ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA (ESCWA)

ASSESSMENT OF TRADE POLICY TRENDS AND IMPLICATIONS FOR THE ECONOMIC PERFORMANCE OF THE ESCWA REGION

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ABBREVIATIONS AND EXPLANATORY NOTES

COMESA	Common Market for East and South Africa
EFTA	European Free Trade Agreement
FDI	Foreign direct investment
FTA	Free trade agreement
GAFTA	Greater Arab Free Trade Area
GCC	Gulf Cooperation Council
GDP	Gross domestic product
GSP	Generalized system of preferences
GSTP	Global system of trade preferences
DOT	Direction of trade
IMF	International Monetary Fund
ICT	Information and communications technology
LPI	Logistics performance index
MA-TTRI	Market access-trade tariff restrictiveness index
MFN	Most Favoured Nation
NAFTA	North American Free Trade Agreement
OPEC	Organization of the Petroleum Exporting Countries
QIZ	Qualifying industrial zone
SITC	Standard international trade classification
TIFA	Trade and investment framework agreement
TRIPS	Trade-related aspects of intellectual property rights
WTO	World Trade Organization

References to dollars ($) are to United States dollars, unless otherwise stated.

Executive summary

The countries of the Economic and Social Commission for Western Asia (ESCWA) region are aiming to increase their regional and international economic integration. A significant portion of this economic integration is the expansion of inter- and intraregional trade, which boosts gross domestic product (GDP) growth rates, allows a higher degree of inter-ESCWA specialization, and improves the allocation and distribution of resources in the region. While ESCWA member countries face a number of stumbling blocks in terms of increasing regional trade, a consensus exists among policymakers that the economic integration of ESCWA is crucial both to promote growth and economic development and in order to meet the challenges posed by globalization. Moreover, while the increasingly integrated world economy represents a challenge for ESCWA member countries, it can also be perceived as an opportunity, particularly in terms of consolidating regional integration and of maximizing the economic benefits that can arise from globalization.

However, as highlighted in this study, the ESCWA region has lagged behind the rest of the world with respect to trade integration, despite the strong empirical correlation between trade liberalization and enhanced economic growth and long-term employment, particularly when combined with investment liberalization policies. Consequently, there is a greater need to liberalize further regional trade through export promotion strategies, tariff reductions, and the adoption of regional and international trade preferential agreements. In addition to attaining the objectives of regional integration, such a measure constitutes an important instrument towards stimulating growth.

This study shows that since the early 1980s, most ESCWA member countries have embarked on a trade regime that supports free trade and that is more outward-oriented. Out of the 14 ESCWA members, eight are now members of the World Trade Organization (WTO) and four enjoy observer status. In addition, all the countries of the ESCWA region are members of the Greater Arab Free Trade Agreement (GAFTA); six member countries are members of the Gulf Cooperation Council (GCC); several ESCWA members are signatories of partnership agreements with the European Union, while others have signed bilateral trade agreements with the United States of America and other Arab and African countries; and a number of ESCWA member countries have adopted the global system of trade preferences, the generalized system of preferences, and have established various free zones and qualifying industrial zones (QIZs).

Moreover, this study shows that ESCWA member countries still need to devote further efforts towards achieving the desired levels of growth and development. The inadequacy of public services, which drives up business costs, in addition to the need to rehabilitate infrastructure in several ESCWA member countries remain an obstacle to further development of both the service and industrial sectors, and continue to constitute important impediments in terms of promoting and intensifying intraregional trade. In addition, the current trade policies of some ESCWA member countries appear to be inhibiting the competitiveness of domestic firms and hindering economic growth and development through trade creation. Since their introduction in the early 1990s, all the ratified preferential trade agreements and the structural reform programmes and privatization schemes have failed to remove the impediments to both national and regional trade development efforts.

Despite recent efforts aimed at promoting regional and international integration, the ESCWA region continues to lag behind other developing regions in terms of trade integration into the world economy. While impediments to trade in the region have been reduced in recent years, they remain relatively high in many ESCWA member countries outside the GCC subregion. In terms of percentage of total trade, intra-ESCWA total trade and total exports have remained low, thereby indicating that all the newly ratified trade agreements are still unable to intensify ESCWA trade and stimulate further trade integration in the region. This highlights the need to intensify efforts aimed at overcoming the stumbling blocks that obstruct the development of intraregional trade, and at further enhancing regional trade integration.

Additionally, this study shows that Oman has the highest market access for its exports, followed by Saudi Arabia, Qatar, United Arab Emirates, Bahrain, Egypt, Lebanon and Jordan. In terms of the most conducive business environment among ESCWA member countries, Saudi Arabia ranks first, followed by Kuwait, Oman, United Arab Emirates, Jordan, Lebanon, Yemen, Egypt and Syrian Arab Republic. In the area of customs and other border procedures, the United Arab Emirates has the most efficient system, followed by Bahrain, Saudi Arabia, Kuwait, Qatar, Oman, Jordan, Egypt, Lebanon, Yemen and Syrian Arab Republic.

While member countries have already ratified various trade agreements, these have generally failed to attract the level of investment that is conducive to growth and development. In the long term, however, further ESCWA trade liberalization could pave the way for more specialization within the region, thereby enhancing growth and development. ESCWA member countries need to specialize further in the production of goods where they enjoy a comparative advantage, namely, lower opportunity costs. If applied properly, these trade agreements could equally enhance trade creation within the region, with the further reduction of trade barriers.

The policy recommendations of this study can be summarized as follows:

(a) ESCWA member countries must continue to integrate regionally and internationally, and seek to encourage a policy mix of import-substitution and export promotion policies;

(b) Given the growing competition from world markets, ESCWA member countries need to continue to reform and further modernize existing trade policies. Improving the information and communications technology (ICT) sector will play a vital role in enhancing the markets and trade in the ESCWA region. While this sector has continued to grow over the past few years, more efforts are needed in order to promote integration with international markets;

(c) In order to succeed in their recent trade integration efforts and their new, outward-oriented trade policies, ESCWA member countries need to encourage foreign direct investment (FDI), which, in addition to increasing savings and employment opportunities, allows for the transfer of technology and knowledge, and increases productivity;

(d) Governments in the ESCWA region need to improve the domestic investment environment by facilitating trade management procedures, reducing all the bureaucracy complications and becoming more transparent. Privatization remains an important channel for increasing investment opportunities in the ESCWA region;

(e) ESCWA member countries need to devote additional efforts aimed at promoting further investment in the region. At the national level, investment promotion policies must focus on three main elements, namely, (i) updating investment promotion laws; (ii) establishing national committees to oversee investment projects; and (iii) facilitating administrative procedures relating to these projects;

(f) The recent removal of several barriers to trade and movement of human resources have benefited the ESCWA region to some extent. ESCWA member countries need to integrate further their labour markets, particularly given that large intraregional labour movements could constitute the main vehicle for regional economic integration, thereby triggering substantial financial flows in the form of workers' remittances;

(g) Further liberalization of ESCWA trade and the removal of tariff and non-tariff barriers could result in improving significantly employment and job creation opportunities in ESCWA member countries. Through the combined size of their capacities and markets, and the sectoral complementarities among ESCWA member countries, unemployment rates could be further reduced through both trade and investment creation;

(h) ESCWA member countries must enhance efficiencies in production by further exploiting comparative advantages in domestic markets, thereby benefiting from economies of scale that are made possible by expanded markets;

(i) ESCWA member countries need to improve and coordinate further their macroeconomic and monetary policies both at the national and regional level.

Introduction

Regional economic integration can give rise to several favourable repercussions, particularly in terms of increasing goods market competition from improved efficiency and encouraging economies of scale. While tariffs are far from being the only obstacles to trade, liberalizing trade by reducing tariffs, as provided for in the GAFTA agreement, is a first and necessary step on the way to increasing trade integration. Equally, several ESCWA member countries have undertaken positive steps aimed at increasing participation in the multilateral trading system, bilateral interregional agreements, bilateral intraregional trading agreements, transport and trade facilitation, and promotion of the sectors most vital to the economies of the ESCWA region.[1]

The success of any trade policy can be assessed on the basis of its actual contribution towards improving market access for domestically produced products and services, and its ability to minimize the consequences of openness, trade liberalization and globalization on the domestic market. Similarly, the impact of trade policy on development and growth can be measured through its effects on proxy variables, including increases in investment, job creation and technology indigenization. During the period 1980-2008, ESCWA member countries have ratified several trade agreements and have implemented various trade policy instruments and practices, ranging from import-substitution to export promotion and progressive trade liberalization. While these have been successful to some extent in achieving their desired objectives in member countries, more efforts are still needed in order to attain development objectives.

On the other hand, it is well known that ESCWA member countries are highly diverse in terms of their economic, geographical and climatic structures, natural resources endowment and standards of living. Those characteristics have an important impact on the region's pattern of trade and could explain to some extent the failure of some countries to achieve those objectives. With regard to the composition of trade in the ESCWA region, exports are highly concentrated in oil and oil-related products, amounting to some 75 per cent of total exports in 2006. Manufactured goods represent the next most important exported goods, at 15 per cent, led by textiles and clothing. Raw materials and chemicals constitute 7 per cent of total exports, while food-related products amount to approximately 3 per cent. The region is also dependent on food imports, which represent some 15 per cent of total imports.

In the debate on free trade, the elimination of any trade barrier between countries has proven to have many advantages as well as disadvantages. The main advantages for free trade include the following:

(a) Free trade benefits from the theory of comparative advantage whereby an increase in economic welfare is gained when countries specialize where they enjoy a lower opportunity cost;

(b) Trade creation whereby trade is promoted when barriers are reduced or removed. With the help of comparative advantage, this allows consumers to enjoy products at lower costs and imported from cheaper foreign markets. While this can hurt domestic firms, the increase in consumer surplus allows for an overall increase in economic welfare;

(c) The results of comparative advantage allow countries to increase their exports of products that have a lower production cost than other countries. Naturally, this increases economic welfare as well as promotes growth;

(d) Specializing in a particular industry allows for increasing returns to scale or economies of scale, which reduces costs and consumer prices. This is especially true for industries that are characterized by high

[1] For the purpose of this study, the ESCWA region comprises Bahrain, Egypt, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates and Yemen. Iraq and Palestine were excluded owing to the lack of data, while the Sudan was not included due to its recent membership of ESCWA.

fixed costs or that need large amounts of investment where a high level of production can be reached with reduced costs;

(e) Since the removal or reduction of trade barriers allows cheaper imports to enter the market, domestic firms face greater competition and therefore have a greater incentive to improve their operations and reduce costs. Moreover, it is a deterrent against domestic monopolies that try to control domestic market and raise prices. This increases consumer surplus and general economic welfare;

(f) Free trade allows an efficient allocation of surplus of raw materials such as oil that has become a major input in countries across the world. Trade has given the chance for countries that do not have natural oil resources to use oil as input in order to enhance their industries and economies;

(g) Trade allows for economies of scale, specialization and increase in exports, which in turn provides numerous job opportunities. While the danger of structural unemployment naturally exists, this can be offset by providing assistance and financial support until the unemployed find other jobs;

(h) Trade can be a main instigator of growth as has been shown in several empirical studies.

The arguments against free trade can be summarized as follows:

(a) The infant industry argument that believes that nascent domestic industries need some protection until they grow, develop and are able to compete against foreign markets;

(b) Countries that have comparative advantage in producing primary products can suffer from free trade. Aside from not getting the chance to diversify their economy, agricultural products are vulnerable to environmental aspects and have low-income elasticity of demand;

(c) The senile industry argument whereby already inefficient old industries need temporary protection in order to undertake reforms before facing foreign competition;

(d) Fear of structural unemployment given that, with specialization, some domestic industries will prosper while others will suffer;

(e) With trade liberalization, countries can become affected by international economic crises and trade cycles. Such crises could be prevented from affecting the domestic economy through trade barriers;

(f) Dumping and other unfair trade practices are other disadvantages that stem from free trade.

There exists however some empirical evidence to suggest that more open economies have historically performed better in terms of growth and development than those under protectionist regimes. In the late-1980s, protectionism began to lose ground especially after the debt crisis of 1982, and the stark difference between the poor performance of protectionist countries in Latin America and the dynamic growth of outward-oriented countries in East Asia. Economists working with developing countries gradually began to recommend trade policies that were more outward oriented and with fewer barriers to foreign markets. Other institutions, including the World Bank and the International Monetary Fund (IMF), stipulated pre-conditions on developing countries in order to qualify for any financial assistance, such as changing policies towards trade liberalization and removing trade barriers.

The trade literature is also full of studies supporting the notion that trade promotes growth and development. For instance, Krugman (1987) showed that the advantages gained from intervention were limited and could pave the way to undesirable political consequences, while free trade remained an appropriate policy to follow. Edwards (1993) looked at trade liberalization and growth in developing countries, and showed that the shift from protectionism to free trade lay behind the relatively high GDP growth rates in several developing countries. Frankel and Romer (1999) performed an empirical study on the relationship between international trade and income and reached five main conclusions, namely: (a) there was no evidence to prove that the positive relationship between international trade and income stemmed from the fact that high-income countries could do more trade; (b) the influence of trade on income was significant and positive; (c) trade increased income; (d) the relationship between trade and country size was robust; and (e) the influence of size and trade were not very accurately estimated.

Several studies have documented the evidence of a correlation between the positive effect of trade and the quality of institutions on trade. Dollar and Kraay (2003) published a paper on the partial influence of trade and institutions on growth. The results indicated a significant effect of trade on growth, with a more modest effect on institutional quality. This finding revealed the importance of both trade and institutional quality on long-term growth and the relatively more significant influence of trade in the short term. Some empirical studies go on to prove that more than 50 variables are significantly correlated with growth. A paper by Levine and Renelt (1992) studied the robustness of such variables and offered the following two main arguments: (a) the existence of many empirical studies where indices of economic policy were extensively correlated, in the long run, with GDP per capita growth rates; and (b) the fragility of almost every policy indicator studied in correlation with long-term average growth rates. On the other hand, the paper also found a robust positive relationship between investment as a percentage of GDP and growth, as well as between the ratio of trade to output and investment.

Yanikkaya (2003) performed a cross-country empirical study concerning the relationship between trade openness and economic growth. Trade openness measures were divided into two main groups, namely, those that evaluate trade volumes and those that evaluate trade restrictions. Consistent with the empirical literature on the importance of trade openness to growth, Yanikkaya found a significantly positive correlation between trade volumes and growth. However and more surprisingly, the study also found a significant and positive correlation between trade barriers and growth. This result supports the literature that describes the benefits of trade barriers in terms of enhancing growth in developing countries in certain situations, including, for example, the infant industry argument.

Rodriguez and Rodrik (1999) argued that the strong inclination of several institutions towards trade liberalization, including the IMF, and the strong positive correlation between fewer trade barriers and growth was actually based on weak empirical proof. This owed mainly to the fact that such papers that examined the relationship between trade barriers and growth looked at macroeconomic imbalances or bad institutions as indicators for trade barriers, which in fact did not represent them. On the other hand, the authors were sceptical with regard to the positive trade barriers in promoting growth.

Trade liberalization is not the only topic to consider for enhancing growth. Rather, the regulatory system in a given country must also be studied. Bolaky and Freund (2006) revealed in their paper that a strict regulatory system could limit any benefits from trade and even turn them into drawbacks. In fact, regressions studying trade and growth in highly regulated countries reveal the absence of a significant positive relationship. This is mainly because strict regulations prohibit resources from moving efficiently in an economy and raises the probability of trade in wrong goods. Upon controlling for regulations, however, trade and growth are again positively correlated. This is an indication that, in the debate on whether trade or institutions is more significant, institutions gain the upper hand in the most distorted economies.

While many Governments are currently shifting towards trade liberalization and others are being urged to pursue it by such multilateral institutions as the World Bank and IMF, this has not dispelled the uncertainties and reservations against trade liberalization. In the above review of the literature, many economists remain unsure as to the advantages of trade liberalization and view it as merely a tool towards growth. In other words, trade liberalization is a beneficial instrument if a country knows how to take advantage of it. Free trade alone may not necessarily stimulate growth; rather it provides an environment that is more conducive to growth and development if properly used.

With the above in mind, this study aims to identify the various trade policies adopted by ESCWA member countries, and to assess their impact on economic performances and, in particular, their contribution towards improving trade openness, integration and development of the region. Through this assessment, the study provides a framework to draw lessons on the merits of the different trade policies and the existing ratified trade agreements. The study also aims to contribute to the existing literature on trade policy regimes in the ESCWA region, and to equip policymakers with appropriate trade policy instruments aimed at enhancing trade growth and economic development.

Chapter I highlights in detail all the issues pertaining to trade, trade integration, and growth and development in the ESCWA region, as well as the main indicators of trade and trading partners of ESCWA member countries. Chapter II studies trade policies and practices in the ESCWA region, with particular emphasis on trade policy objectives and a special focus on the major policy trends during 1980-2006. Additionally, this chapter presents a detailed description of all the international and regional and bilateral trade preferential agreements and binding commitments related to them, including those of the World Trade Organization (WTO). Chapter III analyses the effects of trade policies on trade promotion and growth within the region in terms of the following: (a) improving market access for ESCWA member countries; (b) developing product and service sectors and their trading capacities; (c) indigenizing advanced production technologies; (d) attracting investments; and (e) increasing employment and job opportunities. Chapter IV concludes the study with some policy implications.

