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**The cost of the lack of Arab-African trade integration****Summary**

Trade integration between Arab and non-Arab sub-Saharan African countries could accelerate development and economic growth in both regions, which share common development needs.

Countries in the Arab region and sub-Saharan Africa have deepened integration with other regions in recent years, but not between themselves, in spite of their geographical proximity. That has led to missed opportunities for both, particularly with regard to building global value chains.

In the present paper, it emerges that the cost of this lack of trade integration is in the order of a yearly average of 0.2 per cent of gross domestic product (GDP). The cumulative cost by 2025 has been estimated at 1.6 per cent of GDP, compared with the baseline scenario. However, it could be higher still if additional aspects of trade integration, mainly trade in services and mobility of capital and labour, were taken into account.

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## **Introduction**

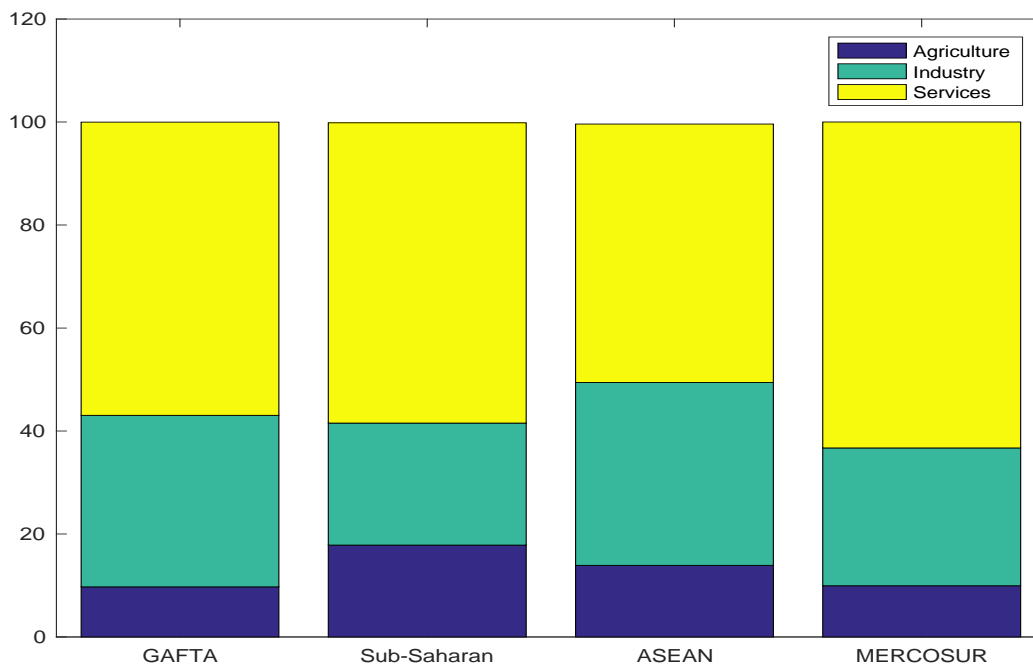
1. Countries enter regional integration agreements (RIAs), aside from political considerations, first and foremost because they envisage that integration will bring economic and social dividends. In the short term, RIAs stimulate interregional trade and investment. In the long run, the resulting larger regional market allows for greater competitiveness and, ultimately, a more appropriate and efficient allocation of resources, which are seen by many as the main ingredients for economic transformation. RIAs offer many positive externalities that facilitate sustained economic and social development.
2. Few developing countries still count on imports substitution. Most have stepped up their domestic policy efforts to take advantage of beneficial trade, investment and financial opportunities that come with greater integration in the international economy.
3. There is a growing need for free trade areas between developing countries in general, and between the Arab region and non-Arab sub-Saharan Africa in particular. Already, some Arab countries, members of the Greater Arab Free Trade Agreement (GAFTA), are also members, or seeking membership, of subregional African blocs.
4. This paper focuses on the cost of failure to deepen Arab-African trade integration and looks at scenarios for improved integration and its potential impact. The expansion of trade flows between the two regions and the creation of new trade links could generate economic growth and development opportunities for both, for instance by boosting employment, improving competitiveness and fostering integration in global value chains. The objective of the paper is to inform debate on how to align priorities for Arab-African trade with the broader pursuit of global economic integration of the Arab region. Deeper trade integration between the Arab region and sub-Saharan Africa does not need to come at the expense of, but rather should complement efforts by Arab countries to take advantage of export opportunities throughout the world.
5. The paper looks at the features of the relationship between the two regions and recent trade performance, and discusses the benefits of regional integration between developing countries. Two alternative scenarios for deeper trade integration are presented, taking into consideration the implementation of other RTAs by both regions. The paper concludes with policy recommendations.

