

FREE TRADE AGREEMENTS: NECESSARY BUT NOT SUFFICIENT

LESSONS FROM THE ARAB REGION

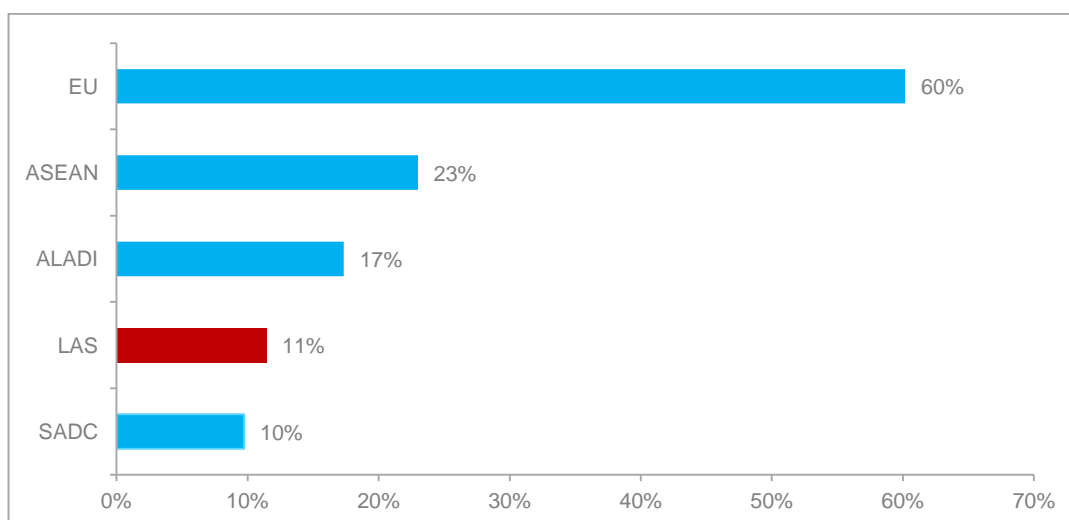
EXECUTIVE SUMMARY FOR PANEL DISCUSSION,
24/04, 12:00-14:00, Auditorium 2, QNCC

The removal of intra-regional trade obstacles could increase trade by 10% and create two million new jobs in member countries of the League of Arab States (LAS), according to new research by the International Trade Centre (ITC). The region has one of the lowest levels of intra-regional trade in the world despite preferential market access and significant cultural homogeneity. Trade potential exists but is as yet untapped.

Regional integration is becoming more popular as multilateral negotiations stagnate. All but a handful of countries have signed various preferential trade agreements within their regions. Yet intra-regional trade has not surged everywhere in response to these agreements.

In recent years the LAS has made efforts to largely remove bilateral tariffs. Compared to other regions, however, trade among the LAS members has remained low. For example, while more than 60% of the European Union's (EU's) total trade is with one of its member states, only 11% of LAS members' trade takes place inside its region.

Intra-regional trade shares around the world



Obstacles which go far beyond conventional tariff measures prevent these markets from integrating further. As a consequence, instead of enhancing regional integration, the LAS remains largely dependent on trade with the outside world. As youth unemployment is an issue in LAS countries,

creating new export opportunities is one important way to create new jobs for this segment of the population. ITC's analysis explores the untapped opportunity for governments, firms and the potential for trade, employment and eventually also for welfare.

Overall, we find that despite the tariff privileges that LAS countries enjoy in each other's markets, regional integration has been declining since the mid-1990s. Other (non-tariff) obstacles are in place, which prevent LAS members from taking full advantage of the preferential tariffs. Our analysis finds that reducing non-tariff obstacles to trade will result in lower prices of imported goods from LAS countries in other LAS countries. This will increase the purchasing power of consumers, resulting in a rise of welfare of at least 2% in 2025.

Key findings and recommendations:

- LAS countries enjoy preferential access to the LAS market. Based on the LAS' import structure during 2006-2010, a weighted average of 0.4% tariff duty was applied among LAS members. By contrast, non-LAS members faced tariffs in LAS markets in the range of 5% to 6%.
- In spite of ongoing efforts to cut tariffs and to sign and implement preferential agreements, regional trade integration among the member states of the Arab League is moderate compared to other common markets, such as the EU and the Association of Southeast Asian Nations (ASEAN). The share of total trade which takes place inside the LAS represents only a fraction of the trade conducted with the member states of the Organisation of Economic Co-operation and Development (OECD) or with other developing countries.
- The modest evidence of regional integration among LAS trading partners hints at factors other than conventional tariffs that seem to hinder the free exchange of goods across LAS markets. Trade agreements providing preferential market access do not insulate against problems related to non-tariff measures. A future reduction of these barriers could increase total trade by 10 per cent and create over 2 million additional jobs, including 80,000 skilled jobs.
- Barriers to trade in goods and services are heterogeneous; they are quite high in the food sector, rather low in textiles and clothing, and almost zero for oil. A further integration of LAS trade focusing on NTMs would mostly create new opportunities in sectors such as food or metals and machinery.
- Given that currently most intra-regional LAS trade is in unskilled manufacturing, in order to maximize benefits to member states, we recommend targeted national development programs favouring skill-intensive value-added sectors, and sectors where women and youth have a high participation like clothing and services.
- Simulations show that a reduction of non-tariff barriers to trade within LAS members would favour the sectors with already significant trade. As a consequence, these sectors would become more profitable and attract more investment.

Reducing non-tariff measures could play a part in alleviating two of the region's major challenges: low intra-regional trade shares and high unemployment. Finding new export opportunities for companies is one possible way to create jobs, while specific efforts would be required to ensure that overall gains at the regional level would also benefit the services and clothing sectors, and encourage increased gender participation in sectors which would benefit most from increased intra-regional trade.



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