,676	5,393	11,665	3,168	578	-2,746	-80	15,167	-2,180	30,965	-8,676	0	22,289
CH	-28,610	10,699	7,147	97,054	1,858	-27,586	-709	142,121	-4,268	226,316	-28,610	0	197,706
MM	-44,272	13,553	1,181	345,045	2,621	-58,703	-1,813	140,064	-12,672	429,276	-44,272	0	385,004
ME	-56,617	27,762	586	389,404	3,932	-80,112	-2,246	344,730	-12,368	671,688	-56,617	0	615,071
MC	208,236	108,469	2,174	600,845	58,514	155,781	40,145	659,368	18,563	1,643,859	208,236	0	1,852,095
OT	-2	1,118	148	20,498	184	-2,094	-1	4,971	-14	24,810	-2	0	24,808
AP	5,864	193,995	33,776	1,543,803	119,407	-80,817	38,198	2,418,357	-20,460	4,246,259	5,864	0	4,252,123

Mashreq-Egypt Free Trade Area

MSEG	EG	IN	IQ	IS	JO	LN	SY	TR	YE	ME	NA	GC	AR
Forgone Tariff Revenue ($Th)													
FO	-852,138	-310,615	-42,660	-23,482	-113,820	-192,941	-134,344	-239,550	-48,943	-1,106,355	-852,138	0	-1,958,493
BT	-62,630	-44,180	-2,362	-8,576	-5,160	-73,368	-9,451	-142,761	-8,355	-294,214	-62,630	0	-356,844
CM	-75,777	-25,356	-116	-7,470	-9,154	-9,724	-8,668	-295,643	-3,013	-359,145	-75,777	0	-434,922
MF	0	0	0	0	0	0	0	0	0	0	0	0	0
OF	-26,082	-39,766	-16,908	-825	-8,506	-3,058	-3,269	-39,928	-3,327	-115,586	-26,082	0	-141,668
CH	-88,206	-72,850	-9,692	-7,276	-25,204	-27,729	-26,576	-440,125	-5,910	-615,361	-88,206	0	-703,567
MM	-714,240	-292,101	-5,067	-482,408	-112,536	-186,833	-215,271	-899,334	-55,555	-2,249,106	-714,240	0	-2,963,346
ME	-142,771	-130,923	-551	-163,866	-36,951	-55,802	-58,341	-502,939	-11,866	-961,238	-142,771	0	-1,104,009
MC	0	0	0	0	0	0	0	0	0	0	0	0	0
OT	-15	-14,634	-386	0	-4,803	-4,049	-45	-1,770	-39	-25,726	-15	0	-25,741
AP	-1,961,860	-930,425	-77,741	-693,903	-316,134	-553,504	-455,965	-2,562,051	-137,009	-5,726,731	-1,961,860	0	-7,688,591
Change in Economic Welfare ($Th)													
FO	-769,850	-108,707	-12,557	193,587	-75,892	-195,449	-17,341	373,803	-43,920	113,523	-769,850	0	-656,327
BT	-61,155	-39,696	-461	-210	-2,039	-79,083	-6,430	38,657	-9,094	-98,357	-61,155	0	-159,512
CM	-49,893	33,145	1,026	69,498	11,247	-2,439	41,484	-134,236	345	20,070	-49,893	0	-29,823
MF	56,202	-87,846	-19,301	-4,673	48,459	18,851	7,479	985,413	75,413	1,023,795	56,202	0	1,079,997
OF	-34,199	-24,340	-1,820	2,647	21,021	11,252	-980	17,741	-5,494	20,027	-34,199	0	-14,171
CH	-81,616	-40,497	598	325,202	31,738	-27,720	-24,916	-228,511	-9,965	25,928	-81,616	0	-55,688
MM	-554,084	-104,163	7,355	606,536	-91,487	-195,524	-202,976	-69,231	-67,636	-117,125	-554,084	0	-671,210
ME	-173,856	-93,807	1,957	631,109	-25,249	-124,179	-54,244	51,101	-23,181	363,507	-173,856	0	189,651
MC	219,397	107,552	757	517,680	58,283	166,968	40,440	503,640	18,681	1,414,001	219,397	0	1,633,399
OT	3,399	-10,705	-257	18,004	-4,335	-5,277	113	4,067	293	1,903	3,399	0	5,302
AP	-1,445,654	-369,065	-22,703	2,359,380	-28,255	-432,601	-217,371	1,542,444	-64,558	2,767,272	-1,445,654	0	1,321,618

Appendix C, Table 7-5

Mena-Wide Free Trade Area

MWRI	EG	IS	JO	KW	MO	SA	TN	TR	ME	NA	GC	AR
Change in Real Exports ($Th)												
FO	95,757	108,410	24,272	6,979	255,048	80,175	40,688	400,878	808,308	402,701	202,979	1,414,013
BT	3,259	2,375	1,967	669	2,426	7,192	4,106	112,966	129,180	13,617	113,836	256,636
CM	19,645	23,907	9,652	5,786	39,546	20,566	8,433	40,949	135,333	76,039	45,642	257,027
MF	5,343	-5,303	0	176,529	-1,090	-158,812	-393	-3,723	-101,719	310,450	141,355	350,083
OF	379	206	20,365	652	2,603	2,839	49,150	30,045	73,371	52,142	17,564	143,078
CH	31,971	210,181	52,065	29,046	88,748	626,060	79,681	65,762	379,179	292,227	797,011	1,468,456
MM	213,709	824,165	20,342	21,461	61,584	205,380	77,763	783,854	1,903,795	418,774	688,549	3,011,077
ME	24,183	384,660	7,711	33,635	69,360	149,243	73,042	209,653	631,706	176,140	448,518	1,256,357
MC	3,046	-120,319	-779	1,847	-83,588	-3,515	-6,824	-221,215	-339,121	-86,834	8,202	-417,764
OT	325	-19,982	-128	3,498	-579	-874	-56	-5,291	-26,811	73,058	9,002	55,253
AP	397,617	1,408,301	135,465	280,102	434,059	928,254	325,591	1,413,879	3,593,222	1,728,314	2,472,659	7,794,214
% Change in Exchange Rate ($/Lc)												
AP	-0.5	5.8	1.3	-3.7	3.4	0.8	0.3	3.8	0.0	0.0	0.0	0.0
Real Trade Creation ($Th)												
FO	-8,809	56,827	5,343	-27,549	24,548	18,864	949	30,727	89,940	132	-17,417	72,672
BT	-485	4,341	152	-2,504	2,332	1,070	108	5,806	5,299	1,093	-2,696	3,696
CM	-2,894	25,629	1,007	-2,761	15,254	2,967	621	71,031	97,733	-17	2,652	100,364
MF	8,393	1,665	23,620	1,243	156,629	3,248	31,881	480,523	524,791	203,847	20,112	748,716
OF	-1,353	3,004	1,108	-966	4,736	1,090	223	13,373	30,379	-2,248	-346	27,785
CH	-9,920	207,036	8,036	-29,316	45,752	28,388	2,287	250,436	479,363	-42,701	-27,897	408,797
MM	-12,966	692,216	10,749	-76,202	64,561	57,017	5,937	249,662	934,312	-97,218	-124,060	713,074
ME	-18,704	774,361	16,659	-158,716	94,904	111,900	7,455	622,604	1,413,256	-150,403	-220,431	1,042,394
MC	260,799	887,045	79,947	301,648	512,933	618,871	324,855	931,635	2,339,965	1,505,035	2,390,115	6,235,109
OT	25	43,063	9,007	6,025	5	177,314	9,768	14,116	100,043	17,163	270,242	387,449
AP	214,087	2,695,187	155,629	10,903	921,654	1,020,729	384,083	2,669,912	6,015,081	1,434,683	2,290,274	9,740,056
Real Trade Diversion ($Th)												
FO	1,174,496	698,504	215,410	303,693	465,260	1,308,858	246,268	514,759	2,943,670	3,440,129	2,598,221	8,982,020
BT	73,879	64,498	8,766	40,701	52,616	101,028	32,893	120,432	441,567	191,492	468,066	1,101,125
CM	475,340	393,962	36,450	50,702	307,401	308,267	175,455	1,483,109	2,217,675	1,165,809	721,426	4,104,910
MF	0	0	0	0	0	0	0	0	0	0	0	0
OF	147,416	29,951	38,616	9,764	69,977	66,843	44,090	178,892	446,925	413,292	139,456	999,674
CH	683,256	1,596,447	194,932	232,048	521,448	1,379,210	331,940	2,672,527	5,627,370	2,217,929	2,497,235	10,342,534
MM	900,386	4,993,124	264,930	551,348	785,449	2,645,907	1,098,462	2,548,166	9,727,432	4,013,295	6,390,778	20,131,506
ME	428,403	1,786,926	145,114	497,527	357,457	1,716,627	353,637	2,103,056	5,056,927	1,765,901	4,072,635	10,895,463
MC	0	0	0	0	0	0	0	0	0	0	0	0
OT	0	0	0	0	0	0	0	0	0	0	0	0
AP	3,883,176	9,563,411	904,219	1,685,784	2,559,608	7,526,739	2,282,746	9,620,940	26,461,566	13,207,847	16,887,816	56,557,230