### **I. ARAB-AFRICAN TRADE RELATIONS AND STRUCTURE**

#### **A. TRADE STRUCTURE**

6. The member countries of GAFTA and the countries of sub-Saharan Africa are vastly different groupings. In 2016, GAFTA countries had a combined population of 225 million and GDP of \$2.06 trillion (2.7 per cent of global GDP). Total exports of goods and services amounted to \$583 billion (2.6 per cent of global exports). In contrast, the sub-Saharan group had a combined population of 1.03 billion and GDP of \$1.68 trillion (2.1 per cent of global GDP). Total exports of goods and services amounted to only \$382 billion (1.5 per cent of global exports). Natural resources – fossil fuels in GAFTA countries, and metals, minerals and timber in the sub-Saharan countries – are the main driving force behind exports in both cases. The two blocs share three common members: Egypt, Libya and the Sudan, which are member States of the Common Market for Eastern and Southern Africa (COMESA). Algeria and Tunisia have applied to join COMESA, and Morocco has applied to join the Economic Community of West African States (ECOWAS).
7. The two blocs follow similar but not identical patterns in terms of the composition of GDP and relative importance of different sectors (figure 1). For both, services value added represents the largest proportion of GDP, followed by industry and agriculture.

**Figure 1. Agriculture, industry and services value added as a percentage of GDP (2016)**

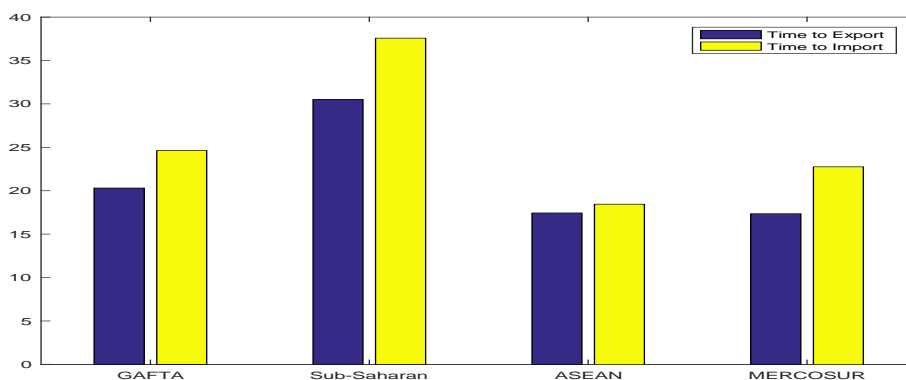


Source: ESCWA calculation based on World Development Indicators (WDI). Available from <https://data.worldbank.org/data-catalog/world-development-indicators>.

Note: Wherever data is unavailable for 2015, the last observed data was used (Libya 2007, the Syrian Arab Republic 2007, and Venezuela 2013). Data for Iraq and the United Arab Emirates is missing.

8. Countries in both groups face many non-tariff measures and technical barriers to trade. Usually measured as trade costs, they include poor logistics and transport infrastructure, and import licenses. In both blocs, the average time required to clear exports and imports is greater than in other regions (figure 2).

**Figure 2. Time (in days) to export and import, by region (2014)**

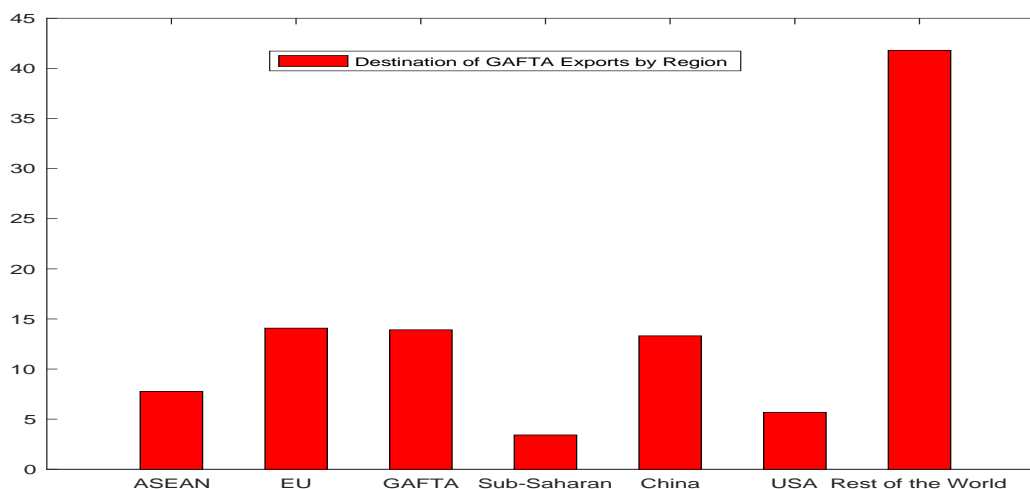


Source: World Development Indicators (WDI). Available from <https://data.worldbank.org/data-catalog/world-development-indicators>.

