The Uruguay Round and the Arab Countries

Edited by
Said El-Naggar

International Monetary Fund

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*Papers presented at a seminar held in Kuwait,
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Foreword

The recent conclusion of the Uruguay Round—the most comprehensive round of trade negotiations within the context of the GATT—offers hope for enhancing trade and growth opportunities worldwide. The benefits and challenges for the Arab countries of the liberalization measures encompassed under the Uruguay Round were the subject of a seminar held in Kuwait on January 17–18, 1995. The International Monetary Fund is pleased to have had the opportunity to join the Arab Fund for Economic and Social Development, the Arab Monetary Fund, and the World Bank in sponsoring this seminar. The insight and valuable experience of Professor Said El-Naggar, who presided over the discussions, prepared the overview analysis, and edited the proceedings for publication, again proved invaluable to the success of the seminar.

The papers presented at the seminar review the results of the Uruguay Round, examine the broad policy and macroeconomic implications of trade reform for the Arab countries, and consider certain of the sectoral trade reform measures embodied in the Uruguay Round agreement and their impact on the Arab countries. I am hopeful that the publication of this volume will contribute to the understanding of the potential gains from a more liberal trade regime and will encourage the Arab countries to sustain and build on the successes achieved so far in establishing a more open trading environment.

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Managing Director
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Acknowledgments

This seminar, like the six seminars before it, was the fruit of collaborative effort among the Arab Fund for Economic and Social Development, the Arab Monetary Fund, the International Monetary Fund, and the World Bank. The subject of the seminar is of particular importance to the Arab countries, in view of the far-reaching implications that the Uruguay Round is likely to have for their export potential and their import capacity.

Held in Kuwait on January 17–18, 1995, the seminar provided an excellent opportunity for a number of high-level experts and policymakers to examine the various aspects of the Uruguay Round from an Arab perspective. The seven papers presented to the seminar are included in this volume, including the introductory paper prepared by the moderator.

On behalf of the participants I would like to express my thanks to Abdelatif Al-Hamad, Director-General and Chairman of the Board of Directors of the Arab Fund for Economic and Social Development, Jassem Al-Mannai, Director-General and Chairman of the Board of Directors of the Arab Monetary Fund, and to their collaborators for their hospitality and their tireless efforts in planning and organizing the seminar. A special word of thanks is due to the IMF, the World Bank, and the World Trade Organization, without whose support this seminar would not have been possible. I also would like to thank James McEuen of the IMF's External Relations Department for editing this volume and coordinating its publication, and Alicia Etchebarne-Bourdin for manuscript preparation and composition.

SAID EL-NAGGAR
Moderator

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The following symbols have been used throughout this book:

- . . . to indicate that data are not available;
- — to indicate that the figure is zero or less than half the final digit shown, or that the item does not exist;
- – between years or months (for example, 1991–92 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
- / between years or months (for example, 1991/92) to indicate a crop or fiscal (financial) year.

"Billion" means a thousand million; "trillion" means a thousand billion.

Minor discrepancies between constituent figures and totals are due to rounding.

The term "country," as used in this book, does not in all cases refer to a territorial entity that is a state as understood by international law and practice; the term also covers some territorial entities that are not states, but for which statistical data are maintained and provided internationally on a separate and independent basis.

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1

Toward an Open International Trading System

Said El-Naggar

On April 15, 1994 at Marrakesh, Morocco, more than one hundred countries signed the Final Act of the Uruguay Round. This marked the conclusion of a complex and protracted process of negotiations that began in September 1986 with the Punta del Este Declaration. The Uruguay Round was the eighth round of multilateral trade negotiations conducted within the framework of the General Agreement on Tariffs and Trade (GATT). Since its establishment in 1947, the GATT endeavored to achieve three principal objectives:

- liberalization of international trade through reduction of tariff and nontariff barriers.
- equality of treatment among all trading countries (this is known as the most-favored-nation—MFN—clause, which ensures nondiscrimination in terms and conditions of access to markets); and
- establishment of rules of conduct banning predatory conduct, such as dumping, and specifying the conditions under which a member country may resort to antidumping or countervailing measures.

Implicit in these objectives is the assumption that freer trade carried out without discrimination and on the basis of predictable and transparent rules of conduct is beneficial to the world economy as well as to the welfare of all trading countries.

The GATT was not established as an absolutist or dogmatic organization. The framers were cognizant that special circumstances might call for deviations from the basic principles and objectives. Thus the principle of liberalization is not inconsistent with protection of national industry, nor does it preclude the application of quantitative restrictions to cope with a major balance of payments disequilibrium or to avert a serious injury inflicted on local producers by foreign competition. The principle of nondiscrimination is not inconsistent with preferential treatment accorded by one member country to another in the framework of a free trade area or a customs union.

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Contributions and Shortcomings of the GATT

Of the seven rounds of trade negotiations sponsored by the GATT on the basis of these principles before the Uruguay Round, the most important were the Kennedy Round, which took place from 1964 to 1967, and the Tokyo Round, which took place from 1973 to 1979. The Kennedy Round resulted in across-the-board tariff reductions of around 50 percent of the level that prevailed at the inception of the round. The Tokyo Round added another 33 percent reduction of tariffs in force in 1973 and started the process of reducing nontariff barriers. As a result of these two and the preceding rounds, international trade witnessed a significant degree of liberalization. Tariffs were reduced from an average of around 40 percent at the time the GATT became operational to less than 10 percent on the eve of the Uruguay Round. The process of liberalization spanned the period from 1948 to 1979, a period of remarkable expansion in the volume of world trade. It is estimated that during the three decades from 1950 to 1980, world exports expanded at an annual rate of about 7 percent, double the rate of growth in world output. There is little doubt that the process of liberalization undertaken under the auspices of the GATT was a major factor in this expansionary period. To be sure, other factors were at work as well—most notably, the unprecedented pace of technological progress in transport and communications, electronics and informatics. But technological progress would not have had the same impact had it not been aided by a reduction in restrictions impeding the international flow of goods and services.

Although the GATT made a major contribution toward the liberalization of world trade, much remained to be done. All rounds of trade negotiations before the Uruguay Round focused on manufactured products. Trade in agricultural products remained to a very large extent beyond the reach of the GATT. From the very beginning of the GATT the major industrial countries—particularly the European countries and the United States—were not interested, for several reasons, in extending the process of liberalization to agricultural products. France, for example, has a long tradition (going back to the Physiocrats in the mid-eighteenth century) that considers agriculture as more than just another form of economic activity. France was not prepared to let the agricultural sector find its own level on the basis of the unfettered operation of market forces. In the United States, the process of liberalizing the agricultural sector was blocked by the fact that, since the Great Depression and the New Deal in the early 1930s, farmers have benefited from a complex system of subsidies, output controls, and parity payments. In all industrial countries the agricultural lobby proved to be a political force to be reckoned with, inhibiting governments and compelling them to keep agriculture beyond the control of the GATT. Thus the process of liberalization, which had

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a profound impact on trade in industrial products, was conspicuously absent with respect to agricultural products. Agriculture became the target of an extensive arsenal of government intervention in the form of protective tariffs, variable levies, nontariff barriers, quantitative restrictions, domestic support policies, and export subsidies. The distorting effect of such a high level of protectionism was extremely costly—both to consumers in the importing countries and to producers in the exporting countries. Countries with no comparative advantage in a variety of agricultural products became not only self-sufficient but major exporters of these products. In many cases, the world market became the dumping ground for agricultural surpluses that would not have existed but for the artificial stimuli of high protection and domestic support policies.

Agriculture was not the only sector that eluded GATT discipline. International trade in textiles and clothing was another case in point. The textiles and clothing industry is one of the few sectors in which developing countries enjoy a distinct comparative advantage over industrial countries. Moreover, this industry represents the mainstay of modern industrialization in most developing countries. Had international trade in this sector been liberalized to the same degree as other branches of manufactures, it is most probable that producers in the industrial countries would not have been able to withstand competition from developing countries. But the textiles and clothing industry was still economically significant because of the employment it supports in most of the industrial countries. Accordingly, they were not prepared to let the sector languish under the impact of foreign competition. As early as 1962 it was decided to regulate international trade in these products through a strict regime of export and import quotas specified in an international agreement. At the beginning the quantitative regulation of this sector was limited to cotton textiles and clothing. With the rising importance of other natural and synthetic fibres, the scope of the arrangement was broadened to cover all types of textiles and clothing. As of 1974 trade was regulated by the Arrangement Regarding International Trade in Textiles (the Multifibre Arrangement, MFA), which covers the most important industrial country importers and developing country exporters, alloting to each an import or export quota that cannot be exceeded within the lifetime of the agreement. The agreement was renegotiated and renewed once every four or five years.

With respect to textiles and clothing, developing countries were deprived of the benefits of trade liberalization. Although this industry represented the most conspicuous example, it was not the only case in which the interests of developing countries were virtually ignored. As mentioned earlier, the seven rounds of trade negotiations that preceded the Uruguay Round resulted in reducing tariff levels from an average of about 40 percent to something less than 10 percent. It is important, however, to keep in mind that these are

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trade-weighted averages. Given that trade among industrial countries accounts for more than 70 percent of total world trade and that the commodity composition of this flow is heavily dominated by manufactured products, the average level of tariffs cited above is not representative of that facing exports from the developing countries. Indeed, the successive rounds of trade negotiations focused on products of interest to the industrial countries, with scant attention paid to developing countries. As a result, the process of liberalization went much farther for products such as motor vehicles, computers, television and radio sets, and telecommunications equipment than for leather goods, glassware, pottery, china, and the like.

This outcome was due to two main reasons. First, these goods were mostly labor-intensive products in which developing countries hold a competitive edge over industrial countries. As was the case with textiles and clothing, industrial countries were not prepared to open up their markets to unrestricted competition in what came to be known as "sensitive" products. Second, and no less important, was the principle of reciprocity, on the basis of which multilateral negotiations in the GATT were conducted. According to this principle, offers of liberalization made by any particular country were contingent on receiving more or less equivalent offers from its trading partners. Since most of the developing countries were not willing to eliminate or reduce their protective tariffs, they were not in a position to engage in the exchange of offers on the basis of reciprocity. It is true that, after the introduction of Part IV in the GATT, developing countries were exempted from the principle of reciprocity. What this exemption meant in practice is that negotiations were to a very large extent carried out among those who were able and ready to exchange concessions. In consequence, products of particular interest to developing countries were left far behind in the liberalization process, and the level of tariffs imposed on these products by the industrial countries was significantly higher than the average for manufactured products as a whole. More important, the incidence of quantitative restrictions and other nontariff barriers was much more evident in these products than in others.

This is not to say that developing countries did not benefit at all from seven rounds of trade negotiations under the GATT. Benefits "trickled down" to developing countries from the general expansion of world trade following the process of liberalization. Moreover, trade concessions made among industrial countries were automatically extended to developing countries pursuant to the MFN clause. Before the Uruguay Round, developing countries were far from being active participants in the GATT negotiations. They were content to sit on the sidelines and invoke the MFN clause once a tariff concession was made by one country in favor of another. This is the problem of "free riders," who make no concessions of their own but benefit from concessions made by others.

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Signs of Strain in the System

The upshot of the preceding analysis is that the process of liberalization under the auspices of the GATT, important and growth-stimulating as it was, failed to produce significant results in at least three areas: agriculture, textiles and clothing, and manufactured products of particular interest to developing countries.

By the mid-1970s, however, the international trading system was beginning to show signs of strain. The GATT was predicated on the assumption that the major trading powers subscribe to the proposition that their own interests as well as those of the world economy are best served by progressive liberalization of world trade. This assumption was put to severe test under the pressure of the economic disturbances that characterized the world economy in the 1970s and 1980s. The first of these was the collapse of the Bretton Woods foreign exchange regime of fixed parities, which was the basis of the international monetary system. This was followed by two oil shocks, serious external imbalances, and a period of creeping inflation coupled with economic recession. Under these conditions it was difficult to maintain a free and open international trading system. The policies of the major trading powers, in fact, were steadily going in the opposite direction. This was the period that saw the resurgence of protectionism in the industrial countries. A case in point is the sea change in the policies and attitudes of the United States, which for most of the postwar period was the protagonist and the standard-bearer of an open international trading system. To stem the tide of imports from Japan and countries of the Asian rim, the U.S. government resorted to new tools that were questionable under GATT rules and discipline. Instead of outright application of quantitative restrictions, which would have been in violation of its commitments under the GATT, other measures of equal effect were resorted to. Trading partners were "persuaded" to accept voluntary export restraints (VERs), voluntary import expansions (VIEs), and orderly marketing arrangements (OMAs). Under VERs the trading partner would accept to put an agreed limit on the volume or value (or both) of exports to the U.S. market. Under VIEs, the partner would accept to expand its imports of specified products from the United States above what otherwise would have been the case. Under OMAs, the trading partner would regulate its access to the U.S. market in such a way as not to put too much pressure on American producers. These measures were typical of neoprotectionism and came to be known as "gray area" measures in the sense that they were neither clearly inconsistent with GATT rules nor in line with them. To bolster its persuasive power in bilateral negotiations, the U.S. administration was vested with special authority under the Trade and Tariff Act of 1984 and the Omnibus Trade and Competitiveness Act of 1988. Under these laws, do-

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mestic producers and other interests could petition the U.S. Trade Representative about "unfair" trading practices of foreign countries. The U.S. Trade Representative has also the power to initiate investigations to determine whether the policies and barriers complained of are unfair in the sense of being "unreasonable," "unjustifiable," or "discriminatory" (all these terms are defined in the law). If the determination is affirmative, and if the bilateral consultations do not result in acceptable concessions, the U.S. Trade Representative may apply or threaten retaliation, which is usually done by announcing a large number of import products from the trading partner as the likely targets for tariff or quantitative restrictions. Given the general importance of the U.S. market, the threat of retaliation is usually enough to bring about the desired result.

The United States, however, was not alone in the application of gray measures of protectionism. The European Community (now, the European Union) was nor far behind, and Japan was accused of blocking access to its own market through the use of restrictive domestic regulations.

The rise of neoprotectionism in practically all the industrial countries was not the only crack in the GATT edifice. The 1970s and 1980s were decades of incessant trade disputes, not only between the industrial countries and the newly industrialized developing countries, but also among the industrial countries themselves. The history of this period is replete with incidents of trade friction between the United States and the European Community and between both of them and Japan. Not infrequently, the cause of the dispute was the state of the bilateral trade balance. That Japan was able to build up a substantial and persistent trade surplus in its relations with the United States and the European Community goes a long way toward explaining many of the gray area measures. It is not always realized that in a multilateral framework the state of bilateral trade balances is not of great relevance. In the GATT system, it is assumed that a surplus in any bilateral trade relation is to be used to finance a deficit in another. And if all bilateral relations of a country like Japan show surpluses, these are supposed to be offset by an equal deficit in the balance of capital account in the form of an outflow of investment funds. Thus, according to GATT rules, the state of a bilateral trade balance cannot be invoked as an excuse for restricting the flow of trade unless it is the result of predatory conduct, such as dumping, or involves a serious injury to producers in a specific industry, which was not often the case. One can only interpret trade disputes in such cases as evidence of erosion of the multilateralism that is the foundation of the GATT system.

The state of bilateral trade balances was not, of course, the only cause of dispute. In many cases complaints were made because of abusing the safeguard clause, or on account of infringement of patents and other intellectual property rights, or, more generally, whenever there were policies or actions deemed

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to be inconsistent with obligations under the GATT. If the GATT system were functioning in the way intended by its founders, trade disputes would have been resolved through the dispute settlement mechanism, an integral part of the system. The GATT provisions and procedures provide that when disputes arise, parties concerned first seek consultations under Article XXII and, if they are unable to settle them directly, then refer the matter to the GATT Council. A panel was supposed to be nominated to look into the dispute and make recommendations. If these recommendations were not carried out, the aggrieved party was entitled to retaliate by withdrawing concessions equivalent to the damage endured. Although the system in theory seemed to be adequate, in practice it was far from effective. This was particularly so when the offending party was a major trading partner. In many cases it proved difficult to nominate a panel or to adopt its report. Nor was it practical to expect a small country to retaliate against a big one. In these circumstances, few countries availed themselves of the dispute settlement mechanism.

The Uruguay Round: Rationale and Results

It is nor an exaggeration to say that, by the beginning of the 1980s, the prospects for the international trading system were dim indeed. The failure of the GATT to address some important trade issues, to uphold commitment to multilateralism, to arrest the drift toward bilateral deals and regional arrangements, to put an end to protectionist trends, and to give substance to its dispute settlement mechanism—all of these shortcomings called into question the credibility of the system that was put in place as one of the pillars, along with the Bretton Woods institutions, of the world economy in the postwar period. The problem was compounded by a feeling that the GATT system failed to evolve in line with far-reaching changes in international trade. When the GATT was established, it was right to consider liberalization of world trade in goods as the primary task. The flow of trade was impeded by a variety of restrictions inherited from the Great Depression. The elimination of tariff and nontariff barriers, and the articulation of rules of conduct in international trade, appeared to be worthy goals to pursue. But after seven rounds of trade negotiations, some of the major trading powers seemed to have lost interest in the process. It was felt that, given political reality, the scope for further liberalization was becoming increasingly limited. In their view an eighth round of trade negotiations could be justified only if its scope were broadened to encompass some of the issues of increasing importance in world trade. The first of these is liberalization of international trade in services. It was argued that services are becoming a major source of income and employment for a large number of industrial as well as developing countries—

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in the domestic economy as well as in international trade. The rising importance of services was a direct result of higher levels of income together with great technological advances. When the GATT was established, international trade in services was negligible. The past two decades or so have witnessed spectacular growth in cross-border activities in tourism, banking, insurance, air and sea transport, contracting, consulting, and scores of other service sectors. By the beginning of the 1980s it was estimated that international trade in services accounted for as much as 20 percent of total world trade. It was also estimated that the potential for further expansion was enormous. But widespread restrictions applied by practically all countries in most sectors stood in the way of such expansion. The prevailing view in the industrial countries was that the situation in this area was not unlike that which had existed in the trade of goods on the eve of the birth of the GATT, and that the benefits that could be reaped from liberalization were just as great. According to this view, it was intolerable that the GATT should be oblivious to such a far-reaching change in the world economy.

Another new issue was related to international protection of intellectual property rights, which came to be known as trade-related intellectual property rights (TRIPs). In view of the rising importance in international trade of patented goods and trademarks, the major technology-producing countries felt a need to promote effective and adequate protection of intellectual property rights, to ensure that measures and procedures to enforce those rights are in place, and to develop a multilateral framework of principles, values, and disciplines dealing with international trade in counterfeit goods.

A third new issue concerned so-called trade-related investment measures (TRIMs). The basic objective in this case was to extend GATT rules and disciplines to certain provisions that were deemed to be trade distorting in the investment laws of some capital-importing countries.

In all these areas the focus of liberalization was not the elimination or reduction of border-type measures such as tariffs, since there were virtually no measures of this kind impeding international flows in services, patents, trade secrets, or investment funds. The target in all these cases was primarily provisions in domestic laws considered to be protectionist, restrictive, or discriminatory. For this reason, developing countries were strongly opposed to the extension of GATT discipline to these areas—an extension that was regarded by them as interference in domestic affairs, not to mention the fact that the GATT, by statute, was expressly limited to international trade in goods.

In light of the above considerations, the GATT system that had served the world well for over three decades was regarded by many observers at the beginning of the 1980s as moribund, in disarray, irrelevant, and suffering serious and continuing erosion. Notwithstanding the failings of the system—real or perceived—it was recognized by all concerned that to allow it to go com-

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pletely under would carry great dangers and risks. Recurrent trade frictions among the major trading countries and between them and developing countries could, in the absence of any recognized rules of conduct, deteriorate into virtual trade wars with ominous implications for the world economy. Possible recourse to beggar-my-neighbor policies, as happened in the Great Depression, would inflict grievous damage on all trading countries. These were the fears that generated the impetus to launch a new round of multilateral trade negotiations.