I. TRADE AND GROWTH IN THE ESCWA REGION

A. TRADE AND TRADE INTEGRATION IN THE ESCWA REGION

ESCWA member countries continue to trade significantly with the rest of the world. This is due mainly to the factor endowment of the region, which is rich in oil and poor in water. However, over the past two decades, the share of intra-ESCWA trade in total trade has remained below 10 per cent. By comparison with other integrated regions across the world, the share of intra-Asian trade was about 55 per cent, while that of intra-Latin American trade was approximately 45 per cent in 2006. In the same year, the share of trade under the North American Free Trade Agreement (NAFTA) was 55 per cent of total trade, while in the European Union, intra-EU trade represented almost 65 per cent of total trade. Moreover, the speed of regional trade integration diminished the annual average rate of growth of intraregional imports, dropping from 14 per cent during the period 1986-1989 to 7 per cent during 1990-1996, bouncing back to 12 per cent during the 1997-2006.[2]

The ESCWA region as a whole has lagged behind most of the other regions in terms of trade integration into the world economy, despite a stronger level of integration that was achieved by a limited number of individual countries. ESCWA member countries appear relatively open, with a total average trade-to-GDP ratio of 70 per cent, which is high by international standards.

However, this indicator is influenced by the particular factor endowments of the region that result in sizeable oil exports and basic food imports, and thus a comparatively high traded-goods ratio. This does not necessarily reflect greater integration or competitiveness in global markets. The ratio of manufactured exports to total exports is below average for developing countries.[3] Specifically, while this ratio is on the rise for non-oil ESCWA member countries, it has not increased for major oil-exporting countries. In most GCC countries and the Syrian Arab Republic, the bulk of foreign export earnings still comprise fuel exports; and only a limited number of countries, namely, Bahrain, Egypt, Jordan and, more recently, Oman, have a significant ratio of non-fuel exports to total exports.

The region's relative performance was evident during the past decade when most other developing countries witnessed a surge in trade integration. For example, Bahrain, Egypt, Kuwait and the Syrian Arab Republic exhibited negative growth rates in their trade-to-GDP ratios over several years during the 1990s. Moreover, according to the Direction of Trade Statistics (DOT) of the IMF, the share of exports in total world exports for the ESCWA region has decreased by more than half since 1985, from about 5 per cent in 1985 to nearly 2 per cent in 1997, and up to a modest 4 per cent in 2006. By contrast, the export share in the countries of East Asia increased from 4 per cent to almost 8 per cent over the same period. Similarly, the share of ESCWA imports in total world imports dropped from 5.5 per cent in 1985 to 1.5 per cent in 1997, and up to 3 per cent in 2006.

While impediments to trade in the region have been reduced in recent years, they remain relatively high for many ESCWA member countries outside the GCC. While most GCC countries, including Bahrain, Oman and the United Arab Emirates, have open trade regimes with average tariff levels below 10 per cent, the levels are close to or above 15 per cent for most non-GCC ESCWA member countries (compared with 8 per cent in Latin America and 6 per cent in Asia in 2006). Recently, however, a number of ESCWA member countries, including Egypt and Jordan, have pursued greater trade liberalization by opening up their current account, dismantling tariffs and non-tariff barriers (NTBs) and introducing export promotion policies. Policies to promote non-oil and non-mineral exports were also implemented in some ESCWA member countries that relied heavily on primary commodities.

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[2] See International Monetary Fund (IMF), *Direction of Trade Statistics Yearbook* (August 2007).

[3] The ratio of manufactured exports to total exports is a good indicator of a country's competitiveness in foreign markets, technological progress and production diversification.

B. Economic growth and structure of GDP

With the exception of Egypt, Lebanon, the Sudan, Syrian Arab Republic and Yemen, the contribution of the agricultural sector to GDP for the majority of ESCWA member countries has remained below the 5 per cent level (see table 1). This owes mainly to the endowment factor and climatic conditions in a region that is poor in water and rich in oil. Table 1 also indicates that the industrial sector contributes significantly to GDP for some ESCWA members, while the service sector is more important for other countries. In Qatar, Kuwait, Oman, United Arab Emirates and Yemen, the contribution to GDP of the industrial sector is significant at about 63.4, 59.6, 55.6, 47.7 and 41.4 per cent, respectively. For those countries, the threat of competition from European and North American industrial goods is significant and can impact negatively on GDP growth rates. By contrast, while the contribution to GDP of the industrial sectors in Jordan, Lebanon and the Sudan has remained below the 25 per cent level, the contribution of services in those countries has remained significantly high, namely: at 83.1 per cent in Lebanon, followed by Jordan, at 77.6 per cent.

Table 1. Sectoral contribution to GDP, 2007
(*Percentage of GDP*)

Country	Agriculture	Industry	Services
Bahrain	0.4	38.6	61
Egypt	13	30.7	52.4
Jordan	2.8	19.6	77.6
Kuwait	0.2	59.6	40.2
Lebanon	7.8	9.1	83.1
Oman	1.3	55.6	43.1
Qatar	0.1	63.4	36.5
Saudi Arabia	2.8	36.5	60.7
The Sudan	28.3	21.6	50.1
Syrian Arab Republic	20	30.1	49.9
United Arab Emirates	1.8	47.7	50.5
Yemen	10.6	41.4	48

Source: Arab Monetary Fund (AMF), *Joint Arab Economic Report* (2008).

The development of both the service and industrial sectors has been hampered by inadequate public services, which drive up business costs, and by the need to rehabilitate infrastructure in several ESCWA member countries. These have constituted important impediments to promoting and intensifying trade. In addition, low productivity and lack of quality standards have so far obstructed the performance of export-oriented industries.

C. Trade, growth and contribution to GDP

Since 2002, the ESCWA region has exhibited spectacular growth performances as a result of hikes in oil prices. However, this growth performance is expected to revert due to the recent significant decline in oil prices. The growth outlook for the coming two years is not very promising. During the past two decades, growth performances have been poor owing mainly to a deteriorating macroeconomic environment, coupled with political turmoil and regional conflicts.

Egypt's real GDP growth rates have been volatile since 1982. However, improvements in these rates started to be significant in 2001 (see figure I.A (a)). In order to avert and contain further pressures on the local currency, Egypt shifted to a flexible exchange-rate regime in 2001 after a series of forced devaluations. As a result, Egypt saw its exports increase and was able to reduce domestic interest rates, thereby stimulating investment. The increase in both exports and investment appear to have contributed positively to the growth rate of real GDP, with an increase during the period 2002-2006. Other contributing factors to the high real GDP growth rates have been the entry into force of the bilateral trade agreement between Egypt and the

European Union in 2004, and the subsequent increase in bilateral trade; and workers' remittances from Egyptian labour in the GCC countries.

After a period of significant volatility in Jordan since 1980, the rate of growth of real GDP stabilized during the mid-1990s, averaging some 4 per cent (see figure I.A (b)). Recently, however, Jordan was able to benefit from significant tourism revenues, and from Iraqi capital seeking investment in real estate. In addition, Jordanian exports started to increase considerably as bilateral trade agreements with the United States and the European Union came into force, thereby contributing positively to the growth rate of GDP.[4]

Since the mid-1990s, Lebanon has continued to suffer from a large public debt with devastating consequences on the rate of growth of real GDP. After a period of extreme volatility during the 1990s, Lebanon exhibited a stagnating growth rate trend (see figure I.A (c)). These macroeconomic imbalances, coupled with a turbulent political environment, have undermined business confidence and have diverted tourism revenues to neighbouring countries.

The economy of the Syrian Arab Republic continued to exhibit relatively low levels of real GDP growth rates (see figure I.A (d)). After a period of high volatility in real GDP growth rates in the period 1980-2000, these rates appear to have stabilized, experiencing an upward trend since 2001.

Real GDP growth rates in GCC countries are mainly driven by the volatility in oil prices. While the rate of growth of real GDP in Bahrain was volatile prior to 1994, it stabilized thereafter at around 5 per cent (see figure I.B (a)).

Following a period of extreme volatility during the 1990-1991 Gulf War, growth rates in Kuwait have stabilized since 1993 (see figure I.B (b)). High oil revenues from oil exports continue to be contributing factors to the recent increase in real GDP growth rates.

In Oman, real GDP growth rates have been increasing significantly since 2000, owing again to high oil prices (see figure I.B (c)). Similar GDP growth rates dynamics are observed in Qatar, which has experienced six years of consecutive real GDP growth since 2001 (see figure I.B (d)). Moreover, the figure indicates that, in 1998, the economy grew by an estimated 20 per cent in real terms, after registering a low of 5 per cent in 1997. Qatar's economy is expected to remain at the forefront of the major growth performers in the ESCWA region in the foreseeable future.

Saudi Arabia has been able to sustain its growth performance since 1998, and is expected to continue to grow by a yearly average of some 5 per cent, despite the recent decrease in oil prices (see figure I.B (e)). In 2001, the Saudi economy grew by more than 5 per cent; and higher oil exports and prices, along with a boost in oil production, turned the fiscal position from a deficit of 3 per cent of GDP in 2002 to an estimated surplus of 15 per cent of GDP in 2006.

In the United Arab Emirates, that economy has been growing at an average annual real rate of some 7 per cent since 2003 (see figure I.B (f)). Increases in oil production and revenues will continue to constitute the main driving force behind GDP growth.

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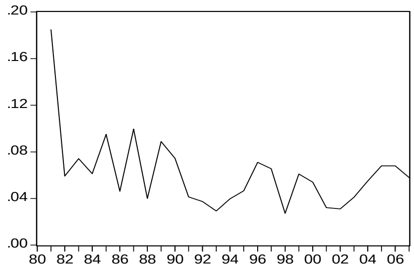
[4] Jordan signed bilateral trade agreements with the United States and the European Union in 2001 and 2002, respectively.

Figure I. Real GDP growth rates in the ESCWA region, 1980-2007
(*Percentage*)

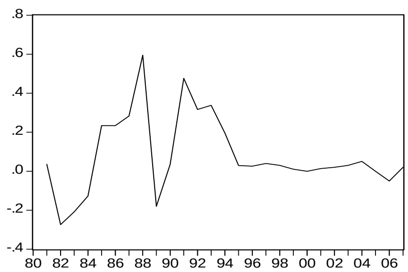
A. Non-oil producing ESCWA member countries

(a) Egypt



(b) Jordan

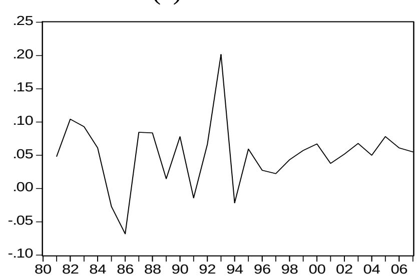
(c) Lebanon



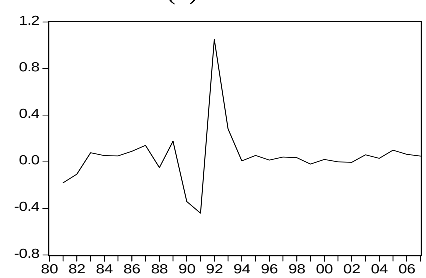
(d) Syrian Arab Republic

B. Oil producing GCC countries

(a) Bahrain

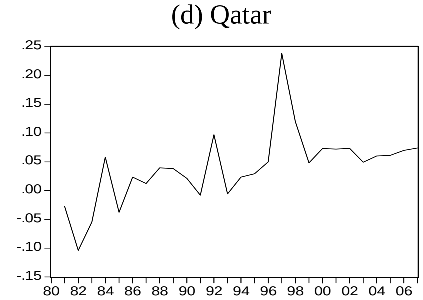


(b) Kuwait



(c) Oman

(d) Qatar



(e) Saudi Arabia

(f) United Arab Emirates

Source: ESCWA, *Survey of Economic and Social Developments in the ESCWA Region 2007-2008* (E/ESCWA/EDGD/2008/3); ESCWA, *National Accounts Studies of the ESCWA Region,* Bulletin No. 23 (2003).

Egypt's exports have been on an increasing trend since the early 1980s, which marks the beginning of that country's trade liberalization era (see figure II.A (a)). The increase in exports has been more significant since the early 2000s, with exports increasing from $15 billion in 2002 to $28 billion in 2006. The recent devaluations of the Egyptian pound and the floating of the exchange rate in 2002 seem to have contributed positively to increasing Egyptian exports. This increase has partly also resulted from the signing of the association agreement between Egypt and the European Union, which entered into force in 2004. Egypt's current account registered a surplus of some $2 billion in 2005. This current account surplus was registered for the first time in 1994. However, there seem to be a trend reversal in exports since the end of 2005.

Jordan exhibited the same export dynamics, with an increasing trend in exports since the early 1980s (see figure II.A (b)). Jordan's exports have more than doubled during the past decade, increasing from a mere $2 billion in 1990 to $5.3 billion by the end of 2006. The result has been a current account surplus of $1 billion in 2003, following a series of recurrent current account deficits. The entry into force of trade agreements with the United States and the European Union in 2001 and 2002, respectively, seem to have contributed positively to exports.

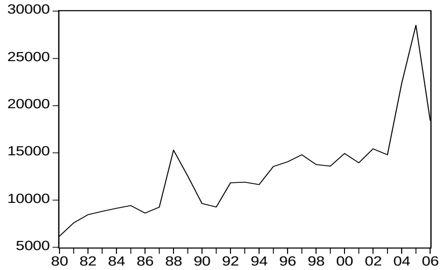
The situation is starkly different in Lebanon. While exports have been rising since 1996, reaching the $1.78 billion level by the end of 2006, this increase did not result in a current account surplus given that Lebanon has always been a net importer of goods and services, averaging annually between $5-6 billion. Consequently, it is very unlikely that exports contribute towards improving the rate of growth of real GDP.

The Syrian Arab Republic appears to be in a better shape where exports have been on the rise since 1986, increasing from $2 billion in 1992 to some $7 billion in 2007 (see figure II.A (d)). As a closed economy, a limited number of goods and services are imported into the Syrian Arab Republic, which has contributed in containing current account deficits since the early 1990s.

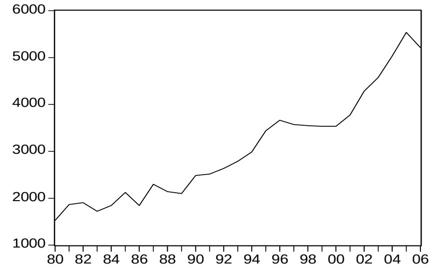
Figure II. Exports in the ESCWA region, 1980-2006
(*Millions of United States dollars*)

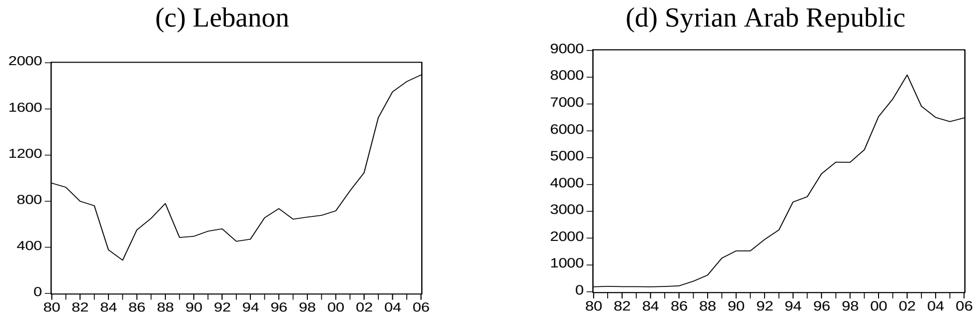
A. Non-oil producing ESCWA member countries