9. In 2015, exports from GAFTA countries went principally to China (mainly fossil fuels), the European Union (EU) and other GAFTA countries. A large portion was accounted for by the “rest of the world”. The case of imports was similar (figure 4). Sub-Saharan Africa accounted for around 2 per cent of GAFTA’s total exports and imports, despite its proximity to the Arab region, the historical ties between many of the two

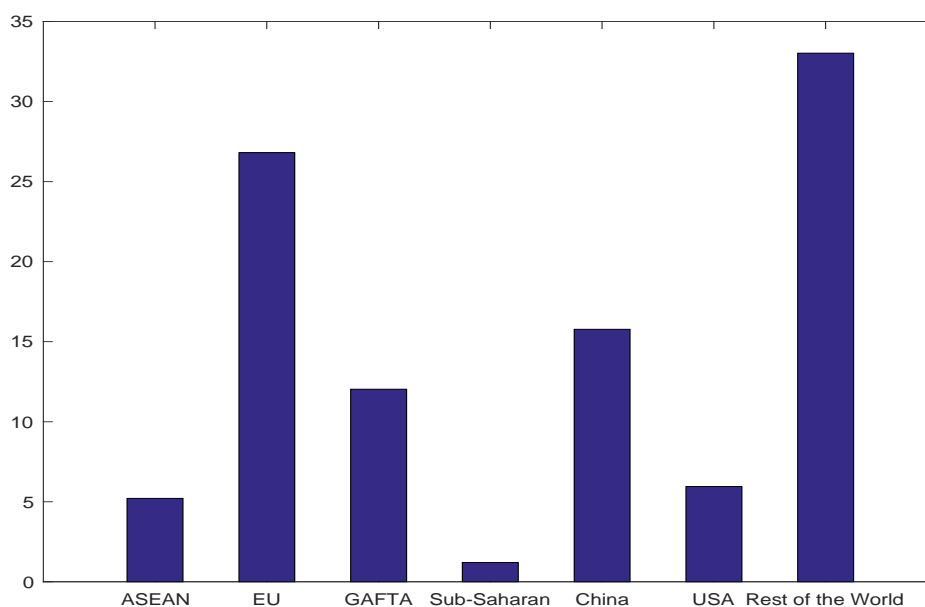
regions' countries, common shipping lanes and overlapping memberships of some regional organizations. There is clear potential to expand this small but promising trade relationship.

**Figure 3. Destination of GAFTA exports in 2015**  
(Percentage share of total exports)



Source: ESCWA estimates based on 2015 CEPII-BACI database. Available from [http://www.cepii.fr/cepii/en/bdd\\_modele/presentation.asp?id=1](http://www.cepii.fr/cepii/en/bdd_modele/presentation.asp?id=1).

**Figure 4. Source of GAFTA imports in 2015**  
(Percentage share of total imports)



Source: ESCWA estimates based on 2015 CEPII-BACI database.

Note: Botswana, Lesotho, Namibia, South Africa and Swaziland form the South Africa Customs Union.

## B. EXPORT AND IMPORT TRENDS

10. More than 80 per cent of Arab exports in 2015 consisted of fossil fuels, mainly to the EU and the United States of America. The figure for sub-Saharan Africa was around 20 per cent. The latter's biggest market is the EU, although exports also flow to China, the United States, GAFTA and other African countries.

11. However, it is the production and export of higher value-added goods, such as machinery, electronics, processed textiles and other manufactured goods that will generate income and employment, and contribute to structural transformation. There is room for further diversification of production in both regions in such value-added sectors, which already have potential, albeit as yet small, export markets.

12. Machinery, mechanical appliances, electrical equipment, and parts and accessories thereof represent roughly 20 per cent of imports to the GAFTA countries and sub-Saharan Africa. Only a very small proportion of those imports originates from either of those regions.

## C. TRADE AGREEMENTS

13. The Arab region has established several free trade agreements (FTAs) within the region and beyond. They include subregional agreements between neighbouring countries, a region-wide FTA, and bilateral arrangements with third parties. Many were conceived to foster pan-Arab integration and compete in the global market. Arab integration efforts reflect a desire to pool markets, labour, capital and other resources, and so improve competitiveness in global markets and develop their productive capacities.

14. Of the 18 GAFTA countries, 13 are members of the World Trade Organization (WTO), and a further four have observer status. The EU has completed or is negotiating regional agreements with many Arab States through the Euro-Mediterranean Partnership (EUROMED), the EU-Gulf Cooperation Council (GCC) free trade agreement, and other bilateral agreements. The EUROMED agreement, first signed in 1995, aims to link the EU with non-EU southern Mediterranean countries, including several GAFTA members.<sup>1</sup> A new initiative has been launched to breathe life into EU negotiations with the GCC, which had been stalled since 2008, with a view to concluding an FTA by 2020.

15. Rather than pursuing regional agreements, the United States maintains several bilateral trade relationships, for political and economic purposes, with Arab countries in the context of its New Middle East Initiative.<sup>2</sup> Many Arab countries, such as Egypt, Lebanon, Libya, Morocco, the State of Palestine, the Syrian Arab Republic and Tunisia, have bilateral trade agreements with Turkey, which is also negotiating trade deals with other GAFTA members.