The Uruguay Round was to be the most comprehensive round ever undertaken within the framework of the GATT. Its objectives were spelled out in the Punta del Este Ministerial Declaration as follows:

- to bring about further liberalization and expansion of world trade to the benefit of all countries, especially developing country Contracting Parties, including the improvement of access to markets by the reduction and elimination of tariffs, quantitative restrictions, and other nontariff measures and obstacles;
- to strengthen the role of the GATT, improve the multilateral trading system based on the principles and rules of the GATT, and bring about a wider coverage of world trade under agreed, effective, and enforceable multilateral discipline;
- to increase the responsiveness of the GATT to the evolving international economic environment through facilitating necessary structural adjustments, enhancing the relationship of the GATT with the relevant international organizations, and taking account of changes in trade patterns and prospects; and
- to foster concurrent cooperative action at the national and international levels to strengthen the interrelationship between trade policies and other economic policies affecting growth and development.

The Final Act that emerged after seven years of negotiations fully reflects these highly ambitious objectives. Compared with earlier rounds, the Uruguay Round was unique. In the first place it succeeded in covering international trade in agricultural products and in textiles and clothing—two areas that had proved most intractable in all previous rounds. It also extended GATT rules and disciplines to services, TRIPs, and TRIMs, which by statute had fallen outside its jurisdiction. Consequently, the World Trade Organization (WTO), which was established by the Uruguay Round as a successor to the GATT, will have a far more extensive mandate than its predecessor. The Uruguay Round was also the first round in which developing countries were active participants. They realized that they could do better by participating than by remaining outside, and they were not reluctant to make concessions

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because they were already engaged in extensive trade liberalization in the context of economic reform programs. At the same time, industrial countries indicated, both in the Punta del Este Declaration and throughout the negotiations, that they recognized the special needs and circumstances of developing countries and were willing to take them into account. This was evident from accepting to bring to an end the special regime governing trade in textiles and clothing, so that this important sector for developing countries would be fully integrated in the GATT system. Moreover, in all cases where a liberalization commitment was instituted, the implementation period was significantly longer, and the depth of tariff cuts was much lighter for developing countries than for developed countries. As regards the least developed countries, they were virtually exonerated of all obligations imposed on other member countries.

The Seminar: Coverage and Issues for Analysis

In recognition of the importance of the Uruguay Round for the Arab countries, the Arab Fund for Economic and Social Development and the Arab Monetary Fund organized this seminar in cooperation with the IMF and the World Bank. The remainder of this volume presents the six papers that were presented to, and discussed by, the seminar. Chapter 2, by Jesus Seade, sums up the results of the Uruguay Round. Chapter 3, by Paul Chabrier, Mohamed El-Erian, and Rakia Moalla-Fetini, and Chapter 4, by Jamal Zarrouk, provide a general analysis of the implications of the Uruguay Round for the Arab countries. These are followed by three sectoral papers: Chapter 5 on agriculture by Ian Goldin and Mylène Kherallah; Chapter 6 on textiles and clothing by Naheed Kirmani, Rupa Chanda, and Clinton Shiells; and Chapter 7 on services by Bernard Hoekman and Carlos Primo Braga. The choice of these sectors was a function of their relative importance in the foreign trade of most Arab countries. Oil, the premier export article for so many countries in the region, is conspicuous by its absence. As explained by Jesus Seade in Chapter 2:

> The overall *change* in the tariff treatment of crude and refined products once the Uruguay Round results are implemented is difficult to ascertain by virtue of the high proportion of countries maintaining specific as opposed to ad valorem duties on the products concerned. After the results are implemented, crude petroleum will continue to be characterized by a low level of bindings in major markets . . ., although the tariff treatment is generally low or duty-free. For refined products, the level of bindings is substantially higher than for crude petroleum, but average tariffs (where available) are also generally higher. *The post–Uruguay Round situation of crude and refined petroleum—in comparison with that of other products—is mainly a re-*

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flection of the virtual absence of the major exporter interests from GATT tariff negotiating rounds [emphasis added].

The papers at hand provide a detailed account of the impact the Uruguay Round will have on the Arab countries. Given the limitations of space in an introductoty chapter, it is not possible to summarize the conclusions reached by the authors. But all studies point to the great opportunities that will be opened up in the export markets as a result of eliminating and reducing barriers to trade in goods and services. It was made clear that taking advantage of such opportunities presupposes rhe attainment of a certain level of competitiveness. At the same time, all member countries of the WTO have undertaken specific commitments that will expose their home industries to a higher degree of competition. To maximize the benefits and minimize the risks, it is incumbent upon the Arab countries to carry out comprehensive stabilization and structural adjustment programs.

In assessing the impact of the Uruguay Round on the Arab countries, it is important to keep in mind the following points.

• The results of the Uruguay Round cover a vast number of issues spelled out in 28 internationally binding agreements in addition to numerous ministerial decisions and declarations. Concessions made by one party are supposed to have been balanced by equivalent concessions on the part of others. It would be a mistake to pass judgment on the impact of the round on the basis of what happened or is likely to happen with a single issue or a limited number of issues. Since what is lost on one side may be more than offset by what is gained on another, a proper assessment of the results should take into account the whole package of commitments and concessions.

• The process of liberalization in the Uruguay Round entails reduction of tariff and nontariff barriers by certain percentages over a certain period of time. Tariffs on agricultural products, for instance, are to be cut by 24 percent over ten years in the case of developing countries. The commitments undertaken in this example are in the majority of cases less onerous than those undertaken within the framework of IMF- or World Bank--supported adjustment programs, in which the time frame is much shorter and the depth of cuts significantly deeper.

• The elimination of subsidies to agricultural exports in industrial countries is likely to impose a burden on food-importing developing countries as a result of rising food prices. Such a negative effect was recognized in the Final Act, which provides for compensation to the affected countries through food aid and "soft" loans from the Bretton Woods institutions. As one of the major food importers, Egypt is likely to qualify for compensation on this account. Although the negative impact cannot be dismissed, its magnitude should not be exaggerated. It should be remembered that export subsidies will not be totally eliminated. They will only be reduced, by 36 percent over a six-year period (that is, an average reduction of 6 percent a year). Moreover, the negative impact may

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be important in the short run, but in the long run all importing countries will benefit from the relocation of production in favor of the most efficient producers. Finally, the loss realized on the import side should be set against the benefits that are likely to accrue to the food-importing countries from improvement in conditions of access for their exports.

- Developing country beneficiaries of the Generalized System of Preferences (GSP) are likely to lose as a result of erosion in their preferential margins. This is true of some Arab countries—such as Morocco, Tunisia, Algeria, Lebanon, and Egypt—that enjoy preferential treatment in the European market. Here again the magnitude of loss should be kept in proper perspective. Preferential treatment under GSP is not a contractual relationship, but an arrangement that can be modified or withdrawn unilaterally by the preference-granting country. It is selectively applied, both with respect to product and country coverage; even when it is applied, the system can be phased out once a country reaches a certain level of competitiveness. In any case, the size of benefits accruing to the preference-receiving countries has been steadily on the decline since introduction of the GSP in the early 1970s. This is partly due to the decline in the MFN tariff rates, which has the effect of shrinking the preferential margins, and partly because in many products tariffs are not the only impediment to trade but are coupled with quantitative restrictions and nontariff barriers, which are not covered by the GSP.
- Once a country becomes a member of the WTO, it is entitled to all rights, and is of course subject to all obligations, under the Final Act of the Uruguay Round as well as under the original GATT of 1947 and all subsequent agreements entered into by the Contracting Parties. At present there are eight Arab countries that are members of the WTO: Bahrain, Egypt, Kuwait, Mauritania, Morocco, Qatar, Tunisia, and the United Arab Emirates. It goes without saying that countries that are nor members have no claims and are bound by no obligations. This situation entails a great deal of risk to the countries concerned. Obviously, they are not entitled to MFN treatment, which means they can be discriminated against without recourse. To be sure, member countries may voluntarily extend such a treatment to a nonmember, and they often do. But this is a unilateral favor that could be withdrawn at the pleasure of the granting country. Much more important, a nonmember country cannot take part in trade negotiations. Consequently, its export interests are left unattended to. As mentioned before, trade restrictions on crude oil and petroleum products are cases in point. The situation might have been materially different had the oil exporting countries been members of the GATT and taken an active interest in successive rounds of trade negotiations. Fortunately, a number of Arab countries that had stayed outside the GATT are taking steps to become members of the WTO. On the basis of cost-benefit calculations, this is a move in the right direction.

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2

Results of the Uruguay Round

Jesus Seade

This chapter describes the principal results of the GATT's eighth round of negotiations, launched in Punta del Este, Uruguay, in September 1986, and concluded in Marrakesh, Morocco, in April 1994. The World Trade Organization (WTO), the principal result of the Uruguay Round, enters into force on January 1, 1995 and replaces the GATT as the basis for trade relations among its members. After an overview of the GATT system and a brief summary of changes in the framework for trade relations contained in the Uruguay Round agreements, the chapter concludes with a description of the steps a country must take to become a WTO member.

The GATT System

The GATT was agreed on October 30, 1947 and entered into force on January 1, 1948 for 23 Contracting Parties. By December 1994, membership in the GATT had risen to 127 Contracting Parties. GATT Contracting Parties that are also members of the Arab Fund for Economic and Social Development include Bahrain, Egypt, Kuwait, Mauritania, Morocco, Qatar, Tunisia, and the United Arab Emirates.

GATT 1947

The GATT is a legal framework for the conduct of trade relations among its members. Main elements include the most-favored-nation (MFN) principle, whereby each member is required to treat products imported from different trading partners on the same basis (Article I). Other central requirements include a prohibition on quantitative restrictions (Article XI), and the "national" treatment of imported products (Article III), so that once imported products are inside the border, they face the same conditions of competition as domestically produced products. Exceptions to these obligations may be invoked under certain conditions, including for the purpose of establishing free

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trade areas or customs unions, to protect the balance of payments, for health and safety reasons, or for national security.

The original legal framework has been clarified and extended throughout the GATT's history. In 1966, Part IV on "Trade and Development" was added to the General Agreement. Its provisions include the statement that industrial countries do not expect reciprocity in trade negotiations with developing countries. Part IV also provides for joint action by Contracting Parties to establish international arrangements for primary products to "stabilize and improve conditions of world markets in these products including measures designed to attain stable, equitable and remunerative prices for exports of such products." In 1979, the Enabling Clause was agreed to provide a permanent legal cover for tariff preferences granted by industrial countries on imports from developing countries under the Generalized System of Preferences (GSP), and special provisions for preferential trade arrangements concluded among developing countries.[1] The provisions of Part IV and the Enabling Clause have been kept under continuous review by the Committee on Trade and Development.

The legal framework for trade relations has also been extended through GATT negotiating rounds (Table 1). These were originally conceived as occasions for the reciprocal exchange of concessions on tariffs between trading partners, the benefits of which were made available to all GATT Contracting Parties through the operation of the MFN principle. Starting with the Kennedy Round, the results of GATT rounds have expanded beyond tariffs, and the participation of developing countries in these negotiations has increased substantially.

The commitments made by GATT Contracting Parties—whether in their schedules of concessions or in the General Agreement—are enforceable through the dispute settlement procedures by claims brought by governments of exporting countries.[2] The first step is consultations between the claimant

[1]GATT *Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries*, in *Basic Instruments and Selected Documents*, 26th Supplement (Geneva), p. 203.

[2]Dispute settlement procedures under the General Agreement are codified in GATT Articles XXII and XXIII; the 1966 *Decision on Procedures under Article XXIII* for disputes between claimant developing countries and respondent industrial countries (in *Basic Instruments and Selected Documents*, 14th Supplement, p. 18); the 1979 *Understanding of Notification, Consultation, Dispute Settlement and Surveillance* (in *Basic Instruments and Selected Documents*, 26th Supplement, p. 210); the 1982 *Ministerial Decision on Dispute Settlement* (in *Basic Instruments and Selected Documents*, 29th Supplement, p. 13); the 1984 *Decision on Dispute Settlement* (in *Basic Instruments and Selected Documents*, 31st Supplement, p. 9); and the 1989 *Decision on Improvements to the GATT Dispute Settlement Rules and Procedures* (in *Basic Instruments and Selected Documents*, 36th Supplement, p. 61). Each Tokyo Round agreement has codified its own dispute settlement rules, under the guidance of the Committee of the relevant agreement.

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Table 1. GATT Negotiating Rounds

Year	Negotiating Round	Participants	Results	Tariff Cut[1] (in percent)
1947	Geneva	23	Tariffs	
1949	Annecy	13	Tariffs	
1951	Torquay	38	Tariffs	63
1956	Geneva	26	Tariffs	
1960–61	Dillon	26	Tariffs	
1964–67	Kennedy	62	Tariffs; antidumping	50
1973–79	Tokyo	99	Tariffs; nontariff measures; framework for trade relations	33
1986–93	Uruguay	125	Tariffs; nontariff measures; agriculture; textiles and clothing; services; protection of intellectual property rights; functioning of the GATT system	40

[1] On imports of nonagricultural products (excluding petroleum products) of major industrial nations.

government(s) and the respondent government. If these do not resolve the matter to the satisfaction of the claimant, the Contracting Parties may be requested to establish an expert group or panel to examine the matter and make a report to the Contracting Parties. The GATT Contracting Parties may adopt these reports as interpretations of the rights and obligations of members.[3]

Major Issues in the Functioning of the GATT System

Since the inception of the GATT, the status under the multilateral rules affecting trade in agriculture, both *de jure* and *de facto*, has been different from that of nonagricultural products. In the Tokyo Round, no progress was made in binding and reducing tariffs on agricultural products or in developing effective multilateral disciplines for export subsidies. In the 1980s, trading partners increasingly challenged through the dispute settlement procedures the consistency under the GATT of the nontariff measures that many Contracting Parties had in place to restrict the importation of agricultural products.

[3] For a summary of the interpretations of GATT obligations, see GATT, *Analytical Index: Guide to GATT Law and Practice* (Geneva, 1994).

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Another issue was the restraints on exports of textile and clothing products of developing countries and the economies in transition. In 1994, restraints notified under the 1973 Multifibre Arrangement (MFA) by Austria, Canada, the European Union, Finland, Norway, and the United States totaled 145 bilaterally agreed or unilaterally imposed restraints on exporters of textiles and clothing.[4] Exporters of products other than textiles and clothing have at times been subject to "gray area" measures.[5]

The incomplete membership of the agreements reached in the Tokyo Round on antidumping, subsidies and countervailing measures, customs valuation, import licensing, and technical barriers to trade was also an issue. Industrial countries generally chose to accept the new agreements and consequently applied a transparent and predictable regulatory regime for nontariff measures, with procedural guarantees for exporters. Many developing countries, however, chose not to accept any, and others only some, of the new agreements, although the treatment provided for under those agreements was extended to all GATT members through the MFN principle.

The fourth major issue concerned the overall functioning of dispute settlement in the GATT system. Recourse to the procedures, particularly by developing countries, rose substantially during the Uruguay Round (Table 2). The overall effectiveness of dispute settlement under the General Agreement, however, was affected by the nonadoption of panel reports in certain highly politicized cases and by concerns over the implementation of adopted panel reports. Dispute settlement involving antidumping and countervailing measures has been affected by the low proportion of panel reports adopted by the Committees.

Results of the Uruguay Round

The Declaration adopted on September 20, 1986 at Punta del Este, Uruguay, established a three-part program covering general principles, standstill and rollback, and negotiating objectives for trade in goods and services. The negotiations ended on December 15, 1993, and the results were formally endorsed by Uruguay Round participants at Marrakesh, Morocco, on April 15, 1994. Governments have subsequently submitted the Marrakesh Agreement Establishing the World Trade Organization for approval to domestic authorities. The Imple-

[4]An "agreement" is defined as a restraint involving an importer government and an exporter government covering MFA products. See "Report of the Textiles Surveillance Body to the Textiles Committee, Addendum: Status of Restrictions and Arrangements Maintained by Participants on 14 October 1994," COM.TEX/SB/1975/Add. 1 (Geneva: GATT).

[5]See Chapter 1, under "Signs of Strain in the System."

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Table 2. Number of Requests for Consultations in the GATT System, 1989–94

	Applicant				Respondent			
Country Group	GA	AD	Subsidies/ CVD	GP	GA	AD	Subsidies/ CVD	GP
Total	71	21	14	3	71	24	14	3
Industrial countries	38	12	13	3	39	21	14	3
Developing countries	32	9	1	0	31	3	0	0
Transition economies	1	0	0	0	1	0	0	0

Note: GA = General Agreement; AD = Antidumping Agreement; Subsidies/CVD = Subsidies and Countervailing Measures Agreement; GP = Government Procurement. The data, which include only formal notifications of requests for consultations by the Secretariat, are known to be comprehensive only for the General Agreement.

mentation Conference held on December 8, 1994 confirmed the date of January 1, 1995 for the entry into force of the WTO, at which time up to one hundred GATT Contracting Parties will have completed the ratification process.

Establishment of the World Trade Organization

The WTO is a single institutional framework encompassing all the agreements and legal instruments negotiated in the Uruguay Round covering trade in goods, services, and intellectual property protection, as well as the dispute settlement procedures and provisions for the regular monitoring of policies of WTO members (Figure 1). In addition, there are a number of Ministerial Decisions and Declarations that supplement the agreements reached.

Contracting Parties of GATT 1947 as of the date of entry into force of the WTO Agreement, and the European Communities, that accept the Uruguay Round agreements and that have finalized their schedules of commitments on goods and services (the "single undertaking") shall become original members of the WTO.[6] Flexibility provisions for developing countries, and in particular for the least developed countries, in most of the agreements include (1) longer transition periods for the full implementation of most obligations, a lower level of obligation for developing countries, and exemptions for least developed countries; (2) provision for technical assistance to developing countries; and (3) provisions to ensure more favorable treatment to developing country exporters in the application of nontariff measures. The *Decision on Measures in Favor of Least-Developed Countries* provides for technical assistance to help these countries realize the benefits of the multilateral trading system more effectively: 16 least developed countries are taking advantage of

[6]Agreements that do not form part of the single undertaking include those on government procurement, civil aircraft, and the dairy and bovine meat arrangements.

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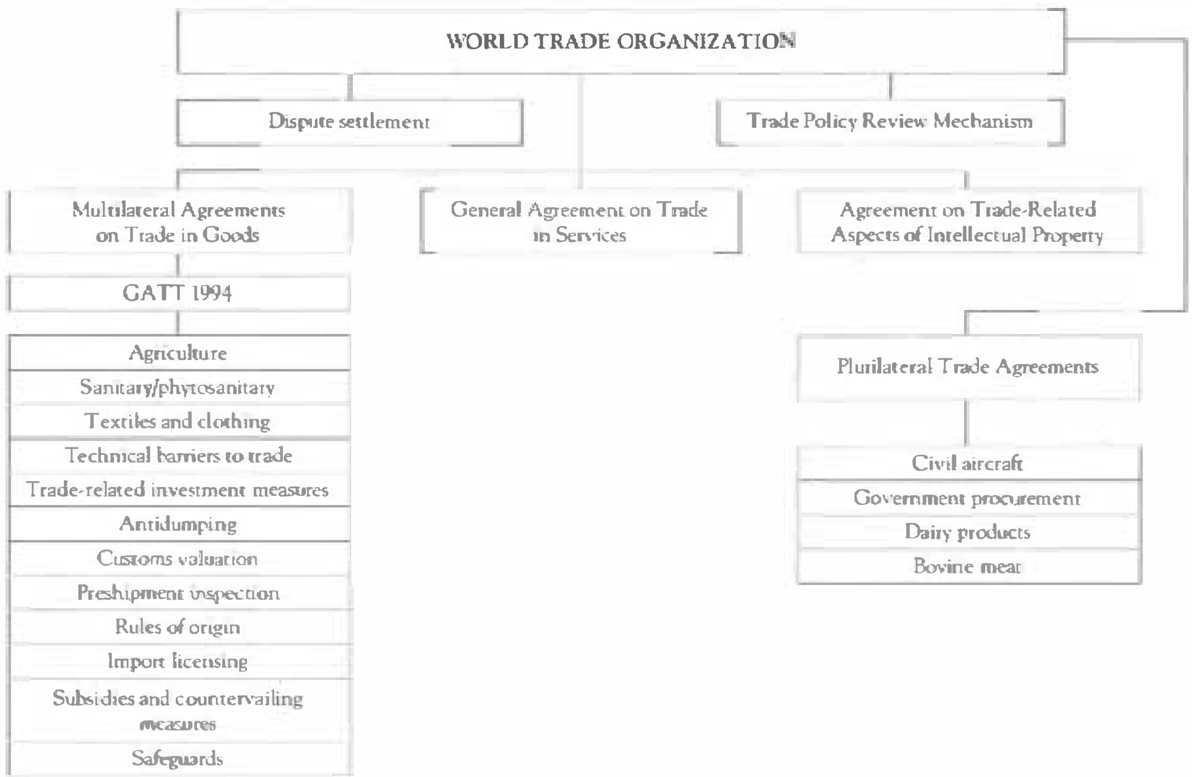
Figure 1. Institutional Framework of the World Trade Organization



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the additional year provided for the finalization of schedules of commitments on goods and services that ends on April 15, 1995.