(a) Egypt

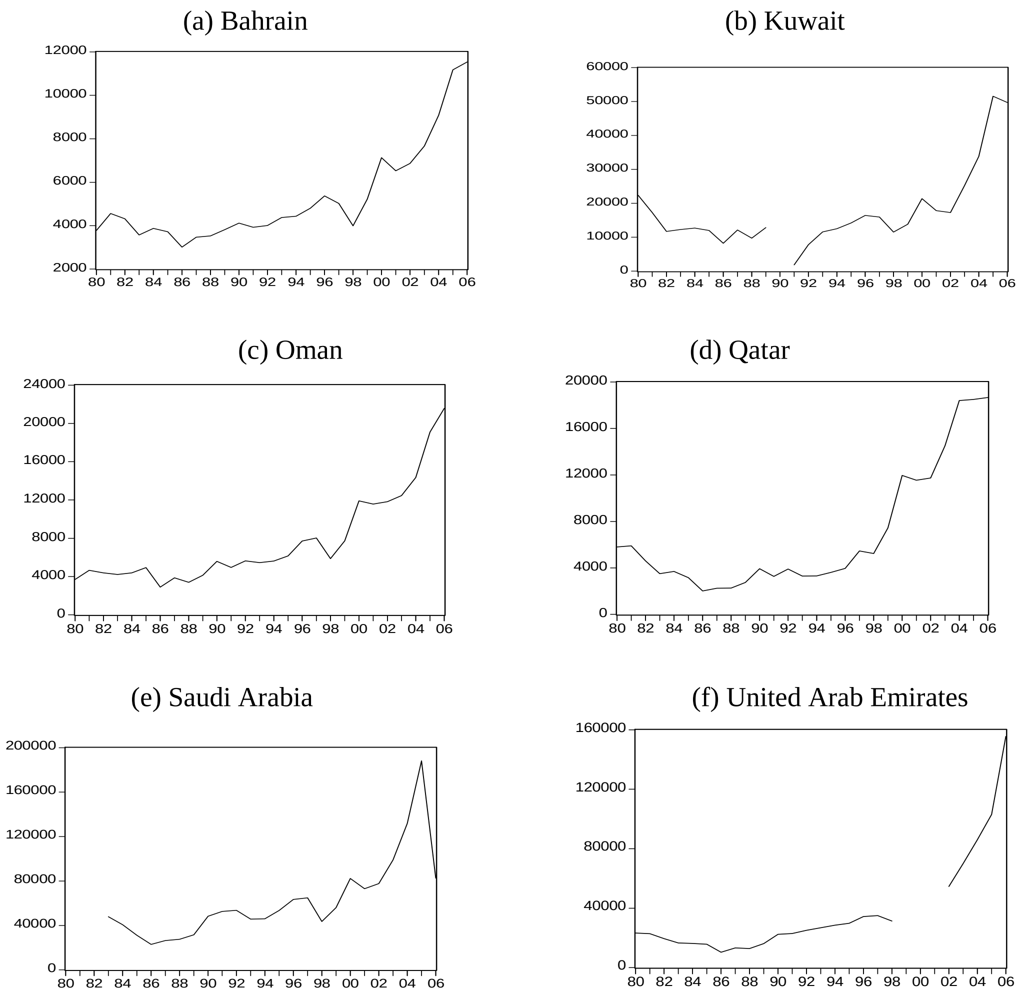


(b) Jordan





B. Oil producing GCC countries



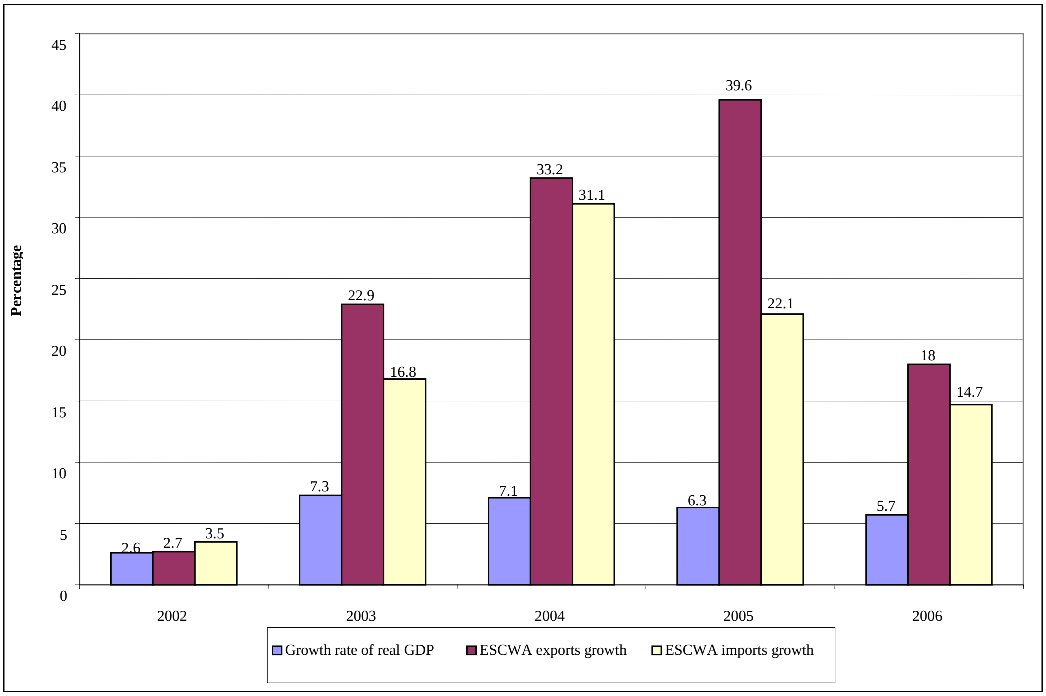
Source: International Monetary Fund (IMF), *International Financial Statistics (IFS) Online* (August 2007).

Exports in the GCC countries have also been on the rise since the early 1980s, reflecting again the trade liberalization era of the ESCWA region. The recent hikes in oil prices have been behind the significant increase in exports since 2002. Bahrain's exports have been on the rise since 1998, increasing from $4 billion to $11.5 billion in 2006 (see figure II.B (a)). Bahrain has therefore experienced recurrent current account surpluses since the mid-1990s.

In Kuwait, exports have been on the rise since 1991 and are currently hovering at $50 billion (see figure II.B (b)). The same export dynamics are observed in Oman and Qatar (see figures II.B (c) and (d)). Oman's exports have been steadily increasing since 1996, rising to $21 billion in 2006, while Qatar's exports reached some $19 billion in 2006.

The magnitude of exports in Saudi Arabia and the United Arab Emirates is much higher, albeit with similar increasing trends. Exports in Saudi Arabia have been on a steady increasing trend since 2002, rising from a low of $80 billion in 2001 to more than a two-fold increase in 2006, at $180 billion level (see figure II.B (e)). Over approximately the same period, the United Arab Emirates witnessed a four-fold increase in exports, from a low of $40 billion in 1998 to $160 billion in 2006 (see figure II.B (f)).

Figure III. Growth rates of GDP, exports and imports in the ESCWA region, 2002-2006
(*Percentage*)



Source: Compiled by ESCWA.

Figure III plots the relationship between the growth rate of real GDP and the growth rates of exports and imports in the ESCWA region over the period 2002-2006. It is clear that the growth rates of exports and real GDP do not always move together. Specifically, between 2004 and 2005, while exports increased by 39.6 per cent and imports decreased by 22.1 per cent, the rate of growth of real GDP decreased by 6.3 per cent. Despite the entry into force of GAFTA and the subsequent elimination of tariffs, GDP growth continued to decrease to 5.7 per cent in 2006, while exports also decreased by 18 per cent. Consequently, it can be inferred that the episodes of trade liberalization in the ESCWA are not always accompanied by higher GDP growth rates.

Table 2, which presents the indices of economic openness as ratios to GDP, shows that all the economies in the ESCWA region have become more open since 2005. While the trade balance is negative in some member countries, it is positive in many others and contributes by more than 40 per cent to GDP. Clearly, the export of goods and services constitutes a highly significant portion of each country's GDP, as does the import of goods and services. In other words, trade plays a significant role in the growth experience and development of the economies of the ESCWA region.

TABLE 2. TRADE INDICES AS A PERCENTAGE OF GDP, 2005-2007

Country	Total trade (X+M) 2005	2006	2007	Exports (X) 2005	2006	2007	Imports (M) 2005	2006	2007
Bahrain	20.02	28.06	25.23	73.52	65.06	61.25	53.51	47.73	54.1
Egypt	-4.03	-3.60	-2.36	34.25	34.13	33.38	38.27	37.73	37.73
Jordan	-41.43	-37.44	-37.7	52.61	54.56	57.75	94.0	92.00	91.53
Kuwait	35.72	32.96	23.04	63.99	67.88	59.90	28.28	25.12	25.62
Lebanon	-14.66	-12.49	-12.5	61.03	63.45	66.86	75.69	75.93	79.11
Oman	27.09	28.4	24.67	63.02	62.14	63.12	35.93	37.51	39.87
Qatar	..	..	..	..	..	..	..	..	..
Saudi Arabia	33.004	32.69	31.1	59.38	62.61	64.2	26.37	29.92	34.16
Syrian Arab Republic	1.46	3.86	-73.36	40.82	39.42	37.8	39.36	35.56	35.01
United Arab Emirates	..	..	..	..	..	..	..	..	..
Yemen	4.96	0.44	-1.26	40.52	41.27	38.98	35.56	40.83	39.86

Source: The World Bank, Worldwide Trade Indicators (WTI) database (2008).

Note: Two dots (..) indicate that data are not available or are not separately reported.

D. MAIN INDICATORS OF TRADE

There exist several indicators of trade. The World Bank publishes data on some 300 world trade indicators for 210 countries, which are divided into the following five categories: (a) trade policy; (b) external environment; (c) institutional environment; (d) trade facilitation; and (e) trade outcome.

For each category, there is a corresponding index respectively as follows: (a) trade (MFN) tariff restrictiveness index (MFN TTRI); (b) market access-trade tariff restrictiveness index (MA-TTRI); (c) ease of doing business; (d) logistics performance index (LPI); and (e) the real growth in total trade. Table 3 offers a detailed definition of these indices.

TABLE 3. THE FIVE TRADE INDICATORS

Indicator	Definition
Trade (MFN) tariff restrictiveness index (MFN TTRI)	This index sums up the effect of each of the unbiased trade policies of each country on its total imports. It is the standardized corresponding tariff that would keep total import volume of a country at its present level.
Market access-trade tariff restrictiveness index (MA-TTRI)	This index sums up the effect of the trade policies of other countries on a country's exports. It represents the trade deformities that the rest of the world tariff policies impose on the exports of each country.
Ease of doing business	The ease of doing business rank reflects the general business climate of a country, which is ranked from the best, at 1, to the worst, at 178.
Logistics performance index (LPI)	The logistics performance index (LPI) mirrors the general awareness of the logistics of a country on the basis on over 1000 responses to a survey of logistics performance. The value of the index ranges from 1 to 5, where a higher score reflects a better performance.
Real growth in total trade	It is the “average annual growth rate of the total exports and imports in goods and services at constant 2000 US dollars”. This indicator represents the trade development of a country over the period.

Source: The World Bank, “World Trade Indicators: User Guide” (December 2008), pp. 4, 14, 19, 21 and 25.

Table 4 below presents the numerical values for these five indices. The higher the most-favoured nation (MFN) status, the higher the tariff an ESCWA member country is enforcing on its imports. The general consensus is that more open economies are generally better off. Table 4 indicates that the United

Arab Emirates has the lowest index, followed by Saudi Arabia, Qatar, Bahrain, Lebanon, Egypt, Jordan and Oman. Note that most of the GCC countries seem to have the lowest tariff index in the ESCWA region.

In essence, MA-TTRI represents how much a country has market access to world markets, where a lower reflects a higher market access. Accordingly, Oman has the highest market access for its exports, followed by Saudi Arabia, Qatar, United Arab Emirates, Bahrain, Egypt, Lebanon and Jordan. Again, the GCC countries have the highest market access relative to the rest of ESCWA member countries. This can be attributed to the relatively high oil exports those countries have with the rest of the world.

The ease of doing business ranks ESCWA member countries in a decreasing order; the higher the rank the more a country has a smooth business environment. Naturally, the general consensus is that a country benefits from a higher ranking given that this encourages foreign investments, thereby improving the overall economic performance. Table 4 indicates that the highest rank goes to Saudi Arabia followed by Kuwait, Oman, United Arab Emirates, Jordan, Lebanon, Yemen, Egypt and Syrian Arab Republic. Again, it would suggest that GCC countries have easier business environments than other ESCWA member countries.

LPI looks at the logistics of a country, including efficiency of customs and other border procedures, quality of transport and IT infrastructures, international and domestic transportation costs, ease of shipments and logistics competence, and tracking ability and timeliness of shipments.[5] The LPI range is from 1 to 5, with the higher number indicating better performance. The United Arab Emirates has the best logistics followed by Bahrain, Saudi Arabia, Kuwait, Qatar, Oman, Jordan, Egypt, Lebanon, Yemen and Syrian Arab Republic. The GCC countries again seem to have the best logistics in the region.

The real growth in trade represents the dynamic evolution of a country's trade. The higher the rate, the more growth in trade an economy is enjoying. The largest trade growth rates belong to Jordan, followed by Egypt, Saudi Arabia, Oman, Lebanon, Kuwait, Syrian Arab Republic, Yemen and Bahrain in that order. Contrary to the other indices, GCC member countries do not have the largest trade growth within the ESCWA region.

TABLE 4. THE FIVE TRADE INDICATORS IN THE ESCWA REGION

	TTRI		MA-TTRI		Ease of doing business		LPI	Growth in X+M (percentage)	
Country	2005	2006	2005	2006	2006	2007	2006	2005	2006
Bahrain	..	5.09	..	3.5	..	..	3.15	24.5	28.3
Egypt	7.79	5.62	4.39	3.9	152	126	2.37	22.07	21.54
Jordan	10.16	8.96	4.35	4.2	79	80	2.89	11.15	2.48
Kuwait	..	..	..	..	40	40	2.99	12.1	2.5
Lebanon	4.86	5.51	4.61	4	77	85	2.37	-6.83	-0.17
Oman	4.41	13.24	1.55	1.6	43	49	2.92	3.2	7.7
Qatar	..	4.24	..	1.9	..	..	2.98	..	..
Saudi Arabia	6.06	4.24	3.08	1.8	33	23	3.02	6.3	2.8
Syrian Arab Republic	..	..	..	..	134	137	2.09	13.43	-6.74
United Arab Emirates	..	2.96	..	3.3	69	68	3.73	..	..
Yemen	..	..	..	..	107	113	2.29	3.4	3.5
Average	6.66	6.23	3.6	3.03	81.56	80.11	2.8	9.92	6.88

Source: The World Bank, WTI database (2008).

Note: Two dots (..) indicate that data are not available or are not separately reported.

[5] See the World Bank, "World Trade Indicators: User Guide" (December 2008), p. 21.

E. Major trading partners and products for ESCWA member countries

This section highlights the main trading partners and products of each ESCWA member country. Tables 5 and 6 illustrate, respectively, the three main exports as a percentage of total exports, and the three main imports as a percentage of total imports for each member country. It is clear that, with the notable exception of Jordan and Lebanon, the first main export for all ESCWA members is mineral fuels, oils, distillation products. In GCC countries, these exports reach as high as 95.7 per cent of total exports, as is the case in Kuwait. With regard to the main imports, they mostly range between mineral fuels, oils, distillation products, vehicles other than railway and tramway, electrical, electronic equipment and boilers, machinery, and nuclear reactors.

Table 5. First three main exports as a percentage of total exports, 2006

Country	First major export	Second major export	Third major export
Bahrain	Mineral fuels, oils, distillation products, etc. (79%)	Aluminum and articles thereof (12.5%)	Ores, slag and ash (1.2%)
Egypt	Mineral fuels, oils, distillation products, etc. (48.3%)	Iron and steel (7%)	Salt, sulfur, earth, stone, plaster, lime and cement (4%)
Jordan	Articles of apparel, accessories, knit or crochet (16.3%)	Pearls, precious stones, metals, coins, etc. (9.2%)	Fertilizers (9%)
Kuwait	Mineral fuels, oils, distillation products, etc. (95.7%)	Plastics and articles thereof (1.1%)	Organic chemicals (0.8%)
Lebanon	Pearls, precious stones, metals, coins, etc. (14.4%)	Electrical, electronic equipment (7.9%)	Iron and steel (7.2%)
Oman	Mineral fuels, oils, distillation products, etc. (94.6%)	Dairy products, eggs, honey, edible animal products (0.65%)	Fish, crustaceans, mollusks, aquatic invertebrates (0.52%)
Qatar	Mineral fuels, oils, distillation products, etc. (89.7%)	Plastics and articles thereof (3.3%)	Fertilizers (1.97%)
Saudi Arabia	Mineral fuels, oils, distillation products, etc. (89.2%)	Plastics and articles thereof (2.5%)	Organic chemicals (2.3%)
Syrian Arab Republic	Mineral fuels, oils, distillation products, etc. (40.3%)	Commodities not elsewhere specified (6.7%)	Articles of apparel, accessories, knit or crochet (5.3%)
United Arab Emirates	Mineral fuels, oils, distillation products, etc. (74.5%)	Pearls, precious stones, metals, coins, etc. (6.0%)	Aluminum and articles thereof (2.67%)
Yemen	Mineral fuels, oils, distillation products, etc. (91.7%)	Fish, crustaceans, mollusks, aquatic invertebrates (2.0%)	Boilers, machinery; nuclear reactors, etc. (1.1%)

Source: International Trade Centre (UNCTAD/WTO), “Trade Competitiveness Map” (2008).