Appendix C, Table 7-5

Mena-Wide Free Trade Area

MWRI	EG	IS	JO	KW	MO	SA	TN	TR	ME	NA	GC	AR
Net Real Trade Creation ($Th)												
FO	-1,183,305	-641,677	-210,066	-331,243	-440,712	-1,289,993	-245,319	-484,032	-2,853,730	-3,439,997	-2,615,638	-8,909,347
BT	-74,364	-60,157	-8,614	-43,205	-50,284	-99,958	-32,785	-114,625	-436,268	-190,399	-470,762	-1,097,429
CM	-478,234	-368,332	-35,443	-53,463	-292,146	-305,300	-174,834	-1,412,079	-2,119,943	-1,165,827	-718,774	-4,004,546
MF	8,393	1,665	23,620	1,243	156,629	3,248	31,881	480,523	524,791	203,847	20,112	748,716
OF	-148,768	-26,947	-37,509	-10,730	-65,242	-65,753	-43,867	-165,519	-416,546	-415,540	-139,802	-971,889
CH	-693,176	-1,389,411	-186,896	-261,364	-475,696	-1,350,822	-329,653	-2,422,091	-5,148,007	-2,260,630	-2,525,131	-9,933,737
MM	-913,352	-4,300,908	-254,181	-627,550	-720,888	-2,588,890	-1,092,525	-2,298,504	-8,793,120	-4,110,513	-6,514,838	-19,418,432
ME	-447,107	-1,012,564	-128,456	-656,243	-262,553	-1,604,727	-346,183	-1,480,452	-3,643,670	-1,916,304	-4,293,066	-9,853,068
MC	260,799	887,045	79,947	301,648	512,933	618,871	324,855	931,635	2,339,965	1,505,035	2,390,115	6,235,109
OT	25	43,063	9,007	6,025	5	177,314	9,768	14,116	100,043	17,163	270,242	387,449
AP	-3,669,089	-6,868,224	-748,590	-1,674,881	-1,637,954	-6,506,010	-1,898,663	-6,951,028	-20,446,485	-11,773,165	-14,597,542	-46,817,174
Change in Producer Surplus ($Th)												
FO	143,793	157,463	36,082	10,667	375,032	119,552	60,847	588,232	1,191,908	596,809	304,878	2,093,596
BT	5,259	3,700	3,140	1,100	3,830	11,519	6,596	177,906	204,006	22,004	184,170	410,180
CM	42,306	49,865	20,585	12,673	83,465	43,993	18,089	86,253	286,954	162,311	98,180	547,445
MF	10,714	-10,313	-1	359,750	-2,143	-316,391	-785	-7,309	-199,832	633,222	295,245	728,634
OF	558	294	29,664	976	3,751	4,148	72,013	43,207	106,712	76,336	25,731	208,779
CH	34,683	220,669	55,924	32,066	94,307	674,480	86,087	69,737	401,982	315,921	860,698	1,578,600
MM	235,535	878,709	22,196	24,076	66,467	224,775	85,351	844,246	2,046,750	460,928	756,625	3,264,303
ME	26,169	402,885	8,263	37,039	73,525	160,390	78,720	221,788	665,067	188,957	485,646	1,339,669
MC	3,054	-117,015	-774	1,882	-82,207	-3,502	-6,815	-217,146	-331,503	-85,426	8,636	-408,294
OT	326	-19,433	-127	3,565	-570	-871	-56	-5,194	-26,136	74,809	9,182	57,855
AP	502,396	1,566,825	174,952	483,794	615,458	918,094	400,046	1,801,719	4,345,907	2,445,871	3,028,990	9,820,768
Change in Consumer Surplus ($Th)												
FO	-16,931	79,826	9,200	-48,654	60,086	27,777	1,944	49,899	132,114	-137,711	-38,631	-44,229
BT	-1,021	6,682	292	-4,922	5,295	1,600	205	12,301	9,323	-802	-2,985	5,537
CM	-4,565	35,042	1,557	-4,379	26,279	4,406	1,006	108,530	145,067	2,722	3,455	151,243
MF	19,242	3,496	52,888	2,855	350,683	6,848	67,334	1,037,523	1,137,147	453,153	44,686	1,634,986
OF	-2,400	4,520	1,958	-1,751	9,159	1,622	387	21,349	50,208	-12,134	-1,181	36,893
CH	-7,957	139,402	6,315	-23,625	44,987	21,095	1,845	200,866	356,631	-25,323	-24,859	306,449
MM	-12,310	495,554	8,907	-64,758	78,431	42,520	6,541	197,944	685,770	-66,691	-113,568	505,510
ME	-15,744	559,237	13,364	-130,585	100,533	83,229	6,293	487,118	1,057,515	-98,879	-194,235	764,401
MC	216,590	650,638	61,143	237,004	469,077	435,706	337,467	686,949	1,741,169	1,346,889	1,811,741	4,899,799
OT	19	29,433	6,690	4,594	3	123,927	7,532	9,289	70,618	13,130	192,005	275,753
AP	174,923	2,003,829	162,314	-34,221	1,144,532	748,730	430,554	2,811,769	5,385,561	1,474,355	1,676,428	8,536,344