The WTO will be headed by a Ministerial Conference meeting at least once every two years. A General Council will be established to oversee the operation of the WTO between meetings of the Ministerial Conference, including acting as a Dispute Settlement Body (DSB) and administering the Trade Policy Review Mechanism (TPRM). The General Council will have three principal subsidiary bodies—the Goods Council, the Services Council, and the TRIPs (Trade-Related Intellecrual Property Rights) Council—reflecting the tripartite nature of the Multilateral Trade Agreements. Unless otherwise provided for, decisions will be taken by consensus, continuing the GATT practice.

Five specific tasks have been assigned to the WTO:

- to facilitate the implementation of the results of the Uruguay Round;
- to provide a forum for multilateral trade negotiations and a framework for the implementation of their resulrs;
- to administer the dispute settlement procedures;
- to administer the TPRM; and
- to cooperate with the IMF and the World Bank.

Dispute Settlement

A key objective of the negotiations was to make the multilateral rules more effective by improving their enforceability. In comparison with the previous GATT system, a major change in the Understanding on Dispute Settlement is the integration of all the dispute settlement procedures established under the individual agreements (goods, services, TRIPs, and the plurilateral agreements) into a single system operating under a Dispute Settlement Body (DSB). In addition, one of the central provisions of the understanding reaffirms that members shall not unilaterally make determinations of violations or suspend concessions, but shall make use of the multilateral dispute settlement rules and procedures of the understanding.

In relation to the GATT system, the WTO dispute settlement system also provides claimants with automaticity for the establishment of a panel, adoption of the panel ruling, and authorization of countermeasures in the event that an adopted panel ruling is not implemented. This greater automaticity has been accomplished by a "negative consensus" approach for decisions taken by the DSB: a consensus will be needed in order to halt the proceedings from advancing at any stage of the formal dispute settlement procedures.

To ensure that automaticity in the adoption of panel reports is accompanied by greater confidence in the legal findings, an Appellate Body will be

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established to hear appeals. If an appeal is not made, the panel report will be adopted. If an appeal is made, the report of the Appellate Body shall be adopted by the DSB and unconditionally accepted by the parties, unless the DSB decides by consensus against adoption.

Following adoption of the panel ruling, the party concerned must notify its intentions with respect to implementation of the adopted recommendations. Under the GATT, panels have generally recommended that an inconsistent measure be brought into conformity with the rules. If such a step is not taken in reasonable time, compensation or the suspension of concessions or other obligations would be available as temporary measures. If no satisfactory compensation is agreed, the claimant may request authorization from the DSB—acting according to the negative consensus approach—to retaliate. The general principle is that suspension of concessions should take place in the same sector of trade; for instance, retaliation over a violation of commitments made in the area of goods should also concern goods. If this is not practicable or effective, and if the circumstances are serious enough, the suspension of concessions may be made under another agreement; for instance, retaliation over a violation of commitments made in the area of TRIPs may concern goods.

Trade Policy Review Mechanism

Regular monitoring and surveillance of members' trade policies and practices and their impact on the functioning of the multilateral trading system have been achieved by the TPRM, in place since 1989 on a provisional basis.[7] Each WTO member will report regularly to the Trade Policies Review Body (TPRB), a report will also be prepared by the WTO Secretariat, and the TPRB will hold a session to discuss the substance of these reports. As part of their monitoring activities, WTO members will also continue to appraise annually developments that are having an impact on the multilateral trading system, assisted by an annual report by the Director-General setting out major activities of the WTO and highlighting significant policy issues affecting the trading system.

Trade in Goods

The cornerstone of the multilateral rules for trade in goods is GATT 1994. To facilitate the integration of all merchandise trade into the multilateral frame-

[7]Traditional monitoring activities under the GATT were based on notification requirements, and WTO members have reaffirmed this commitment and agreed to establish a central registry of notifications under the responsibility of the WTO Secretariat. A review of notification obligations and procedures will take place within two years of the entry into force of the WTO to assess whether further improvements are necessary.

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work, supplementary agreements cover agriculture, textiles and clothing, "gray area" measures, and trade-related investment measures (TRIMs). Governments are also required to administer a wide range of trade policy measures according to prescribed rules, so as to maintain open and secure markets for world trade.

GATT 1994

GATT 1994 consists of

- the provisions of the legal instruments that have entered into force under GATT 1947 before the date of entry into force of the WTO;[8]
- understandings on the interpretation of GATT provisions dealing with schedules of concessions (Article II:1(b)), state trading enterprises (Article XVII), balance of payments provisions (Articles XII and XVIII:B), customs unions and free trade areas (Article XXIV), waivers (Article XXV), modification of GATT schedules (Article XXVIII), and nonapplication of the General Agreement (Article XXXV); and
- the schedules of concessions on measures affecting trade in goods, as modified or extended by commitments made in the Uruguay Round.

Of particular note is that the GATT 1947 provisions applying to developing countries will be incorporated in the WTO, and, in addition to the measures in the Uruguay Round agreements applying to developing countries (and, in particular, least developed countries), will be kept under continuous review by the Committee on Trade and Development.

As regards the contents of schedules of concessions, two aspects are important. The first is the "binding" of measures of protection, which represents a commitment by the government concerned not to increase the level beyond that specified in the schedule except by negotiation with affected trading partners. The second aspect is the reduction of trade barriers, which, together with binding, ensures that markets will be more open *and* more secure.

The share of imports of nonagricultural products (excluding petroleum products) subject to bindings has risen from 94 to 99 percent for developed countries, from 13 to 61 percent for developing economies, and from 74 to 96 percent for transition economies (Table 3).[9] In the case of agricultural products, "tariffication" replaces the package of protective measures (including the existing tariff) by a single new tariff that is then bound at a level estimated to

[8]Including protocols and certifications relating to tariff concessions, protocols of accessions, waivers granted under Article XXV, and other decisions of the Contracting Parties of GATT 1947.

[9]Figures are affected by the fact that comparable data are available only for 27 of 93 developing economy participants. The 27 participants account for roughly 80 percent of the total merchandise imports of developing economy participants in the Uruguay Round.

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Table 3. Tariff Bindings on Industrial (Excluding Petroleum Products) and Agricultural Products Before and After the Uruguay Round
(In percent)

	Industrial Products				Agricultural Products			
	Percent of tariff lines bound		Percent of imports under bound rates		Percent of tariff lines bound		Percent of imports under bound rates	
Country Group	Before	After	Before	After	Before	After	Before	After
Total	43	83	68	87	35	100	63	100
By major country group								
Developed countries	78	99	94	99	58	100	81	100
Developing economies	21	73	13	61	17	100	22	100
Transition economies	73	98	74	96	57	100	59	100
By region								
North America	99	100	99	100	92	100	94	100
Latin America	38	100	57	100	36	100	74	100
Western Europe	79	82	98	98	45	100	87	100
Central Europe	63	98	68	97	49	100	54	100
Africa	13	69	26	90	12	100	8	100
Asia	16	68	32	70	15	100	36	100

provide substantially the same level of protection as the existing package of measures. As a result, once the Uruguay Round commitments are implemented, virtually 100 percent of agricultural imports will be bound, and there will be virtually no nontariff barriers.[10]

The new tariff commitments made by developed countries represent a 40 percent reduction in the average tariff on imports of nonagricultural products (excluding petroleum products), from 6.3 percent to 3.7 percent (Table 4), and an increase from 20 to 44 percent in the proportion of imports subject to bound MFN zero duties. The overall reduction in the average tariff applied to imports from developing countries is lower (37 percent compared with 40 percent) because of the below-average tariff cuts applied to textiles and clothing, which are relatively more important in the exports of developing countries. The reductions in tariffs that the new commitments of developing economies represent are difficult to ascertain, since base (1986) tariff levels are not available for all participants. In instances where developing countries have committed to bind 100 percent of tariff lines, the levels of tariffs in schedules have been set above the *currently* applied rates

[10]To facilitate the tariffication process, a "special treatment" clause allows a country to maintain import restrictions up to the end of a transition period under strictly defined conditions. In addition, certain countries have made special arrangements for imports of pork and alcoholic beverages.

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Table 4. Developed Country Tariff Reductions by Major Industrial Product Group (Excluding Petroleum Products) Before and After the Uruguay Round

(In billions of U.S. dollars and percent)

	Import Value		Tariff Averages Weighted by					
			Imports from all sources			Imports from developing countries		
	All sources	Developing countries	Before	After	Percent reduction	Before	After	Percent reduction
All industrial products	736.9	169.7	6.3	3.8	40	6.8	4.3	37
Fish and fish products	18.5	10.6	6.1	4.5	26	6.6	4.8	27
Wood, pulp, paper, and furniture	40.6	11.5	3.5	1.1	69	4.6	1.7	63
Textiles and clothing	66.4	33.2	15.5	12.1	22	14.6	11.3	23
Leather, rubber, footwear	31.7	12.2	8.9	7.3	18	8.1	6.6	19
Metals	69.4	24.4	3.7	1.4	62	2.7	0.9	67
Chemicals and photographic supplies	61.0	8.2	6.7	3.7	45	7.2	3.8	47
Transport equipment	96.3	7.6	7.5	5.8	23	3.8	3.1	18
Nonelectric machinery	118.1	9.8	4.8	1.9	60	4.7	1.6	66
Electric machinery	86.0	19.2	6.6	3.5	47	6.3	3.3	48
Mineral products and precious stones	73.0	22.2	2.3	1.1	52	2.6	0.8	69
Manufactured articles, n.e.s.	76.1	10.9	5.5	2.4	56	6.5	3.1	52

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(ceiling bindings), which generally reflect reductions undertaken autonomously in the course of the Uruguay Round.

For crude and refined petroleum products—of particular export interest to most members of the Arab Fund for Economic and Social Development (Table 5)—the overall *change* in the tariff treatment of crude and refined products once the Uruguay Round results are implemented is difficult to ascertain by virtue of the high proportion of countries maintaining specific, as opposed to ad valorem, duties on the products concerned (Table 6).[11] After the results are implemented, crude petroleum will continue to be characterized by a low level of bindings in major markets (only the European Union and Brazil have bound HS 2709), although the tariff treatment is generally low or duty-free. For refined products, the level of bindings is substantially higher than for crude petroleum, but average tariffs (where available) are also generally higher. The post–Uruguay Round situation of crude and refined petroleum—in comparison with that of other products—is mainly a reflection of the virtual absence of the major exporter interests from GATT tariff negotiating rounds.

Agriculture

Agriculture has been integrated into the multilateral trading system through new rules of general application to market access, export subsidies, and domestic support, with an important step being made toward liberalizing trade in agriculture. In addition, as a result of the Agreement on the Application of Sanitary and Phytosanitary Measures, there will be significantly improved multilateral disciplines that will make it possible to minimize the adverse impact of these measures on international trade in agricultural products.

The Agriculture Agreement prohibits the use of nontariff border measures on agricultural products and binds all tariffs. For agricultural products where intervention took the form of nontariff measures, the "tariffication" process led to a tariff being established, and provisions were made for the maintenance of current market access opportunities and the establishment of new minimum access opportunities (at reduced tariff rates), to be expanded from 3 to 5 percent of domestic consumption over the six-year (ten-year for developing countries) implementation period.[12] Tariff reductions were required

[11]The United States, for example, applies an *unbound* specific duty of $0.0525 a barrel on crude petroleum testing under 25 degrees A.P.I. and an *unbound* specific duty of $0.105 a barrel on crude petroleum testing over 25 degrees A.P.I.

[12]To facilitate the tariffication process, a special treatment clause allows specific countries to maintain import restrictions under strictly defined conditions as set out in the agreement and the schedules of the countries concerned. Certain countries have made special arrangements for imports of pork and alcoholic beverages.

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Table 5. Export Interests of Members of the Arab Fund for Economic and Social Development

Country	Product Composition of Exports (in percent)
Jordan	Mineral products, precious stones, and metals (74); metals (6); chemicals and photographic supplies (5)
United Arab Emirates	Petroleum (83); mineral products, precious stones, and metals (11)
Bahrain	Petroleum (53); metals (31); chemicals and photographic supplies (5); mineral products, precious stones, and metals (5)
Tunisia	Textiles and clothing (35); petroleum (18); mineral products, precious stones, and metals (15); chemicals and photographic supplies (6); fishery products (6); oilseeds, fats, and oils (5)
Algeria	Petroleum (73); mineral products, precious stones, and metals (23)
Saudi Arabia	Petroleum (85); chemicals and photographic supplies (7); mineral products, precious stones, and metals (6)
Sudan	Other agricultural products (43); oilseeds, fats, and oils (19); flowers, plants, and vegetable materials (12); animals (7); grains (5)
Syrian Arab Republic	Petroleum (71); other agricultural products (8); transport equipment (6)
Somalia	Fruit and vegetables (54); fishery products (18); other agricultural products (15)
Iraq	Petroleum (98)
Oman	Petroleum (97)
Qatar	Petroleum (81); mineral products, precious stones, and metals (10); chemicals and photographic supplies (8)
Kuwait	Petroleum (92); mineral products, precious stones, and metals (6)
Lebanon	Mineral products, precious stones, and metals (34); textiles and clothing (12); metals (11); other agricultural products (11)
Libya	Petroleum (92)
Egypt	Petroleum (58); textiles and clothing (12); other agricultural products (10); metals (9)
Morocco	Textiles and clothing (23); mineral products, precious stones, and metals (21); fruits and vegetables (15); fishery products (12); chemicals and photographic supplies (9)
Mauritania	Metals (43); fishery products (54)
Yemen	Not available
Palestine	Not available

for both the products subjected to tariffication and the vastly more numerous "tariff-only" products (products that, in the past, faced only tariffs at the border). The schedules of industrial countries show tariff reductions on agricultural products amounting to a simple average of 37 percent.

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Table 6. Post–Uruguay Round Tariff Treatment of Crude and Refined Petroleum Products in Major Markets

	Crude Petroleum		Refined Petroleum	
Importer	Percentage of lines bound	Post-round simple average ad valorem tariff	Percentage of lines bound	Post-round simple average ad valorem tariff
European Union	100	0.0	100	2.6
United States	0	n.a.	100	n.a.
Japan	0	n.a.	35	n.a.
Singapore	0	0.0	0	13.6[1]
Korea	0	5.0	72	11.0
Brazil	100	n.a.	100	n.a.
Canada	0	0.4	80	5.8
India	0	n.a.	0	n.a.

n.a. = Not available in percentage terms; specific duties apply.
[1]Specific duties apply on one quarter of imports of refined petroleum products.

During the implementation period, the value of direct export subsidies will be reduced by industrial countries to a level 36 percent below the 1986–90 base-period level, and the quantity of subsidized exports reduced by 21 percent from the same base period (two-thirds reductions for developing countries).[13] Taken together, the commitments made will lead to a decline in total outlays on subsidized quantities by 36 percent, from $22.5 billion to $14.5 billion. The prohibition of the use of export subsidies (with certain exceptions for developing counties) on all products not subject to reduction commitments will also play an important role in improving competition on world markets.

The Total Aggregate Measure of Support, which covers all domestic support that does not qualify for exemption, will be reduced by 20 percent for industrial countries (13 percent for developing countries). Taken together, these commitments will lead to a decline in the Total Aggregate Measure of Support from $197 billion to $162 billion by the end of the transition period. Exempt policies include those in the "green box" (general government services and decoupled direct income supports), some measures that are an integral part of the development programs of developing countries, direct payments under production-limiting programs, and any product-specific support amounting to less than 5 percent (10 percent for developing countries) of the value of production of the product concerned ("de minimis" support).

[13]In certain circumstances where subsidized exports have increased since the 1986–90 base period, 1991–92 may be used as the beginning point of reductions, although the end point remains that based on the 1986–90 base-period level.

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The participants in the Uruguay Round have recognized the possibility of adverse effects of the agricultural reform program in the *Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries*. The decision sets out objectives with regard to the provision of food aid, the provision of basic foodstuffs in full grant form, and aid for agricultural development. It also refers to the possibility of assistance from the IMF and the World Bank with respect to the short-term financing of commercial food imports. The follow-up of the decision is to be monitored by the Committee on Agriculture and subject to regular review by the Ministerial Conference of the WTO.

Textiles and Clothing

The Agreement on Textiles and Clothing provides for the eventual elimination of restraints on textiles and clothing after a ten-year transition period. Restraints applied under the MFA will be phased out in four stages, starting with the date of entry into force of the WTO. Concurrent with this integration process, there is a program providing for the progressive liberalization of existing quotas imposed under the MFA, with an accelerated phase-out for small exporters. The agreement also provides for a transitional safeguard mechanism in the event of import surges, which applies under certain conditions in respect of any product not yet integrated into the GATT and not already under restraint, with more favorable treatment provided to least developed countries and small suppliers.

Trade-Related Investment Measures

The Agreement on Trade-Related Investment Measures (TRIMs) applies to performance requirements, such as local content requirements or trade-balancing requirements (which can be found to be inconsistent with the national treatment provision or the prohibition on quantitative restrictions). GATT-inconsistent TRIMs are required to be notified and eliminated within a transition period of two years (industrial countries), five years (developing countries), or seven years (least developed countries). A further extension may be requested by developing and least developed countries.

Agreements on Nontariff Barriers

The agreements on technical barriers to trade, subsidies and countervailing measures, antidumping, import licensing, and customs valuation are more extensive versions of the agreements concluded on these issues in the Tokyo Round, while new agreements concern the application of sanitary

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and phytosanitary measures, safeguards, preshipment inspection, and rules of origin. The agreement on rules of origin contains a commitment to agree on guidelines for their use within three years.

As noted earlier, the agreements concluded in the Tokyo Round had failed to acquire a multilateral status. In contrast, the single undertaking will ensure that the agreements on nontariff measures will be applied by all WTO members. However, the Tokyo Round Agreements on Government Procurement (which will be superseded by a new agreement), the Civil Aircraft Agreement (negotiations on a new agreement are continuing), and the Arrangements on Dairy and Bovine Meat will retain their plurilateral status. Of particular note is the new Agreement on Government Procurement, which will come into force on January 1, 1996. The new agreement expands the existing agreement by requiring bid-challenge procedures and increases the coverage of procurement subject to the rules by a factor of about ten (to an amount of several hundred billion dollars).

For WTO members applying nontariff measures, the agreements provide for precise guidelines concerning their application, including transparency, predictability (including specified criteria for decisions), and procedural guarantees for exporters. Most of these agreements also contain provisions to ensure more favorable treatment of developing country exporters in the application of nontariff measures.

Also of note is the Agreement on Subsidies and Countervailing Measures, which defines a subsidy (as a financial contribution by a government) and clarifies the subsidies that are subject to the disciplines of the agreement, including those that may form the basis for countervailing measures (those subsidies that are provided specifically to an enterprise or industry, as opposed to generally available subsidies). A further step has also been taken to extend the framework of disciplines to limit the use of trade-distorting subsidies.

The administration of countervailing or antidumping measures has been clarified by (1) greater and more detailed disciplines on the conduct of investigations; (2) establishing the criteria to terminate an investigation (de minimis thresholds for margins of subsidization/dumping or the volume of dumped/subsidized products, or negligible injury);[14] (3) providing interested parties with full notice and a right to present evidence; (4) clarifying the criteria used to determine injury to the domestic industry; (5) requiring more detailed public notice and explanation of determinations; and (6) establishing that a "sunset" clause of five years applies to measures unless a determination is made that, in the event of the termination of the measures, subsidization/dumping and injury would be likely to continue or recur.