TABLE 6. FIRST THREE MAIN IMPORTS AS A PERCENTAGE OF TOTAL IMPORTS, 2006

Country	First major import	Second major import	Third major import
Bahrain	Mineral fuels, oils, distillation products, etc. (55.6%)	Vehicles other than railway, tramway (7.0%)	Boilers, machinery; nuclear reactors, etc. (5.6%)
Egypt	Boilers, machinery; nuclear reactors, etc. (13.3%)	Mineral fuels, oils, distillation products, etc. (10.3%)	Vehicles other than railway, tramway (7.9%)
Jordan	Mineral fuels, oils, distillation products, etc. (23.7%)	Vehicles other than railway, tramway (8.8%)	Boilers, machinery; nuclear reactors, etc. (7.3%)
Kuwait	Vehicles other than railway, tramway (18.7%)	Boilers, machinery; nuclear reactors, etc. (13.1%)	Electrical, electronic equipment (10.2%)
Lebanon	Mineral fuels, oils, distillation products, etc. (22.7%)	Boilers, machinery; nuclear reactors, etc. (8.45%)	Vehicles other than railway, tramway (7.25%)
Oman	Vehicles other than railway, tramway (25.4%)	Boilers, machinery; nuclear reactors, etc. (18.0%)	Manufactured iron or steel (7.0%)
Qatar	Boilers, machinery; nuclear reactors, etc. (23.6%)	Manufactured iron or steel (15.0%)	Vehicles other than railway, tramway (14.73%)
Saudi Arabia	Boilers, machinery; nuclear reactors, etc. (16.6%)	Vehicles other than railway, tramway (15.1%)	Electrical, electronic equipment (9.1%)
Syrian Arab Republic	Mineral fuels, oils, distillation products, etc. (27.1%)	Vehicles other than railway, tramway (8.8%)	Manufactured iron or steel (7.5%)
United Arab Emirates	Electrical, electronic equipment (14.2%)	Boilers, machinery; nuclear reactors, etc. (13.9%)	Mineral fuels, oils, distillation products, etc. (10.1%)
Yemen	Mineral fuels, oils, distillation products, etc. (21.9%)	Boilers, machinery; nuclear reactors, etc. (9.74%)	Vehicles other than railway, tramway (8.13%)

Source: International Trade Centre (UNCTAD/WTO), "Trade Competitiveness Map" (2008).

Tables 7 and 8 represent, respectively, the four main leading markets and suppliers for ESCWA member countries. It is worth noting that most of the leading markets for exports from the ESCWA region are Saudi Arabia, United States, Japan, United Arab Emirates, South Korea and Thailand. While the main common sources of the region's imports are Saudi Arabia, United States, China, Germany and Japan. With the possible exception of Saudi Arabia, the main trading partners of the ESCWA region are not from within the region itself. In other words, despite the various trade agreements within the region and all the newly devoted efforts towards a regionally integrated economy, trade originating from the ESCWA region is still not very significant.

TABLE 7. LEADING MARKETS FOR EXPORTS FROM THE ESCWA REGION
AS A PERCENTAGE OF TOTAL EXPORTS

Country	First leading market	Second leading market	Third leading market	Fourth leading market
Bahrain (2006)	Saudi Arabia (3.2%)	United States (3.0%)	United Arab Emirates (2.3%)	Japan (2.3%)
Egypt (2007)	United States (10.1%)	Italy (9.9%)	Spain (7.9%)	Syrian Arab Republic (5.5%)
Jordan (2006)	United States (25.0%)	Iraq (12.2%)	India (7.6%)	United Arab Emirates (5.6%)
Kuwait (2006)	Japan (14.7%)	S. Korea (11%)	Singapore (7%)	United States (6.5%)
Lebanon	..	..	..	..
Oman	..	..	..	..
Qatar	Japan (37.8%)	S. Korea (16%)	Singapore (10.0%)	Thailand (4.9%)
Saudi Arabia (2007)	United States (17.4%)	Japan (15.4%)	S. Korea (10.1%)	China (8.0%)
Syrian Arab Republic	..	..	..	..
United Arab Emirates (2007)	Japan (23.6%)	S. Korea (10.2%)	Thailand (5.2%)	India (4.8%)

Source: Economist Intelligence Unit (EIU), "Country ViewsWire", which is available at: http://www.economist.com/countries/.

Note: Two dots (..) indicate that data are not available or are not separately reported.

TABLE 8. LEADING MARKETS FOR EXPORTS FROM THE ESCWA REGION
AS A PERCENTAGE OF TOTAL IMPORTS

Country	First leading supplier	Second leading supplier	Third leading supplier	Fourth leading supplier
Bahrain (2006)	Saudi Arabia (37.6%)	Japan (6.8%)	United States (6.2%)	UK (6.2%)
Egypt (2007)	United States (12.0%)	China (9.8%)	Italy (6.6%)	Germany (6.5%)
Jordan (2006)	Saudi Arabia (28.6%)	China (11.8%)	Germany (8.9%)	United States (5.4%)
Kuwait (2006)	United States (14.7%)	Japan (8.2%)	Germany (8.0%)	China (5.9%)
Lebanon	..	..	..	..
Oman	..	..	..	..
Qatar (2007)	United States (14.2%)	Italy (11.5%)	Japan (9.2%)	France (8.4%)
Saudi Arabia (2007)	United States (12.7%)	China (9.4%)	Germany (8.9%)	Japan (8.2%)
Syrian Arab Republic	..	..	..	..
United Arab Emirates (2007)	China (13.2%)	India (10.3%)	United States (9.0%)	Germany (6.1%)

Source: EIU, "Country ViewsWire", which is available at: http://www.economist.com/countries/.

Note: Two dots (..) indicate that data are not available or are not separately reported.

TABLE 9. MAIN TRADING PARTNERS OF LEBANON, OMAN, THE SYRIAN ARAB REPUBLIC AND YEMEN

Country	Main import sources	Main export destinations
Lebanon (2006)	United States (11%) France (8%) China (8%) Italy (8%)	Switzerland (20%) Syrian Arab Republic (8%) United Arab Emirates (8%) Saudi Arabia (6%) Iraq (6%)
Oman (2006)	United Arab Emirates (25.9%) Japan (17.3%) India (5.3%) United States (5.2%)	*Non-oil exports*: United Arab Emirates (39.5%) India (15.3%) Saudi Arabia (6%) Qatar (3.9%) *Re-exports*: United Arab Emirates (56.3%) Iran (9.2%)
Syrian Arab Republic (2006)	Saudi Arabia (12.1%) China (9.1%) Egypt (6.2%) Italy (6.1%)	Iraq (29.6%) Lebanon (9.8%) Germany (9.5%) Italy (7.9%)
Yemen (2005)	*Main exporting countries by country of destination*: United Arab Emirates 18.63%) Saudi Arabia (8.79%) Switzerland (8.44%) Kuwait (6.56%) *Main exporting countries by country of origin*: Switzerland (9.58%) United Arab Emirates (8.84%) China (6.74%) United States (6.63%)	*Exports*: China (36.33%) India (16.71%) Thailand (12.26%) Japan (6.51%) *Re-exports*: United Arab Emirates (32.74%) Saudi Arabia (17.18%) Switzerland (6.98%) Somalia (3.53%)

Sources: Compiled by ESCWA, based on the following: (a) Ministry of Economy and Trade in Lebanon, “Main trading partners 2006”; (b) Directorate General of Customs, Royal Oman Police, “Trade exchange by major countries”; (c) Central Intelligence Agency (CIA), “Imports – partners” and “Exports – partners” in *The World Factbook* (2007); (4) Embassy of Yemen, “Foreign trade chapter”, tables 15-17.

II. TRADE POLICIES AND PRACTICES IN THE ESCWA REGION

A. TRADE POLICY OBJECTIVES

The ESCWA region is expected to benefit from recent efforts aimed at integrating in the world economy through various regional and international preferential trade agreements. The major objectives of those ratified agreements and the trade policies of ESCWA member countries can be summarized as follows: (a) to better integrate internationally with the world economy and regionally with ESCWA member countries; (b) to enhance economic growth, liberalize and promote trade, and create more employment opportunities; (c) to diversify exports, especially those of oil-exporting ESCWA member countries; (d) to fight monopolistic and oligopolistic competition in favour of perfect competition, thereby protecting domestic consumers and reducing overall prices of goods and services; (e) to attract foreign investment by opening up domestic economic markets to foreign investors and companies, thereby stimulating further GDP growth rates; and (f) to protect private investment in financial and productive sectors, and promote the private sector and enhance its role in economic growth and expansion.

B. MAJOR CHANGES IN TRADE POLICY TRENDS IN 1980-2008

During the 1960s and 1970s, ESCWA member countries were following inward-oriented trade policies in order to protect their domestic industries and develop their internal goods market. In addition to other advantages arising from a tariff barrier structure, this protectionist scenario also assisted fiscal policy through import duties. Naturally, these ended up in forming a huge hindrance in the face of trade development.[6]

The picture changed dramatically in the early 1980s, when most ESCWA member countries embarked on a trade regime that supported free trade and that was much more outward-oriented. While the ESCWA region has devoted considerable efforts towards liberalizing trade and integrating regional and international trade, further efforts are still needed in order to achieve the desired levels of growth and development.[7]

During the early and mid-1990s, membership with WTO, GAFTA and the signing of various bilateral trade agreements led to the elimination of several trade barriers, particularly between individual ESCWA members and the United States and the European Union, thereby stimulating trade and growth, albeit not to the desired levels that had been expected. Relative to the 1980s, ESCWA trade policies have paved the way to some extent for more specialization within the region, and have increased economic welfare. ESCWA member countries have been able to specialize further in the production of goods where they enjoy a comparative advantage, namely, lower opportunity costs.

Moreover, these trade agreements have marginally enhanced trade creation within the region with the reduction of trade barriers. With the help of comparative advantage and specialization, the average consumer in the ESCWA region was able to enjoy lower costs for imported goods.[8] While this could have hurt domestic firms, the increase in consumer surplus has paved the way for an overall increase in economic welfare. In general, ESCWA member countries were able to increase the exports of products that have a relatively lower production cost than other countries. Naturally, this has increased economic welfare and promoted growth. Specializing in a particular industry has also allowed for increasing returns to scale or economies of scale, thereby reducing costs and thus consumer prices further. This is especially true for industries that are characterized by high fixed costs or that need large amounts of investment where a high level of production can be reached with reduced costs.

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[6] See ESCWA, "Arab economic integration efforts: A critical assessment" (E/ESCWA/ED/1999/11).

[7] However, with trade liberalization, countries become affected by international economic crisis and trade cycles, which could be avoided with trade barriers to protect the domestic economy.

[8] Countries that have comparative advantage in producing primary products can suffer from free trade. Aside from not getting the chance to diversify their economies, agricultural products are vulnerable to environmental aspects and have a low income elasticity of demand.

A large public sector still hinders export promotion policies. The significant participation of the public sector in national economies, either in the form of public monopolies, State-owned enterprises or strategic shareholdings in privatized companies, remains extensive in many member countries. Moreover, traders and investors still face bureaucratic and non-transparent measures. Structural reform and privatization programmes introduced since the early 1980s are still not able to remove the impediments to both national and regional trade development efforts.

C. TRADE POLICY TOOLS APPLIED BY ESCWA MEMBER COUNTRIES

Bahrain has followed liberal trade and investment policies aimed at integrating its economy with the world economy. By joining WTO, Bahrain hoped to diversify its economy, which is heavily dependent on oil exports, by promoting export substitution policies. In 1999, that country signed a bilateral investment treaty and an open-skies agreement with the United States in preparation to the free trade agreement (FTA), which was signed in 2003.[9] On the legislative side, new commercial laws that are meant to meet the requirements imposed by the above ratified trade agreements were introduced. The Government has put considerable efforts to fulfill the local, regional and international requirements of the various trade agreements. Bahrain joined the WTO Information Technology Agreement in 2003.

Egypt, which fulfilled all its required WTO commitments in 2005, has significantly liberalized its trade policies. However, the existing bureaucracy remains a substantial hurdle and still adds to the cost of doing business in that country. While Egypt has reduced the maximum tariff rate for most imports from a high of 50 per cent to 40 per cent, tariffs remain high relative to other developed and developing countries. Egypt has enhanced its efforts in order to conform national regulations to international standards; and international investors have access to the Egyptian stock market with no restriction. It joined the WTO Information Technology Agreement in 2003.

As a result of Jordan's accession to WTO in April 2000, that country has introduced major economic and legislative reforms in order to bring the national foreign trade regime in line with WTO requirements. Specifically, adjustments were made to many existing laws, including the law on Intellectual Property Rights (IPRs), other laws were introduced and some existing ones had to be replaced given that they did not conform to WTO requirements. Tariff rates were lowered, ranging from 0-30 per cent; it is expected to have a maximum bound rate of 20 per cent by 2010. The agreement between Jordan and the European Union, which was signed in 1997 and entered into force in 2002, covers services, social and cultural affairs, and financial cooperation. Under this agreement, all industrial products and natural resources originating in Jordan can enter duty free in the European Union immediately, while European Union industrial products benefit from annual duty reductions over the 12-year implementation period. Equally, Jordan signed an FTA with the United States in 2000, which entered into force the following year, thereby making Jordan the first Arab country to sign such an agreement. Complemented by that country's QIZs, the FTA contributed towards increasing dramatically Jordan's exports to the United States market, reaching $1.27 billion in 2005 compared to $72 million in 2000.[10]

Lebanon was and continues to be a liberal and open-market economy, despite the fact that many national laws are outdated partly as a result of the war in Lebanon from the mid-1970s to the early 1990s. Lebanon has signed several bilateral trade agreements with ESCWA member countries, and it is a member of the GAFTA. Equally, it signed the Association Agreement with the European Union in 2002. Most of Lebanon's trading partners are either WTO members or in the process of acceding to it. Consequently, certain aspects of its foreign trade regime will eventually have to take to conform, albeit indirectly, to WTO. Lebanon was granted observer status to WTO in 1999, and negotiations on its accession started in 2002. Within that context, the WTO working party that is negotiating terms for Lebanon's future membership identified a number of areas where that country will need to bring its legislations into WTO compliance.

[9] Bahrain was the first country in the Gulf Cooperation Council (GCC) subregion to sign a free trade agreement (FTA) with the United States.

[10] James Cassing and Anna Maria Salameh, "Jordan-United States free trade agreement economic impact study: Searching for effects of the FTA on exports, imports and trade related investments" (June 2006), table 9.

Consequently, the Government is working on a draft privatization law in a bid to raise funds and join WTO that is focused on the following three targets: the telecommunications sector, the national airline and the power sector. Another major step Lebanon has taken in preparation for its accession is the implementation of the copyright law, thereby meeting the prerequisites of the agreement on trade-related aspects of intellectual property rights (TRIPS). These negotiations are expected to result in Lebanon's accession to WTO towards the end of 2009.

Oman agreed to apply WTO rules and has been following WTO principles since its accession in October 2000. Oman has successfully implemented the TRIPS agreement, revised its customs regulations in order to implement the WTO Agreement on Customs Valuation, and is ensuring that imports are not disadvantaged by unduly restrictive regulation. Oman has also expressed its interest in becoming a member in the WTO Agreement on Government Procurement, the Information Technology Agreement and the Chemical Tariff Harmonization Agreement. Oman is devoting efforts aimed at liberalizing and diversifying its economy by conforming its legislation to WTO obligations, and is boosting its private sector so that it moves away from its heavy dependence on oil revenues.

Saudi Arabia aims to increase its exports and diversify its oil-dependent economy. The Government has set a growth target of 10 per cent of non-oil exports in order to lessen its heavy reliance on volatile oil earnings and guarantee a sustainable growth. Low oil prices in recent years have led to severe recessions at a time when the national population was growing at a rate of 4 per cent.

D. Regional and international preferential trade agreements

ESCWA member countries have implemented a variety of trade policy tools aimed at achieving desired national objectives, including, most frequently, bilateral, regional and multilateral trade preferential agreements. In the ESCWA region, eight countries are already WTO members, while the rest are either acceeding or in the process of applying to join WTO. In addition, those ESCWA member countries in the Mediterranean Basin are members of the European Union partnership scheme, while others have signed FTAs with the United States. The salient aspects of these regional and multilateral trade agreements are set forth below.

1. *World Trade Organization*

Out of the fourteen ESCWA members, eight have already joined WTO and four have observer status (see table 10). Being a member of the WTO has encouraged many countries of the ESCWA region to adjust their trade policies to try to comply with the WTO agreements and principles. In addition to conferring MFN status to trading partners, this membership incorporates such issues as WTO safeguards and antidumping among others.

Table 10. Status of the WTO in the ESCWA region

Country	WTO status
Bahrain	Became a member of WTO on 1 January 1995
Egypt	Became a member of WTO on 30 June 1995
Iraq	Observer status
Jordan	Became a member of WTO on 11 April 2000
Kuwait	Became a member of WTO on 1 January 1995
Lebanon	Observer status; expected membership summer 2009
Oman	Became a member of WTO on 9 November 2000
Qatar	Became a member of WTO on 13 January 1996
Saudi Arabia	Became a member of WTO on 11 December 2005
The Sudan	Observer status
Syrian Arab Republic	Not a member yet
United Arab Emirates	Became a member of WTO on 10 April 1996
Yemen	Observer status

Source: World Trade Organization (WTO), "Understanding the WTO: The Organization – Members and Observers" (July 2008).