Appendix C, Table 7-5

Mena-Wide Free Trade Area

MWRI	EG	IS	JO	KW	MO	SA	TN	TR	ME	NA	GC	AR
Forgone Tariff Revenue ($Th)												
FO	-573,599	-15,848	-76,409	-138,634	-775,973	-177,963	-144,491	-161,054	-742,974	-2,102,632	-615,423	-3,461,028
BT	-53,005	-7,277	-4,356	-25,198	-68,329	-14,986	-20,077	-120,694	-248,584	-192,898	-288,742	-730,225
CM	-77,649	-7,676	-9,354	-9,020	-154,929	-41,696	-52,637	-302,502	-367,418	-320,408	-102,702	-790,528
MF	0	0	0	0	0	0	0	0	0	0	0	0
OF	-31,454	-997	-10,232	-3,144	-49,569	-9,349	-17,407	-48,119	-139,117	-132,476	-25,678	-297,272
CH	-155,561	-12,902	-44,203	-55,673	-425,859	-198,498	-95,409	-773,925	-1,081,303	-820,219	-440,609	-2,342,131
MM	-501,719	-340,713	-78,616	-192,471	-970,438	-384,133	-476,859	-629,877	-1,576,333	-2,477,642	-1,386,779	-5,440,754
ME	-116,138	-134,021	-29,893	-98,371	-311,313	-233,800	-119,948	-407,831	-779,941	-698,220	-680,609	-2,158,771
MC	0	0	0	0	0	0	0	0	0	0	0	0
OT	0	0	0	0	0	0	0	0	0	0	0	0
AP	-1,509,125	-519,434	-253,063	-522,511	-2,756,411	-1,060,425	-926,828	-2,444,003	-4,935,672	-6,744,496	-3,540,541	-15,220,709
Change in Economic Welfare ($Th)												
FO	-446,738	221,441	-31,126	-176,620	-340,855	-30,633	-81,701	477,077	581,048	-1,643,534	-349,175	-1,411,661
BT	-48,767	3,104	-924	-29,020	-59,204	-1,867	-13,276	69,512	-35,256	-171,696	-107,557	-314,508
CM	-39,908	77,231	12,788	-726	-45,185	6,703	-33,541	-107,720	64,603	-155,376	-1,066	-91,839
MF	29,955	-6,816	52,888	362,605	348,539	-309,543	66,548	1,030,214	937,315	1,086,375	339,930	2,363,620
OF	-33,296	3,816	21,390	-3,920	-36,660	-3,579	54,993	16,436	17,803	-68,274	-1,128	-51,600
CH	-128,834	347,169	18,036	-47,231	-286,565	497,076	-7,476	-503,322	-322,690	-529,621	395,230	-457,081
MM	-278,494	1,033,551	-47,513	-233,153	-825,541	-116,838	-384,967	412,313	1,156,186	-2,083,405	-743,722	-1,670,941
ME	-105,713	828,101	-8,267	-191,917	-137,254	9,820	-34,935	301,075	942,640	-608,142	-389,198	-54,700
MC	219,644	533,623	60,369	238,885	386,869	432,205	330,652	469,803	1,409,666	1,261,463	1,820,377	4,491,506
OT	345	10,000	6,563	8,159	-566	123,056	7,476	4,095	44,482	87,939	201,187	333,608
AP	-831,805	3,051,220	84,204	-72,937	-996,421	606,399	-96,228	2,169,485	4,795,796	-2,824,270	1,164,878	3,136,404

Appendix C, Table 7-6

Mena-Wide Open Regionalism

MWT2	EG	IS	JO	KW	MO	SA	TN	TR	ME	NA	GC	AR
Change in Real Exports ($Th)												
FO	74,265	28,724	14,975	2,861	382,505	22,250	28,512	261,006	438,285	489,964	73,091	1,001,361
BT	1,537	337	715	175	2,061	1,188	1,728	41,298	46,240	6,425	26,501	79,167
CM	24,612	13,116	10,169	3,623	106,679	9,675	9,757	49,699	122,998	146,455	28,353	297,812
MF	197,016	4,419	5	542,035	9,586	1,307,295	25,699	12,718	858,467	1,220,442	3,050,432	5,129,327
OF	358	72	15,564	317	4,953	970	42,204	24,952	54,969	47,520	9,474	111,963
CH	37,021	98,876	49,755	16,622	222,741	263,037	84,519	71,172	258,380	393,775	377,118	1,029,307
MM	205,507	292,333	15,813	10,479	122,093	70,670	67,958	665,628	1,134,733	427,091	365,489	1,927,304
ME	28,916	190,583	7,640	19,775	181,553	64,925	80,128	236,972	458,582	296,422	247,790	1,002,778
MC	117,427	102,864	8,313	5,779	795,800	29,458	464,646	786,923	975,458	1,379,609	188,277	2,543,333
OT	12,526	17,083	1,364	10,948	5,514	7,323	3,815	18,821	51,004	231,204	68,680	350,890
AP	699,184	748,407	124,314	612,615	1,833,484	1,776,793	808,965	2,169,190	4,399,116	4,638,906	4,435,205	13,473,242
% Change in Exchange Rate ($/Lc)												
AP	-16.4	-4.5	-12.4	-10.6	-23.9	-6.1	-14.6	-11.6	0.0	0.0	0.0	0.0
Real Trade Creation ($Th)												
FO	227,306	-23,584	29,071	70,561	289,770	83,593	66,727	77,824	319,159	661,723	298,487	1,279,390
BT	20,494	3,931	1,950	13,224	21,014	7,793	9,163	62,903	123,238	59,755	116,001	298,995
CM	-27,082	-11,912	-899	602	-1,508	18,799	8,511	52,947	43,578	-21,180	22,549	44,953
MF	-3,665	-843	-7,557	-336	-6,983	1,327	-12,336	136,849	118,044	-26,776	-2,853	88,401
OF	-3,669	-747	3,182	1,555	16,766	7,165	9,915	27,473	78,202	34,193	13,889	126,284
CH	-52,771	-129,727	4,871	23,226	194,022	186,146	32,508	557,954	537,935	224,526	268,891	1,031,389
MM	378,643	192,253	44,704	163,907	587,908	401,931	309,607	407,853	1,044,679	1,848,458	1,165,762	4,058,900
ME	38,905	291,142	23,145	173,224	520,062	747,514	241,484	505,970	1,160,046	1,113,580	1,412,545	3,686,155
MC	121,026	460,416	26,240	165,793	212,434	260,508	139,191	367,576	1,030,719	738,185	1,072,717	2,841,611
OT	-3	-32,522	-393	859	-2	62,005	4,195	-28,154	-56,481	6,441	67,201	17,163
AP	699,184	748,408	124,314	612,613	1,833,484	1,776,781	808,965	2,169,194	4,399,118	4,638,903	4,435,188	13,473,242
Real Trade Diversion ($Th)												
FO	0	0	0	0	0	0	0	0	0	0	0	0
BT	0	0	0	0	0	0	0	0	0	0	0	0
CM	0	0	0	0	0	0	0	0	0	0	0	0
MF	0	0	0	0	0	0	0	0	0	0	0	0
OF	0	0	0	0	0	0	0	0	0	0	0	0
CH	0	0	0	0	0	0	0	0	0	0	0	0
MM	0	0	0	0	0	0	0	0	0	0	0	0
ME	0	0	0	0	0	0	0	0	0	0	0	0
MC	0	0	0	0	0	0	0	0	0	0	0	0
OT	0	0	0	0	0	0	0	0	0	0	0	0
AP	0	0	0	0	0	0	0	0	0	0	0	0