16. The origins of Arab economic integration initiatives lie in the 1981 League of Arab States Agreement on Trade Flow Facilitation and Development. Fourteen countries signed the GAFTA in 1997. Their number now stands at 18. Tariff cuts were implemented by 2005 and covered a variety of sectors, from agriculture to manufacturing, but many exemptions were initially allowed on a country-by-country basis. They have been lifted over time and all goods are now tariff-free under GAFTA arrangements. However, a multitude of restrictive non-tariff measures, the exclusion of services from the agreement, inadequate transport links, poor economic governance and the low degree of diversification in the region's economies have left intra-Arab trade stagnating. Between 2000 and 2013, it never exceeded 11.5 per cent of the region's total trade, compared with 55.9 per cent for the EU and 23 per cent in the Association of Southeast Asian Nations (ASEAN).

17. Negotiations have started to advance beyond GAFTA and towards the Arab Customs Union (ACU), which was originally intended to be launched in 2015. That year, Arab States decided on a more gradual

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<sup>1</sup> Algeria, Egypt, Lebanon, Libya, Morocco, Palestine, the Syrian Arab Republic and Tunisia.

<sup>2</sup> Countries include Bahrain, Jordan, Morocco and Oman.

implementation process, with launch slated for 2017. It is hoped that the ACU would close many of the loopholes associated with GAFTA and move the region closer towards economic integration.

18. Sub-Saharan African countries have negotiated several regional and subregional trade agreements, as well as bilateral agreements with other countries and regions. They have been inspired largely by the vision set out in the 1991 Abuja Treaty Establishing the African Economic Community (AEC), under which integration would foster growth, industrialization and job creation. The ultimate goal is a continental free trade area (CFTA). Much progress has been made at the subregional level, with the rise of regional economic communities (RECs) fostering closer economic and political ties between neighbouring countries. Those agreements are slowly being linked and their scope expanded, through the Tripartite Free Trade Area (TFTA). At the same time, bilateral agreements with China, the EU and the United States, among others, have had a range of implications for the nature of goods traded and positive developmental effects felt across the continent.

19. At present, 41 African countries are member States of the WTO, and a further six have observer status.<sup>3</sup> The EU has, since 2002, pursued economic partnership agreements (EPAs), primarily at the subregional level through RECs, but sometimes with individual countries rather than all members of a given REC. The EU provides full duty-free and quota-free market access to EPA countries and/or regions, and in cases where the African, Caribbean and Pacific Group of States (ACP) commits to open at least three quarters of its markets to the EU. The EPAs aim to open markets of both the EU and its partner signatory countries.

20. In contrast, under the African Growth and Opportunity Act (AGOA), the United States and some 40 eligible countries assessed opportunities for value-added exports from Africa, covering a variety of sectors from agriculture through machinery to textiles. Under the Act, the participating countries have duty-free access to US markets, without reciprocity for exports from the United States to Africa, which distinguishes it from EPAs and opens more space for growing African industries. According to a study carried out in 2012 by the Brookings Institute, in the 10 years following the passing of the Act in 2001, the value of non-energy exports from Africa to the United States increased from \$1.2 billion to \$4.5 billion. AGOA rules of origin are more flexible than those at the regional level under the TFTA negotiations. For textiles, for example, they permit the use of fabric of any origin.

21. China has witnessed a significant increase in trade and investment with African partners, and holds bilateral agreements with some African countries. However, they often centre on expanding access for Chinese manufactured goods in Africa in exchange for primary commodities, typically accompanied by infrastructure and other investments in African countries to facilitate trade.

22. African Heads of State endorsed the ambitious CFTA at the eighteenth African Union Summit in 2012, with the goal of establishing it by 2017. It was noted at the summit that barriers to trade, official or otherwise, were often higher between African countries than between Africa and external partners. Member States undertook to boost regional trade by between 25 and 30 per cent over the following decade. In 2014, the African Union called for the start of formal negotiations on the CFTA in 2015.

23. The African Union recognizes eight different and overlapping RECs. In the present paper, the focus is on the three that have joined together to create the TFTA. COMESA was established in 1994, with 19 member States, and its FTA was launched in 2000. A customs union was planned but countries have different tariff levels and have not onboarded common external tariff (CET) bands. The East African Community (EAC), building on an earlier grouping of East African countries, was established in 2000 and acquired new members in 2007. It has implemented an FTA and a customs union, and is building towards a common market. The Southern African Development Community (SADC), set up in 1993, has 15 member States and, since 2008, an FTA. Not all its member States participate in the FTA and there has been discord over the need for a customs union, given the presence of the Southern African Customs Union (SACU), the continent's strongest.

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<sup>3</sup> This includes GAFTA signatories that are also member States of the African Union.

## II. SCENARIOS FOR ARAB-AFRICAN TRADE INTEGRATION

### A. METHODOLOGY

24. Computational tools, and not theory alone, are required to measure the consequences of trade policies. Computable general equilibrium (CGE) models are usually used for this. Their main advantage lies in the possibility of combining detailed and consistent real world databases with a theoretically sound framework. The models are well suited for studying the interdependence of policies at a regional or world level, but constructing them generally requires the use of simplifying assumptions concerning the characteristics of each economy in order to compensate for the lack of comparable information on different countries. Country models, in contrast, permit the use of richer and more precise statistical data on the characteristics of the economies studied, and are more suitable for studying the impact of various reforms on the local level.