2. *Gulf Cooperation Council*

In 1981, Bahrain, Kuwait, Oman, Qatar Saudi Arabia and United Arab Emirates established the GCC in a bid to integrate the economies of the Gulf subregion. The six member countries have a lot in common in terms of cultural, historical, social and religious values. These factors along with geographic proximity facilitated interaction and trade, and created homogenous values and characteristics. Alongside GAFTA, the GCC constitutes the most significant and comprehensive agreement towards regional economic and financial integration.

In order to achieve its objectives, the Council has set up several goals, including, among the most important: (a) member countries must allow free imports and exports of agricultural, animal, industrial and natural resource products; (b) trade policies with other regional economic conglomerates need to be unified in order to create balanced trade relations and terms of trade; (c) there must be a free movement of human and physical capital; (d) investment rules and regulations need to be harmonized; and (e) member countries must work to coordinate their financial, monetary and banking policies, and enhance cooperation between monetary agencies and central banks.

Moving from cooperation and coordination to advanced stages of economic integration, GCC countries are set to establish a customs union according to a timetable that was approved during the Riyadh Summit of 1999. Moreover, GCC countries are working to fulfill the third stage of integration, namely, the initiation of the GCC Common Market, which involves the free movement of human and physical capital.[11] Efforts to unifying the foreign trade policies of GCC member countries have also been intensified.

Despite the strong political will shown by GCC countries, the implementation of the customs union has faced considerable obstacles owing in part to the insistence of customs authorities in member countries on applying central inspection, which significantly delays the flow of goods between them. In March 2003, the secretariat of the GCC announced that it intended to look into the factors that are obstructing the implementation of the customs union at customs entry points. The establishment of a customs union could expand intra-GCC trade and economic growth, provide the right environment for establishing large Gulf companies and promote the comparative advantages in each GCC member country.

3. *Greater Arab Free Trade Agreement*

The GAFTA agreement came into force in 1998 aimed at strengthening intraregional Arab economic integration through trade. In January 2005, trade was fully liberalized among GAFTA member countries when all tariffs were eliminated. All ESCWA member countries are members of GAFTA.

4. *Global system of trade preferences*

The agreement on global system of trade preferences (GSTP), which was set up in 1988 and came into force the following year, aimed primarily at promoting economic organization in trade. Specifically, GSTP presents an outline for collaboration on tariffs, non-tariffs, para-tariffs, direct trade procedures and sectoral agreements. Moreover, less-developed countries are not obliged to give preferential treatments in return for receiving them.[12] In the ESCWA region, only two countries are part of GSTP, namely, Egypt and Iraq, which both acceded in 1989. Members of GSTP have to offer tariff preferences to other GSTP members on a variety of products.

[11] The full monetary and financial integration with the adoption of a common currency was initially planned for 2010. However, various political, institutional and economic factors have delayed the adoption a common currency, and the target year was recently revised. Among the obstacles, efforts are still under way to peg the Kuwaiti dinar to the United States dollar, in line with the dollar peg of other GCC currencies, as a prerequisite towards monetary union.

[12] See United Nations Conference on Trade and Development (UNCTAD), "About GSTP", which is available at: http://www. unctad.org/Templates/Page.asp?intItemID=2309&lang=1.

5. *Qualifying industrial zones*

The QIZ scheme was founded by the United States Congress in 1996. Essentially, these zones were established in order to promote stability in the Middle East through economic cooperation with Israel. While the first QIZ was set up in Jordan in 1998, such zones currently exist in Egypt as well, which became a signatory in 2004. These zones are alleged to present advantages to investors by allowing immediate tariff and quota-free access to any products that are manufactured in the QIZ and that comply with certain rules pertaining to the United States market. These rules include the need for at least 8 per cent of inputs to be from Israel in the QIZ in Jordan, and 11.7 per cent in the QIZ in Egypt.[13]

6. *Bilateral trade agreements*

ESCWA member countries have their own bilateral and other type of trade agreements aimed at enhancing economic and trade relations with countries in other regions. These are summarized below.

(a) *Bahrain*: Along with an FTA with the United States, Bahrain has signed bilateral economic cooperation agreements with the following 14 countries: Australia, Bangladesh, Belarus, China, Greece, France, India, Iran, Republic of Korea, Malaysia, Russian Federation, Singapore, Thailand and Turkey;[14]

(b) *Egypt*: Egypt is a signatory of several trade agreements, including the following:[15]

(i) The agreement between Egypt and the European Union, which entered into force in 2004, represents a significant source of FDI for that country, removes restrictive measures on trade and allows for the establishment of a free trade area within 15 years;

(ii) The Agadir Agreement, which was signed with Jordan, Tunisia and Morocco in 2004, aimed at erasing all trade tariffs among the parties and at increasing economic cooperation;

(iii) The Common Market for East and South Africa (COMESA), whose main goal is to try to free trade in order to intensify and enhance the assimilation process of its 21 member countries;

(iv) The Trade and Investment Framework Agreement of July 1999, which represents a step towards an FTA, thereby paving the way to the QIZ agreements;

(v) Agreement with the countries of the European Free Trade Agreement (EFTA) to liberalize trade on some products, which entered into force 2007.[16]

(c) *Jordan*: Jordan is part of several trade agreements, including the following:[17]

(i) The Euro-Mediterranean Association Agreement, which was signed in 1997 and has undergone several ratifications since, aimed at establishing an FTA between Jordan and the

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[13] See Ministry of Trade and Industry in Egypt, "Protocol between the Government of the Arab Republic of Egypt and between the Government of the State of Israel on Qualifying Industrial Zones", which is available at: http://www.mfti.gov.eg/English/Agreements/qiz.htm.

[14] See World Trade Organization (WTO), "Trade policy review: Report by the Secretariat – Bahrain" (June 2007).

[15] See WTO, "Trade policy review: Egypt – Report by the Secretariat" (June 2005).

[16] The European Free Trade Agreement (EFTA) includes Iceland, Liechtenstein, Norway and Switzerland.

[17] See Ministry of Foreign Affairs in Jordan, "Trade overview", which is available at: http://images.jordan.gov.

European Union by 2010 and set up an outline for trade, political, financial and economic collaboration;

(ii) An FTA and bilateral investment treaty with the United States;

(iii) An FTA with Singapore;

(iv) The Agadir Agreement, which was signed with Egypt, Tunisia and Morocco in 2004, aimed at erasing all trade tariffs among the parties and at increasing economic cooperation;

(v) EFTA Agreement, which was signed in 2001 and entered into force the following year, aimed at establishing free trade by the end of a 12-year intermediary period.

(d) *Kuwait*: In addition to being a member of the GCC, Kuwait has signed a trade and investment framework agreement with the United States, and there is equally a proposal to establish an FTA with that country;[18]

(e) *Lebanon*: Lebanon is a signatory of several trade agreements, including the following:

(i) Several bilateral agreements, frameworks, MFN treatments or other forms of agreements with Armenia, Australia, Azerbaijan, Bulgaria, Belarus, Cameroon, Chile, China, Croatia, Cuba, Egypt, Gabon, Greece, Indonesia, Iran, Malaysia, Nigeria, Pakistan, Poland, Romania, Russian Federation, Senegal, Slovakia, Turkey, Ukraine, United States and Viet Nam;

(ii) An FTA with the GCC;

(iii) EFTA Agreement, which has not yet entered into force, aimed at liberalizing trade between both parties regarding covered products;

(iv) An association agreement with the European Union, which replaced the Cooperation Agreement of 1977, covering three main segments, namely: economic and financial corporation, social and human affairs corporation, and political and security matters.

(f) *Oman*: In addition to bilateral economic partnership agreements with 20 other countries, Oman signed an FTA with the United States in 2006;[19]

(g) *Qatar*: While bilateral trade agreements have not been signed with other countries, Qatar is currently negotiating trade agreements with Singapore and the United States; [20]

(h) *Saudi Arabia*: Saudi Arabia has signed economic, trade and/or technical agreements with the following countries: Argentina, Australia, Azerbaijan, Bangladesh, Belgium, Canada, China, Denmark, Finland, France, Germany, Greece, India, Indonesia, Ireland, Italy, Japan, Korea, Luxembourg, Malaysia, Netherlands, Pakistan, Philippines, Russian Federation, Turkey, United States and Uzbekistan;[21]

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[18] See Office of the United States Trade Representative, "United States and Kuwait Sign Trade and Investment Framework Agreement" (June 2004).

[19] See WTO, "Trade policy review: Report by the Secretariat – Oman" (May 2008).

[20] See WTO, "Trade policy review: Qatar – Report by the Secretariat" (January 2005).

[21] See Ministry of Foreign Affairs in Saudi Arabia, "Trade agreements", which is available at: http://www.mofa.gov.sa/Detail.asp?InSectionID= 1719&InNewsItemID=34495.

(i) *Syrian Arab Republic*: In addition to signing trade agreements with Belgium, India, Luxembourg and Turkey, among others, the Syrian Arab Republic and the European Union have signed an association agreement under which, following ratification, custom duties between both parties will be gradually decreased according to a 12-year schedule;[22]

(j) *United Arab Emirates*: The United Arab Emirates is currently examining bilateral trade agreements with Australia and the United States;[23]

(k) *Yemen*: In addition to more than 60 trade and investment agreements and protocols, Yemen has signed a trade and investment framework agreement with the United States as a step towards establishing an FTA with that country.[24]

[22] See Ministry of Economy and Trade in the Syrian Arab Republic, "Syrian European Partnership", which is available at: http://www.syrecon.org/index.php? module=subjects&func=listpages&subid=79.

[23] See WTO, "Trade policy review: Report by the Secretariat – United Arab Emirates, Revision" (June 2006).

[24] See Embassy of Yemen, "Free trade zones and trade agreements – Economic and Commercial Office" (2008), which is available at: http://www.yemenembassy.org/economic/Investment.htm.

III. EFFECTS OF TRADE POLICIES ON PROMOTING REGIONAL TRADE AND GROWTH

A. IMPROVEMENT IN MARKET ACCESS FOR ESCWA MEMBER COUNTRIES

Given the growing competition from world markets, ESCWA member countries must not only implement bilateral trade agreements, including WTO, GAFTA, the Euro-Mediterranean partnership and FTAs with the United States, but also reform and further modernize existing trade policies. WTO agreements should help to pave the way for ESCWA member countries in terms of enhancing their market access to all WTO member countries. Similarly, GAFTA and the European Union agreements are also designed to improve the market access of ESCWA member countries to other Arab countries and those in Africa and the European Union. However and with the notable exception of GAFTA, the empirical evidence presented below would suggest that market access has not been significantly enhanced.

Foreign ESCWA trade with the United States increased modestly from 11.4 per cent of total exports in 2005 to 11.8 per cent in 2006, and from 7.3 per cent of total imports in 2004 to 9.4 per cent in 2006 (see table 11). It is interesting to note that while the European Union is considered to be the main trade partner of the ESCWA region with several operational bilateral trade agreements, trade with the European Union has been gradually decreasing from 25.8 per cent of total foreign exports in 2002 to 22.7 per cent in 2006, and 44.6 per cent of total imports in 2002 to 36.6 per cent in 2006. This would suggest that the bilateral trade agreements signed with the European Union did not contribute much towards increasing exports from the region. This issue is discussed in greater length below.

Another empirical observation is that while intra-exports increased in 2002-2004 from 8.5 per cent to 9 per cent, it dropped back to 8.4 per cent in 2006. Imports, however, have been steadily increasing from 12 per cent in 2002 to 14 per cent in 2006. This indicates that the GAFTA trade agreements and the subsequent tariff liberalization within the region have both stimulated internal exports and imports. Exports destined to Asia appear to be on a steady rise, increasing from 25.6 per cent in 2002 to 28.7 per cent in 2006. Similarly, imports from Asia increased from 20.9 per cent in 2002 to 23.6 per cent in 2006.

TABLE 11. DIRECTION OF FOREIGN TRADE OF THE ESCWA REGION, 2002-2006
(*Percentage*)

	Total exports from the ESCWA region					Total imports to the ESCWA region				
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
Arab countries	8.5	8.4	9	7.9	8.4	12	11.6	12.9	13.7	14.1
European Union	25.8	25.4	24.3	23.8	22.7	44.6	45.1	41.7	40.3	36.6
United States	11.2	12.5	12.4	11.4	11.8	9.5	8	7.3	8.5	9.4
Asia	25.6	26.6	27.3	27.5	28.7	20.9	21.7	21.2	21.8	23.6
Japan	14.7	14.6	13.8	14	15.7	6.4	6.2	5.3	5	5.1
China	3.3	4.1	4.8	5	5.2	5.5	6.4	6.6	7.3	8.5
Rest of Asia	7.5	7.9	8.7	8.5	7.8	8.9	9.1	9.2	9.5	10
Rest of the World	28.8	27.1	26.9	29.4	28.4	12.9	13.5	17	15.7	16.3

Source: AMF, *Joint Arab Economic Report* (2007).

Table 12 lists the composition of foreign trade, indicating that oil and fuel have remained the main component of exports in the region over the period 2002-2006. Despite significant efforts of several ESCWA member countries, especially oil-producing members to diversify their exports away from oil, oil exports have increased gradually from 67.6 per cent of total exports in 2002 to 76.6 per cent in 2006. In addition, exports of industrial products have decreased from 16 per cent in 2002 to 11.8 per cent in 2006, thereby indicating once more that efforts aimed at diversifying away from oil to the industrial sector are not enhancing the exports of industrial goods.

With regard to imports, these comprise mainly machines and transportation tools, which have increased modestly from 35.5 per cent in 2002 to 36.8 per cent in 2006; followed by industrial products, with a gradual decrease from 29 per cent in 2004 to 27.8 per cent in 2006.

TABLE 12. COMPOSITION OF FOREIGN TRADE OF THE ESCWA REGION, 2002-2006
(*Percentage*)

	Exports from the ESCWA region					Imports to the ESCWA region				
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
Nutrition and drinks	3.9	3.5	3.1	2.7	2.5	15.2	14	12.5	12	11.7
Raw material	2.7	2.5	2.6	2.1	2.0	4.8	4.9	5.1	5.0	4.9
Mineral fuel	67.6	69.7	71	75.4	76.6	4.6	4.9	5.9	7.5	7.7
Chemical products	4.5	4.1	4.1	3.2	3.1	8.8	9	8.6	8.5	8.4
Machines and transportation tools	4.4	4.1	4.2	3.6	3.3	35.5	35.7	36.4	36.2	36.8
Industrial products	16	15.2	14.2	12.3	11.8	28.6	28.9	29	28.1	27.8
Others	0.9	0.9	0.8	0.7	0.7	2.5	2.6	3.5	2.7	2.7

Source: AMF, *Joint Arab Economic Report* (2008).

Total foreign trade in the ESCWA region registered a significant increase in 1997-2006 of approximately 53 per cent, increasing from some $302.5 billion in 1997 to $463.2 billion in 2006 (see table 13). Intra-ESCWA trade reached $38.6 billion in 2006, which represents an increase of some 40 per cent, compared to its 1997 level. After declining in the two years subsequent to 1997, intra-ESCWA trade as a share of total foreign trade increased for the first time in 2002 to 8.2 per cent and subsequently to 8.6 per cent in 2003, before decreasing again to 8.3 per cent in 2006, with no significant change over the decade under consideration.

TABLE 13. TOTAL AND INTRAREGIONAL TRADE, 1997-2006
(*Billions of United States dollars*)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total foreign trade	302.5	265.3	295.3	390.8	396.3	407.2	417.6	433.6	445.2	463.2
Total Intra-ESCWA trade	27.1	25.3	25.8	31.5	30.4	33.2	35.8	36.3	37.3	38.6
Percentage	9.0	9.5	8.7	8.1	7.7	8.2	8.6	8.4	8.4	8.3

Source: International Monetary Fund (IMF), *Direction of Trade Statistics Yearbook* (August 2007).

The ratio of intra-ESCWA trade to total foreign ESCWA trade during the period 1998-2006, which represents the 10 years following the establishment of GAFTA, has remained relatively low, averaging at a modest 8.5 per cent. This can be attributed to various factors, including the recent increase in oil prices and demand for oil given that these constitute a large portion of the region's exports; the depreciation in the value of the United States dollar; and the various trade agreements that have recently been ratified. This highlights the need by ESCWA member countries to intensify efforts aimed at overcoming the obstacles to the liberalization of intra-ESCWA trade, and to enhance regional integration through trade.

TABLE 14. TOTAL AND INTRAREGIONAL EXPORTS, 1997-2006
(*Billions of United States dollars*)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total ESCWA exports	145.3	147.9	161	242.3	233	240.5	245.9	248.6	252.6	259.6
Intra-ESCWA exports	9.1	11.2	12.4	13.3	15.8	16.3	19.5	23.6	25.3	29.6
Percentage	6.3	7.6	7.7	5.5	6.8	6.8	7.9	9.5	10.0	11.4

Source: IMF, *Direction of Trade Statistics Yearbook* (August 2007).