Appendix C, Table 7-6

Mena-Wide Open Regionalism

MWT2	EG	IS	JO	KW	MO	SA	TN	TR	ME	NA	GC	AR
Net Real Trade Creation ($Th)												
FO	227,306	-23,584	29,071	70,561	289,770	83,593	66,727	77,824	319,159	661,723	298,487	1,279,390
BT	20,494	3,931	1,950	13,224	21,014	7,793	9,163	62,903	123,238	59,755	116,001	298,995
CM	-27,082	-11,912	-899	602	-1,508	18,799	8,511	52,947	43,578	-21,180	22,549	44,953
MF	-3,665	-843	-7,557	-336	-6,983	1,327	-12,336	136,849	118,044	-26,776	-2,853	88,401
OF	-3,669	-747	3,182	1,555	16,766	7,165	9,915	27,473	78,202	34,193	13,889	126,284
CH	-52,771	-129,727	4,871	23,226	194,022	186,146	32,508	557,954	537,935	224,526	268,891	1,031,389
MM	378,643	192,253	44,704	163,907	587,908	401,931	309,607	407,853	1,044,679	1,848,458	1,165,762	4,058,900
ME	38,905	291,142	23,145	173,224	520,062	747,514	241,484	505,970	1,160,046	1,113,580	1,412,545	3,686,155
MC	121,026	460,416	26,240	165,793	212,434	260,508	139,191	367,576	1,030,719	738,185	1,072,717	2,841,611
OT	-3	-32,522	-393	859	-2	62,005	4,195	-28,154	-56,481	6,441	67,201	17,163
AP	699,184	748,408	124,314	612,613	1,833,484	1,776,781	808,965	2,169,194	4,399,118	4,638,903	4,435,188	13,473,242
Change in Producer Surplus ($Th)												
FO	108,673	39,195	21,373	4,040	589,272	30,628	41,237	370,660	619,880	745,810	102,523	1,468,213
BT	2,249	460	1,021	247	3,175	1,635	2,499	58,649	65,690	9,487	37,381	112,558
CM	53,986	26,845	21,762	7,673	246,136	19,975	21,156	105,834	260,341	332,764	59,581	652,687
MF	432,152	9,045	10	1,147,971	22,118	2,699,106	55,723	27,083	1,805,207	2,604,550	6,391,708	10,801,465
OF	524	98	22,215	448	7,630	1,336	61,039	35,435	78,232	69,200	13,354	160,786
CH	40,657	101,198	53,279	17,611	257,758	271,584	91,726	75,829	271,489	442,294	392,492	1,106,276
MM	225,691	299,195	16,934	11,103	141,287	72,967	73,753	709,177	1,195,478	474,111	385,851	2,055,440
ME	31,756	195,057	8,182	20,951	210,095	67,035	86,961	252,475	480,639	335,008	260,805	1,076,452
MC	128,960	105,279	8,902	6,123	920,906	30,416	504,270	838,407	1,035,363	1,555,977	198,871	2,790,211
OT	13,756	17,484	1,461	11,600	6,380	7,561	4,140	20,052	53,471	247,778	72,777	374,025
AP	1,038,404	793,856	155,137	1,227,768	2,404,757	3,202,243	942,504	2,493,600	5,865,791	6,816,980	7,915,342	20,598,113
Change in Consumer Surplus ($Th)												
FO	409,255	-34,491	48,625	116,840	603,692	121,472	125,866	122,905	526,581	1,687,857	474,383	2,688,821
BT	38,905	6,067	3,468	23,279	42,209	11,379	15,777	113,180	219,124	141,336	279,977	640,436
CM	-43,653	-16,982	-1,409	934	-2,646	27,349	13,579	81,282	68,046	-34,343	33,016	66,719
MF	-9,166	-1,862	-18,201	-802	-18,226	2,898	-28,223	320,158	274,777	-63,817	-7,130	203,829
OF	-6,539	-1,165	5,554	2,686	31,117	10,433	16,323	43,021	130,087	68,179	22,223	220,489
CH	-42,799	-91,583	3,838	18,115	181,361	135,445	25,811	437,742	430,865	203,539	199,715	834,120
MM	334,877	140,468	36,291	131,704	634,608	292,968	321,078	319,657	817,029	1,760,864	906,624	3,484,516
ME	32,493	213,989	18,520	137,215	514,334	544,151	196,318	397,242	896,810	986,739	1,069,272	2,952,822
MC	110,514	356,483	21,664	135,475	231,791	190,217	157,205	295,328	818,306	720,259	855,431	2,393,996
OT	-2	-23,398	-314	681	-2	44,937	3,525	-20,059	-40,209	5,290	48,812	13,893
AP	823,884	547,527	118,034	566,126	2,218,238	1,381,248	847,259	2,110,456	4,141,415	5,475,902	3,882,323	13,499,641

Appendix C, Table 7-6

Mena-Wide Open Regionalism

MWT2	EG	IS	JO	KW	MO	SA	TN	TR	ME	NA	GC	AR
Forgone Tariff Revenue ($Th)												
FO	0	0	0	0	0	0	0	0	0	0	0	0
BT	0	0	0	0	0	0	0	0	0	0	0	0
CM	0	0	0	0	0	0	0	0	0	0	0	0
MF	0	0	0	0	0	0	0	0	0	0	0	0
OF	0	0	0	0	0	0	0	0	0	0	0	0
CH	0	0	0	0	0	0	0	0	0	0	0	0
MM	0	0	0	0	0	0	0	0	0	0	0	0
ME	0	0	0	0	0	0	0	0	0	0	0	0
MC	0	0	0	0	0	0	0	0	0	0	0	0
OT	0	0	0	0	0	0	0	0	0	0	0	0
AP	0	0	0	0	0	0	0	0	0	0	0	0
Change in Economic Welfare ($Th)												
FO	517,927	4,704	69,998	120,880	1,192,964	152,100	167,103	493,565	1,146,461	2,433,666	576,906	4,157,034
BT	41,154	6,527	4,488	23,525	45,384	13,014	18,277	171,829	284,814	150,823	317,357	752,994
CM	10,333	9,863	20,353	8,607	243,490	47,324	34,735	187,116	328,387	298,421	92,597	719,406
MF	422,987	7,183	-18,192	1,147,169	3,891	2,702,004	27,499	347,240	2,079,984	2,540,732	6,384,578	11,005,294
OF	-6,015	-1,066	27,768	3,134	38,747	11,769	77,362	78,456	208,320	137,379	35,577	381,275
CH	-2,142	9,615	57,117	35,726	439,118	407,029	117,537	513,571	702,354	645,834	592,208	1,940,396
MM	560,568	439,663	53,224	142,807	775,894	365,935	394,832	1,028,834	2,012,506	2,234,975	1,292,475	5,539,956
ME	64,249	409,046	26,701	158,166	724,429	611,186	283,278	649,717	1,377,449	1,321,748	1,330,077	4,029,274
MC	239,473	461,761	30,567	141,598	1,152,697	220,633	661,475	1,133,735	1,853,669	2,276,236	1,054,302	5,184,207
OT	13,754	-5,913	1,146	12,281	6,379	52,498	7,665	-6	13,261	253,068	121,589	387,918
AP	1,862,288	1,341,383	273,171	1,793,894	4,622,994	4,583,491	1,789,763	4,604,056	10,007,206	12,292,882	11,797,665	34,097,754

مصر : استراتيجية للتكامل الاقتصادى الإقليمى

معد لأجل:
وزارة التجارة والتموين
حكومة جمهورية مصر العربية

مقدم إلى :
الوكالة الأمريكية للتنمية الدولية
بالقاهرة ـ مصر

مقدمة من :
ناثان اسوشيتس انكوربوريشن

NATHAN ASSOCIATES
—1946 50 1996
FREE ENTERPRISE
IN THE PUBLIC INTEREST

عقد رقم : ٠٠
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سبتمبر ١٩٩٨

استهـــــــــلال

تم إعداد هذا التقرير بناء على دراسة قام بإعدادها مشــروع تحليـل و إصــلاح السياســات الاقتصادية و التنمية (مشروع ديبرا) من خلال عقد مع مكتب التحليل الاقتصادي والسياســات بالوكالة الأمريكية للتنمية الدولية (عقد رقم ٠٠-١٠٠٠٠-٩٦-٠٠-C - ٢٦٣) ، وذلك بنــاء على طلب من الأستاذ الدكتور وزير التجارة والتموين .

و يهدف "مشروع ديبرا" إلى تشجيع و مساندة الإصلاح الاقتصادي الكلى في مصر، و ذلـــك من خلال تقديم المعونة الفنية و الخدمات إلى وزارتي الاقتصاد، والتجارة و التمويـــن، مــع التركيز على الجوانب المتعلقة بتحرير التجارة و الاستثمار الدوليين، و تحرير الاقتصــاد، و تدعيم القطاع المالي . و قد تم إعداد هذه الدراسة في ظل رعاية و دعم خـــبراء "مشــروع ديبرا" في وزارة التجارة و التموين .

و قام بإعداد هذه الدراسة فريق من الخبراء برئاسة السيد/جيمس كينورثى ، مستشار التجــارة و الاستثمار الدولي بمشروع ديبرا ، و الدكتور/ دين دي روزا ، فيرجينيا- الولايات المتحــدة الأمريكية، و الدكتور/ محمد كامل صابر، الخبير الاقتصادي ، القاهرة ، و السفير/ عادل عبد المجيد، المتخصص في ترتيبات التجارة الإقليمية ، والسيد/ عبد الوهاب هيكل خبـــير تنميــة الصادرات بمشروع ديبرا. و جميع الآراء الواردة في هذه الدراسة تعبر عن وجهـــة نظــر القائمين باعدادها، و لا تعكس وجهة نظر الوكالة الأمريكية للتنمية الدولية، ووزارة التجارة و التموين، و المؤسسات التي ينتمي إليها الفريق القائم بالدراسة .