25. This section examines the potential impact of a range of scenarios for deeper trade integration between the Arab region and sub-Saharan Africa on the terms of trade, growth and export diversification, and possible risks of trade diversion between countries in the two regions and other world partners.

26. The trade policy simulation model used is an “offspring” of the LINKAGE Model developed by the Development Centre of the Organisation for Economic Co-operation and Development (OECD). It describes the economies of the main regions and countries of the world in a rather crude fashion, but can be used to estimate how the terms of trade will be affected by lower tariffs applied to trade between the two regions. The LINKAGE model is an applied dynamic general equilibrium model. The version developed here is calibrated on the base year 2011 and provides results for the period 2018-2025. The dynamic structure is recursive; hence the model is solved in sequential steps, greatly reducing the dimensionality of finding the solution.

27. Under this model, constant returns to scale are assumed in production in all sectors. Producers choose an optimal mix of intermediate goods, capital and labour to produce goods, subject to exogenous substitution elasticities. Production in the model differs mostly in two ways from the standard models. First, energy plays a prominent role in the production structure in all sectors. It is possible to substitute energy for the other factors of production, as well as to choose the optimal mix of fuels as a function of relative fuel prices and existing technology. Secondly, a distinction is made between old (or installed) capital, and new capital. Typically, the substitution possibilities with older capital are smaller than with new capital. Economies with higher rates of investment will have more flexibility since, on average, they will have a larger share of new capital.

28. There is a single representative household to which all factor income accrues. Households purchase an optimal bundle of goods, under a modified Stone-Geary demand system, known as the extended linear expenditure system. The level of savings is directly integrated into the decision-making of households.

29. Government receives tax revenues from households and an assortment of indirect taxes (including those on production and consumption, and import tariffs). Aggregate government expenditures are fixed as a proportion of GDP, and a fixed coefficient expenditure function is used to determine sectoral purchases. One of the closure rules is that the government deficit to GDP ratio is fixed. The household direct tax schedule is endogenous to achieve the given target.

30. Trade in goods and services assumes that goods are differentiated by region of origin (the “Armington assumption”). Typically, the more homogeneous the definition of goods, the higher will be the substitution elasticity between domestic and imported goods, although a low degree of substitution can also reflect high or prohibitive transportation costs.

31. The model distinguishes four different trading prices: pre-FOB (producer prices), FOB (border prices), CIF (inclusive of international trade and transport margins) and post-CIF (inclusive of import tariffs).<sup>4</sup> All

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<sup>4</sup> Freight on board (FOB); Cost, insurance and freight (CIF).



price wedges are distinguished by region of origin and destination. The final closure rule concerns the trade balance (or equivalently the capital balance). In each time period, and for each region, the trade balance is fixed. Equilibrium on the current account is achieved through an endogenous real exchange rate. For example, a reduction in tariffs typically leads to a real exchange rate depreciation as an increase in imports needs to be matched by an increase in exports.

32. Dynamics are captured through changes in factor supplies and in productivity. Population and labour growth are exogenous. The capital stock in each period is equated to the previous period's depreciated stock plus new investment. Overall land supply is assumed to be available in fixed quantity, although actual demand may be less than the maximum available supply.

33. Productivity is calibrated in a reference scenario to achieve a given GDP growth rate. The basic assumption is that balanced growth, that is the labour/capital ratio (in efficiency units), remains constant. Labour productivity is assigned exogenously so that labour in efficiency units grows at the same rate as GDP. Capital productivity is determined residually, consistent with GDP and labour projections. Energy efficiency improvement is exogenous. Finally, productivity in the agricultural sector is also set exogenously.

#### B. ALTERNATIVE PATHS FOR DEEPER ARAB-AFRICAN TRADE INTEGRATION

34. Given the number and complexities of intra- and interregional FTAs in sub-Saharan Africa and the Arab world, it is important to note the agreements that tie these two regions together, and how they may jointly contribute to the full implementation of the TFTA, ACU and CFTA. Today, the regional agreement that brings together various member States of both regions is COMESA and, by extension, the TFTA. The 19 member States of COMESA include Egypt, Libya and the Sudan, which are also members of GAFTA. Algeria and Tunisia have also applied to join. Meanwhile, Morocco is in the process of joining ECOWAS, which has 15 West African member States. Its accession could lead other Arab countries to follow suit.

35. The TFTA counts 26 member States. They have witnessed strong growth and trade performance in recent years. Indeed, regional TFTA trade has grown at a faster rate than trade with the rest of the world. The initial TFTA involves eliminating tariffs and non-tariff barriers, but allows differentiated participation by member countries depending on each country's characteristics. A number of issues need to be addressed before the TFTA can be considered fully implemented. The absence of clear rules of origin and a dispute settlement mechanism have prevented the immediate implementation of the agreement by all member States. Bringing the TFTA and GAFTA regions together would produce significant economic gains for member States, generating income and more productive jobs. It would also help member countries to diversify their economies more.