Total ESCWA intraregional exports have increased steadily from $9.1 billion in 1997 to $29.6 billion in 2006, which constitutes a modest 358 per cent growth rate over that period (see table 14). In relative terms, the share of ESCWA intraregional exports in total ESCWA exports increased between 1997 and 1999, declined between 1998 and 2002, and bounced back to 11.4 per cent in 2006, averaging at about 8.2 per cent. The decline is not due to a real decline in intra-ESCWA exports, rather to the increase in total ESCWA exports stemming from the rise in oil prices during that period. Tables 13 and 14 indicate that since GAFTA came into force in 1997, total intraregional trade and exports appear to be on the rise, thereby implying that the GAFTA agreement has improved the market access of ESCWA member countries within the region and towards other, non-ESCWA Arab and African countries. Consequently, there is evidence that GAFTA is having a positive impact on ESCWA intraregional trade. However, in percentage of total trade, intra-ESCWA total trade and total exports have remained below the 12-per-cent level, indicating that this agreement is still not being able to intensify ESCWA trade and stimulate further trade integration in the region.

Following its association agreement with the European Union, which entered into force in 2002, Jordan’s imports from Europe have gradually increased from 1.38 billion euros in 2003 to some 2.6 billion euros in 2007 (see table 15). Meanwhile, exports increased between 2004 and 2006, but have been decreasing since, with a drop by 2.3 per cent in 2007 alone. The FTA between Jordan and the European Union appears to have been more beneficial for the latter party given that, since 2002, the increasing level of imports from the European Union have not been matched by increasing Jordanian exports to the European Union.

TABLE 15. TRADE BETWEEN JORDAN AND THE EUROPEAN UNION, 2003-2007
(*Billions of euros*)

	Imports from European Union	Annual percentage change	European Union share of total imports	Exports to European Union	Annual percentage change	European Union share of total exports
2003	1.38		27.92	0.102		3.75
2004	1.60	16.2	24.98	0.101	-1	3.55
2005	2.08	29.4	25.05	0.125	24.3	3.63
2006	2.15	3.8	23.92	0.135	7.8	3.27
2007	2.43	12.8	24.98	0.132	-2.3	3.27

Source: European Commission, “Trade Issues: Bilateral Trade Relations – Jordan” (2008), p. 4.

With regard to the FTA with the United States, Jordan’s exports and imports witnessed a significant increase from 1999 to 2000, when the treaty was signed, which continued in 2001, when the treaty entered into force (see table 17). Subsequently, imports and exports increased to varying rates; and in 2007, imports jumped by 31.66 per cent, while exports decreased by 6.55 per cent. With the exception of 2007, it appears that the FTA has improved the market access of Jordan to the United States market, while also improving the market access of the United States to the Jordanian market.

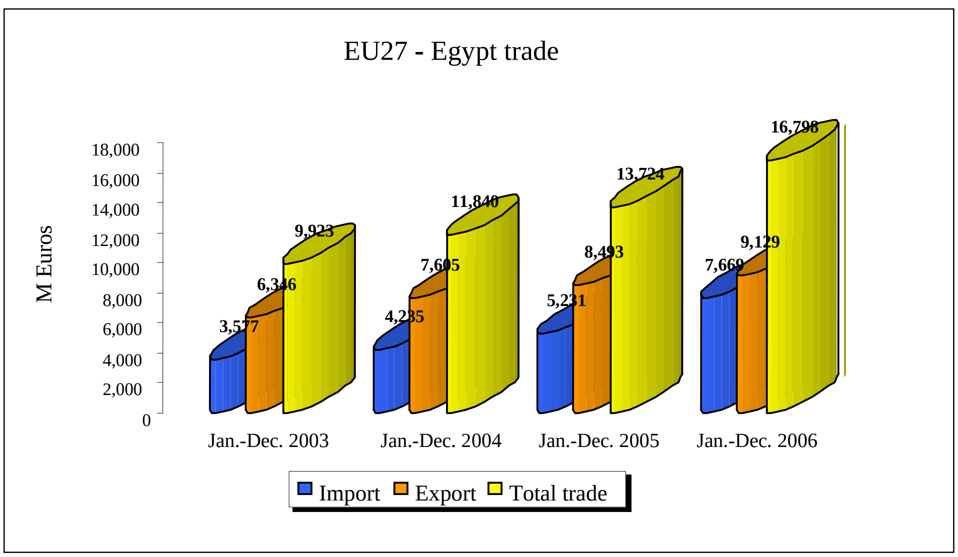
TABLE 16. TRADE BETWEEN JORDAN AND THE UNITED STATES, 1999-2007
(*millions of United States dollars*)

	Imports from the United States	Annual percentage change	Exports to the United States	Annual percentage change	Imports+ Exports
1999	275.7		30.7		306.4
2000	316.9	14.94	73.3	138.76	390.2
2001	339	6.97	229.2	212.69	568.2
2002	404.4	19.29	412.4	79.93	816.8
2003	492.4	21.76	673.5	63.31	1 165.9
2004	551.5	12	1 093.40	62.35	1 644.9
2005	644.2	16.81	1 266.80	15.86	1 911
2006	650.3	0.95	1 422.10	12.26	2 072.4
2007	856.2	31.66	1 328.90	-6.55	2 185.1

Source: United States Census Bureau, "Foreign Trade Statistics: Trade in Goods (Imports, Exports and Trade Balance) with Jordan" (2008).

Bilateral trade between Egypt and the European Union has increased from 11.5 billion euros in 2004, when the FTA entered into force, to 13.3 billion euros in 2005, 16.8 billion euros in 2006 and an estimated 17.2 billion euros in 2007 (see figure IV). This is in stark contrast to the average of 10 billion euros before the agreement. In other words, trade has increased by 73 per cent over the past four years. However, Egyptian exports to the European Union have decreased by 7.28 per cent since 2006, while European Union exports to Egypt increased by 11 per cent. While exports have mainly decreased in the mineral fuels sector in Egypt, other sectors experienced a growth trend. As in the case of Jordan, it is evident that the FTA appears to have benefited the European Union to a greater degree than Egypt. Specifically, since the agreement entered into force in 2004, Egypt's imports from the European Union has been on a steadily increasing trend, which has not been the case of Egypt's exports to the European Union.

Figure IV. Trade between Egypt and the European Union, 2003-2007



Source: Eurostat, "EU-Egypt trade under the Association Agreement: 2008 – four years anniversary" (2008), p. 2.

On the other hand, the accelerated accession of some major countries in East and Central Europe and the customs union agreement between Turkey and the European Union represent serious threats to ESCWA exports in world markets. During the past two decades, countries in both East and Central Europe and in

Latin America have experienced faster trade reforms and integration than their counterparts in the ESCWA region.

Another threat emanates from South and East Asia, where such countries as Bangladesh, China, India and Indonesia enjoy lower labour costs, high productivity and labour-intensive production. This is a concern particularly in the textile sector, which employs almost one million workers in the ESCWA region.[25] This labour-intensive sector has been among the very few where ESCWA member countries have been able to compete and gain important market shares, thanks to protected quota markets in the European Union that were abolished in 2005.

B. DEVELOPMENT OF SERVICE SECTORS AND TRADE LIBERALIZATION

There is a growing awareness of the importance of liberalizing trade in services. Technological advances are also playing a key role in bringing trade in services to the forefront of policymaking agendas in the ESCWA region. Advances in transport and IT have contributed to a rapid expansion of trade in services. While many international transactions were considered expensive in the past, they are now transacted easily due to the substantial flow of electronic information. The imperative for the liberalization of trade in services stems from the observation that countries that have improved the performance of trade in services as related to transport, finance, utilities and telecommunications, have achieved substantial improvements in their market access through increased exports and FDI inflows. Domestic reforms aimed at lowering the cost of transportation and doing business can play a crucial role in improving market access and linkages to global markets. On the one hand, liberalizing the service sector strengthens export responses to trade reforms and, on the other, enables local producers to better coordinate their activities with input suppliers located in high-income countries, thereby attracting FDI.

Most ESCWA member countries have granted more commitments for market access of financial and tourism services than in other sectors. Liberalizing more services could create more investment opportunities for the domestic private sector and help to attract more FDI and portfolio investment. This is in the light of the fact that FDI in services has been a main driver of global FDI flows in the 1990s, which currently accounts for approximately half of the inward FDI stock in the world. However, ESCWA member countries find it difficult to benefit from these global trends given that they have tended to approach service reform in a piecemeal fashion. Privatization has been slower than in other parts of the world, and barriers to entry seem to inhibit both foreign and domestic investors.

C. INVESTMENT AND TRADE LIBERALIZATION

Along with the direct effects of liberalization, such as trade creation and the stimulation of competitiveness, the dynamic effects of trade liberalization in the ESCWA region can be associated with the impact of the bilateral, international and regional trade arrangements on internal investment, capital accumulation and growth. These dynamic effects include the indirect impact of the gains resulting from more efficient allocation of resources within the region on income and savings, thereby leading to a rise in the rate of investment and an increase in the rate of accumulation of certain factors of production, including human capital. The already ratified ESCWA trade agreements are expected to provide a stimulus for investment. Any trade agreement that ensures that a particular structure of domestic prices and incentives will prevail in the long term, rather than be subject to unpredictable changes, is likely to encourage investment. Furthermore and in order to succeed in their recent trade integration efforts and their new outward-oriented trade policies, ESCWA member countries need to encourage further internal investment and FDI that, in addition to increasing savings and employment opportunities, promotes the transfer of technology and knowledge, and increases productivity.[26]

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[25] The textile sector provides employment for 450,000 workers in Egypt alone.

[26] See ESCWA, “Arab economic integration efforts: A critical assessment” (E/ESCWA/ED/1999/11).

Figure V highlights the dynamics of internal investment, using the proxy of gross capital formation, in ESCWA member countries over the period 1980-2006. Egypt experienced a significant increase in investment, with a peak in 1987 of some $29 billion, increasing from a low of $6 billion in 1980 (see figure V.A (a)). During the trade liberalization and structural adjustment periods of the late 1980s, investment experienced a serious decline to $8 billion in 1991. However, this bounced back up to some $17 billion in 2000, with a further increase to $20 billion in 2006.

Similar dynamics were observed in Jordan, where investment has been on an upward trend since the early 1990s, reaching $2.5 billion by the end of 2006 (see figure V.A (b)). Government spending on infrastructure and capital projects since the early 1990s have stimulated investment in Lebanon, reaching an all time high of $4.8 billion in 1998 (see figure V.A (c)). However, there has been a trend reversal since the early 2000s, owing partly to high interest rates, which crowded out investment. The result was a significant decline in investment to some $3 billion in 2001. Moreover, the recent political turmoil that started in 2004 continues to exert more pressure on investment in Lebanon, and the outlook for 2009 remains bleak. By contrast, the dynamics of investments in the Syrian Arab Republic have pointed to an upward trend since the early 1990s (see figure V.A (d)).

In the GCC and with the notable exception of Oman, investments have been increasing since 2000 on the back of high oil prices and revenues. In Bahrain, investments have stabilized at around $2 billion since 2004 (see figure V.B (a)). Similar dynamics are observed in Kuwait, where investments have grown since 2000, reaching $16 billion in 2006 (see figure V.B (b)). Hikes in oil prices and revenues have been the main driving force behind this increase, coupled with Government spending on infrastructure projects. In addition, excess liquidity from high oil revenues has kept interest rates low, thereby stimulating investment even further.

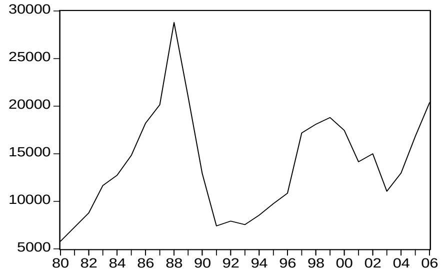
Oman has experienced volatile investment levels since 1988, moving from a low of $2.8 billion in 2002, to a high of some $4.8 billion in 2004, with a trend reversal in 2005, while Qatar's investment levels have been rising since 1998 (see figures V.B (c) and (d)). The increase in investment in Qatar, which can again be attributed to the hikes in oil prices, has been more significant, with a four-fold increase from $2.1 billion in 1998 to $9 billion in 2006.

Saudi Arabia has experienced steady increases in investments since 1994, from $28 billion to $60 billion in 2006 (see figure V.B (e)). This significant increase is partially driven by oil price and revenue increases, which have kept liquidity levels significantly high, thereby lowering interest rates and stimulating investments even further. Similar dynamics are observed in the United Arab Emirates, where investment has experienced a four-fold increase, increasing from $6 billion in 1987 to $25 billion in 2006 (see figure V.B (f)). While this significant increase has also been partially driven by oil price and revenue increases, lower oil revenues and growing fiscal expenditures on infrastructure and capital investments are set to contribute negatively to investment in 2009.

Figure V. Internal investment in ESCWA member countries, 1980-2006
(*Millions of United States dollars*)

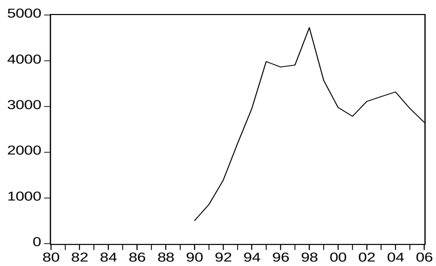
A. Non-oil producing ESCWA member countries

(a) Egypt

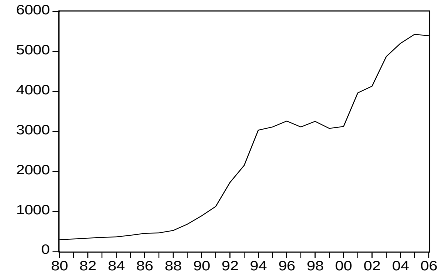


(b) Jordan

(c) Lebanon



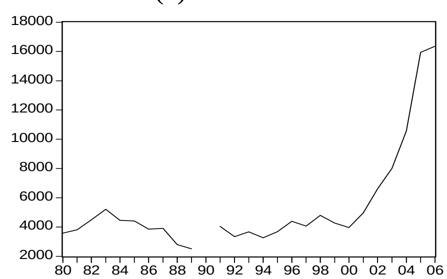
(d) Syrian Arab Republic



B. Oil producing GCC countries

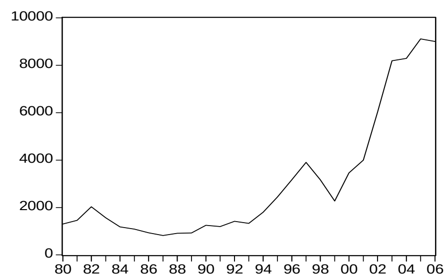
(a) Bahrain

(b) Kuwait

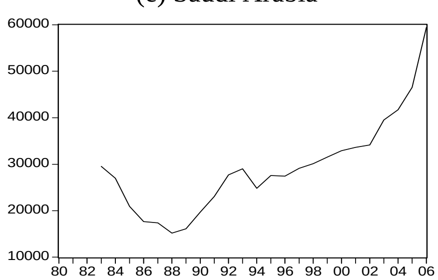


(c) Oman

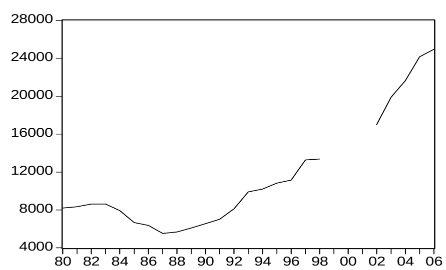
(d) Qatar



(e) Saudi Arabia



(f) United Arab Emirates



Source: IMF, *International Financial Statistics (IFS) Online* (August 2007).

Note: Internal investment is proxied by gross capital formation.

Table 17 below sums up the gross capital formation of ESCWA member countries over 1990-2006, following the ratification of GAFTA and the various trade agreements with the European Union and the United States. Gross capital formation in the region has increased significantly over the past few years, rising from an average of $68.8 billion over the period 1990-2000 to $151.1 billion in 2006. This is a clear indication that GAFTA, which entered into force in 1997, has enhanced to some extent economic and financial integration in the ESCWA region, and has further stimulated internal investment. By considering the episodes that have followed the signing of the European Union and United States bilateral trade agreements with each of Jordan, Egypt and Lebanon, the scenario is also impressive. Internal investment in Egypt experienced a significant increase after its association agreement with the European Union, which entered into force in 2004, increasing from $12.9 billion in 2004 to some $20.3 billion in 2006. Equally, gross capital formation in Jordan experienced a significant increase after both trade agreements with the United States and European Union entered into force in 2001 and 2002, respectively, increasing from $1.8 billion in 2002 to approximately $2.6 billion in 2006. The increase in internal investment in Lebanon after the signing of the European Union agreement in 2002 is less dramatic, rising from $5.0 billion in 2002 to $5.8 billion in 2006. Governments in the ESCWA region need to improve further the domestic investment environment by facilitating trade management procedures, reducing all the bureaucratic complications and encouraging more transparency. Privatization still remains an important avenue for further increases in the investment opportunities in the ESCWA region.[27]

TABLE 17. GROSS CAPITAL FORMATION FOR ESCWA MEMBER COUNTRIES
(*Billions of United States dollars*)

Country	Annual average 1990-2000	2002	2003	2004	2005	2006
Lebanon	3.337	5.077	5.366	5.528	5.726	5.822
Egypt	12.414	15.000	11.067	12.982	16.835	20.362
Jordan	1.695	1.815	2.090	2.299	2.414	2.634
Syrian Arab Republic	2.531	4.132	4.872	5.200	5.426	5.391
Yemen	2.215	1.550	1.795	2.100	1.976	1.715
Bahrain	0.946	1.460	1.861	2.380	2.145	2.291
Kuwait	3.593	6.609	8.006	10.575	15.945	16.356
Qatar	2.311	6.027	8.187	8.284	9.112	9.004
Oman	2.248	2.572	3.438	4.697	3.697	3.267
Saudi Arabia	27.539	34.151	39.493	41.693	46.547	59.397
United Arab Emirates	10.052	17.015	19.885	21.651	24.150	24.946
Total ESCWA region	68.881	95.408	106.060	115.247	133.973	151.185

Sources: IMF, *International Financial Statistics (IFS) Online* (August 2007); and various publications from central banks.