الملخص التنفيذي

الخلاصة و التوصيات

خلاصة الدراسة:

إن الهدف من التكامل الإقليمي هو أن يحقق للدول الأعضاء – من خلال قدراتها الإنتاجية الموحدة، والأسواق الموحدة ، و التكامل القطاعي الذي يمكن يتواجد فيما بينها – زيادة في إمكانات التجارة يمكن أن تتولد من :

أ- إلغاء أو تقليل المعوقات أمام التجارة و الاستثمار.

ب- تشجيع و تيسير التجارة و الاستثمار من خلال إحداث تناغم و تناسق بين نظمها القانونية و التنظيمية.

ج- التنسيق بين السياسات الاقتصادية الكلية و السياسات النقدية المتوافقة.

ومن الأهداف الثانوية للتكامل هو تجميع التأثير الاقتصادي للدول الأعضاء عند التفاوض بشأن الإطار الكوني لقواعد التجارة و الاستثمار.

و يأتي ضمن المكاسب الاقتصادية المتوقعة من ترتيبات التجارة الإقليمية ، ما يلي :

١- خلق التجارة .

٢- تدعيم كفاءة الإنتاج من خلال زيادة درجة التخصص، و اشتداد المنافسة .

٣- زيادة الإنتاج القومي .

٤- تدعيم جودة المنتجات .

٥- زيادة عمليات الاستثمار و نقل التكنولوجيا إلى الداخل .

٦- تحسين معدل التبادل الدولي .

و من الأمور الرئيسية التي يتم التركيز عليها في مفاوضات إنشاء مناطق التجارة الحرة و الاتحادات الجمركية ، ما يلي : قواعد دخول السوق ، و قواعد المنشأ ، و الجداول الزمنية للتنفيذ، ووجود تعهدات قطاعية محددة، و طرق لحل المنازعات . و بصفة عامة ، كلما زاد عدد الدول الداخلة في مثل المفاوضات، كلما زادت درجة تعقيدها، و استلزم الأمر وقتا أطول للوصول إلى اتفاق .

و من الأمور الرئيسية المرتبطة باتفاقات التكامل الإقليمي ، عدم الاتساق بين المنهج الإقليمي و المنهج الكوني لتحقيق تحرير التجارة و القضية الآن تتعلق بما إذا كانت الترتيبات الإقليمية تقلل الجهود متعددة الأطراف الرامية إلى تحرير التجارة الكونية ، و خلق التجارة من خلال اتفاقات عالمية، و القواعد التي تحكم التجارة و الاستثمار. و الترتيبات الإقليمية ، بإمكاناتها الخاصة بخلق التجارة بين الدول الأعضاء ، يمكن أن تحقق هدف توسيع نطاق الصادرات ، لكنها تقوم بذلك بطرق لا تتمشى مع المبادئ الأساسية للجات و منظمة التجارة العالمية و التي تتعلق بشرط الدولة الأكثر رعاية ، و شرط المعاملة الوطنية ، والتعهدات الملزمة الخاصة بالتعريفات . و من ناحية أخرى ، نجد أن القواعد الشاملة للجات و منظمة التجارة العالمية، و التي تتعلق بالتجارة الدولية ، تخضع لمعايير محددة، و التخلي عن متطلبات منظمة التجارة العالمية فى المادة (٢٦) من الجات ٩٤ ، و المادة الخامسة من الاتفاقية العامة لتجارة الخدمات، و ما يطلق عليه "قاعدة التمكين" والتي ترتبط بالمعاملة الخاصة التفاضلية للدول الآخذة في النمو.

و توجد تحت رعاية جامعة الدول العربية ، على الأقل ، تسع اتفاقيات للتجارة التفضيلية و التكامل الاقتصادي تم الانتهاء منها، بالإضافة إلى ثمانية ، على الأقل، من الترتيبات الإقليمية الفرعية أو غير المرتبطة إقليميا . لكن معظم هذه الاتفاقات تضعفها الفوارق السياسية و النزعات القومية ، وقيود البنية الأساسية ، و عدم الاتساق أو التعارض – غالبا – بين النظم الاقتصادية، و الافتقار إلى تكاملية الاتجار القطاعي ، و ضغوط الحماية المحلية . و من بين هذه الاتفاقات نجد اثنين فقط لازالا في حالة فعالية : اتحاد المغرب العربي ، و مجلس التعاون الخليجي .

و حديثا تم الانتهاء من إعداد منطقة التجارة الحرة العربية الكبرى ، حيث تم التوقيع عليها في فبراير ١٩٩٧ ، على أن تبدأ العمل في أول يناير ١٩٩٨. و حتى مارس ١٩٩٨ قامت جميع الدول العربية بالتوقيع على الاتفاقية باستثناء الجزائر ، وموريتانيا، و جيبوتي ، ولكن لم تصل الاتفاقية – حتى الآن – إلى مرحلة التشغيل الكامل بسبب فشل عدد من الدول الموقعة في استكمال إجراءات التصديق ، وعجز البعض الآخر عن تقديم قائمة إيجابية بالسلع التي تتمتع بمعاملة جمركية تفضيلية في كافة أرجاء المنطقة الحرة.

يضاف إلى ذلك ، أن مصر و عددا من الدول الأخرى قد حصلت على ميزة من اتفاقية منطقة التجارة الحرة العربية التي تشجع الدول العربية على الإسراع بتنفيذ التجارة العربية التفضيلية

من خلال عقد ترتيبات التجارة الثنائية . و قد دخلت مصر هذه الترتيبات بشكل مكثف، حيث أبرمت اتفاقات تجارة تفضيلية مع الأردن، و تونس ، و تسعى إلى عقد اتفاقات مماثلة مع الكويت ، و لبنان ، و ليبيا ، المملكة السعودية ، و سوريا ، واليمن .

إن وجود المزيد من ترتيبات معينة للتجارة الإقليمية يؤثر على إمكانات وجود اتفاق للتجارة الإقليمية في إقليم الشرق الأوسط و شمال إفريقيا ، والذي يمكن أن يفيد البرنامج المصري لتحقيق النمو الاقتصادي من خلال التوسع في التصدير.

و تحت مظلة اتفاق المشاركة بين الاتحاد الأوروبي و دول المتوسط، و الذي تم توقيعه في برشلونة عام ١٩٩٥ بين ١٥ دولة أعضاء في الاتحاد الأوروبي و ١٢ دولة من دول إقليم البحر المتوسط متضمنة ثمان دول عربية. و قد تم تنفيذ عدد من الاتفاقات الأوروبية / المتوسطية الثنائية بين الاتحاد الأوروبي و كل من الأردن و المغرب و تونس و إسرائيل ، بالإضافة إلى وجود اتفاق مماثل مع مصر يتم التفاوض بشأنه منذ حوالي سنتين. و تتضمن هذه الاتفاقات، بصفة عامة ، فترة انتقالية مدتها ١٢ عاما يتم خلالها الإلغاء التدريجي للتعريفات و الحصص . و تعكس هذه الاتفاقات نوعا من استراتيجية المركز و الأطراف من جانب الاتحاد الأوروبي لعمل علاقات تجارية تفضيلية مع دول الشرق الأوسط و شمال إفريقيا كل على حدة ، والتي يمكن أن ينتج عنها نوع من التبعية الاقتصادية لهذه الدول على الاتحاد الأوروبي ، و لكنها تشجع أيضا الجهود الرامية إلى التكامل الإقليمي عن طريق تنمية التجارة و التعاون الاقتصادي ما لم تؤد هذه الترتيبات إلى تغيير التفضيلات المقدمة إلى دول الاتحاد الأوروبي .