[14]De minimis provisions are more generous in the case of products imported from developing countries.

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The Agreement on Safeguards requires investigations, including an injury analysis, to determine whether safeguard measures are required. It sets limits on the restrictive nature of import quotas and time limits for which the measures can be in place, and for the period for which they cannot be reimposed. The possibility for "quota modulation" under certain specified circumstances is subject to multilateral surveillance.[15] The agreement requires that "gray area" measures not in conformity with the provisions of Article XIX be brought into conformity with the agreements or phased out within four years after the entry into force of the agreement establishing the WTO.[16]

A number of agreements on non-tariff measures provide for exemptions from or transition periods for obligations, and for technical assistance. For example, developing countries are not expected to use international standards that are not appropriate to their situation as a basis for their technical regulations or standards. With regard to export subsidies on industrial products, least developed countries and low-income developing countries are not subject to the prohibition on export subsidies applicable to WTO members, and other developing country members have a transition period of at least eight years to phase out such measures (whose prohibition for industrial countries is confirmed with immediate effect) and may request a further extension. With respect to customs valuation, developing country members that are not signatories to the Tokyo Round Agreement may delay the application of provisions for five years and may request a further extension.

Services

The objective of establishing a multilateral framework of principles and rules for trade in services and the liberalization of trade in this sector has been achieved by the General Agreement on Trade in Services (GATS). The GATS covers trade in services in all forms, including through commercial presence and the temporary entry of natural persons. The basic principle is MFN, although measures that are inconsistent with this obligation can be

[15]"Quota modulation" is a term used to signify the possibility of allocating quotas in a discriminatory manner—that is, a possibility to deviate from the nondiscriminatory quota allocation specified in Article XIII of GATT 1994.

[16]These include voluntary export restraints (VERs), orderly marketing arrangements (OMAs), or any other similar measures on the export or the import side. Each importing member of the WTO is permitted to keep one specific measure in force until the end of 1999, subject to the agreement of the exporting country in question, and subject to review and acceptance of this exception by the Committee on Safeguards.

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maintained in principle for not more than ten years. In addition, transparency applies to domestic regulations relevant to trade in services.

The GATS provides for the progressive liberalization of trade in services through the scheduling of commitments. Market access and national treatment apply to the service activities specified in schedules of commitments, and subject to the terms and conditions specified therein. Ninety-six schedules have been certified (the European Union has submitted a common schedule on behalf of its member states), which together contain the results of the market access negotiations for services in the Uruguay Round. The GATS explicitly provides for future rounds of negotiations with a view to achieving a progressively higher level of liberalization; the first such round is to begin within five years of the entry into force of the agreements.

No service sectors are excluded from the scope of the agreement, but participants were free to specify the services for which they would provide market access and national treatment. Accordingly, there are important differences in the coverage of the schedules of different participants (Table 7). The schedules of the major industrial participants, for example, cover nearly all sectors, although with exceptions in such areas as maritime transport and audiovisual services. For developing countries, the sectoral coverage of commitments is generally lower than for industrial countries. Tourism-related services (hotels and restaurants, travel agencies and tour operators) contain the highest level of commitments, reflecting the current importance of this sector in the foreign exchange earnings of many developing countries (foreign exchange receipts from tourism taking place in the domestic economy are counted as credits in the balance of payments accounts). Many developing countries have also made commitments on financial services, business services, and construction services. Negotiations are already in progress with a view to the expansion of the existing commitments in maritime transport, financial services, and the movement of natural persons. Basic telecommunications, on which it was generally agreed that commitments would not be made in this round, are also the subject of ongoing negotiations.

Trade-Related Aspects of Intellectual Property Rights

The Agreements on Trade-Related Aspects of Intellectual Property Rights (TRIPs) was motivated by a desire to reduce distortions in the conditions of international competition resulting from widely varying standards in the protection and enforcement of intellectual property rights, and the lack of a multilateral framework of principles, rules, and disciplines dealing with international trade in counterfeit goods. The TRIPs agreement will be implemented within transition periods generally of 1 year (developing countries), 5 years (developing countries, and transition economies facing special problems in

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Table 7. Number of Bound Service Activities of GATS Participants in the General Agreement on Trade in Services

Number of Bound Service Activities	Participants
More than 100	Austria, European Union, Japan, Switzerland, United States
Between 81 and 100	Australia, Canada, Czech Republic, Hungary, Iceland, Norway, Slovak Republic, Sweden
Between 71 and 80	Finland, Hong Kong, Korea, Liechtenstein, New Zealand, South Africa, Thailand, Turkey
Between 61 and 70	Dominican Republic, Malaysia, Mexico
Between 51 and 60	Argentina, Poland, Singapore, Venezuela
Between 41 and 50	Brazil, Colombia, Israel, Kuwait, Morocco, Nicaragua, Philippines, Romania
Between 31 and 40	Chile, Cuba, Pakistan, Ghana, India, Jamaica
Between 21 and 30	Aruba, Brunei Darussalam, Egypt, El Salvador, Kenya, Macau, Netherlands Antilles, Nigeria, Peru, Senegal, Uruguay
Between 11 and 20	Antigua and Barbuda, Benin, Costa Rica, Côte d'Ivoire, Gabon, Guatemala, Guyana, Honduras, Mauritius, Mozambique, Trinidad and Tobago, Tunisia, Zambia, Zimbabwe
Between 1 and 10	Algeria, Bahrain, Bangladesh, Barbados, Belize, Bolivia, Burkina Faso, Cameroon, Congo, Cyprus, Dominica, Fiji, Grenada, Indonesia, Madagascar, Malta, Myanmar, Namibia, New Caledonia, Niger, St. Lucia, Sri Lanka, St. Vincent and the Grenadines, Suriname, Swaziland, Tanzania, Uganda

structural reform of their intellectual property systems), or 11 years (least developed countries).[17]

Subject to limited exceptions, WTO members must provide national treatment and treat nationals of trading partners on the same basis (MFN). The agreement specifies minimum substantive standards of protection, building on those in the Paris and Berne Conventions, for copyright and related rights, including for computer programs, databases, sound recordings and films; trademarks and service marks; geographical indications, including appellations of origin; patents; industrial designs; the layout designs of integrated circuits; and undisclosed information, including trade secrets.

WTO members must provide procedures and remedies under their domestic law to ensure that intellectual property rights can be effectively enforced by foreign right holders. Requirements include provisions on evidence, injunctions, damages, and other civil remedies, including the right of judicial authorities to order emergency provisional action; special border measures

[17]Least developed countries may request a further extension.

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against imports of trademark counterfeit and pirated copyright goods; and criminal action including imprisonment or fines (or both) to act as a deterrent to willful trademark counterfeiting or copyright piracy on a commercial scale.

Becoming a WTO Member

Original Members

Contracting Parties of GATT 1947 as of January 1, 1995, and the European Communities, that accept the Uruguay Round agreements and that have finalized their schedules of commitments on goods and services shall become original members of the WTO. Practically all GATT Contracting Parties have finalized their schedules of commitments for goods and services, which form part of the obligations undertaken by prospective members of the WTO.[18] The next step in becoming a WTO member is the approval of the WTO Agreement by the domestic aurhorities; this step has been completed by Bahrain, Kuwait, Mauritania, and Morocco. Up to one hundred countries will have completed the steps necessary to become WTO Members as of January 1, 1995.

Accession to the WTO

The WTO Agreement states that "any State or separate customs territory possessing full autonomy in the conduct of its external commercial relations and of the other matters provided for in the Agreement and the Multilateral Trade Agreements may accede to this Agreement, *on terms to be agreed between it and the* WTO [emphasis added]" (Article XII). Decisions on accession will be taken by the Ministerial Conference, which shall approve the agreement on the terms of accession by a two-thirds majority of the members of the WTO.

Of note is the fact that the WTO Agreement permits any WTO member not to apply the agreement to any other member (Article XIII). In the case of accessions (as opposed to original members) the invocation of rhe nonapplication clause must be notified, before the WTO's approval of the terms of accession. The purpose of the nonapplication clause is to ensure that no WTO member is forced into establishing trade relations with another mem-

[18]Sixteen least developed countries are taking advantage of the additional year provided for the purpose of finalizing schedules of commitments on goods and services that ends on April 15, 1995. The finalization of the schedules of Qatar and the United Arab Emirates, respectively, which acceded to GATT 1947 in the course of 1994, has not been completed.

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ber of the WTO, through a majority decision of the Ministerial Conference (a similar clause was contained in GATT 1947).

Procedural Steps[19]

The first step is the submission of a communication by the government, indicating the desire to accede to the WTO, to the Director-General of the Secretariat of the WTO, which circulates the communication to all member countries. The General Council considers the application and establishes a working parry to examine the application for accession and to submit to the Council recommendations, which may include a draft decision and a draft Protocol of Accession. The draft protocol contains the terms of accession agreed by the applicant government and members of the working party, including the schedule of concessions on goods and the schedule of commitments on services.

The next step is the submission by the applicant government of a memorandum describing in detail its regulatory regime in all areas relevant to the WTO and providing relevant statistical data for circulation to all WTO members. WTO members may provide written requests for additional clarifications to the applicant government, which is invited to provide written replies. At a meeting of the working party, representatives from the applicant government and WTO members examine the memorandum on the regime, and the questions and answers, with a view to determining whether the applicant government is in a position to comply with the provisions of the Marrakesh Agreement Establishing the World Trade Organization.

Once the negotiations on goods (including agricultural products) and on services have been concluded, the report of the working party, the draft decision, and the Protocol of Accession are submitted to the General Council. Following the adoption of the report of the working party and the approval of the texts of the draft decision and Protocol of Accession, the decision is put to a vote and, if approved by a two-thirds majority, enters into force after acceptance by the applicant government.

The Preparatory Committee for the WTO has recommended to the WTO's General Council that these procedural steps be adapted to the situation of countries with working parties under way for accession to GATT 1947. The recommendation is that the existing GATT 1947 accession working parties continue their work—as and when requests are made by the states or customs territories concerned to accede to the WTO Agreement—as working parties of the WTO, with standard terms of reference and under

[19]Based on GATT practice (L/7317); see GATT, *Analytical Index* (Geneva, 1994).

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their respective current chairpersons.[20] The purpose of this recommendation is to permit the countries concerned to build on the process already under way, rather than start the procedures anew. Among the 18 GATT 1947 accession working parties whose proceedings have not concluded are those of Algeria, Jordan, and Saudi Arabia.

The technical cooperation services of the WTO Secretariat are made available through the Technical Cooperation and Training Division to countries upon request, and trade policy officials may apply to take part in training courses held in Geneva.

[20]As of mid-December 1994, requests in this regard have been made by Ecuador, the Russian Federation, and Slovenia. A WTO working party was established to examine Croatia's request for accession to the WTO in 1994.

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3

Implications of the Uruguay Round for the Arab Countries

A General Analysis

*Paul Chabrier, Mohamed A. El-Erian, and Rakia Moalla-Fetini**

The Uruguay Round has been heralded by many as constituting a major advance in the process of multilateral liberalization of trade in goods and services and in strengthening the supporting institutional base. By seeking to bring in the old but contentious issues of trade in agriculture and in textiles under comprehensive GATT discipline, as well as to expand GATT discipline to some new areas, the Uruguay Round has been regarded by many as the most ambitious of all GATT negotiating rounds. If fully implemented, the Uruguay Round agreements are expected to enhance welfare-increasing trade and to contribute to world economic growth.

Several studies have sought to establish the overall potential gains from increased trade liberalization. Early quantitative studies dealing mainly with static benefits from trade liberalization point to estimates of the annual real income gains by the year 2005 ranging from \$200 billion to \$270 billion (or about 1 percent of world GDP).[1] Within this range, some \$80 billion is projected to accrue to developing countries (or about 1.5 percent of their GDP). The impact on world trade expansion is estimated to be in the order of 10 percent.[2]

*The views expressed are those of the authors and do not necessarily represent those of the International Monetary Fund.

[1]GATT (1993); Goldin, Knudsen, and van der Mensbrugghe (1993); Nguyen, Perroni, and Wigle (1993); and OECD (1993). These studies were completed before the conclusion of the Uruguay Round and therefore do not fully reflect all the details of the final agreements. Revisions are under way. Available indicators suggest a wider range of estimates of welfare gains, including as high as \$510 billion according to the GATT Secretariat.

[2]These studies concentrate on modeling the implication of improved market access, in particular lower tariffs. They do not fully incorporate the effect of lower nontariff barriers. The economic impact of strengthened rules and of integrating the service sector are also not fully taken into account.

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As with most major structural changes, the distribution of gains and losses varies across countries. It is thus widely recognized that the overall gains among the developing economies are likely to be unevenly spread. At a general level, those that stand to gain the most tend to be characterized by relatively open economic structures; such structures increase countries' ability to take advantage of improved market opportunities and to adjust quickly to the new trade environment. Given the attributes of the Uruguay Round agreements, developing countries that are major food exporters are also expected to be primary beneficiaries. In contrast, some countries are likely to be adversely affected by the erosion of trade preferences and the deterioration in their terms of trade resulting from the expected increase in the price of imported agricultural commodities.

The uneven distribution of gains and losses calls for an early recognition by policymakers of the implied resource reallocations and related policies that improve the cost-benefit equation. This is particularly the case for Arab countries. Indeed, some studies suggest that these countries may be some of the potential losers, which makes it urgent to analyze the challenges ahead and to devise strategies to minimize the short-run adjustment costs. This involves, in particular, an early identification of the implications of the revised multilateral trade system and progress in policies to maximize the potential dynamic gains.

The purpose of this chapter is to contribute to a better understanding of the challenges that lie ahead for the Arab countries. Following this introduction, a brief outline of the results of the Uruguay Round is provided, with a view to identifying the key aspects of interest to Arab economies. The next section analyzes the key characteristics of Arab economies that will help to determine the impact of the new trade environment. This is followed by an assessment of issues arising from, inter alia, the potential impact of lower trade preferences, trade liberalization in the agricultural and industrial sectors, and the phasing out of the Multifibre Arrangement (MFA). The paper's concluding section summarizes the main findings.

Three qualifications must be made at the outset. First, this chapter seeks to provide a general framework for examining the impact on Arab countries of the recent agreements to liberalize further multilateral trade and, more generally, to strengthen the international trading system. As such, it does not, nor does it seek to, meet the more detailed objective of specific sectoral or country studies. Rather, it points to the general issues that need to be covered in such studies. Second, the emphasis is essentially on the effects of trade with industrial countries. No attempt is made to analyze the impact of trade among developing countries. Although such trade is quantitatively less important at this stage, its significance will increase over time, given developing countries' improved economic performance, their growing importance in

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global economic and financial activities, and their potential. Third, work is still under way to assess the overall price and demand impact of the Uruguay Round agreements—that is, the "parameters" for the present analysis. Accordingly, the estimates provided in this chapter should be regarded as indicative of broad magnitudes, rather than as point estimates.

An Analysis of the Key Elements of the Agreements

The Uruguay Round has led to far-reaching agreements in the following areas:

- trade liberalization through further reductions in tariffs and nontariff barriers, including in the agricultural and the textile and clothing sectors;
- extension of multilateral rules to the new areas of trade in services, trade-related intellectual property rights (TRIPs), and trade-related investment measures (TRIMs);
- strengthening of rules, most notably those on subsidies, countervailing duties, anti-dumping, and safeguards; and
- reinforcing the institutional structure, including through the establishment of the WTO.

An understanding of the way in which this will affect developing countries, including Arab countries, holds the key to the formulation of an appropriate policy response.

The previous seven GATT negotiating rounds since 1947 contributed to a lowering in average import tariffs on industrial goods from over 40 percent to 6 percent. The Uruguay Round involved another round of reductions, with import-weighted average tariff bindings being cut to 3.6 percent (a 38 percent cut in tariff bindings, on average). The highest cuts, ranging from 40 percent to 70 percent, were made in sectors where existing tariffs are the lowest (such as wood, paper, pulp, and furniture; metals; nonelectric machinery; mineral products; electric machinery; and chemicals and photographic supplies). More limited cuts, ranging from 20 percent to 25 percent, were made in more protected sectors such as textiles and clothing; transport equipment; fish and fish products; and leather, rubber, footwear, and travel products (Table 1).[3] Because these more protected sectors are the main ex-

[3]As a result of these tariff cuts, the share of duty-free imports is expected to increase from 20 percent to 43 percent, and tariffs peaks (tariffs in excess of 15 percent) will apply to only 5 percent of imports instead of 7 percent.

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Table 1. Industrial Countries: Tariff Reduction by Industrial Sector Before and After Uruguay Round
(In percent)

Product Category	Average OECD Tariff: Before	After	Reduction	Reduction in European Markets
Wood, pulp, furniture, paper	3.5	1.1	69	67
Metals	3.7	1.5	59	35
Nonelectric machinery	4.8	2.0	58	61
Electric machinery	6.6	3.5	47	37
Chemicals	6.7	3.9	42	35
Fish and fish products	6.1	4.5	26	18
Transport equipment	7.5	5.8	23	10
Textiles and clothing	15.5	12.1	22	20
Leather, rubber, footwear, and travel goods	8.9	7.3	18	23

Sources: GATT; and UNCTAD.

port sectors of developing countries, the reduction in the average tariff facing developing countries' exports is estimated at some 34 percent.[4]

A major achievement of the Uruguay Round is its comprehensive incorporation of agriculture in a system of more transparent rules, on a path of gradual liberalization spanning a period of six years for developed countries and ten years for developing countries. Thus, all participating countries have committed to a "tariffication" of all nontariff border measures, to a binding of all tariffs at the new levels, and to an average reduction of 36 percent from their 1986–88 average tariff equivalents.[5] As a result, it has been observed that the coverage for trade in agricultural products may well—for the first time in the GATT's history—be greater than for industrial products.[6] Industrial countries have committed to reducing export subsidies by 36 percent in value terms from a 1986–90 base. They have also committed to reducing domestic supports, for all products by 20 percent from a 1986–88 base. Developing country members of GATT have been allowed differential provisions that require reductions in tariffs, domestic support, and export subsidies only two-thirds the size of those required of developed countries.

[4]Although still biased against developing countries in relative terms, the outcome of the Uruguay Round is less biased than previous rounds, which achieved considerably lower reduction in tariffs facing developing countries than the average tariff reduction.

[5]Because world prices in 1986–88 were low, this could result in an initial increase in the level of protection in some countries.

[6]Before the Uruguay Round, only one-third of agricultural products tariff lines were subject to bindings, and many countries applied nontariff measures.

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The Uruguay Round agreements also provide for a phased elimination of restrictions on textiles and clothing. Specifically, nontariff measures (including MFA-type arrangements) are to be phased out over a ten-year period. Restrictions are to be removed from products accounting for not less than 16 percent in volume terms (1990 base) of the items covered by the MFA as soon as the agreement enters into force. Three additional phases will take effect at the beginning of the fourth and eighth years and at the end of the tenth year, in which an additional 17 percent, 18 percent, and 49 percent, respectively, of the 1990 import volumes must be fully integrated into the mainstream trading system.

The *trade liberalization component* may be expected to influence developing countries through three main interrelated channels: gains from improved access to partner country markets associated with changes in tariffs and nontariff barriers, offset in some cases by potential losses from the erosion in trade preferences; efficiency gains related in large part to countries' own trade liberalization policies; and expected terms of trade shifts associated, in particular, with liberalization of trade in the agricultural sector.

Market access of developing countries as a whole to industrial country markets will be altered significantly as a result of lower tariffs on industrial goods, but much more substantially as a result of the removal or relaxation of nontariff barriers, especially in agriculture and textiles and clothing. Improved market access is expected to lead to gains stemming from trade creation associated with a redeployment of resources according to comparative advantage. Dynamic gains, which are likely to be more important than the static ones, arise from externalities generated by increased competition, economies of scale, greater innovation (including technological spillovers), and the positive effect of higher productivity on savings and investment.

The effect of a reduction in tariffs also raises, however, concern about potential losses from the erosion of trade preference. For imports receiving zero-duty preferential rate treatment, the reduction in tariff rates unambiguously reduces margins of preference, inducing trade diversion. For imports receiving a nonzero preferential rate, the effect is more complex because it depends on how the terms of preferential access change with the decline in tariffs. Should preferential rates be adjusted to retain their current relationship, the trade diversion associated with the erosion in preferences may outweigh the trade creation resulting from lower tariffs. The overall impact on any specific country will depend on whether the likely trade gains from lower tariffs on non-preference-receiving goods offset the expected losses on preference-receiving exports.