On the other hand, the ESCWA region has so far benefited from two categories of FDI, namely: (a) resource-seeking FDI, which tries to guarantee the availability of raw materials while decreasing the risk and insecurity in their provision, and which is the most popular type of FDI in the ESCWA region, specifically in the GCC countries; and (b) labour-seeking FDI, which offers a comparative advantage in factor endowments, along with tariff structures and market deficiencies, and which has encouraged FDI in Egypt, Jordan, Lebanon and, to a lesser extent, the Syrian Arab Republic and Yemen.[28]

However, most ESCWA member countries are at stages of development and levels of productivity that have essentially limited their attractiveness to FDI to the resource-seeking and labour-seeking types. Those that have a large market and a large and inexpensive labour force, namely, Egypt and, to a lesser extent, the Syrian Arab Republic can be attractive to labour-seeking and market-seeking import substituting FDI. Other, smaller ESCWA member countries, such as Jordan and Lebanon, do not have the upgraded factors of production, the high levels of productivity and the low level of transaction costs that could otherwise give them the absolute advantage to attract FDI-seeking export bases.

The tendency of ESCWA member countries to liberalize their trade by joining the European partnership agreements and WTO could further reduce the incentives for FDI to relocate European Union

[27] See ESCWA, "Annual review of developments in globalization and regional integration in the Arab countries" (E/ESCWA/GRID/2006/3), p. 31.

[28] See ESCWA, "Arab economic integration efforts: A critical assessment" (E/ESCWA/ED/1999/11), pp. 16 and 17.

companies to markets in the ESCWA region. The removal of trade barriers permits European Union firms to achieve the desired levels of international trade without the need to relocate investment to the ESCWA region. By contrast, the establishment of a potential customs union within the ESCWA region would help to attract FDI.

Despite cheaper labour, there are other factors that play a major role in diverting FDI towards developed economies away from ESCWA member countries. First, there is the matter of ambiguity in performing business in ESCWA member countries and the risky status of any return on investment. The presence of cheap labour and the absence of any restrictions facing capital movement are not enough when compared to the high costs emanating from inappropriate infrastructure, distribution systems and business services, inadequate work organization, absence of trained employees and poor quality of public management, all of which characterize several ESCWA member countries. Moreover, the issue of low productivity of capital and high production costs owing to the high level of taxation, weak business environment, and the general productivity status of the economic and social infrastructure tend to discourage FDI.[29]

By looking at the data, FDI to the ESCWA region has increased significantly over the past few years, rising from an average of $2.68 billion over 1990-2000 to $29.8 billion in 2005 (see table 18). In 2005, five countries received about 88 per cent of the total FDI inflow to the ESCWA region, as follows: 40 per cent of total inflows went to the United Arab Emirates, 18 per cent to Egypt, 16 per cent to Saudi Arabia, 9 per cent to Lebanon and 5 per cent to Qatar.[30] While this is significant in absolute terms, the inflow of FDI to the ESCWA region in relative terms and relative to other developing regions worldwide has remained significantly low, ranging from 2.1 per cent over 1990-2000 to 3, 5, 6 and 9 per cent in 2002, 2003, 2004 and 2005, respectively. When compared to developed nations those figures are even less significant.

By considering the periods that followed the signing of the European Union and United States bilateral trade agreements with each of Jordan, Egypt and Lebanon, the scenario is somewhat different. In 2005, one year after Egypt signed its partnership agreement with the European Union, FDI inflows to Egypt experienced a significant increase of more than 140 per cent, increasing from $2.1 billion in 2004 to some $5.3 billion in 2005. Similarly, FDI inflows to Jordan experienced a significant increase after its agreements with the United States and the European Union entered into force. Jordan experienced a 20-fold increase between 2002 and 2005, increasing from $75 million in 2002 to approximately $1.5 billion in 2005. The increase in FDI inflows to Lebanon after the European Union agreement was signed in 2002 is less significant, increasing from $1.3 billion in 2002 to $2.5 billion in 2005. However, it is important to note that this agreement entered into force in 2006.

TABLE 18. FDI INFLOWS TO THE ESCWA REGION
(*Millions of United States dollars*)

Country/region	Annual average 1990-2000	2002	2003	2004	2005
Bahrain	458	217	517	865	1 049
Egypt	844	647	237	2 157	5 376
Jordan	155	75	436	651	1 532
Kuwait	58	3	-67	24	250
Lebanon	449	1 336	2 860	1 899	2 573
Oman	84	109	489	200	715
Qatar	169	624	625	1 199	1 469
Saudi Arabia	245	453	778	1 942	4 628

[29] Ibid., pp. 15 and 16.

[30] See ESCWA, "Regional investment directory report: ESCWA member countries" (E/ESCWA/GRID/2007/Technical paper.1), p. 2.

TABLE 18 (*continued*)

Country/region	Annual average 1990-2000	2002	2003	2004	2005
Syrian Arab Republic	127	115	180	275	500
United Arab Emirates	18	1 307	4 256	8 359	12 000
Yemen	77	102	6	144	-266
Total ESCWA region	2 684	4 988	10 317	17 715	29 826
Developing economies	1 34 760	1 63 583	1 75 138	2 75 032	3 34 285
World	4 95 391	6 17 732	5 57 869	7 10 755	9 16 277

Source: ESCWA, "Regional investment directory report: ESCWA member countries" (E/ESCWA/GRID/2007/Technical paper.1), table 1.

Table 19 below indicates that the percentage of internal investments in the ESCWA region as a percentage of FDI decreased from 34.3 per cent in 2001 to 26.8 per cent in 2004. It is however important to note that approximately 90 per cent of these investments were directed at the services sector and 6 per cent at the industrial sector, with the agricultural sector receiving a very modest share of these investments.[31]

TABLE 19. SELECTED INDICATORS FOR REGIONAL INTEGRATION IN THE ESCWA REGION, 2001-2005
(*Percentage*)

Indicator	2001	2002	2003	2004	2005
Internal investments as a percentage of FDI	34.3	36.0	23.74	26.77	..
Internal tourism as a percentage of total tourism	44.59	45.34	40.33	43.42	..
Internal labour remittances as a percentage of GDP	5.9	6.2	4.64	5.01	5.57

Source: ESCWA, "Annual review of developments in globalization and regional integration in the Arab countries" (E/ESCWA/GRID/2006/3), table 8.

Note: Two dots (..) indicate that data are not available or are not separately reported.

To some extent, GAFTA has enhanced the economic and social integration in the ESCWA region and has further facilitated tourism, labour movement and remittances. ESCWA member countries need to devote additional efforts in order to promote further investments in the region. At the national level, investment promotion policies should focus on three main elements, namely: (a) enacting and updating investment promotion laws; (b) establishing national committees in order to oversee investment projects and facilitate administrative procedures relating to these projects; and (c) establishing more free trade areas.

Political tensions in the ESCWA region, coupled with macroeconomic imbalances have continued to affect negatively the investment climate since the early 1980s. The economies of the region are not yet able to fully stimulate investment despite the recent hikes in oil prices. The outlook for 2009 appears to be less positive due to considerable decreases in portfolio investments since mid 2008, and the recent significant declines in stock market capitalization, especially in the GCC countries, and despite some market corrections over the same period.

[31] See ESCWA, "Annual review of developments in globalization and regional integration in the Arab countries" (E/ESCWA/GRID/2006/3), p. 31.

D. EMPLOYMENT AND JOB OPPORTUNITIES

Over the past decade, the ESCWA region has continued to witness a significant and rapid rise in the labour force, at a yearly average of 4-5 million individuals. This is equivalent to a similar increase in Latin America, which is a region that is three times larger than the ESCWA region in terms of both GDP and population. This rise in the labour force in ESCWA is matched by a parallel rise in unemployment rates, at nearly one fifth of the labour force. Another problem facing the labour force in the region relates to gender employment whereby, in most ESCWA member countries, female employment is typically concentrated only in governmental or a few gender-specific occupations.

The usual engine of job creation for ESCWA member countries has been the public sector. This has not been conducive in lowering unemployment rates due to inefficiencies and low levels of productivity. Despite the various trade agreements signed by ESCWA member countries, employment in the service and manufacturing sectors have remained weak; and regional labour markets are still unable to ensure the adequate job creation needed. This factor, along with the fall in real wages, has led to a massive brain drain in the region.

Unfortunately, unemployment statistics for ESCWA member countries remain sketchy. With the exception of Egypt, Jordan and the Syrian Arab Republic, unemployment figures are often totally inexistent. Despite the spectacular real GDP growth rates that the region has witnessed since 2001, labour markets are still unable to benefit in terms of lowering unemployment rates, even though labour demand moves cyclically with the growth rates of GDP. Labour markets in the ESCWA region have largely failed to stimulate labour demand owing to the import of labour from abroad, in addition to the high rates of new entrants into the market resulting from demographic increases over the past two decades.

Low GDP growth rates in the 1990s, coupled with sluggish job creation and high population growth rates have resulted in an overall average unemployment rate of 10 per cent in the ESCWA region (see table 20). In Egypt, unemployment rates have remained above the 10 per cent level, despite the spectacular real GDP growth rates and the increase in exports experienced since 2001. In Jordan, those rates are even higher. From a high of 18 per cent during the 1990s, unemployment rates decreased marginally, but have remained above 14 per cent in 2003-2006. Again the signing of bilateral trade agreements with the United States and the European Union, and the subsequent increase in Jordanian exports have not benefited the labour market as originally sought from those agreements. Statistics for Lebanon have remained unavailable with the exception of the figure for 2004, at 8.2 per cent. In the Syrian Arab Republic and Yemen, unemployment rates have continued to hover around 10 per cent since the early 1990s. In the GCC countries, the unemployment data is again not available with the exception of Saudi Arabia, where the rates were below 7 per cent level for the period under consideration.

However, the recent removal of several barriers to trade and the movement of labour resulting from the entry into force of GAFTA appear to have benefited the ESCWA region to some extent. Labour markets in the ESCWA region are becoming integrated relative to other integrated regions of the world. Large intraregional labour movements have been the main vehicle of the region's economic integration, triggering substantial financial flows in the form of workers' remittances. To a large extent, intraregional labour movement has been from non-oil to oil-producing ESCWA member countries. In the early 1990s, the stock of foreign labour in the GCC countries reached 4.5 million and accounted for about two thirds of total GCC labour force; of these, 55 per cent originated from non-oil ESCWA member countries. This share has decreased since the mid-1990s, while the share of labour from Asia has increased. ESCWA labour force in GCC countries is expected to decline further as policies of substituting nationals for foreign labour are implemented by GCC countries.

TABLE 20. UNEMPLOYMENT RATES IN ESCWA MEMBER COUNTRIES, 1990-2006
(*Percentage*)

Country	Annual average, 1990-2001	2003	2004	2005	2006
Bahrain	5.9	..	..	..	..
Egypt	10.2	11.0	10.3	10.3	10
Jordan	18.2	14.5	12.5	14.8	14
Kuwait	..	1.1	..	..	..
Lebanon	7.8	..	8.2	..	..
Oman	17.4	..	..	..	..
Qatar	3.9	..	1.4	..	..
Saudi Arabia	4.6	5.6	5.8	6.1	6.3
Syrian Arab Republic	9.3	10.8	12.3	8.0	8.5
United Arab Emirates	1.8	..	..	..	..
Yemen	13.3	..	10.6	..	..

Source: ESCWA, *Survey of Economic and Social Developments in the ESCWA Region*, various issues.

Note: Two dots (..) indicate that data are not available or are not separately reported.

GAFTA and the various bilateral trade agreements signed by ESCWA member countries have enhanced the inflow of labour from non-GCC ESCWA member countries into GCC countries. This has been beneficial for both the sending and receiving countries. For oil economies in the GCC, it has provided needed skilled and unskilled manpower in various fields. For non-oil ESCWA member countries, it has represented a source of employment often for unused factors of production. Moreover, capital flows in the form of labour remittances have a direct positive impact on the balance of payments, and account for much of the private investment in certain countries in the region, including Jordan, Egypt and Lebanon. Recently, remittances have amounted to about one quarter of exports of goods and services of non-oil ESCWA members and have exceeded 30 per cent in Lebanon, Jordan and Yemen. In 2005, workers' remittances were equivalent to some 29 per cent of GDP in Jordan, 11 per cent of GDP in Egypt, and 25 per cent of GDP in Lebanon.

Significant improvements in employment and job creation opportunities in ESCWA member countries can be achieved with further liberalization of ESCWA intra-trade and the removal of tariff and non-tariff barriers. Through the combined size of their capacities and markets and the sectoral complementarities among ESCWA member countries, unemployment rates are expected to be reduced further through both trade and investment creation generated by the following: (a) reducing trade barriers among ESCWA member countries, namely tariffs, quotas and non-tariff barriers; (b) coordinating macroeconomic and monetary policies; (c) realizing trade creation possibilities by eliminating all diverting reductions among member countries, thereby increasing intraregional trade; (d) enhancing efficiencies in production by exploiting comparative advantages in domestic markets; (e) intensifying competition in the domestic market with greater consumer choice and cheaper prices; (f) achieving increased production due to better exploitation of economies of scale made possible by expanded markets; and (g) improving national terms of trade based on cheaper imports.

E. INDIGENIZING ADVANCED PRODUCTION TECHNOLOGIES AND THE STRUCTURE OF EXPORTS

In the light of the various trade agreements signed by ESCWA member countries and the continuing negotiations of other such agreements, it is instructive to look at the technological composition of ESCWA exports and to see whether greater competition emanating from those trade agreements have harmed exports and production technologies, and the kind of specialization that is expected to arise. With that in mind, table 21 below illustrates the evolution of the technological composition of ESCWA exports from 1997 to 2006.

It is clear that the export of primary products constitutes more than half of the composition of total ESCWA exports. Oman ranks first with primary products constituting some 94 per cent of its total exports in

1997, although this ratio dropped to 70 per cent in 2006. Saudi Arabia comes second with about 83 per cent in 1997, with a slight drop to 65 per cent in 2006. Ratios in Qatar hover within the same range, from 73 per cent in 1997 to 62 per cent in 2006.

Among non-GCC ESCWA member countries, Egypt ranks first with a ratio of 75 per cent in 1997, albeit dropping significantly to 42 per cent in 2006. The Syrian Arab Republic ranks second with ratios of about 60 per cent in 1997 and 51 per cent in 2006. Jordan ranks last with a ratio of 40 per cent.

TABLE 21. EVOLUTION OF THE TECHNOLOGICAL COMPOSITION OF ESCWA EXPORTS, 1997-2006
(*Percentage*)

Country	Primary products	Resource-based manufactures	Low technology manufactures	Medium technology manufactures	High technology manufactures
1997					
Bahrain	54.4	10.9	11.8	22	0.6
Jordan	43.7	10.3	13.7	16.6	14.4
Oman	93.8	0.7	0.4	3.3	1.2
Qatar	72.2	11	5.2	11.4	0.1
Saudi Arabia	82.7	13.6	0.6	2.9	0.1
Syrian Arab Republic	61.6	26.4	7.8	4	0.2
United Arab Emirates	22.3	15	16.1	33	5.6
Egypt	74.7	15.4	8.8	0.4	0.3
Yemen	9.6	90.3	0	0.1	0
2003					
Bahrain	56.1	12.5	13.1	16.7	1.5
Jordan	39	19.8	8.2	26.5	5.9
Oman	76.9	5.7	2.6	11.8	1.6
Qatar	67.4	10.5	7.9	13.9	0.3
Saudi Arabia	74.5	18	1.6	5.7	0.2
Syrian Arab Republic	30.2	10	8.3	1.1	0.2
United Arab Emirates	35.6	14.9	33.4	15.7	0.3
Egypt	31.4	34.4	26.8	5.5	1.6
Yemen	92.5	5.6	0.6	0.9	0.1
2006					
Bahrain	58.4	10.6	15.1	17.3	1.0
Jordan	40	20.0	8.2	25.8	6.0
Oman	70.1	2.9	7.1	19.9	1.0
Qatar	61.4	13.6	6.0	13.7	0.3
Saudi Arabia	64.2	19.5	8.5	7.7	0.1
Syrian Arab Republic	50.8	16.6	28.5	3.3	0.8
United Arab Emirates	45.6	5.9	30.4	12.5	5.6
Egypt	41.6	40.7	10.2	4.5	3.0
Yemen	81.5	15.5	2.0	0.9	0.1

Source: Compiled by ESCWA, based on United Nations Commodity Trade Statistics Database (UN Comtrade).