و حديثا، اتخذت مصر بعض الخطوات تجاه توسيع إمكانات حصول منتجاتها على معاملة تفضيلية عند دخول أسواق (٢١) إحدى و عشرين دولة من دول إفريقيا – جنوب الصحراء – و هي الدول الأعضاء في السوق الإفريقية المشتركة لدول شرق و جنوب إفريقيا (COMESA)، و ذلك من خلال الانضمام إلى هذا التكتل، لتكون الدولة الوحيدة من إقليم الشرق الأوسط و شمال إفريقيا التي يسمح لها بالانضمام إلى هذه السوق المشتركة .

و قد أظهرت جهود التكامل الاقتصادي في إقليم الشرق الأوسط و شمال أفريقيا ، سواء متعددة الأطراف أو الثنائية، أنها تفتقر إلى وجود منهج متكامل و مترابط بشكل منطقي لتحقيق التكامل من خلال التحرير المتبادل للتجارة. ومن الأمور الأكثر أهمية ، والتي تلقى بظلالها

على التوقعات الخاصة بالمبادرات الإقليمية، هي وجود معوقات هيكلية و سياسية معينة فـــي معظم دول الإقليم، و التي تقلل من الجهود الرامية لتحقيق التكامل الاقتصادي الإقليمـــي . و من أبرز هذه المعوقات : وجود معدلات تعريفة اسمية مرتفعة ، وجود معدلات حماية فعليــة مرتفعة ، وجود سياسات حماية وبصفة خاصة في قطاع الزراعة ، انتشار العوائـــق غــير الجمركية على التجارة ، و أخيرا، وجود ممارسات بيروقراطية و محظورات غير ضروريــة ومكلفة .

كما أن فعالية المبادرات الفعلية للتكامل تواجه قيودا مرجعها إلى عدد من العقبات المرتبطـــة بترتيبات التجارة . وتتضمن هذه المعوقات : عدم الاتفاق بشأن الجداول الزمنيــة المطلوبــة للتنفيذ التدريجي لإستثناءات السلع من القيود الجمركية وغير الجمركية ، وضعــف الإطــار القانوني والتنظيمي الوطني ، ومتعدد الأطراف المطلوب لتيسير ترتيبات التكامل ، ووجـــود قوائم سلبية تفرط في طلب استثناء المنتجات من المعاملة التفضيلية ، وعدم وجـــود قواعــد للمنشأ ذات قبول عام لتحديد جنسية المنتجات ، ومن ثم أحقيتها في التمتع بالتفضيلات .

و من عوامل النجاح التي تسمح للدول العربية بتحقيق ترتيبات تكاملية مفيدة ما يلي : التركيز على المشاكل الاقتصادية الكلية على أساس إقليمي بدلا من الأساس القومي ، و إتباع سياسات وأطر قانونية و تنظيمية تشجع وتيسر مبادرات القطاع الخاص ، والتخصص الاقتصادي ، و الإنتاجية ، و التنافسية القطاعية على أساس إقليمي ، وإلغاء السياسات التي تعـــوق بـــدل أن تشجع الاستثمار و التجارة عبر الحدود ، و التغلب على مشكلة عدم رغبة مســـتثمري إقليــم الشرق الأوسط و شمال أفريقيا في الاستثمار داخل الإقليم ، ويتـــم ذلــك بانتـــهاج سياســـات اقتصادية كلية تشجع الاستثمار الجديد، و إعادة تشكيل البيروقراطيات الوطنية بما يؤدى إلـــى إزالة المعوقات و التأخير و الرشوة، و هي الأمور التي تعوق التجارة و الاستثمار .

و قد بلغ حجم التجارة داخل إقليم الشرق الأوسط و شمال أفريقيا خلال الفـترة ١٩٩٤-١٩٩٦ أقل من ١٠% من إجمالي تجارة دول الإقليم مع العالم ، و أقل من ١% من التجارة الكونية . و **أكبر خمس دول مصدرة** داخل الإقليم هي السعودية ، و تركيا ، و الإمارات العربية المتحدة ، و إيران ، ومصر . أما **أكبر خمس دول مستوردة** من داخـــل الإقليـــم فـــهي تركيـــا ، و الإمارات ، والسعودية ، وسلطنة عمان ، والكويت .

و تمثل واردات مصر من العالم حوالي ١١,٤ بليون دولار على أقصى تقدير ، و لكنها تستورد فقط حوالي ٠,٦ بليون دولار من دول إقليم الشرق الأوسط و شمال أفريقيا ، وهو ما يعادل ٥% فقط من إجمالي وارداتها . وعلى العكس من ذلك ، نجد أن صادراتها إلى دول الإقليم تبلغ حوالي ٠,٩ بليون دولار ، وهو ما يعادل ٢٠% من إجمالي صادراتها إلى العالم (٤،٩ بليون دولار) .

و تعتبر التجارة داخل إقليم الشرق الأوسط و شمال أفريقيا منخفضة نسبيا بالقياس إلى مساهمة هذه الدول في التجارة العالمية ، حيث يعكس ذلك هيكل الإنتاج في دول الإقليم ، ومحدودية درجة انفتاح اقتصاديات دول الإقليم على التجارة مع بعضها البعض ، ومع باقي دول العالم ، و المنافسة الشديدة في التصدير بين دول الإقليم في قطاعات إنتاجية معينة ذات إنتاج متشابه ، و النقص النسبي في درجة التكاملية في التجارة داخل الإقليم .

و بناء على التقديرات الخاصة بالميزة النسبية المستبانة ، طبقا للبيانات المتاحة ، فان دول إقليم الشرق الأوسط و شمال أفريقيا يبدو لديها معدلات مرتفعة للميزة النسبية في الوقود المعدني و النفط . و هناك أيضا ، العديد من دول الإقليم التي حققت معدلات مرتفعة نسبيا من الميزة النسبية المستبانة في الغذاء ، والحيوانات الحية ، ومنتجات زراعية مختارة مثل الحبوب ، والأرز ، والخضر ، والفاكهة . وتتمتع مصر بمستويات عالية من الميزة النسبية المستبانة في الأرز والسكر، والقطن . وبالنسبة لمدى توافر الميزة النسبية في السلع المصنوعة بصفة عامة ، فهي منخفضة الأهمية بالنسبة لدول الإقليم فيما عدا السلع المصنوعة التقليدية ذات الكثافة العمالية المرتفعة مثل المنسوجات ، والملابس . و باستثناء إسرائيل ، لا يوجد من دول الإقليم من لديها ميزة نسبية مستبانة عالية في كل من المنتجات كثيفة العمل الماهر، وكثيفة التكنولوجيا .[١]

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[١] – يقدم مؤشر الميزة النسبية المستبانة صورة تقريبية للآفاق التصديرية لدولة ما، وذلك من خلال مقارنة نصيب الدولة من الصادرات العالمية من سلعة معينة مع نصيب الصادرات الاجمالية من هذه السلعة من إجمالى الصادرات العالمية. فاذا زادت قيمة المؤشر عن الواحد الصحيح، نستطيع القول بأن الدول تتمتع بميزة نسبية مستبانة فى السلعة المعنية. أما اذا نقصت قيمة المؤشر عن الواحد الصحيح، فإن الدولة تعانى من تخلف نسبى فى الميزة المستبانة.

و يواجه مصر – عند تنفيذ هدفها بزيادة الصادرات – أربعة مناهج أساسية بديلة لتحقيق النمو الاقتصادي من خلال التوسع في الصادرات : التحرير من طرف واحد ، أو المشاركة في واحد أو أكثر من ترتيبات التكامل الإقليمي ، أو التركيز على أسواق جغرافية أخرى ذات إمكانات أكبر لتحقيق المكاسب ، أو التركيز على تحرير التجارة الكونية من خلال منظمة التجارة العالمية . وهذه البدائل ليست متعارضة بالضرورة ، بحيث يمكن لمصر أن تطبق أكثر من بديل واحد من هذه المناهج .