In their paper on developing countries' benefits under the Generalized System of Preferences (GSP), Baldwin and Murray (1987) indicated that losses due to an erosion of trade preference under the GSP are likely to be small. In

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reaching this finding, they decomposed the trade benefit of the GSP to developing countries into a trade creation benefit resulting from the displacement of producers in the industrial countries for the benefit of producers in the GSP beneficiary countries, and a trade diversion benefit consisting of the displacement of producers in non-GSP beneficiary countries for the benefit of producers in the GSP beneficiary countries. They estimated that the bulk of trade expansion resulting from GSP tariff treatment represents trade creation, with the trade diversion component accounting for only 12 percent of the total trade expansion. This empirical evidence suggests that the loss due to the erosion of preferential tariff margins under the GSP is small. Moreover, trade expansion of many products coming under the GSP provisions faces volume limits that prevent the trade expansion incentives from operating.

Another side of the coin that is often overlooked but that might be important is that developing countries may experience gains from the erosion of intra-OECD trade preferences. European Free Trade Association (EFTA) and European Union intratrade is duty free for their respective members. The Uruguay Round tariff reduction will render some of this exchange less competitive and may divert it to outsiders.

Efficiency gains will be related to the status of developing countries' own trade liberalization efforts and will stem from the reduction in losses resulting from present protection. Indeed, most quantitative studies of the economic implications of multilateral trade liberalization on real incomes consistently show that the benefits heavily depend on the extent of each country's own trade liberalization policies. The major impact is expected to relate to the European markets, given that they contained greater distortionary features compared with those in Japan and the United States.

Trade liberalization of the agricultural sector will offer countries a potential to expand agricultural production—thereby improving employment and living standards in rural areas and reducing migration to urban areas. At the same time, however, because the Uruguay Round agreements will lead to a reduction in the scope of subsidized agricultural exports, this is expected to result in an increase in the relative prices of food products and, hence, to contribute to unfavorable terms of trade effects for net food importers among the developing countries.

The impact of the removal or relaxation of nontariff barriers—especially in agriculture and textiles—will also depend on the extent to which a country had a privileged access to certain markets in the context of the present nontariff barriers. As detailed in the next section, this is of particular relevance for some Arab textiles exporters to European Union markets.

The *extension of multilateral rules* to trade in services—most notably the implementation of nondiscrimination and transparency rules—is expected to foster liberalization of trade in services. Some observers see this as potentially

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providing a stimulus to the world economy that might be as important as the stimulus brought about since the end of World War II by the liberalization of trade in goods. The contribution of rhe extension of multilateral rules to intellectual property rights is seen in terms of the longer-run impact of the global levels of invention, innovation, and research and development—progress that would benefit consumers worldwide through lower costs of production and increased product variety. In the short run, however, the price of some intellectual property right-based products might increase (such as the price of pharmaceuticals and seeds).

Finally, *strengthened rules* affecting several trade policy instruments, as well as improvements in the dispute settlement system and a more solid *institutional base*, may be expected to enhance the security of market access and to improve the ability of governments to counter effectively domestic pressures for protection. The creation of the WTO, which will exercise surveillance over member countries' trade policies and administer a strengthened dispute settlement system, will place the rules-based trade system on a strengthened legal and institutional footing. These developments may be expected to improve business confidence through enhancing the transparency and predictability of the multilateral trading system. Indeed, this effect has been identified by some observers as one of the most important positive implications of the Uruguay Round.[7]

Characteristics of the Arab Economies and the Impact of the Uruguay Round

The foregoing discussion of the main elements of the Uruguay Round agreements suggests that the impact on Arab economies will depend on two sets of interrelated factors:

- the openness of their economies and the general characteristics of their trade in goods and services; and
- their sensitivity to particular features of the agreements, including changes in trade preferences and exposure to terms of trade shifts.

General Characteristics

The degree of openness of Arab economies has increased in recent years. Specifically, the absolute value of the region's merchandise exports and im-

[7]It is unfortunately the one that is the most difficult to quantify, and no comprehensive attempt has been made as yet to do so.

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Table 2. Arab Countries: Indicators of Openness in Merchandise Trade, Average 1990–92

	Trade Imports[1]		Trade Exports[2]		Deficit	Penetration
	Millions of U.S. dollars	In percent of GDP	Millions of U.S. dollars	In percent of GDP	(in percent of GDP)	(in percent of GDP)[3]
Algeria	12,600	17.8	12,873	25.4	7.6	43.2
Bahrain	4,954	100.1	4,523	89.1	–11.0	189.2
Djibouti	439	47.0	327	4.4	–42.7	51.4
Egypt	9,678	20.2	3,620	–2.8	–17.4	31.2
Iraq	...	...	...	...	...	...
Jordan	3,805	65.4	2,188	26.8	–38.6	92.2
Kuwait	10,053	34.9	11,904	27.3	–7.5	62.2
Lebanon	2,579	81.0	2,501	13.1	–67.9	94.1
Libya	10,079	21.0	11,188	28.6	7.6	49.6
Mauritania	706	42.2	501	41.7	–0.5	83.9
Morocco	9,459	25.7	6,604	15.2	–10.4	40.9
Oman	4,495	29.9	5,623	47.5	17.6	77.4
Qatar	2,734	25.0	3,934	50.3	25.3	75.3
Saudi Arabia	25,902	22.6	46,306	40.4	17.8	63.0
Somalia	441	...	101	...	...	...
Sudan	2,185	11.8	368	3.8	–7.9	15.6
Syrian Arab Rep.	3,964	10.8	4,166	12.5	1.7	23.3
Tunisia	6,775	42.0	5,664	27.7	–14.3	69.7
United Arab Emirates	15,935	41.2	23,904	64.2	23.1	105.4
Yemen	...	...	...	...	...	...

Source: International Monetary Fund, *International Financial Statistics.*
[1]Includes imports for re-exports.
[2]Includes re-exports.
[3]Ratio of total merchandise trade to GDP.

ports is estimated to have grown from below 40 percent of GDP in 1970 to almost 50 percent of GDP in the early 1990s. As illustrated in Table 2, countries within the region vary considerably in the extent of their openness, as well as in their external resource balances. Specifically, the ratio of merchandise trade (including import and re-export activities) to GDP is highest for Bahrain and the United Arab Emirates and lowest for Algeria, Egypt, and Sudan.

There are also important variations in the dependence on external markets and its evolution in recent years. Table 3 presents an illustrative classification of countries according to the importance of their trade with OECD and non-OECD markets.[8] As shown in the table, several Arab countries are highly de-

[8]These data do not reflect the trade pattern variations following the recent changes in central and eastern Europe. These are of particular importance for countries in the set of "diversified exporters," including Egypt and the Syrian Arab Republic.

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Table 3. Arab Countries: Major Export Markets, 1980–90

	Industrial Countries				Developing Countries	
	All	European Union	United States	Japan	All	Arab League
			Average 1980–85			
Exporters heavily oriented to OECD markets						
Algeria	92.0	61.7	25.7	2.4	7.9	0.3
Libya	84.4	50.5	29.5	1.9	14.3	0.7
Mauritania	76.1	64.0	—[1]	14.3[1]	8.7	0.6
Morocco	68.1	60.3	1.3	3.1	30.1	4.1
Saudi Arabia	70.1	32.1	11.1	22.1	28.6	4.7
Tunisia	79.6	61.7	15.9	0.1	15.0	4.4
Yemen[2]	33.5	23.7	4.4	5.4	62.1	50.6
Yemen Dem. Rep.[2]	68.9	57.3	1.3	9.4	31.1	8.5
Exporters heavily oriented to non-OECD markets						
Jordan	5.1	2.7	—	2.0	74.1	48.7
Oman	70.7	19.4	6.4	42.5	23.8	0.1
Somalia	13.5	13.0	0.2	—	86.5	84.4
Diversified exporters						
Bahrain	22.4	2.2	6.2	10.8	58.1	28.8
Egypt	55.3	44.0	5.2	3.1	38.4	5.5
Iraq	46.6	39.4	2.0[1]	6.0[1]	53.2	3.3
Kuwait	46.5	23.2	1.3	18.9	48.0	11.9
Lebanon	16.6	8.8	3.1[1]	0.2[1]	83.4	76.7
Qatar	77.4	42.8	0.4	32.3	20.7	3.4
Sudan	39.5	27.9	3.4	6.8	60.1	31.7
Syrian Arab Republic	53.2	50.3	1.6	0.1	44.4	6.0
United Arab Emirates	64.3	20.9	5.5	35.2	20.6	4.5
			Average 1986–90			
Exporters heavily oriented to OECD markets						
Algeria	91.2	68.9	18.8	1.5	8.7	0.4
Libya	87.6	82.9	—	—	12.4	1.0
Mauritania	73.7	45.0	0.8	27.8	23.5	0.4
Morocco	71.0	61.3	1.9	4.4	27.4	5.8
Saudi Arabia	65.6	21.4	22.3	19.2	34.2	9.1
Tunisia	75.8	73.3	1.3	0.4	21.1	6.4
Yemen[2]	77.3	39.5	22.0	11.1	22.6	7.0
Yemen Dem. Rep.[2]	65.4	43.8	2.8	18.6	31.4	15.2
Exporters heavily oriented to non-OECD markets						
Jordan	8.3	5.4	0.4	2.2	73.1	36.9
Oman	21.6	11.1	3.6	2.2	78.4	59.8
Somalia	35.3	32.4	0.8	0.7	64.7	59.9

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Table 3 *(concluded)*

	Industrial Countries				Developing Countries	
	All	European Union	United States	Japan	All	Arab League
Diversified exporters						
Bahrain	25.4	1.8	6.8	8.1	55.7	19.9
Egypt	49.9	38.2	6.1	3.2	44.4	8.0
Iraq	55.6	31.0	15.4	8.4	44.1	4.6
Kuwait	50.0	25.3	6.1	17.3	44.2	6.5
Lebanon	37.9	19.9	5.9	0.6	62.1	55.6
Qatar	62.7	7.2	1.4	52.3	34.2	8.4
Sudan	45.8	33.6	3.4	7.3	51.8	18.8
Syrian Arab Republic	40.3	37.6	1.3	0.1	56.9	13.7
United Arab Emirates	48.8	7.6	3.8	35.4	30.3	5.2

Source: International Monetary Fund, *Direction of Trade Statistics.*

[1]For Iraq, Lebanon, and Mauritania, the average 1980–85 trade with the United States and Japan refers to the average for 1981–85.

[2]Prior to unification.

pendent on industrial country markets that, in some cases, account for over three-quarters of the exports of goods. The dependence of Arab countries as a whole on such markets has increased in the past three to four years as a result, inter alia, of the disruption in trade with central and eastern European countries—an effect that has only been partially offset by faster economic growth in the developing countries.

As regards the commodity composition of export trade, Tables 4 and 5 confirm the region's dependence on oil products, which accounted for over 60 percent of the region's total exports (with the highest levels recorded in Kuwait, Libya, and Saudi Arabia and the lowest in Jordan and Mauritania). The tables also document the dynamic shift in recent years between the three major export sectors: agriculture, mining, and manufactures. In particular, the share of exports in the manufacturing sector—considered by many as the most dynamic sector in the process of development—has increased from some 4 percent in the 1970s to 20 percent in the early 1990s. Within this sector, textiles and clothing constitute the most important product category (Table 6). It is of particular significance for countries such as Egypt, Morocco, the Syrian Arab Republic, and Tunisia—accounting in most of these cases for over half of total manufacturing exports. On the import side, it is important to note the Arab countries' dependence on food imports. As illustrated in Table 7 (with background information provided in Table 8), production in countries in the Gulf and Maghreb regions covered around 75 percent of their domestic demand in 1990. Among the commodities with the lowest coverage were wheat, rice,

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sugar, and dairy products. Other countries' self-sufficiency ratios averaged 86 percent in 1990 but, unlike the Gulf and Maghreb countries, they demonstrated an increase in import dependence since 1985.[9]

Specific Characteristics

Trade Preferences

Arab countries—especially those that are not members of the Organization of Petroleum Exporting Countries (OPEC)—have enjoyed various trade preferences from their major industrial country trading partners.[10] As documented further in Table 9, the main features of trade preferences may be summarized as follows:

- Mauritania, Somalia, and Sudan have been granted least developed country treatment under the GSP by the European Union, Japan, and the United States and have benefited from additional preferences from the European Union as ACP (African, Caribbean, and Pacific) countries under the Lomé Convention.
- Morocco, Tunisia, and Algeria have access to trade preferences from the European Union under the Maghreb–European Union agreements.[11] Under these agreements—which are very similar to the Mashreq–European Union agreements—all industrial product exports from the Maghreb countries enjoy quota- and tariff-free access into the European markets, with the exception of some specific textile and clothing items that are subject to voluntary export restraints (VERs) and quotas. The agreements also provide preferential treatment to agricultural exports.[12]
- Egypt, Jordan, and Syria's trade preferences from the European Union are covered by the Mashreq–European Union agreements.[13]

[9]The data are derived from the supply utilization accounts of the United Nations Food and Agriculture Organization (FAO), which include the following non-Arab countries: the Islamic Republic of Iran (classified in the Gulf grouping) and Cyprus, Israel, Malta, and Turkey (classified in the Mediterranean grouping).

[10]By contrast, the Arab oil economies have been subject to significant trade restrictions (such as the imposition in European Union markets of tariffs on methanol, polyethylene, and ethylene products).

[11]The 1976 agreements; amended by the 1988 protocol.

[12]Significant tariff reductions are granted (between 20 percent and 100 percent), albeit subject to a "tariff quota" (that is, reduced tariffs apply only to a given quota, beyond which exports are subject to the higher tariffs). Some exports, like citrus exports for Morocco and olive oil for Tunisia, are, however, subject ro seasonal resrriction to protect the European Union producers.

[13]These regional trade preferences encompass GSP treatment.

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Table 4. Arab Countries: Merchandise Exports by Sector
(Average share in total exports)

	1970–74	1975–79	1980-84	1985-89	1990–92
Arab countries					
Total exports (in millions of U.S. dollars)	29,419.5	99,350.2	131,017.8	59,479.8	59,128.5
Agriculture	7.4	2.8	2.5	4.7	6.2
Mining	88.5	93.6	92.4	79.7	73.7
Petroleum	86.1	91.2	88.2	69.9	63.1
Manufactures	4.1	3.7	5.2	15.6	20.1
Oil exporters					
Total exports (in millions of U.S. dollars)	25,961.1	92,980.3	119,599.4	48,519.3	43,232.6
Agriculture	4.2	1.5	1.2	2.4	3.1
Mining	92.9	95.6	95.2	87.1	85.4
Petroleum	92.1	94.1	91.8	78.1	74.6
Manufactures	3.0	2.9	3.6	10.5	11.5
Non-oil exporters					
Total exports in millions of U.S. dollars)	3,458.4	6,369.9	11,418.3	10,960.5	15,895.9
Agriculture	48.5	35.0	26.5	21.3	21.0
Mining	32.1	38.1	34.4	25.9	17.9
Petroleum	6.7	14.0	17.2	10.1	8.0
Manufactures	19.0	23.7	33.9	52.5	61.1
Memorandum					
Average oil price (in U.S. dollars a barrel)	4.4	15.5	31.5	18.0	19.5

Source: United Nations, COMTRADE records.
[1]Oil exporters include Algeria, Bahrain, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

- All Arab countries enjoy GSP treatment from Japan, and non-OPEC members enjoy GSP treatment from the United States.

Two different sets of indicators may be used to measure the magnitude of these trade preferences: the share of tariff lines with zero or preferential rates, and the difference between the average tariff facing Arab countries' exports and the average tariffs facing the exports of their competitors in the third markets under consideration.

Table 10 summarizes the current profiles of European Union tariffs facing Arab countries; it also includes a comparison of the Arab countries' situation with that of a selected group of developing countries (consisting of Côte d'Ivoire, Mauritius, Korea, and Taiwan Province of China). Several observations relating to the Arab region are warranted that, as documented in the table, compare them favorably with some of the other developing countries:

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Table 5. Arab Countries: Merchandise Exports by Broad Categories
(Average share in total exports)

	1970–74	1975–79	1980–84	1985–89	1990–92
Algeria					
Total exports					
(in millions of U.S. dollars)	1,867.5	6,212.2	12,687.9	8,653.8	11,312.6
Agriculture	9.2	2.4	0.6	0.4	0.5
Mining	86.9	96.7	98.5	97.0	96.7
Petroleum	83.0	91.3	82.3	65.1	65.0
Natural gas	2.1	4.3	15.8	31.4	31.3
Manufactures	3.8	0.9	0.9	2.6	2.8
Bahrain					
Total exports					
(in millions of U.S. dollars)	489.3	1,795.6	2,202.5	1,970.7	2,779.1
Agriculture	3.2	1.3	0.4	0.2	. . .
Mining	82.0	81.7	82.6	83.8	. . .
Petroleum	82.0	81.5	81.7	83.7	. . .
Manufactures	14.8	17.0	17.0	15.9	. . .
Egypt					
Total exports					
(in millions of U.S. dollars)	1,001.7	1,641.8	3,150.6	2,171.6	3,108.2
Agriculture	65.7	44.1	22.7	20.3	14.2
Mining	7.1	28.3	63.4	42.8	44.1
Petroleum	6.7	26.5	62.9	42.1	41.9
Manufactures	27.3	27.6	13.9	36.9	41.7
Iraq					
Total exports					
(in millions of U.S. dollars)	276.9	7,991.3	11,837.6	9,910.2	3,815.3
Agriculture	17.1	0.9	0.4	. . .	. . .
Mining	77.6	98.7	99.1	. . .	. . .
Petroleum	76.9	98.6	98.9	. . .	. . .
Manufactures	5.3	0.5	0.5	. . .	. . .
Jordan					
Total exports					
(in millions of U.S. dollars)	50.2	188.4	511.5	767.1	911.1
Agriculture	38.7	33.1	23.4	14.5	14.6
Mining	38.8	35.7	34.0	41.0	36.4
Petroleum	0.3	0.2	0.1	—	—
Manufactures	22.4	31.2	42.7	44.5	49.0
Kuwait					
Total exports					
(in millions of U.S. dollars)	4,453.9	11,524.3	14,282.2	9,054.9	4,930.3
Agriculture	0.7	0.6	1.1	1.4	1.0
Mining	94.1	89.7	83.2	88.9	94.4
Petroleum	92.5	87.6	80.3	86.8	93.8
Manufactures	5.2	9.7	15.7	9.7	5.6

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Table 5 *(continued)*

	1970–74	1975–79	1980–84	1985–89	1990–92
Lebanon					
Total exports (in millions of U.S. dollars)	261.4	194.4	653.9	489.3	530.0
Agriculture	30.1	23.8	31.2	...	...
Mining	0.8	2.6	3.0	...	...
Manufactures	69.1	73.6	65.7	...	...
Libya					
Total exports (in millions of U.S. dollars)	4,048.0	10,753.9	12,169.0	8,749.9	8,362.9
Agriculture	0.1	—	—	—	0.6
Mining	99.9	99.8	99.4	96.9	95.0
Petroleum	99.0	97.8	98.8	95.7	93.8
Manufactures	—	0.2	0.6	3.1	4.3
Mauritania					
Total exports (in millions of U.S. dollars)	127.8	76.6	242.4	436.2	477.1
Agriculture	9.4	6.6	29.4	...	...
Mining	84.8	90.0	69.0	...	...
Manufactures	5.8	3.5	1.6	...	...
Morocco					
Total exports (in millions of U.S. dollars)	840.7	1,515.0	2,203.2	2,872.3	4,165.2
Agriculture	44.3	33.0	27.7	30.1	29.9
Mining	42.7	46.3	37.6	21.9	14.9
Petroleum	0.4	1.6	3.9	2.6	3.1
Fertilizer	35.5	37.9	27.7	15.7	8.7
Manufactures	13.1	20.7	34.6	48.0	55.2
Oman					
Total exports (in millions of U.S. dollars)	367.2	1,196.8	3,458.3	3,383.2	5,189.9[1]
Agriculture	0.3	1.2	2.1	3.2	...
Mining	99.7	96.7	84.6	85.0	...
Petroleum	99.7	96.7	81.5	84.8	...
Manufactures	—	2.1	13.3	11.8	...
Qatar[2]					
Total exports (in millions of U.S. dollars)	730.1	1,996.9	2,686.8	537.4	1,035.5
Agriculture	0.2	—	0.1	0.1	0.3
Mining	98.1	95.6	82.3	82.3	85.3
Petroleum	98.1	95.6	79.8	79.8	81.2
Manufactures	1.6	4.4	17.6	17.6	14.3

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Table 5 *(concluded)*

	1970–74	1975–79	1980–84	1985–89	1990–92
Saudi Arabia					
Total exports					
(in millions of U.S. dollars)	11,100.0	40,800.0	73,900.0	24,700.0	26,900.0
Agriculture	0.1	0.1	0.1	...	...
Mining	99.4	99.4	99.1	...	...
Petroleum	99.4	96.1	96.6	87.9	91.5
Manufactures	0.5	0.5	0.8	...	...
Somalia					
Total exports					
(in millions of U.S. dollars)	45.0	92.9	126.8	115.3	119.8
Agriculture	97.0	97.5	96.4	...	...
Mining	0.1	0.4	1.4	...	...
Manufactures	2.9	2.1	2.2	...	...
Sudan					
Total exports					
(in millions of U.S. dollars)	365.8	411.9	449.6	471.9	403.1
Agriculture	98.1	96.7	94.9	...	...
Mining	1.8	2.9	2.9	...	...
Manufactures	0.1	0.3	2.2	...	...
Syrian Arab Republic					
Total exports					
(in millions of U.S. dollars)	363.9	1,150.7	2,002.7	1,463.9	2,435.6
Agriculture	51.7	23.0	14.9	14.5	18.8
Mining	37.1	68.3	74.5	52.0	56.7
Petroleum	35.3	66.6	73.2	49.8	55.5
Manufactures	11.2	8.7	10.6	33.5	24.5
Tunisia					
Total exports					
(in millions of U.S. dollars)	401.8	1,098.2	2,077.7	2,172.9	3,745.8
Agriculture	33.4	17.5	9.3	12.2	12.7
Mining	44.6	50.4	51.5	26.2	16.7
Petroleum	32.1	43.7	48.9	23.8	15.3
Fertilizer	9.9	5.8	2.1	1.5	0.6
Manufactures	22.0	32.2	39.2	61.6	70.5
United Arab Emirates					
Total exports					
(in millions of U.S. dollars)	2,154.4	9,842.2	17,275.9	14,363.5	22,206.1
Agriculture	0.5	1.1	...	...	...
Mining	97.9	95.1	...	...	...
Petroleum	97.9	95.1	...	...	...
Manufactures	1.6	3.8	...	...	...