With regard to the industrial sector, where the ESCWA region is expected to be most affected by increased trade integration and the removal of trade barriers, it is clear that the technological composition of ESCWA exports are relatively very low and could suffer marginally as a result of greater trade integration. Among non-oil ESCWA member countries, Jordan ranks first with low technology based exports constituting about 13.7 per cent, followed by Egypt with a ratio of 9 per cent in 1997. These ratios appear to have gone down a little in 2006, with the low technological composition of Jordanian exports dipping to 8.2 per cent. There is however a slight increase in Egypt to about 10 per cent. In the GCC countries, these ratios are significantly lower. The United Arab Emirates takes the lead with 16.1 per cent in 1997, rising to 30 per cent in 2006; followed by Bahrain, with a range of 11 to 15 per cent in 1997-2006; and Saudi Arabia with a similar range over that period.

Moving to medium and high technological composition of ESCWA's exports, these ratios decline significantly over the period under consideration. With regard to high-tech products, Jordan takes the lead in 1997, with a modest 14.4 per cent; followed by the United Arab Emirates, at 5.6 per cent. All the remaining ratios fall below the 2 per cent level. In 2006, even Jordan's ratio fell to a mere 6 per cent, with no change for the United Arab Emirates. For the medium technology category, the situation is quite similar whereby Jordan leads, followed by Oman and Bahrain. For the low technology category, the Syrian Arab Republic takes the lead with a 26 per cent ratio in 2006.

Overall, there are not expected to be significant shifts in the technological composition of ESCWA exports and production technologies stemming from greater trade integration. The ESCWA region will continue to specialize in the export of primary and resource-based products, and will most likely import a growing number of low, medium and high-tech products from world markets.

In general, a given country specializes and exports commodities in which it has a comparative advantage, depending on the respective costs of labour and capital, or in which it is initially well endowed, including primary products or natural resources. ESCWA member countries have already ratified a significant number of regional and international trade agreements; and the structure of the technological specialization of individual ESCWA member countries is not expected to change as a result of those trade agreements. Moreover, oil will still dominate the production and exports of these countries, even with the recent efforts devoted by some of these countries to diversify their structures away from the oil sector into more industrial products. Within that context, the aluminum and iron industries in both Bahrain and the United Arab Emirates could suffer as a result of the potential signing of more trade agreements. Equally, alcohol products and their derivatives in Bahrain, and the car industry in Oman could suffer (see table 22).

Consequently, GCC countries have little room to manoeuvre and could be constrained from specializing further and from using efficiently their comparative advantages, particularly given that these are generally poor and sometimes totally absent. Kuwait ranks first in terms of the export of oil-related products, with about 94 per cent of total exports, followed by Oman with 77 per cent, and Saudi Arabia with 74.5 per cent. The United Arab Emirates and Bahrain are at the bottom of this list, with very modest oil exports.

The situation is different in non-GCC ESCWA member countries. The Syrian Arab Republic is a major oil exporter with oil exports at some 58 per cent of total exports, followed by Egypt with about 25 per cent. Unlike GCC countries, where most manpower is imported at relatively high costs, thereby adding to production costs, most non-GCC ESCWA member countries enjoy a comparative advantage in the production of labour-intensive goods. Labour is available abundantly and at relatively low costs. These ESCWA member countries have already realized this and are relying on the production of goods that are labour intensive. A case in point is the production of cotton in both Egypt and the Syrian Arab Republic, and the production of textile-related products in Egypt. By contrast, in the case of Jordan, greater trade integration could result in dampening the domestic production and export of fertilizers and other inorganic elements. While Jordan has been able to compete regionally, it has faced growing competition from the European Union market, where these types of products are produced at lower costs.

TABLE 22. MAJOR CONCENTRATION OF EXPORTS IN GCC COUNTRIES, 1997-2006

Country		Three-digit SITC commodities[a/]	Export share (percentage)
Bahrain	684	Aluminum	53.3
	671	Pig iron, sponge iron, iron or steel	9.1
	512	Alcohols, phenols, phenol-alcohols and their derivatives	6.5
Kuwait	333	Petroleum oils, crude and crude oils obtained from bituminous minerals	94.01
	334	Petroleum products, refined	30.25
	335	Residual petroleum products, n.e.s. and related materials	11.45
Oman	333	Petroleum oils, crude and crude oils obtained from bituminous minerals	77.48
	781	Passenger motor cars	6.95
Qatar	333	Petroleum oils, crude and crude oils obtained from bituminous minerals	63.12
	341	Gas, natural and manufactured	10.56
	334	Petroleum products, refined	6.53
Saudi Arabia	333	Petroleum oils, crude and crude oils obtained from bituminous minerals	74.46
	583	Polymerization and co-polymerization products	16.75
	334	Petroleum products, refined	13.16
United Arab Emirates	684	Aluminum	32.78
	846	Undergarments, knitted or crocheted	11.63
	793	Ships, boats and floating structures	8.49

Source: Compiled by ESCWA, based on United Nations Commodity Trade Statistics Database (UN Comtrade).

a/ The standard international trade classification (SITC) is a numerical code system that was developed by the United Nations in order to classify commodities used in international trade.

Tables 22 and 23 indicate that, with the exception of Jordan, ESCWA member countries have more than half of their exports concentrated in three commodities (at the three-digit SITC level), most of which are primary products. Indeed, most countries of the region still rely on agriculture, crude materials or minerals as their main exports. In addition to crude petroleum and petroleum products, which are the major exports for most GCC countries, chief exports consist of gas (in Qatar), fertilizers (in Jordan) and cotton (in Egypt and the Syrian Arab Republic). This continued dependence on primary products makes the region vulnerable to the high price volatilities on world markets, and can impact negatively on their overall competitiveness as a result of greater competition from the European Union and the United States. Other countries, however, include manufacturing products as one of their major exports, namely, Bahrain (aluminum), Oman (cars) and the United Arab Emirates (aluminum and garments).

TABLE 23. MAJOR CONCENTRATION OF EXPORTS IN NON-GCC ESCWA MEMBER COUNTRIES, 1997-2006

Country		Three-digit SITC commodities[a/]	Export share (percentage)
Jordan	271	Fertilizers, crude	21.62
	541	medicinal and pharmaceutical products	9.16
	562	Fertilizers, manufactured	8.52
Syrian Arab Republic	333	Petroleum oils, crude and crude oils obtained from bituminous minerals	58.85
	334	Petroleum products, refined	6.47
	263	Cotton	6.12
Egypt	333	Petroleum oils, crude and crude oils obtained from bituminous minerals	25.13
	334	Petroleum products, refined	17.75
	651	Textile yarn	7.56
Yemen	333	Petroleum oils, crude and crude oils obtained from bituminous minerals	90.45

Source: Compiled by ESCWA, based on United Nations Commodity Trade Statistics Database (UN Comtrade).

a/ SITC is a numerical code system that was developed by the United Nations in order to classify commodities used in international trade.

IV. CONCLUSIONS AND POLICY IMPLICATIONS

During the 1960s and 1970s, ESCWA member countries were following inward-oriented trade policies in order to protect their domestic industries and develop their internal goods market. However, the picture changed dramatically in the early 1980s when most ESCWA member countries embarked on trade regimes that support free trade and are more outward-oriented. Out of the 14 ESCWA members, eight are now members of WTO and four enjoy observer status. In addition, all the countries of the ESCWA region are members of GAFTA; six member countries are members of the GCC; several ESCWA members are signatories of partnership agreements with the European Union and the global system of trade preferences; and have established various free zones and qualifying industrial zones.

ESCWA member countries have devoted considerable efforts towards regional and international trade integration. The recent efforts of the ESCWA region to further open up to trade have had positive consequences on the region's development and growth. However, further efforts are still needed to achieve the desired levels of growth and development. Inadequate public services, which drives up business costs, and the need to rehabilitate the infrastructure in several ESCWA member countries pose obstacles to further development of both the service and industrial sectors, and constitute important impediments to the promotion and intensification of intraregional trade.

Moreover, current trade policies appear to continue to inhibit the competitiveness of domestic firms, thereby reducing the proper implementation of existing regional trade arrangements and hindering economic growth. A large public sector still hinders export promotion policies. Structural reforms and privatization programmes introduced since the early 1990s are still unable to remove the impediments to both national and regional trade liberalization efforts. These impediments are as follows: (a) high nominal tariffs, which are still prevalent in some ESCWA member countries; (b) maintenance of high rates of protection for domestic producers in a number of sectors; (c) many industrial product imports are still subject to licensing requirements; and (d) export and import processes are typically accompanied by costly and burdensome administrative procedures.

Despite recent efforts aimed at promoting regional and international integration, the ESCWA region continues to lag behind other developing regions in terms of trade integration into the world economy. While impediments to trade in the region have been reduced in recent years, they remain relatively high in many ESCWA member countries outside the GCC subregion. In terms of percentage of total trade, intra-ESCWA total trade and total exports have remained low, thereby indicating that all the newly ratified trade agreements are still unable to intensify ESCWA trade and stimulate further trade integration in the region. This highlights the need to intensify efforts aimed at overcoming the stumbling blocks that obstruct the development of intraregional trade, and at further enhancing regional trade integration.

Furthermore, despite the various episodes of trade liberalization in ESCWA member countries in general and the steady increase in exports since the early 1980s, the rates of growth of GDP have not always moved in tandem with the increase in exports. This study presents a convincing argument to show that the various episodes of trade liberalization in the ESCWA region, including GAFTA and the various trade agreements with the European Union and the United States, have not always been accompanied by higher real GDP growth rates.

This study has also shown that the main trading partners of the ESCWA region are not from within the region, but rather from outside. In other words, despite the abovementioned regional trade agreements and all the newly devoted efforts towards an integrated economy, trade originating from the ESCWA region is still largely insignificant. GCC countries, which have the lowest tariff index in the ESCWA region, enjoy the highest market access relative to other ESCWA member countries. This can be attributed to the relatively high oil exports from GCC countries. Moreover, GCC countries are ahead of their counterparts outside the subregion in terms of the most conducive business environment and of the efficiency of customs and other border procedures, quality of transport and IT infrastructures, international and domestic transportation costs, ease of shipments and logistics competence. Finally, the largest trade growth rates during the past three years belong to Jordan and then Egypt, Saudi Arabia, Oman, Lebanon, Kuwait, Syrian Arab Republic, Yemen and Bahrain.

In general, ESCWA trade with the European Union decreased in between 2002 and 2006, thereby indicating that bilateral trade agreements signed with the European Union have not contributed greatly in increasing ESCWA exports and market access to the European Union. However, internal trade within the ESCWA region has been on the rise since the signing of GAFTA, thereby implying that the Agreement has stimulated internal exports and imports. Within that context, GAFTA has to some extent enhanced economic and financial integration in the ESCWA region, and has further stimulated internal investments.

Additionally, this study illustrated that, despite significant efforts by several ESCWA member countries, especially oil-producing members, to diversify their exports away from oil, oil exports have continued to increase since 2002. Meanwhile, exports of industrial products have been gradually decreasing over the same period, thereby indicating again that those diversification efforts away from oil towards the industrial sector are not enhancing the exports of industrial goods.

Furthermore, the various trade agreements already ratified by ESCWA member countries have largely failed to deliver on investments conducive to growth and development. Specifically, internal investment in the ESCWA region as a percentage of FDI declined over the period 2001-2005. Meanwhile, ESCWA labour markets continue to suffer from high unemployment rates and appear unable to benefit from both the increases in oil prices and revenues, and from trade liberalization which the region embarked on over the past couple of decades.

On the other hand, membership of WTO, GAFTA, the GCC agreements and the various bilateral trade agreements have led to some elimination of trade barriers between member countries, and have stimulated trade and growth, albeit not to the degree expected. Future trade policies must seek to target and pave the way for more specialization within the region, and enhance economic growth. If applied properly, these trade agreements could also enhance trade creation within the region. With the help of comparative advantage and specialization, the average ESCWA consumer should be able to enjoy lower costs for imported goods. Specializing in a particular industry will allow for increasing returns to scale or economies of scale, thereby reducing costs and consumer prices.

Overall, there are not expected to be significant shifts in the technological composition of ESCWA exports and production technologies stemming from greater trade integration. The ESCWA region will continue to specialize in the export of primary and resource-based products, and will most likely import a growing number of low, medium and high-tech products from world markets.

In the long term, trade integration and liberalization will benefit ESCWA member countries. In the short term, however, there will be costs associated with the process of trade liberalization. Substantial fiscal revenue losses are expected owing to the importance of tariff revenues in the structure of fiscal revenues of member countries. Moreover, trade liberalization implies that some currency depreciation could be needed in order to circumvent current account deficits and restore balance of payments. In the absence of the required exchange rate adjustments, trade deficits will widen, thereby necessitating either depreciation or reversal of trade liberalization. There will be short-term adjustment costs for both labour and capital, given that increased competition will lead to the reallocation of factors of production. With a generally high unemployment rate in ESCWA member countries, the loss in employment that might be generated by the ratified trade agreements could create social imbalances.

While it is unclear whether long-term benefits will arise out of trade liberalization, ESCWA member countries need to cope with increasing globalization and integration of the world economy. Policy implications vary across the ESCWA region, depending on prevailing national trade regimes, including commitments made within the framework of WTO, GAFTA and other regional, international, and bilateral trade agreements.

The transition costs of trade liberalization can be minimized if complementary macroeconomic and regulatory reforms are undertaken. Moreover, the maximum amount of benefits can be obtained in the following ways: (a) being fully involved in multilateral initiatives whereby required reforms would lock in benefits and enhance the credibility of ESCWA member countries as well as increase transparency of their economic environment; (b) pursuing appropriate macroeconomic policies that allow non-inflationary growth in order to ensure that the region attracts development-directed FDI and maintains competitiveness of those export sectors that are already successful; (c) eliminating restrictions that inhibit the efficient allocation of resources among sectors; and (d) attaining greater intraregional trade by deepening free trade agreements among ESCWA member countries, thereby boosting merchandise trade, enhancing flows of services, encouraging intraregional investments, creating more job opportunities and improving living standards.

ESCWA member countries must therefore continue to integrate regionally and internationally. They need to continue to encourage a mix of import-substitution and export-promotion trade policies. The establishment of additional free zones in the ESCWA region will further attract investment through special tax incentives and customs exemptions. Aside from increasing investment, free zones will also help to increase employment and the rate of growth of GDP. Further liberalizing ESCWA trade through export-promotion strategies, tariff reductions and the adoption of regional and international trade preferential agreements is crucial in order to enhance economic growth and increase long-term employment opportunities. This should be accompanied with investment liberalization policies.

Moreover, the removal or reduction of trade barriers will allow for cheaper imports to enter the domestic market. Domestic firms, which will face greater competition, will be motivated to reduce inefficiencies and costs.

Given the growing competition from world markets, ESCWA member countries need to abide by those trade agreements that have already been ratified and, moreover, to reform and further modernize existing trade policies. Improving the ICT sector will play a vital role in enhancing the markets and trade in the ESCWA region. While this sector has continued to grow over the past few years, more efforts are needed in order to promote integration with international markets.

In order to succeed in their recent trade integration efforts and their new, outward-oriented trade policies, ESCWA member countries need to encourage FDI that, in addition to increasing savings and employment opportunities, allows for the transfer of technology and knowledge, and increases productivity.

Governments in the ESCWA region need to improve the domestic investment environment by facilitating trade management procedures, reducing all the bureaucracy complications and becoming more transparent. Privatization remains an important channel for increasing investment opportunities in the ESCWA region. ESCWA member countries need to devote additional efforts in order to promote further investments in the region. At the national level, investment promotion policies should focus on three main elements, namely: (a) enacting and updating investment promotion laws; (b) establishing national committees in order to oversee investment projects and facilitate administrative procedures relating to these projects; and (c) establishing more free trade areas.

Significant improvements in employment and job creation opportunities in ESCWA member countries can be achieved with further liberalization of ESCWA intra-trade and the removal of tariff and non-tariff barriers. Through the combined size of their capacities and markets and the sectoral complementarities among ESCWA member countries, unemployment rates are expected to be reduced further through both trade and investment creation generated by the following: (a) reducing trade barriers among ESCWA member countries; (b) coordinating macroeconomic and monetary policies; (c) realizing trade creation possibilities by eliminating all diverting reductions among member countries, thereby increasing intraregional trade; (d) enhancing efficiencies in production by exploiting comparative advantages in domestic markets; (e) intensifying competition in the domestic market with greater consumer choice and cheaper prices; (f) achieving increased production due to better exploitation of economies of scale made possible by expanded markets; and (g) improving national terms of trade based on cheaper imports.

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