و فيما يتعلق بقضية الإقليمية في مواجهة التعددية ، نجد أن الحجج التي تدعم الإقليمية تتمثل فيما يلي :

- تحتاج الاتفاقات الإقليمية إلى وقت أقل لتحقيق أهداف الصادرات من خلال دعم القدرة على دخول السوق ، حيث أن عدد الدول والقطاعات محدود .
- تسمح الاتفاقات الإقليمية لمصر أن تستهدف الأسواق الواعدة لزيادة صادراتها .
- كلما قل عدد الدول الداخلة في الاتفاق ، زادت قدرة مصر على التأثير عند وضع قواعد هذه الاتفاقات .
- من المحتمل أن تكون المكاسب الاقتصادية قصيرة الأجل، الناتجة عن اتفاق اقليمى، والجاذبية السياسية الناجمة عنها، أكبر من المكاسب التجارية والسياسية طويلة الأجل وغير المؤكدة، والتى يمكن أن تنتج عن عملية حقيقية متعددة الأطراف لتحرير التجارة العالمية.
- إن وجود منطقة محدودة للتجارة الحرة ، يعتبر أمرا واقعيا بالنسبة لمصر ، فهذا الأمر يلقى معارضة أقل من دعاة حماية السوق المحلى .
- لا يوجد ما يمنع مصر من الدخول في أكثر من اتفاق واحد للتكامل الإقليمي .

أما الحجج التي تؤيد تركيز مصر على المنهج متعدد الأطراف ، فهي تتمثل في الآتي :

- المنهج الإقليمي يفتح عددا قليلا من الأسواق، على حين يؤدى المنهج متعدد الأطراف – إذا تحقق – إلى فتح جميع الأسواق في العالم .

- إن قدرة الدول المتقدمة على التلاعب في نتائج المفاوضات متعددة الأطراف ، عند وضع قواعد التجارة الكونية ، آخذة في التناقص بسبب انضمام المزيد من الدول الآخذة في النمو إلى منظمة التجارة العالمية .
- قد تكون مصر في وضع أفضل لحماية مصالحها بشكل فعال ، من خلال إطار قوى قابل للتنفيذ لقواعد التجارة الكونية ، عن طريق زيادة تأثير الدول الآخذة في النمو إذا تصرفت بشكل متناغم .

و من الجدير بالملاحظة ، أن الاقتصاديين المتخصصين في أمور التجارة قلقون من وجود قدر كبير من عدم اليقين يحيط بالمصالح التجارية والإنمائية الاستراتيجية للدول التي تستهدف تحقيق التوجه الإقليمي .

إن النظرية الاقتصادية التقليدية التي تناولت ترتيبات التكامل الإقليمي (كتابات فاينر ، و ميد) جعلت الاقتصاديين يكرهون التوصية باتباع منهج الإقليمية ، حيث أظهرت الدراسات الكمية والتطبيقية أن مكاسب الرفاهية الناجمة عن ترتيبات التكامل الإقليمي ، والتي قد تكون موجبة ، تعتبر متواضعة إذا ما قورنت بالمكاسب التي تنتج عن التحرير غير التمييزى للتجارة ، أو "الإقليمية المفتوحة" .

و قد توصل التحليل الراهن للميزة النسبية المستبانة لدول إقليم الشرق الأوسط و شمال أفريقيا ، إلى وجود بعض التباين في أنماط الميزة النسبية للسلع ، فيما بين دول الإقليم ، إلا أنه يمكن اعتبار دول الإقليم متشابهة فيما تمتلكه من مزايا نسبية (وما تعانى منه من قصور في المزايا التنافسية) .

و تقول النظرية الاقتصادية المتعلقة بالتكامل الاقتصادي الإقليمي ، في مثل تلك الظروف ، أن الدول ذات معدلات الحماية المرتفعة (تعريفة جمركية عالية ، والعديد من القيود غير الجمركية) والتي تسعى إلى تكوين مناطق للتجارة الحرة أو اتحادات جمركية ، ينبغي أن تتوقع تحقيق تحسن ضئيل في رفاهتها الاقتصادية ، على سبيل المثال :

أ- حدوث خلق التجارة أساسا في القطاعات التقليدية المنافسة للواردات ، فيما بين الدول الأعضاء .

ب- من المحتمل أن يزيد أثر تحويل التجارة عن أثر خلق التجارة .

ج- لذلك ، تكون المكاسب الاقتصادية ضئيلة ، ولا يتم اقتسامها بشكل عادل فيما بين الدول الأعضاء في حالة عدم وجود شروط لإعادة توزيع المنافع الاقتصادية .

علاوة على ذلك ، يمكن أن تؤدى ترتيبات التكامل الإقليمي لدول الشرق الأوسط و شمال أفريقيا إلى حث الاستثمار المحلى والاستثمار الأجنبي المباشر على التوجه إلى القطاعات غير الكفء ، ومن ثم إعاقة آفاق النمو والتنمية طويلة الأجل .

و طبقا لنموذج التحليل الكمي الموجود في الفصل التاسع من هذه الدراسة ، فان آثار تحويل التجارة تفوق آثار خلق التجارة بهوامش كبيرة ، في كافة سيناريوهات التكامل الإقليمي فيما عدا منهج الإقليمية المفتوحة ، ويرجع ذلك إلى كون دول إقليم الشرق الأوسط وشمال أفريقيا تفتقر إلى التنافسية الدولية إلا في قطاعات قليلة (على سبيل المثال : الوقود المعدني ، المنسوجات ، الملابس) .

و بالنظر إلى حالة مصر ، على وجه الخصوص ، نجد أن التحليل الكمي انتهى إلى أن اتحاد المغرب العربي هو الوحيد من بين مناطق التجارة الحرة التفضيلية في الإقليم ، الذي يمكن أن يحقق لمصر منافع موجبة في الرفاهة ، ويرجع ذلك بداءة ، إلى أن مصر ودول المغرب بصفة عامة ، هي صاحبة أعلى مستوى للتعريفة الجمركية في الإقليم . وبرغم ذلك، يمكن القول بأن هناك إمكانية محدودة لخلق التوظف نتيجة مشاركة مصر في أي من اتحاد المغرب العربي أو منطقة التجارة الحرة العربية الكبرى ، لأنه في كلتا الحالتين ، نجد أن خلق التجارة الناشئ عن هذه الترتيبات الإقليمية يكون في قطاعات ذات إمكانات ضئيلة في الاستيعاب الكفء لأي إضافة في أعداد العمالة المصرية .

إن التحليل الاقتصادي النظري والكمي الذي قدمته الدراسة يقترح تفضيل مصر لتنفيذ منهج الإقليمية المفتوحة في إقليم الشرق الأوسط وشمال أفريقيا ، سواء تم ذلك بشكل منفرد أو على أساس متناغم . وفى ظل الإقليمية المفتوحة ، تقوم دول الإقليم بإلغاء قيود الاستيراد على أساس شرط الدولة الأولى بالرعاية بدلا من الاستناد إلى أساس التفضيل الجغرافي ، ومن ثم توسيع علاقاتها التجارية مع دول خارج إقليم الشرق الأوسط وشمال أفريقيا ، أو اقليم آخر ، بشكل يتسق مع المنهج متعدد الأطراف لمنظمة التجارة العالمية لتحرير التجارة الكونية . ولكن إذا افترضنا أن تنفيذ الإقليمية المفتوحة لا يستطيع أو لا

يمكن حدوثه في الأجلين القصير والمتوسط ، فإن التحليل الاقتصادي يقترح أن أفضل اختيار بالنسبة لمصر لإمكانية التكامل هو اتحاد المغرب العربي .