Source: United Nations, COMTRADE records.
[1]1990-91 average.
[2]For Qatar, 1985-89 average includes only 1989, and 1990-92 average includes only 1991.

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Table 6. Selected Arab Countries: Commodity Composition of Manufactured Goods Exports, 1990
(In percent of total manufactured goods exports)

	Total Manufactured Goods (in millions of U.S. dollars)	Wood, Pulp, Furniture, Paper	Metals	Nonelectric Machinery	Electric Machinery	Chemicals	Transport Equipment	Textiles and Clothing	Leather, Rubber, Footwear, and Travel Goods	Other
Arab countries	14,154.7	2.78	11.31	1.63	3.62	41.95	2.55	28.82	2.41	12.93
Algeria	320.2	1.91	28.93	18.20	7.07	21.80	4.17	13.72	1.97	2.21
Egypt	1,320.1	5.35	25.79	0.46	0.65	9.47	0.11	52.93	2.10	3.14
Jordan	470.4	4.81	5.07	0.73	3.51	60.48	0.33	8.41	2.00	5.38
Kuwait	443.2	5.92	7.85	9.19	9.98	28.88	15.51	10.11	2.93	14.67
Libya	651.0	0.07	12.43	0.05	0.13	81.24	0.45	0.91	0.35	9.63
Morocco	2,283.3	1.85	4.34	0.99	6.74	36.02	1.57	40.52	6.06	4.36
Oman	327.3	1.30	17.61	5.65	3.73	4.61	47.71	8.96	2.00	1.92
Qatar	553.8	0.08	32.32	—	—	65.52	—	0.95	—	8.43
Saudi Arabia	3,136.6	2.53	8.50	1.18	1.38	79.45	0.87	0.36	0.68	1.11
Syrian Arab Republic	1,503.1	0.12	0.17	0.17	0.27	35.94	0.02	58.89	0.44	5.05
Tunisia	2,426.2	1.01	3.58	1.38	7.92	20.89	1.96	51.01	4.43	3.98
United Arab Emirates	719.6	6.43	46.84	1.15	1.91	8.60	0.74	21.16	0.25	7.83

Source: United Nations, COMTRADE records.

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Table 7. Middle Eastern Countries: Self-Sufficiency Ratios[1]

	1985			1990		
	Maghreb[2]	Mediterranean[3]	Gulf region[4]	Maghreb[2]	Mediterranean[3]	Gulf region[4]
Wheat	0.45	0.69	0.62	0.49	0.68	0.70
Rice	0.03	0.83	0.44	0.10	0.81	0.50
Coarse grains	0.61	0.70	0.44	0.67	0.70	0.57
Sugar	0.66	0.90	0.71	0.68	0.85	0.59
Beef, veal, and lamb	0.89	0.83	0.60	0.95	0.88	0.70
Dairy	0.15	0.66	0.41	0.19	0.72	0.56
Other food products	1.05	1.07	0.90	1.04	1.07	0.91
Total	0.70	0.89	0.66	0.75	0.86	0.73

Source: United Nations, FAO supply utilization accounts.
[1]Ratio of total domestic output to total domestic absorption.
[2]Algeria, Morocco, and Tunisia.
[3]Cyprus, Egypt, Israel, Jordan, Lebanon, Libya, Malta, the Syrian Arab Republic, and Turkey.
[4]Bahrain, Iraq, Islamic Republic of Iran, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Yemen.

- Apart from Egypt, Lebanon, Morocco, Saudi Arabia, and Tunisia, exports from other Arab countries are highly concentrated in a very small number of tariff lines, with the total number of tariff lines exported not exceeding 500.[14]
- There is an extremely high incidence of zero-duty lines. Compared with the worldwide average of 20 percent duty-free lines, duty-free lines for Arab exports range from 65 percent to 97 percent. Thus, in addition to most-favored-nation (MFN) or preferential zero-duty rates, most Arab countries enjoy significant nonzero preferential rates.
- Least developed country treatment accorded to Mauritania, Sudan, and Somalia under the GSP means that over 97 percent of their tariff lines exported are tariff free. The Maghreb and Mashreq agreements with the European Union also lead to a high proportion of duty-free export tariff lines. Other Arab countries that enjoy only GSP treatment from the European Union still have very high duty-free export lines (exceeding 80 percent for many of them).

Available information also indicates that Japan grants most of its major Arab trading partners important trade preferences.

With respect to the second measure of trade preferences, Table 11 examines the average preference margins provided by the European Union and

[14]The European Union customs schedule distinguishes among 9,506 individual tariff lines.

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Table 8. Arab Countries: Net Food Imports
(In millions of U.S. dollars)

	1970	1980	Average 1985–89	Average 1990–92
Algeria	-42	2,085	2,308	2,197
Bahrain	22	219	252	. . .
Egypt	21	1,368	1,984	2,150
Iraq	58	1,488	. . .	. . .
Jordan	42	335	376	550
Kuwait	105	868	1,057	608
Lebanon	83	238	. . .	. . .
Libya	125	1,307	874	1,214
Mauritania	6	45	. . .	. . .
Morocco	–111	144	–140	–328
Oman	–1	233	337	473
Qatar	16	209	219	283
Saudi Arabia	225	4,124	3,117	3,006
Sudan	–5	114	. . .	. . .
Somalia	–12	–2	. . .	. . .
Syrian Arab Republic	45	491	402	168
Tunisia	30	320	239	–7
United Arab Emirates	40	900	1,200	1,597

Source: United Nations, COMTRADE records.

Japan to the Arab countries compared with other exporters. The table shows the average nominal tariffs faced by Arab exports on each of these markets, as well as indicating the average margin of preference.[15] On the European market, Mauritania enjoys the highest tariff preferences among all other Arab countries, facing an average tariff for its exports of only 0.2 percent compared with an average tariff of 4.1 percent for its competitors. Morocco, Algeria, and Somalia enjoy a tariff preference of almost 3 percentage points. Lebanon appears to confront the highest average tariff, facing tariffs that are 0.6 percentage point higher than its competitors. On the Japanese market, preference margins enjoyed by all Arab countries are smaller than the ones they receive on the European market. This reflects, in large part, the much stronger ties between Japan and its neighboring countries (as illustrated, for example, by the higher preference margins for Korea and Taiwan Province of China).

[15]For example, on its exports to the European Union, Algeria faces tariffs that average 0.3 percent—a rate that is 2.7 percentage points lower than the average tariff facing other exporters of the same products to the European Union market.

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Table 9. Trade Preferences for Arab Countries

	European Union				Japan		United States		Least
	GSP[1]	ACP[2]	Maghreb/ Mashreq	Share of exports[3]	GSP[1]	Share of exports[3]	GSP	Share of exports[3]	Developed Countries[4]
Algeria	X	—	X	70	X	2	—	19	—
Bahrain	X	—	—	2	X	8	—	7	—
Egypt	X	—	X	38	X	3	X	6	—
Iraq	X	—	—	31	X	8	—	15	—
Jordan	X	—	X	5	X	2	X	—	—
Kuwait	X	—	—	25	X	17	—	6	—
Lebanon	X	—	—	20	X	1	—	6	—
Libya	X	—	—	83	X	1	—	—	—
Mauritania	X	X	—	45	X	28	X	1	X
Morocco	X	—	X	61	X	4	X	2	—
Oman	X	—	—	11	X	2	X	4	—
Qatar	X	—	—	7	X	52	—	1	—
Saudi Arabia	X	—	—	21	X	19	—	22	—
Somalia	X	X	—	32	X	1	X	1	X
Sudan	X	X	—	34	X	7	X	3	X
Syrian Arab Rep.	X	—	X	38	X	—	X	1	—
Tunisia	X	—	X	73	X	—	X	1	—
United Arab Emirates	X	—	—	8	X	35	—	4	—
Yemen	X	—	—	42	X	15	—	11	—

[1]Generalized System of Preferences.
[2]African, Caribbean, and Pacific countries.
[3]Average 1986–90.
[4]Least developed country treatment as given by the European Union, Japan, and the United States.

Specific Sectoral Aspects

Industry. As discussed earlier, the Uruguay Round involves differential tariff reductions among industrial sectors within industrial countries. Drawing on the information contained in Table 1 (industrial sector analysis of Uruguay Round tariff reductions) and Tables 4 and 5 (composition of Arab country trade), Table 12 identifies the Arab countries with a strong export interest in the different industrial sectors.[16] Arab export interests are concentrated in three industrial sectors out of the ten: metals (Algeria, Bahrain, Egypt, Mauritania, Qatar, and the United Arab Emirates); chemicals (mainly petrochemicals; Algeria, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Syria, and Tunisia); and textiles and clothing (Egypt, Morocco, Syria, Tunisia, and the United Arab Emirates). In addition, Mauritania has an

[16]According to the GATT definition, a sector is of strong export interest to a country if that sector's share in the country's total merchandise exports (excluding petroleum) exceeds 5 percent and its share in industrial product exports exceeds 20 percent.

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Table 10. Arab Export Products Facing Most-Favored-Nation or Preferential Duties in Japan and the European Union
(Number of tariff line items)

	Tariff Lines Facing a Zero MFN Duty		Zero Preference Rate Line		Total Lines with Zero Duties		Nonzero Preference Rate Line		Zero-Duty or Preference Rate Line		Nonzero MFN Lines	Total Tariff Duty Lines Exported
Exporting Country	Number	In percent[1]	Number	In percent[1]	Number	In percent[1]	Number	In percent[1]	Number	In percent[1]		
In Japan												
Bahrain	13	39	12	36	25	76	—	—	25	76	8	33
Mauritania	1	50	1	50	2	100	—	—	2	100	—	2
Oman	7	54	6	46	13	100	—	—	3	100	—	13
Qatar	2	17	2	17	4	33	—	—	4	33	8	12
United Arab Emirates	24	25	51	53	75	78	3	3	78	81	18	96
In the European Union												
Algeria	66	10	573	84	639	94	27	4	666	98	13	679
Bahrain	56	13	294	70	350	84	13	3	363	87	56	419
Egypt	119	10	955	79	1,074	89	66	5	1,140	94	71	1,211
Iraq	37	10	281	79	318	89	8	2	326	92	30	356
Jordan	58	14	305	76	363	90	23	6	386	96	16	402
Kuwait	56	11	396	78	452	89	9	2	461	90	49	510
Lebanon	85	8	599	57	684	65	59	6	743	70	315	1,058
Libya	28	15	140	76	168	91	8	4	176	96	8	184
Mauritania	18	12	125	85	143	97	—	—	143	97	4	147
Morocco	177	9	1,695	82	1,872	91	105	5	1,977	96	82	2,059
Qatar	21	8	191	75	212	83	8	3	220	87	34	254
Saudi Arabia	117	10	836	75	953	85	34	3	987	88	135	1,122

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Somalia	19	23	63	76	82	99	—	—	82	99	1	83
Sudan	55	39	84	60	139	99	1	1	140	99	1	141
Syrian Arab Republic	50	15	248	74	298	89	22	7	320	95	16	336
Tunisia	104	6	1,207	72	1,311	78	56	3	1,367	82	305	1,672
United Arab Emirates	80	8	780	74	860	82	32	3	892	85	158	1,050
Yemen	28	33	54	63	82	95	—	—	82	95	4	86
Memorandum												
Côte d'Ivoire	121	16	595	81	716	97	6	1	722	98	14	736
Mauritius	46	7	588	92	634	99	2	—	636	99	6	642
Taiwan												
Province of China	192	4	—	—	192	4	—	—	192	4	4,080	4,272
Korea	153	4	—	—	153	4	—	—	153	4	3,350	3,503

Source: World Bank–UNCTAD, SMART database.
[1]In percent of total tariff line exported.

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Table 11. Incidence of European Union and Japanese Tariffs on Arab Countries' Non-Oil Exports
(In percent)

	European Union		Japan	
Exporting country	Arab country tariff	Preference margin[1]	Arab country tariff	Preference margin[1]
Algeria	0.3	−2.7	4.6	−0.8
Bahrain	2.0	−1.1	1.0	−0.8
Egypt	1.3	−2.0	3.9	−1.5
Iraq	1.2	−1.9	2.0	−1.1
Jordan	1.2	−2.3	0.4	−1.7
Kuwait	1.5	−1.7	2.0	−0.8
Lebanon	4.5	0.6	0.9	−1.7
Libya	0.8	−2.1	3.5	−1.6
Mauritania	0.2	−3.9	3.6	−0.4
Morocco	1.0	−2.9	4.4	−1.4
Qatar	1.7	−1.4	2.5	−0.5
Saudi Arabia	1.9	−1.5	0.9	−1.8
Somalia	0.3	−2.8	1.0	—
Sudan	0.1	−1.9	—	—
Syrian Arab Republic	1.5	−2.1	—	−1.1
Tunisia	2.4	−1.2	3.8	−1.0
United Arab Emirates	2.2	−1.4	1.0	−1.8
Yemen[1]	0.2	−1.9	3.1	—
Memorandum				
Côte d'Ivoire	0.3	−3.3	1.2	−0.5
Mauritius	0.2	−3.4	4.8	−1.1
Taiwan Province of China	7.5	4.0	2.5	−2.2
Korea	7.8	4.2	2.7	−2.2

Source: World Bank–UNCTAD, SMART database.
[1]Negative values show the average preferential tariff margins (in points) that the Arab League exporter has over all other exporters of the same goods. Positive values indicate that the exporter faces a higher tariff due to preference that other countries receive. All tariffs shown are the simple average (unweighted duties paid).

export interest in fish and fish products. The extent of tariff reduction varies in these sectors; it is most pronounced (in percentage terms) for metals and least pronounced for textiles and clothing and fish and fish products.

Given the above tariff preferences, however, some losses stemming from trade diversion should be expected for these Arab countries. For example, Mauritania's exports of iron ore and fish and fish products (which represent more than 95 percent of its total exports) enter the OECD markets duty free. The reduction of MFN tariff rates on these items is thus likely to induce some trade diversion.[17] Algeria, Morocco, and Tunisia are likely to be hurt by MFN

[17]Estimates of losses are provided in Yeats (1994a).

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Table 12. Industrial Countries: Uruguay Round Tariff Reduction by Industrial Sector
(In percent)

Product Category	Arab Countries with High Export Interest[1]
Wood, pulp, furniture, paper	—
Metals	Algeria, Bahrain, Egypt, Mauritania, Qatar, United Arab Emirates
Nonelectric machinery	—
Electric machinery	—
Chemicals	Algeria, Jordan, Kuwait, Libya, Morocco, Saudi Arabia, Syrian Arab Republic, Qatar, Tunisia
Fish and fish products	Mauritania
Transport equipment	—
Textiles and clothing	Egypt, Morocco, Syrian Arab Republic, Tunisia, United Arab Emirates
Leather, rubber, footwear, and travel goods	—

Sources: GATT; and UNCTAD.
[1]Arab countries where exports of the mentioned category of products exceed 5 percent of total merchandise exports (excluding petroleum) and 20 percent of industrial product exports.

tariff reductions on metals, chemicals, and textiles and clothing on European Union markets, their principal market outlet, since all their industrial exports to the European Union are duty free. Morocco and Tunisia would suffer relatively greater losses than Algeria, given the higher share of these sectors in their total exports.

Textiles and Clothing. As pointed out earlier, the textile and clothing sector is of strategic importance to Egypt, Syria, and Tunisia (accounting for more than 50 percent of their respective manufactured exports) and to Morocco (over 40 percent of manufactured exports). The phasing out of MFA-type arrangements should, other things being equal, have positive effects on these countries. At the same time, however, there may be adverse effects from the erosion of preferential treatment. Thus, the dismantling of the MFA is expected to significantly affect Morocco and Tunisia's preferential access to European markets. Specifically, these countries will have to face more intensive competition as other economies (for example, Asian competitors) are granted improved access. In addition, the Maghreb countries will have to face the challenge posed by east European countries that are in the process of restructuring their textile industries and have negotiated favorable bilateral trade agreements with the European Union.[18] Their proximity to the Euro-

[18]A recent study by the World Bank on determinants and prospects for export growth in Morocco and Tunisia showed that, during 1985–90, both countries improved their price competitiveness against European competitors, but they failed to catch up with the increased strength of Asian competitors.

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pean common market and their competitiveness may divert some trade, especially as far as subcontracting is concerned.

Agriculture. Since the agricultural sector is where distortionary policies have been the most prevalent, the implications of trade liberalization, both on world commodity prices and on welfare, are the hardest to predict. A host of models have been built to try to estimate the impact of trade liberalization on world agricultural commodity prices.[19] The basic intuition behind the models is as follows. Policies in industrial countries overall tend to provide the agricultural sector with positive protection, which stimulates production and depresses world prices. When this protection is eliminated, supply from the industrial countries will fall, and world prices will increase. Conversely, heavy border taxes on agricultural exports, untargeted subsidies to consumers through price controls, and overvalued exchange rates all tend to tax the agricultural sector in developing countries—leading to depressed production and increases in world prices. Trade liberalization in developing countries, by removing this negative protection, will stimulate their production and, hence, would exert downward pressure on world prices.

Under full trade liberalization in OECD countries only, the models predict an increase in world prices—albeit to different degrees. The prices of the relatively heavily protected dairy, sugar, and meat products are projected to rise most. The price of rice is expected to increase by less than the price of all other grains, reflecting the relatively minor importance of industrial countries in the production of rice. When trade liberalization in both industrial and developing countries is considered, results from the different models are less consistent: the decline in prices resulting from trade liberalization in developing countries tends to offset the increase in prices resulting from trade liberalization in the industrial economies.