36. It is important to look at how full implementation of GAFTA or the TFTA would affect the Arab region. The accession of Arab States to the TFTA and ECOWAS, for instance, could undermine the ACU project. Further questions arise in the case of implementation of the CFTA and increased integration between the two regions. Deeper trade links with sub-Saharan African countries would benefit the Arab region, but not transform it. It should not neglect advantageous export opportunities in the rest of the world. In short, deeper integration with sub-Saharan Africa would bring benefits and costs, which need to be weighed up.

37. Our quantitative estimation exercise seeks to answer two questions: what is the relative impact of different possible paths of trade integration for the Arab region, and which would produce the greatest development gains? Taking current trade policy in Arab countries as a baseline, we compared two alternative scenarios.

38. The first scenario assumes implementation of an effective customs union between countries involved in the EUROMED partnership as a first step towards activating the ACU. All Arab EUROMED partners would thereby conclude FTAs with the EU, the European Free Trade Association (EFTA), Turkey and the United States. Initially, tariffs on imports from those partners would be removed progressively by 2020. Arab

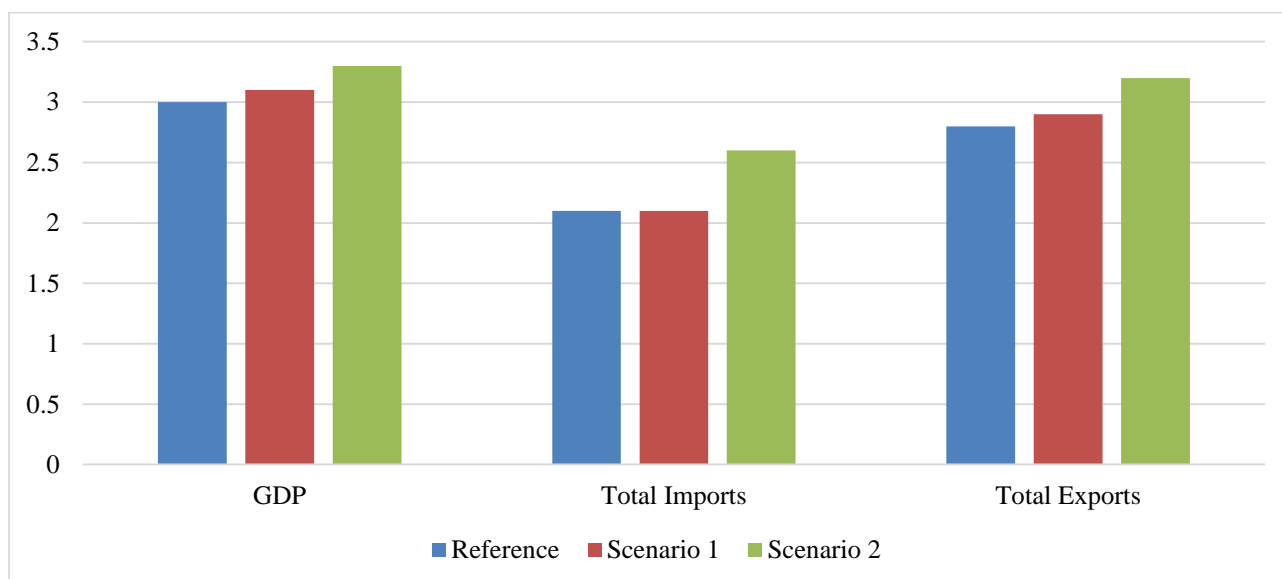
EUROMED partners would, by 2025, then establish a customs union based on the lowest tariffs applied by member countries of the Agadir Declaration (an FTA between Egypt, Jordan, Morocco and Tunisia). Subsequently, that customs union would be extended to the rest of the Arab countries, effectively a way of activating the ACU. While other paths to that end have been and continue to be considered, this could be one of the more practical approaches, given that Egypt, Jordan, Lebanon, Morocco, the State of Palestine and Tunisia have all signed FTAs with the EU. Algeria, Libya and the Syrian Arab Republic have also started negotiations to do so, although in the case of the latter two, conflict since 2011 has hampered progress.

39. Under the second scenario, direct implementation of the ACU leads to pan-Arab economic integration and the extension of trade preferences to sub-Saharan African countries. An Arab-African FTA, taking its cue from the TFTA, would then be implemented by 2025. At the same time, FTAs signed by some Arab countries would be extended to all Arab countries. Under such a scenario, the cost of trade (excluding tariffs) would fall by 5 per cent a year between 2018 and 2025.