التوصيات:

١- ينبغي على مصر أولا ، أن تركز على وتستمر في مساندة اقتصادها المحلى (ومن ثم جاذبيتها لكل من التجارة والاستثمار الإقليمي والدولي) بانتهاج سياسات ونظام قانوني وتنظيمي لبناء القطاع الخاص المحلى ، ومكافأة النشاط الاستثماري القائم على مبادرة المنظمين ، في إطار اقتصاد سوق حرة يشجع على التخصص والإنتاجية .

٢- ويجب على مصر أن تستمر في إزالة العقبات القائمة أمام التجارة والاستثمار الدوليين من خلال إصلاح نظامها القانوني وممارساتها البيروقراطية ، بشكل يؤدى إلى تشجيع وتيسير ، بدلا من إعاقة مثل هذه التجارة والاستثمار .

٣- ينبغي على مصر أن تسعى إلى تنسيق سياساتها الاقتصادية الكلية ، إلى أقصى حد ممكن ، ونظامها القانوني والتنظيمي ، والإصلاحات التي تقوم بها ، مع تلك الدول التي من المنتظر أن تدخل معها في شكل من أشكال اتفاقات التجارة الإقليمية .

٤- وحتى مع تركيزها على إمكانات وجود اتفاقات تفضيلية للتجارة الإقليمية ، يجب على مصر أن تعرف أنه طبقا للنظرية الاقتصادية ، والتي يدعمها النموذج الكمي والتحليل الذي قدمته هذه الدراسة ، أن الآثار الفعلية للرفاهة تتحقق مما يطلق عليه " الإقليمية المفتوحة " ، بمعنى التحرير المنفرد للتجارة على أساس شرط الدولة الأولى بالرعاية ، يمكن في الأجل المتوسط والطويل أن تفوق مكاسب الرفاهة الناشئة عن ترتيبات إقليمية محدودة تتم في الأجل القصير، ومن ثم ضرورة إعطاء اعتبار جدي لتنفيذ التحرير التجاري المنفرد . إذا قررت مصر أن منهج الإقليمية المفتوحة لا يبدو منهجا ممكنا في الأجل القصير ، ينبغي عليها عندئذ ، أن تنفذ الترتيبات الإقليمية .

٥- وعلى حين أنه قد تكون هناك أوامر سياسية توضح منافع الترتيبات الإقليمية ، فينبغي على مصر أن تضع أولويات لعامل الوقت والموارد ، لتحقيق المساندة المطلوبة لدخول الأسواق الجغرافية التي تقدم الأرجحية الكبرى لحدوث زيادة حقيقية ضخمة في الصادرات ، وعلى سبيل المثال : الاتحاد الأوروبي ، والولايات المتحدة الأمريكية ، و اليابان ، وأسواق شرق آسيا .

٦- ويجب على مصر ، عند قيامها بتقييم ما إذا كانت سوف تنضم إلى علاقة إقليمية للتفضيلات التجارية ، ومع أي الدول ، أن تركز على تحقيق مصالحها الاقتصادية الواضحة ، والتي يمكن الحصول عليها في الأجل القصير (التنمية الاقتصادية وخلق

الوظائف من خلال زيادة الصادرات) من خلال سياساتها وجهودها التفاوضية مع تلك الدول التي تمثل أكبر أسواق حقيقية لزيادة الصادرات ، بمعنى : تلك الدول التي يكون لمصر أوضح تكاملية قطاعية وتجارية معها ، أخذا في الاعتبار ، القطاعات و المنتجات ذات أوضح ميزة نسبية بالمقارنة بالمصدرين المرتقبين الآخرين إلى هذه الأسواق .

و استنادا على التحليل الاقتصادي الكمي في هذه الدراسة ، يبدو أو أعظم المنافع التي يمكن لمصر أن تحققها ، يمكن أن تأتى من عضوية مصر ، أو تفاوضها لإقامة منطقة للتجارة الحرة مع اتحاد المغرب العربي ، والتي تعتبر اقتصادياتها ، أكثر تقدما بشكل عام ، وتظهر تكاملية سلعية مع مصر ، على سبيل المثال : الغذاء ، والأغذية المصنعة ، والسلع الزراعية .

٧- عند النظر في إمكانات وجود علاقات تجارية إقليمية مع دول أخري في إقليم الشرق الأوسط و شمال أفريقيا ، يجب على مصر أن تركز، على الأقل في البداية ، على التفاوض بشأن ما يطلق عليه "اتفاق منطقة التجارة الحرة السطحية" والذي يمكن أن يدعم قدرتها على دخول الأسواق المستهدفة من خلال وجود تفضيلات جمركية فعالة ، قابلة للتطبيق ، وإزالة القيود غير التعريفية ، بدلا من محاولة إنشاء اتفاق أكثر تعقيدا وعمقا ، والذي قد يتضمن أمور وقضايا قد تمثل صعوبات في تحقيق الاتفاق ، وقد تحتاج إلى فترة زمنية أطول للتفاوض والتنفيذ الفعلي .

٨- ينبغي أن تستمر مصر على صلابتها في استراتيجيتها التفاوضية مع الاتحاد الأوربي في المفاوضات الخاصة باتفاق المشاركة الأوروبي/ المتوسطي ، وذلك من أجل الحصول على قدرة أكبر على دخول أسواق الاتحاد الأوروبي بشكل فوري ، في المجالات التي تتمتع مصر فيها بميزة نسبية ، وذلك من خلال التفاوض للحصول على اتفاق أفضل مع الاتحاد الأوروبي مما وصلت إليه دول أخرى ، ومن ثم دعم جاذبيتها كشريك تجارى مرتقب ، مع دول الإقليم التي تقدم أسواقها لمصر افضل الإمكانات لزيادة صادراتها .

٩- في نفس الوقت الذي تقوم فيه مصر بإجراء المفاوضات لعقد واحد أو أكثر من ترتيبات التجارة الإقليمية ، ينبغي أن تستمر أيضا في المشاركة الفعالة في الجهود المتعددة الأطراف من خلال الجات ومنظمة التجارة العالمية من أجل تحقيق حرية التجارة في الأجل الطويل على أساس عالمي ، وأن تأخذ دور القيادة نيابة عن

مجموعة الدول الآخذة في النمو بصفة عامة ، ودول إقليم الشرق الأوسـط وشـمال أفريقيا بوجه خاص .

١٠- يجب على مصر - أثناء محاولتها تحقيق ترتيبات التجارة الإقليمية - - أن تركـز على ضرورة تحقيق خلق التجارة وآثار التوسع في الصادرات التي تنتج عـن هـذه الاتفاقات ، في بناء التنافسية الدولية لصناعاتها التصديرية ، ليس فقط في الأسـواق المفضلة المحمية للدول الأعضاء في اتفاق تجارى .

١١- ينبغي على مصر أن تطالب وأن تتأكد أن أي اتفاق تجارة إقليمي سـوف تكـون عضوا فيه ، يكون متسقا مع القواعد متعددة الأطراف ومعايير الاستثناء من قواعـد الجات ومنظمة التجارة العالمية ، بحيث يكون هناك تناغم ييسر تحقيق حرية التجـارة على نطاق كوني .

١٢- لكي تحقق مصر تكاملية وتنسيق جهودها لتحقيق الأمور السـابقة ، يجـب علـى الحكومة المصرية أن تنشئ لجنة وزارية للتكامل الاقتصادي لبحـث كافـة جوانـب اتفاقات التجارة الإقليمية والتكامل الاقتصادي ، وأن تقترح الإصلاحات المطلوبة فـي السياسات ، واستراتيجيات التفاوض ، الضروريـة لتعظيـم المكاسـب التجاريـة و الاقتصادية الناجمة عنها .

١٣- وينبغي على مصر تقديم كل الدعم المطلوب لمواجهة وحل العديـد مـن القضايـا المتلازمة مع المفاوضات وإنشاء اتفاقات التجارة الإقليمية ، وذلك من خلال حصولـها على المساعدات الفنية من الجات ومن منظمة التجارة العالمية والاونكتاد ، بالإضافـة إلى وكالات المعونة الفنية متعددة الأطراف والوطنية .