The impact on Arab countries depends on their balance of trade in the affected products. At the aggregate level, several studies have suggested that Arab countries may be adversely affected because they are food importers. Clearly, the extent of this impact for individual Arab economies will depend on the commodity composition of trade in foodstuffs, as well as the country origin of their trade and the destination. The data presented earlier suggest that, to the extent that there are increases in agricultural prices, the Gulf countries will be the most affected, followed by the non-Maghreb ones.

Nontariff Barriers. The early elimination of nontariff measures on agricultural goods, the phasing out of the MFA within ten years, and the commitment taken by the Uruguay Round parties to eliminate nontariff measures on industrial goods within four years will all lead to a significant reduction in

[19]Including Brandao, Salazar, and Martin (1993) and Goldin and Knudsen (1990).

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nontariff measures facing developing countries, thereby contributing to improved access to industrial country markets.[20] Low and Yeats (1994) estimate that, as a result of the full implementation of the Uruguay Round agreements, the average trade coverage ratio of nontariff measures against imports from Arab countries will decline from 9 percent to around 6 percent. While not insignificant, this represents a much smaller gain relative to other countries. Indeed, Table 13 shows that the average trade coverage ratio of nontariff measures against imports from all developing countries will decline from 18 percent to 4–5 percent, with countries in South Asia witnessing a reduction by as much as 33 percentage points.

The smaller improvement for Arab countries as a group is due to the fact that OECD nontariff measures against Arab exports are low at present. This reflects the dominance of products that are not typically subject to nontariff measures. At the same time, however, there is variation among Arab countries. Thus, reflecting the earlier documented diversity in the export structure among Arab countries, the trade coverage of nontariff measures for some countries (mainly those with predominant textiles and clothing exports such as Egypt, Morocco, Syria, and Tunisia) is quite high. As a result, these countries will be more positively affected by the liberalization of nontariff measures.

Tariff Escalation. A major concern of many developing countries has been to reduce tariff escalation—a situation in which the tariff applied on a product rises as the level of processing increases, thereby creating an added disincentive to the export of products with a higher content of value added. A simple methodology in this area is to measure tariff escalation by the tariff wedge (that is, the absolute difference between the tariffs applied to the processed and unprocessed product).[21] Based on this methodology, estimates by the GATT Secretariat indicate that some progress in reducing tariff escalation will be achieved as a result of the Uruguay Round agreements. This would, other things being equal, raise opportunities for more value-added processing in developing countries (Table 14).

Figures for selected product categories indicate that tariff escalation has been largely eliminated for paper and certain wood products and has been reduced for metals manufactures as well as some other products such as

[20]However, several observers have expressed concern that as the Uruguay Round agreements are implemented, there is a risk that countries may attempt to use measures such as antidumping and countervailing duties to compensate for the removal of the traditional nontariff trade barriers.

[21]The most accurate way of making estimates of tariff escalation is to calculate the effective rate of protection. This is a complicated exercise that requires information on input coefficients and is best undertaken on the basis of individual industrial units in particular countries.

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Table 13. Estimated Impact of the Uruguay Round on Trade Coverage Ratios of Nontariff Measures of Regional Groups of Developing Countries

	Industrial Countries	Developing Countries	Regional Groups of Developing Countries: Middle East and North Africa: Total	Egypt	Morocco	Tunisia	East Asia	South Asia	Eastern Europe	Sub-Saharan Africa
Pre–Uruguay Round trade coverage ratio (in percent)										
All goods	10.9	18.0	9.1	23.2	30.2	25.7	18.5	36.7	25.6	16.2
All non-oil goods	10.4	18.4	7.8	31.8	30.5	28.3	19.5	37.8	19.8	15.5
Ores and metals	13.7	10.0	19.6	—	—	—	9.4	1.5	19.3	6.1
Chemicals	5.9	3.4	7.0	—	—	—	3.3	1.8	4.8	0.2
Other manufactures	9.2	21.6	3.4	66.5	46.4	31.1	21.9	48.9	19.1	10.5
Estimated post–Uruguay Round trade coverage ratio (in percent; constant trade values)										
All goods	—	5.5	6.1	9.3	3.0	4.6	3.6	5.5	14.0	9.5
All non-oil goods	—	3.8	3.6	0.6	2.8	2.0	3.5	5.8	4.1	5.1
Ores and metals	—	10.0	19.6	—	—	—	9.4	1.5	19.3	6.1
Chemicals	—	3.4	7.0	—	—	—	3.3	1.8	4.8	0.2
Other manufactures	—	4.5	2.2	1.2	6.6	3.0	3.9	7.2	2.7	4.5
Estimated post–Uruguay Round trade coverage ratio (in percent; increased trade values)										
All goods	—	4.2	5.8	—	—	—	2.6	3.5	11.8	8.5
All non-oil goods	—	2.8	3.4	—	—	—	2.5	3.6	1.8	4.3
Ores and metals	—	10.0	19.6	—	—	—	9.4	1.5	19.3	6.1
Chemicals	—	3.4	7.0	—	—	—	3.3	1.8	4.8	0.2
Other manufactures	—	3.0	2.1	—	—	—	2.8	4.0	2.1	4.0

Source: Low and Yeats (1994).

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Table 14. Tariff Escalation on Industrial Countries' Imports from Developing Countries Before and After the Uruguay Round, by Selected Product
(In percent)

Product Category by Stage of Processing	Weighted Average Before	Weighted Average After	Weighted Average Reduction	Change in Tariff Escalation[1]
All industrial products (excluding petroleum)				
Raw materials	2.1	0.8	61.9	. . .
Semimanufactures	5.3	2.8	47.2	–37.5
Finished products	9.1	6.2	31.9	–22.9
Total	6.8	4.3	36.8	. . .
Natural resources-based products				
Raw materials	3.1	2.0	35.5	. . .
Semimanufactures	3.5	2.0	42.9	–100.0
Finished products	7.9	5.9	25.3	–18.8
Total	4.0	2.7	32.5	. . .
Fish and fish products				
Unprocessed	5.0	4.0	20.0	. . .
Semiprocessed	9.1	7.4	18.7	–17.1
Processed	10.6	8.2	22.6	–25.0
Total	6.1	4.8	21.3	. . .

Source: GATT.
[1]The percentage reduction in tariff escalation is defined as the decline in the tariff wedge, divided by the original tariff wedge.

processed food. For the last of these, this will increase the incentive for food processing in Arab countries with a relatively strong agricultural export base (including Egypt, Jordan, Lebanon, Syria, and Morocco). No data have been compiled for the implications of the Uruguay Round on tariff escalation on petrochemicals, an area of significance to oil exporting countries in the Arab region.

Policy Implications

Previous sections have identified the elements that will determine both the positive and negative effects of the Uruguay Round agreements on Arab countries. When considering the policy implications, it is important to stress one point at the outset: all studies of the impact of the Uruguay Round to date show that when the developing countries participate in the liberalization process, the balance of gains and losses improves considerably.

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This is due to the static efficiency gains and to potential dynamic gains.[22] Accordingly, any discussion of the policy implications of the Uruguay Round for the Arab countries must start from an analysis of the evolution of their trade and payments regimes. This must be followed by consideration of issues relating to some of the specific sectoral effects of the Uruguay Round, as well as of Arab countries' relations vis-à-vis the strengthened institutional structure.

To be able to compete better in the more competitive international markets, Arab countries need to advance in the reform and liberalization of their economies. Reflecting, inter alia, the prolonged phase of public sector-led import substitution in several countries in the region (especially the non-oil countries), effective rates of protection have tended to be high and distortionary—thereby driving up domestic costs and hampering these countries' ability to compete on the global market. The strategy also tended to weaken competitive forces, resulting in consumption and production inefficiencies and undermining the economies' responsiveness to unanticipated changes in international price and demand conditions.

These aspects have been recognized by policymakers in the region, with several countries embarking on comprehensive programs of liberalization and reform. The external secror component of these programs has included the rationalization of the tariff structure, relaxation of nontariff barriers, reform of the exchange system, removal of restrictions on current payments and transfers, and measures to facilitate foreign direct and portfolio investmenr.[23] Progress in these areas has been most pronounced in the case of Morocco and Tunisia, where, in addition to sharply reducing quantitative trade restrictions and tariffs, the authorities have adopted current account convertibility.

Broader regional progress in external sector liberalization will be a key determinant of countries' ability to exploit the opportunities resulting from the process of multilateral trade liberalization. The sectoral aspects discussed earlier also give rise to questions about specific policy measures. As regards agriculture, some of the losses from the deterioration of the terms of trade owing to the increase in the price of food products could be recouped in several countries if the changes in prices are allowed to act as a stimulus for expand-

[22]This is most vividly illustrated in the study by Brandao, Salazar, and Martin (1993), which involves an exhaustive account of protection of the agricultural sector in the Arab countries. The study shows the potential gains that the Arab countries might derive from trade liberalization of their own agricultural sectors. Indeed, it shows that rhe impact of partial trade liberalization (that is, in the industrial countries) on the Maghreb and Middle East oil exporting countries is a loss of $3.2 billion, whereas if all countries participate in trade liberalization the impact becomes a gain of $3.2 billion.

[23]See El-Erian and Tareq (1993) and Nsouli and others (1993).

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ing agricultural production. Accordingly, governments will need to refrain from withholding the pass-through effects to the local markets. The challenge to the textile and clothing sectors associated with the erosion in trade preferences emphasizes the need to enhance competitiveness in this sector, including by improving product quality and aiming for the more quality-competitive areas of the market.

A final policy issue relates to Arab countries' interaction with the strengthened rules-based multilateral trade system, and its implication for ongoing policy harmonization efforts in the region. Membership in such a system, including through the WTO, can improve the credibility of countries' trade liberalization policies through the enhancement of the transparency and predictability of their trade regimes. This may be expected to have positive externalities on foreign direct investment flows, as well as on portfolio flows. For Arab countries, this requires not only timely membership in the WTO but also minimizing the use of transitional arrangements (for example, nonbinding of tariff lines), which, while facilitating membership, also undermines the credibility element. Finally, there is a need for careful coordination between this aspect and ongoing efforts to harmonize regional trade regimes, such as that being undertaken under the auspices of the Cooperation Council for the Arab States of the Gulf (GCC).

Concluding Remarks

Agreement on the Uruguay Round is an important step on the road to multilateral trade liberalization and a strengthened rules-based trading system. Of particular note are the more comprehensive coverage of the agricultural, textiles and clothing, and service sectors; further progress in reducing tariffs and nontariff barriers; and the strengthening of multilateral rules and institutions.

Implementation of the Uruguay Round may be expected to contribute to higher international trade and economic growth. The distribution of the gains and losses will vary among countries, especially with respect to the static components. The Arab countries are no exception. The distribution within the group of Arab countries is a function of a myriad of factors—including the overall responsiveness of their tradables sector, the country and commodity composition of their trade, their agricultural trade balance, and the pattern of trade preferences.

The changes in the multilateral trade system have implications for policies in the Arab countries. To maximize the favorable impact, these countries need to progress further in enhancing the responsiveness of their real economy. The key elements are, inter alia, further liberalization of their external trade and

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payments regimes and removal of structural rigidities. This may be supported by certain sector-based measures to facilitate the required structural changes consistent with countries' comparative advantage. Finally, the countries would maximize the benefits of membership in the revised multilateral trading system through timely and credible adoption of measures enhancing the transparency and predictability of their trade regimes.

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4

Policy Implications of the Uruguay Round for Arab Countries

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The conclusion of the Uruguay Round negotiations on December 15, 1993 marked a significant event for developing countries, including Arab countries. First, negotiations resulted in firm commitments made by as many as 124 nation participants from both developing and industrial countries to reduce tariffs and nontariff measures substantially, and to reduce both nontariff support in agriculture and barriers to trade in services. These trade-liberalizing measures will improve access to developed markets, which is important for countries that have implemented macroeconomic and structural policy reforms aimed to increase efficient resource allocation.

Second, the Uruguay Round increased the rules-based security of access to world markets through strengthened and expanded disciplines, procedures, and institutions within the multilateral trading system. Such systemic improvements that protect the weak and restrain the powerful should benefit small developing countries, including Arab countries.

Indeed, many Arab countries, along with many other developing nations, have become full participants in the GATT in order both to reflect changes toward greater market orientation of their economies and to support the systemic improvements made by the Uruguay Round. To date, eight Arab country members of the Arab Monetary Fund (Bahrain, Egypt, Kuwait, Mauritania, Morocco, Qatar, Tunisia, and the United Arab Emirates) signed the Final Act of the Uruguay Round and will be founding members of the World Trade Organization (WTO), which will replace the GATT of 1947. In addition, four other member countries (Algeria, Jordan, Saudi Arabia, and Sudan) are

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in the process of joining the GATT/WTO, and two members (Oman and Palestine) are considering applying for accession in the future.

Third, estimates of the quantifiable economic effects of the tariff reductions and other liberalizing measures that were negotiated suggest that the gains in world income by the year 2005, the year when the Uruguay Round agreements will be fully implemented, will approximate $510 billion a year in 1990 U.S. dollars (GATT, 1994b). The volume of world trade in goods is expected to be 9 to 24 percent above what it would have been without the round. Since these gains go to both developing and industrial countries, Arab economies will also benefit from the growth and income-generation effects of the round.

Although there are benefits to be derived from the market liberalization, there is widespread recognition that Arab countries will face two potentially adverse effects. First, there will be a possible loss of trade-preferential treatment of Arab countries' exports to industrial country markets, especially to the European Union, as a result of the post–Uruguay Round tariff reductions. The other concern is about the negative impact of possible food price hikes, as a result of reductions in nontariff support to agriculture in the Organization for Economic Cooperation and Development (OECD) countries, on the payments position of Arab net food-importing countries.

Given the need of Arab countries for both minimizing the negative impacts and exploiting the new opportunities in the international trading environment, as a result of the Uruguay Round, the purpose of this chapter is to address policy implications for Arab countries and to provide policy recommendations that help them in their adjustment efforts during the phasing period of reforms.

This chapter considers broad trade issues relevant to Arab countries as future members of the WTO. Nonmembers of the GATT/WTO are under no legal obligation to implement the results of the Uruguay Round. Nevertheless, the implications of being a nonmember of the WTO can be much more costly in terms of the relative insecurity of unilateral and discriminatory policies by trading partners. Such costs have to be weighed against the potential benefits from the multilateral commitments under the GATT/WTO, which will guard against restrictive measures being introduced arbitrarily to impede trade and investment.

The analysis begins with a brief review of the Uruguay Round results and presents an overall assessment of the round. This review serves as a background against which salient features of Arab countries' trade structure and trade-related policies, which are likely to be affected by the new international trading environment, are examined. The chapter concludes with recommendations for policy reforms in a country context and within the region, and with a summary of main findings.

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Highlights of the Uruguay Round Results: Summary and Assessment

The Uruguay Round of multilateral trade negotiations resulted in comprehensive and complex agreements on goods, services, intellectual property, investment, and a unified dispute settlement system. All the round's agreements will be administered by the newly created WTO. Membership in the WTO is synonymous with membership in all its multilateral agreements. The following summary sets the background against which to assess implications of the round for Arab economies.

Market Access for Goods

Market access relates to the issues of tariff and nontariff liberalization, including tariff bindings.[1] In the area of tariffs, industrial countries made firm commitments to reduce their tariffs on industrial goods (excluding petroleum) from an average rate of 6.3 percent to 3.8 percent, enabling an overall reduction in tariff protection of 40 percent (GATT, 1994b).

As far as the tariff structure is concerned, the application of tariff peaks (defined as ad valorem tariffs above 15 percent) on imports into industrial country markets from developing countries will be reduced from 9 to 5 percent, and the proportion of duty-free imports into the developed markets will more than double. The increase in duty-free treatment covers product groups such as metals, mineral products, wood, pulp, paper, furniture, chemicals, and photographic supplies, many of which are of export interest to some Arab countries.

Another important tariff-related instrument that contributes to the predictability of market access has been "tariff bindings." The Uruguay Round negotiations resulted in an increase of the proportion of bound tariff lines from 78 to 99 percent for industrial countries, from 21 to 73 percent for developing economies, and from 73 to 98 percent for transition economies. Arab country participants have also made important commitments in tariff bindings, as explained in the next section.

It was stated that the significance of the developing countries' commitments to increase their tariff bindings lies in the fact that the unilateral trade liberalization measures that they had taken in recent years are being "partially bound" and converted into "contractual commitments" (Hoda, 1994).

In the area of nontariff barriers, there have been commitments by both the developed and developing countries to convert nontariff measures on imports of agricultural products into tariff rate equivalents. As a result of this "tariffi-

[1]That is, a commitment not to increase a tariff on a product above the negotiated level, except by negotiation with compensation for affected trading partners.

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cation" process, virtually 100 percent of agricultural product tariff lines have been bound. These tariffs will be reduced 21–36 percent in the industrial countries over the six-year implementation period (1995–2000). For developing countries, rates of reduction are lower and gradual over ten years. Least developed countries are exempted from the tariffication commitment in agriculture.

Other significant commitments for phasing out nontariff barriers have been the gradual elimination of quota restrictions on textiles and clothing under the Multifibre Arrangement (MFA) over a period of ten years divided into three stages. Industrial countries are required to integrate 16, 17, and 18 percent of their total imports at the beginning of the three stages. All the sector will be integrated into the GATT at the end of the ten years.

Market Access for Services

Trade in services was brought under the multilateral rules and disciplines of GATT. The basic principles of the General Agreement on Trade in Services (GATS) are[2] (1) national treatment (that is, "foreign services and service suppliers should be treated no less favorably than nationals"); (2) most-favored-nation (MFN) treatment (that is, "there should be no discrimination between other Members of the Agreement in terms of the treatment accorded to their service suppliers"); (3) transparency (that is, "relevant policies, including barriers to market access and discriminatory restrictions, must be published"); and (4) progressive liberalization (that is, binding commitments of market access and national treatment can be modified to increase only the penetration, not to reduce it through future negotiations; nonetheless, commitments can be withdrawn or modified for negotiated compensation to affected trading partners).

Furthermore, the GATS requires that country signatories of the agreement submit a list of national commitments to begin opening market access to foreign service suppliers. Limitations on market access and national treatment are allowed under the condition that they are explicitly listed in the national schedules.

The GATS principle of gradual liberalization for developing countries allows them to grant market access to those sectors in which opening to foreign service suppliers is judged to be compatible with their economic and social development needs. The Uruguay Round results in commitments on services show that the highest level of commitments is made in tourism and travel services and in financial services. Arab countries' commitments on services are summarized in the next section.

[2]The quotations are from GATT (1994b).

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Strengthened Disciplines

The Uruguay Round addressed several enforcement measures to secure trade liberalization. First, it clarifies and strengthens the rules with respect to a number of trade policy instruments (notably safeguards, and subsidies and countervailing measures). Second, it extends the GATT disciplines to the new areas of intellectual property and investment.

As regards the first set of disciplines, the new Agreement on Safeguards explicitly bans the use of "gray area" measures[3] and calls for dismantling bilateral quantitative restrictions, especially voluntary export restraints (VERs) in product groups that are usually targeted by industrial countries (for example, footwear and electronics).

The Agreement on Subsidies and Countervailing Measures restores discipline for subsidy schemes that a government will or will not phase out or install in support of national industries. This agreement also establishes a linkage between subsidies and countervailing that helps to identify subsidies that can or cannot be subject to countervailing duties. The agreement delineates three categories of industry subsidies: prohibited, actionable, and nonactionable. Prohibited are export subsidies tied to export performance or incentives to use domestic rather than imported inputs in the production of the exported product. Actionable subsidies are those that cause adverse effects (for example, injury or serious prejudice) to an industry in another country. Nonactionable subsidies consist of two groups: specific subsidies limited to certain enterprises, and subsidies for research and development activities, regional aid, and help for disadvantaged regions or for adapting to new environmental regulations.

Furthermore, the Agreement on Subsidies and Countervailing Measures requires that developing countries with an annual GNP per capita of $1,000 or over phase out their export subsidies within a transitional period of eight years (with possible extension of two more years) and subsidies tied to using domestic input within five years. Least developed countries and certain other specified countries,[4] until such time as their annual GNP per capita reaches $1,000, are exempt from dismantling their export subsidies, but they have eight years to phase out subsidies tied to using domestic input for the production of exported products. Developed countries must dismantle export subsidies immediately, after the date of entry into force of the agreement.