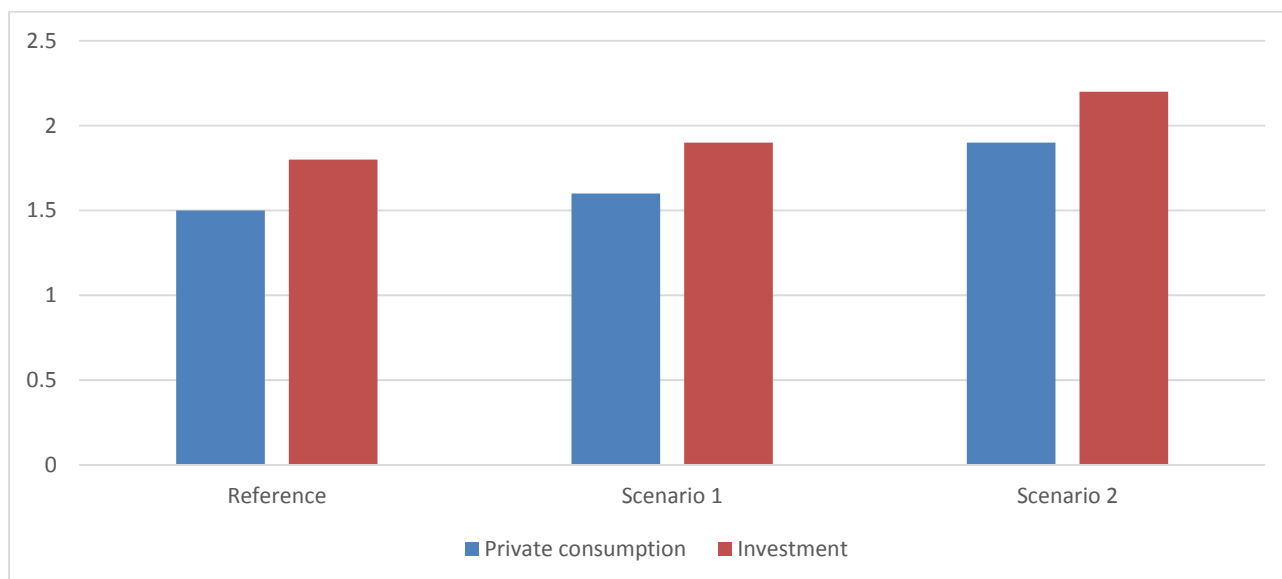
### C. RESULTS

40. In a scenario that supposes possible implementation of the ACU and CFTA from 2019, we look at the potential benefits that would accrue to Arab countries and subregions through such deepened integration between themselves and with sub-Saharan Africa. The model simulates the impact of reduced and harmonized tariffs, supplemented by lower transportation costs within the Arab region and with other partners, mainly the EU, sub-Saharan Africa and the United States. The simulations proxy the impact of integration processes that extend beyond mere Arab trade integration. The results indicate the increase (or decrease) in several dependent variables over the timeframe examined. Results for the Arab region are displayed in figures 5 to 7.

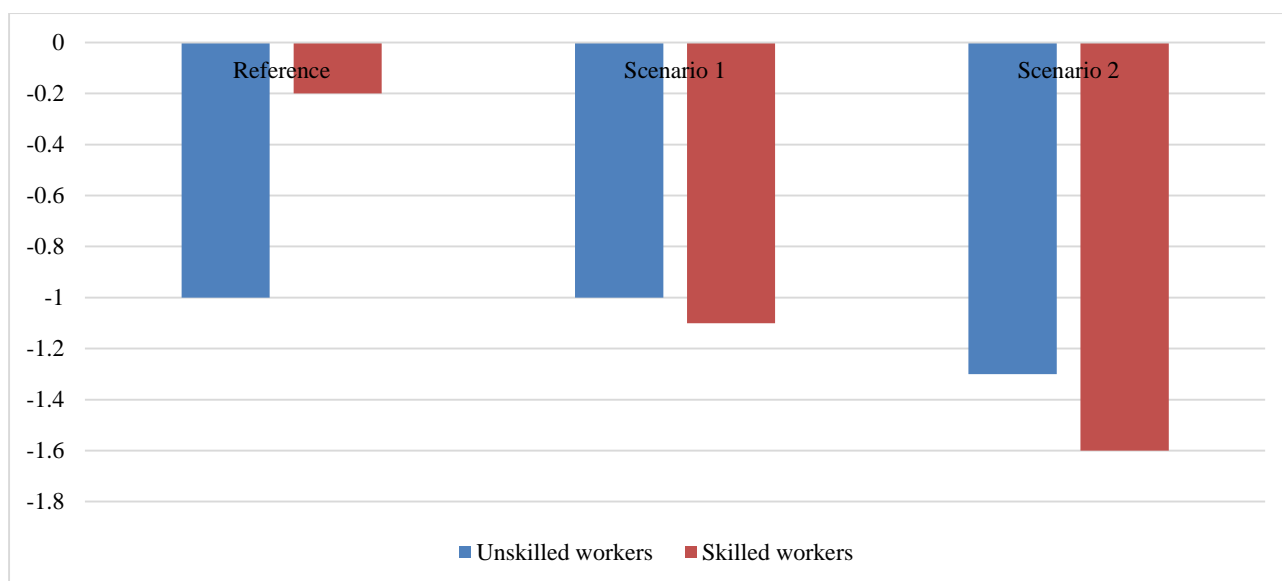
**Figure 5. Impact on GDP, total imports and exports in the Arab region**  
(Average yearly percentage change, 2018-2025)



**Figure 6. Impact on private consumption and investments**  
(Average yearly growth rate, 2018-2025)



**Figure 7. Impact on unemployment rates by skill**  
(Average yearly percentage changes, 2015-2025)



41. GDP growth remains at 3.1 per cent and 3.3 per cent annually in scenarios one and two respectively, compared with 3 per cent in the baseline scenario, between 2018 and 2025. Trade variables undergo a slight increase under scenario one, and a significant increase under scenario two. Private consumption, investment and fiscal revenues also experience significant improvement in both scenarios, with a higher gain in scenario two. Unemployment for skilled labour decreases moderately under the baseline and first scenarios, and decreases more considerably under scenario two.

42. Results also indicate changes in exports and imports for all the products covered by the model when all Arab countries institute the same tariff reduction for products from the EU, EFTA, Turkey, the United States and sub-Saharan Africa. The results provide an idea of the type of specialization Arab countries could undertake and what kinds of product would be in domestic demand as a result of trade liberalization with sub-Saharan African countries.

43. The changes in trade will be considerable for agricultural products, and textiles and clothing. In those sectors, many Arab countries export final products and import intermediate products. Implementation of the CFTA would boost intra-regional trade for raw materials and finished goods. The main loser in the case of increased Arab-African integration would be Turkey. Almost 20 per cent of the additional trade (trade creation) between Arab and African countries is explained by a shift away from Turkish imports. Egyptian exports to Africa would also be hit, as many other Arab countries would acquire the same access to African countries that Egypt enjoys as a member of COMESA.

44. The benefits of closer integration within the Arab region through the ACU and the extension of trade preferences to external partners, particularly through greater Arab-African integration, are apparent. The conclusion of FTAs with traditional partners under scenario one exerts slight positive pressure on the main macroeconomic variables in question, but the difference is more notable for scenario two: imports and exports are boosted, with knock-on effects for skilled and unskilled employment. That employment gains are not matched by significant GDP gains may be influenced by the fact that exports to non-African countries are dominated by fossil fuels. Increased trade between the Arab region and sub-Saharan Africa in manufacturing, rather than in commodities, is preferable for job creation.

45. The import and export results warrant a more detailed examination of trade relationships between the Arab region and its partners. Under scenario two, for instance, several GAFTA members from across the Arab region stand to enjoy more intensive trade with, and particular increased exports to, sub-Saharan countries. It could be concluded that Arab countries stand to benefit more than their sub-Saharan counterparts from such new relationships, given that industry in the former has greater capacity and is more diverse than in the latter.

46. Infrastructure, or the lack of it, will limit the potential benefits of regional integration. Linkages will be further undermined by weak institutions and inadequate policies. The trade, transport and finance ministries and related regulatory authorities in many countries of both regions are ill-equipped to foster increased trade through integration. Poor roads and ports are only part of the problem with regard to import and export delays. More than half of delays in shipping are due to non-physical factors or administrative procedures, so-called soft infrastructure. That includes delays in customs clearance, cargo and road inspections, and other controls associated with the transport of goods. Those administrative procedures are the result of trade policy.

47. Many Arab countries fail to capitalize on their location, with policies and practices that hinder rather than facilitate deeper integration. The declared commitment of Arab and African countries to closer integration is often belied by the facts. Many Arab countries groan under the weight of complex and inefficient customs procedures that delay the movement of goods, domestic transport policies that maintain or protect uncompetitive transport cartels, and the high costs associated with administrative procedures governing transport and trade. Recent assessments suggest that most of the costs of FTAs to Arab countries would result from domestic policies rather than the agreements themselves.

### III. CONCLUSION

48. The analysis confirms the gains and other positive knock-on effects of the proliferation of trade and regional integration agreements across the Arab region, and the importance of tying in their trade-inducing impact to other trade agreements with external parties. Governments in sub-Saharan Africa, given the slower rate of growth of their exports to the Arab region vis-à-vis imports, should continue to support productive investments in manufacturing and adding value. Policymakers in the Arab region need to weigh up the different potential benefits that might ensue from the scenarios outlined above. They need to seek agreements that are

as integrated and that include as many members as possible. Further, attention needs to be paid to reducing non-tariff measures and extending tariff liberalization to the rest of the world.

49. The countries of sub-Saharan Africa, consolidating under the TFTA, can be allies to the Arab region in its push for more trade, economic growth and job creation. Integration, whether within the Arab region and sub-Saharan Africa or bringing the two regions together, can help to open up the regions' economies to other external FTAs and unlock immeasurable opportunities for Arab and African economies. The potential impact of deeper integration on specific sectors should be studied.

50. Overall, our estimation shows that the cost of the failure of the two regions to integrate is high: 0.2 per cent of GDP growth annually, and a cumulative cost of 1.6 per cent by 2025, compared with the baseline scenario. The cost could be higher still if additional aspects of trade integration are considered, especially trade in services and mobility of capital and labour.

51. The simulations do not, however, address environmental concerns that could be affected by increased trade and the ensuing economic growth, including climate change, air and water pollution, and land degradation. Arab leaders need to pay attention to the environmental impact of trade agreements and consider parallel pollution abatement policies and policies to target clean sectors.

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