As regards the second set of disciplines, the new Agreement on Trade-Related Investment Measures (TRIMs) provides national treatment[5] and

[3]These are restrictive measures of questionable legal standing under the GATT.

[4]Egypt and Morocco are listed among those specified countries in Annex VII of the ASC agreement.

[5]National treatment means that a foreign investor would be treated no less favorably than national investors with respect to the stated measures.

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limits the use of quantitative restrictions on foreign investment by host countries. The TRIMs agreement states that measures such as local content requirements and "trade balancing" (that is, restricting the use of imports according to the amount of output exported) are inconsistent with national treatment and must be published and eliminated within two years for developed countries, five years for developing countries, and seven years for least developed countries.

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) introduces the MFN principle to treat nationals of trading partners indiscriminately, and to provide for national treatment in the protection of intellectual property rights. Some specific intellectual property rights include copyright and related rights, rental rights, patentability, layout designs, and company secrets. Furthermore, national governments have been provided with procedures and remedies for enforcement of intellectual property rights.

Institutional Improvements

The creation of the WTO will enable the new multilateral trading system to operate as a single undertaking (that is, all texts and amendments have to be adopted by all members of the WTO). The integration of all the dispute settlement procedures covered in the individual agreements (for goods, services, and TRIPs) into a single system operating under a Dispute Settlement Body (DSB) will reduce the practice of choosing between the alternative dispute settlement procedures of individual agreements, and will restrain countries to comply with a single set of rulings.

Overall Assessment of the Uruguay Round

Potential Benefits

The Uruguay Round agreements when fully implemented are expected to improve economic efficiency and welfare from the global, national, and sectoral standpoints. Economic welfare improvement for developing countries is likely to derive from (1) greater competitiveness in both exports and domestic markets, (2) greater transparency, and (3) a higher level of market integration in goods, services, and investment.

First, greater competitiveness in world markets stems from improved access to industrial country markets, which is likely to induce growth of developing countries' exports in the industrial sectors where they have a comparative advantage. This benefit will in turn cause reallocation of resources in developing countries, leading to improved economic efficiency and welfare.

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As regards the achievement of greater transparency of policy, this is expected to derive from the enhanced disciplines and procedures in the multilateral trading system. Country signatories will have to ensure that domestic legislation or procedures are GATT consistent. Furthermore, both regular monitoring of the evolution of trade policies of individual countries through the established Trade Policy Review Mechanism (TPRM) and the availability of an integrated dispute settlement system to address and settle possible disputes will place trade and competition policies under scrutiny and should be vital in maintaining pressure for trade liberalization.

Finally, a higher level of integration in world markets is achieved through incorporation of traditional sectors such as agriculture and textiles and clothing, as well as "new" sectors of services, intellectual property rights, and investment within the multilateral trading system. This should enhance the predictability of the multilateral trading system, which in turn is likely to stimulate the process of globalization of business and attract investment in areas of comparative advantage.

Potential Losses and Shortcomings

At the same time, the Uruguay Round results are expected to lead to losses with respect to the trading interests pursued by many developing countries. First, as regards the market access results, the generalized trade liberalization is seen as having negative effects for African and Caribbean countries that rely on preferences for their market access to industrial countries. The post–Uruguay Round tariff and nontariff reductions will reduce the preference margins of developing country beneficiaries of such schemes as the Generalized System of Preferences (GSP) and the respective preferences in the Lomé Convention or the European Union's Mediterranean Agreements.

Second, possible increases in food prices as a result of reduced subsidies in agriculture will increase the imports of developing countries heavily dependent on food imports, causing a deterioration in their terms of trade. The general view is that such an impact is likely to be determined by the rise in food prices after the implementation of agricultural liberalization—and by many other world developments, including the natural conditions that may cause seasonal food price instability.

Third, the complexity and extent of the Uruguay Round results will pressure developing country participants to put into place an administrative capacity and trade management infrastructure in order to maximize benefits from the round. Nevertheless, many developing countries lack such administrative capacity and face financial and budgetary constraints. There is a concern that if these countries do not obtain adequate assistance to implement

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their undertakings in trade liberalization and internal market reforms within the prescribed implementation periods, the ability of developing countries to be more active members of the multilateral trading system sharing in the gains may fade away.

Finally, a shortcoming of the round was the exclusion of hydrocarbons from the tariff-binding process, a key element in the security of market access. This has been considered, from the perspective of major oil producing Arab countries, a weak element in the round. Since many of these countries draw the bulk of their foreign exchange earnings from oil exports, they may find that the round's results offer little benefit with respect to market access. One may argue that crude petroleum[6] faces few trade barriers in industrial country markets, but refined petroleum still faces tariff escalation and nontariff measures in Japan and the United States.

Assessing the Effects of the Uruguay Round Results on Arab Economies

As the preceding discussion suggests, the impact of the Uruguay Round results on developing economies depends both on the post–Uruguay Round market access conditions facing these countries and on the pace of integration of these countries in the multilateral trading system. First, the new market structure that will emerge after the implementation of the results is expected to lead to static gains stemming from trade creation that will take place following tariff reductions and removal of nontariff measures, on the one hand, and to static losses from trade diversion as a result of an erosion of preferential treatment in developed country markets, on the other.

Second, full integration in the multilateral trading system, which is associated both with countries' own trade liberalization and with their active participation in the GATT/WTO, is likely to generate longer-term dynamic gains. Unilateral trade liberalization enables countries to develop competitive factor markets consistent with their comparative advantage, in order to exploit the new trade opportunities resulting from the multilateral trade liberalization. Membership in the GATT/WTO is a key policy instrument to secure reciprocal trade liberalization and, most of all, the abilities of countries to operate in each other's markets. This is achieved through the agreement of participants in the Uruguay Round to binding commitments that are applied on a nondiscriminatory basis in accordance with the MFN principle. Also,

[6]Trade in fuels accounts for 9 percent of total world merchandise exports, of which Arab countries' export share accounts for 25.5 percent.

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Table 1. Arab Countries' Exports of Merchandise by Major Product Group
(In percent; based on value data)

	Share in Total Arab Exports 1981	1985	1992	Share in World Exports, 1992
Agricultural products	2.5	4.4	4.8	1.4
Mining products	94.0	86.6	73.9	22.5
Petroleum	89.0	82.3	62.5	18.9
Manufactures	3.5	9.1	18.7	1.0
Chemicals	0.5	2.5	4.1	1.4
Textiles and clothing	—	—	3.2	1.7
Total	100	100	100	3.98

Sources: Arab Monetary Fund, and others (1994); and other national data. Shares of total exports in each of listed product groups.

strong multilateral rules within the WTO promote the predictability of policy and the ability to control domestic pressures for protection.

Trade Structure, Trade-Related Policies, and Post–Uruguay Round Market Access Conditions

The new market structure following implementation of the Uruguay Round is likely to affect significantly Arab industrial exports and food imports as well as trade policy instruments for access to developed markers.

Industrial Exports

Despite the relative success of several Arab countries in diversifying their production and export structures, the overall trend shows that Arab countries' merchandise exports are still highly concentrated. These countries account for 4 percent of world exports of merchandise, of which three quarters still is made up of crude petroleum and other mining products. Nevertheless, the general trend overshadows significant differences among Arab countries with respect to the importance of petroleum in total exports. Also, although the share of petroleum exports in total exports has been decreasing, the share of industrial product exports has steadily increased. In the category of industrial products, chemicals and textiles and clothing occupy the largest shares (Table 1).

Furthermore, the direction of merchandise exports of industrial and agricultural products by major importing markets shows that more than 50 percent of Arab exports of agricultural products, and 53 percent of manufactures,

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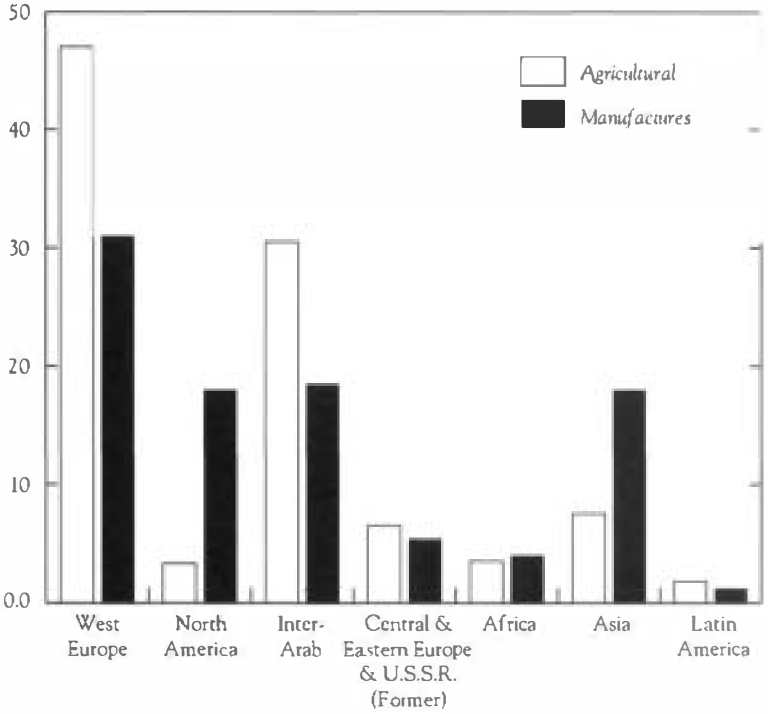
Figure 1. Non-Oil Merchandise Exports of Arab Countries by Main Destination and Product Group, 1992
(In percent)



is destined for the industrial countries, whereas the remainder is traded with other developing economies (including intra-Arab exports). Within the industrial markets, Western Europe has been the largest market for both exports of agricultural products and manufactures, followed by North America and Asia (including Japan) for Arab exports of manufactures, especially chemicals (Figure 1).

As regards the pattern of Arab exports with developing countries, subdivided into regional markets, roughly 31 percent of Arab exports of agricultural products and 19 percent of Arab exports of manufactures are destined for intra-Arab trade. Figures for trade with other developing areas show that developing Asian markets account for approximately 7 percent of Arab exports of agriculture products, and 15 percent of manufactures. In contrast, Latin America and Africa are negligible markets for Arab exports.

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Table 2. Industrial Country Tariff Reductions on Industrial Products of High Export Interest to Arab Countries[1]

Product Group	Tariff Average Weighted by Import from Developing Economies Before and After the Uruguay Round			Countries with a Current High Export Interest in the Product
	Before	After	Percent reduction	
Textiles and clothing	14.6	11.3	23	Egypt, Morocco, Tunisia
Metals	2.7	0.9	67	Egypt, Mauritania, Bahrain, United Arab Emirates
Mineral products				
Precious metals and stones	2.6	0.8	69	Algeria, Kuwait, Morocco, Qatar, Tunisia, United Arab Emirates
Fish and fish products	6.6	4.8	27	Mauritania
Chemicals and photographic supplies	7.2	3.8	47	Qatar

Source: GATT (1994b).

[1]A product group is defined by the GATT Secretariat as being of current "high" export interest if it accounts for 20 percent or more of foreign exchange earnings from exports of industrial products (excluding petroleum) or agricultural products, respectively; and if it accounts for 5 percent or more of total merchandise exports (excluding petroleum). OECD countries' imports from Arab countries for 1988 are used as a proxy for the exports of individual countries.

Since the main direction of exports has been and still is the industrial country markets, the post–Uruguay Round results with respect to increases in access to developed markets would be, in general, of interest to Arab countries. For instance, the post–Uruguay Round tariff reductions, as reported by the GATT Secretariat, show tariff cuts concerning a wide range of industrial product groups of immediate export interest to several Arab countries (Table 2). The largest tariff reductions have been made for metals, a product group of export interest to Bahrain, Egypt, Mauritania, and the United Arab Emirates. The product group that saw the least tariff reductions has been textiles and clothing. Nevertheless, this sector will further benefit from the phasing out of the quota restrictions imposed under the MFA.

In the case of major Arab country exporters of textiles and clothing (Egypt, Tunisia, and Morocco), since they have duty-free access to their main European Union markets, the post–Uruguay Round tariff reductions will lower their preference margins. The loss of preferential treatment is expected to in-

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crease competition from other developing country nonbeneficiaries of duty-free treatment in the European Union markets. Therefore, major Arab country exporters are expected to lose market opportunities in the more competitive European Union markets.

Food Imports

An evident trend in Arab imports is the important share of food imports, indicating long-term shortfalls in self-sufficiency in Arab countries in this respect. The self-sufficiency ratio, varying according to product, is lowest for wheat, sugar, oilseeds, vegetable oil, and dairy products (Table 3).

The post–Uruguay Round reductions in agricultural protection in OECD countries, as required by the Agreement on Agriculture, is expected to lead to increases in food prices (Goldin, Knudsen, and van der Mensbrugghe, 1993). Arab countries, being in general net food importers, may therefore face increased expenditures. The reductions of protection concern heavily subsidized products on world food markets, such as wheat, dairy products, and sugar, in which Arab countries have the lowest self-sufficiency. The price impact will be felt by virtually all Arab countries.

Access to Industrial Country Markets

Arab countries' exports receive various preferential treatments in entering industrial markers. For instance, the European Union extends cooperation agreements, on a bilateral basis, to the Maghreb and Mashreq countries.[7] In addition, the European Union and Japan extend the GSP to virtually all Arab countries.

Because the post–Uruguay Round tariff reductions are likely to lead to an erosion of trade preferences for developing countries, it is important to outline the overall context in which the main trade preference schemes granted to Arab countries have evolved.

As regards the European Union agreements concluded with the Maghreb and Mashreq countries, although slight variations in the terms and coverage of these agreements may exist, it is possible to highlight some common features. First, the preferential treatment extended by the European Union consists of duty-free market access for most raw materials and industrial products. Exports of specified agricultural product groups into the European Union receive tariff reductions ranging from 20 to 100 percent (for example, live animals, meat, fish, vegetables, and citrus fruits). For other exports

[7]The Maghreb countries comprise Algeria, Morocco, and Tunisia. The Mashreq countries are Egypt, Jordan, Lebanon, and the Syrian Arab Republic.

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Table 3. Ratios of Self-Sufficiency for Selected Foodstuffs in the Arab Countries

Products	Average Production (in thousands of tons)		Net Imports (in thousands of tons)		Total Demand (in thousands of tons)		Self-Sufficiency[1] Ratio		Average Annual Growth 1980–92 (in percent)		
	1980–85	1986–92	1980–85	1986–92	1980–85	1986–92	1980–85	1986–92	Domestic production	Net imports	Total demand
Grains	26,750	36,740	32,445	25,724	59,195	63,464	45	58	2.7	–1.6	0.6
Wheat	9,800	16,400	14,973	13,270	24,773	29,670	40	55	4.4	–1.0	1.5
Barley	5,230	6,810	4,562	2,204	9,792	9,014	53	76	2.2	–5.9	–0.7
Refined sugar	1,290	2,040	4,291	3,356	5,681	5,396	22	38	3.9	–2.0	–0.4
Coarse grains	1,225	1,360	301	578	1,526	1,938	80	70	0.9	5.6	2.1
Vegetables	16,710	22,640	200	391	16,910	23,031	99	98	2.6	5.7	2.6
Fruits	14,300	21,470	–163	82	14,137	21,552	101	100	3.4	–5.6	3.6
Oilseeds/vegetable oil	1,220	1,500	1,934	2,415	3,154	3,915	39	38	1.7	1.9	1.8
Meat	3,055	3,740	1,125	848	4,175	4,588	73	82	1.7	–2.3	0.8
Dairy products	12,640	13,760	11,136	8,344	23,776	22,104	53	62	0.7	–2.4	–0.6
Eggs	690	940	117	37	807	977	86	96	2.6	–9.1	1.6

Source: Arab Monetary Fund, and others (1994).

[1]Self-sufficiency is measured by taking the ratio of domestic production to domestic demand in terms of volume.

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of agricultural products (especially cotton, olive oil, fresh lemon, and wine), the European Union applies seasonal quotas and tariff quotas.[8]

Second, the Maghreb and Mashreq countries have not been required in the past to give reciprocal concessions to the European Union, since the bilateral agreements continue to incorporate a strong element of economic assistance.

Third, and more recent, following the adopted general steps toward the liberalization of their trade and current payments, Morocco and Tunisia have been negotiating with the European Union for a full free-trade agreement (GATT, 1994a). This prospective agreement, which would lead to a complete elimination of import duties on both sides of the Mediterranean, would be fully implemented within a 15-year transitional period. Also, this formulation of an active free-trade area, reciprocal in nature, may be extended to the Mashreq countries as part of a new European Union policy aimed at creating a Euro-Mediterranean Economic Area that could embrace 40 countries and a market of 500 million people (see *The Financial Times*, October 20, 1994).

As regards the relations of Cooperation Council for the Arab States of the Gulf (Gulf Cooperation Council, GCC) countries with the European Union, most GCC exports are subject to MFN rates of duty, except for specified products (some petrochemical products, and raw materials) that are granted GSP treatment in European Union markets. Also, the European Union and the GCC countries are currently negotiating the establishment of a full free-trade area. Nevertheless, the European Union has stressed that this free-trade area cannot be successfully concluded until the GCC completes the formation of its own customs union.

Mauritania, Somalia, and Sudan have been beneficiaries of GSP treatment from Japan and the United States and also beneficiaries of preferential treatment from the European Union under the Lomé Convention.

The post–Uruguay Round generalized trade liberalization is likely to lead to lost market opportunities for Arab country beneficiaries of the respective preferences in the Lomé Convention or the Maghreb-Mashreq Agreements. The extent of lost market opportunities depends on the preference margins as well as the coverage of products that are qualified for the preferences. In view of the extension of preferences to the Maghreb countries, these are likely to lose market opportunities more significantly in the intermediate term. Even in the case that Morocco and Tunisia conclude a free-trade area with the European Union, this development may not alter the likely loss, because of the longer period of phasing out of trade barriers within the negotiated free-trade area with the European Union.

[8]Tariff quotas define the application of different rates of duty (tariffs) by specified volume (the lower rate applying until the specified volume is reached, the higher rate thereafter).

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Participation of Arab Countries in the Multilateral Trading System: The GATT

A key determinant in enabling Arab countries to take advantage of the strengthened, rules-based international trading system is the extent of their participation and undertakings in the multilateral negotiations process.

By January 1995, eight Arab country Contracting Parties to the GATT had signed the Final Act of the Uruguay Round to become founding members of the WTO (Table 4). In addition, four countries are in the process of accession to GATT/WTO, and working parties have been established. While considering different times of membership and different conditions of membership, the significance of GATT membership in terms of acceptance of full obligations has grown along with the pursuance of more market-based and outward-oriented development strategies. For example, the unilateral liberalization of their external trade and payments regimes undertaken by Egypt, Morocco, and Tunisia within comprehensive structural and macroeconomic policy reforms has enabled these countries to seek active participation in the GATT and the Uruguay Round process. As regards members of the GCC, Kuwait was first to join the GATT. Other GCC members (Bahrain, Qatar, Saudi Arabia, and the United Arab Emirates), although they have enjoyed open trade regimes, have sought accession to GATT more recently. A main reason that kept them from joining the GATT was that hydrocarbons were not, and still are not, explicitly bound by GATT rules. Nevertheless, as these countries have attempted to diversify their exports into petrochemical and metal products, enthusiasm to join the GATT has grown in parallel fashion, especially because these product groups will experience reductions in the post–Uruguay Round tariffs applied in industrial countries.

Participation of Arab Countries in the Multilateral Trading System: The Uruguay Round

To acquire rights and benefits from the results of the Uruguay Round, Arab country participants had agreed on national schedules of commitments that reflect in general both the level of their economic development and changes toward the greater outward orientation of their economies. According to the national schedules of Arab countries' offers in the Uruguay Round, commitments to open domestic markets, as summarized in Tables 4, 5, and 6, generally comprise tariff bindings for agricultural as well as industrial products, tariffication of nontariff barriers in agriculture, and reductions of domestic support to agricultural producers. In addition, there are binding commitments to begin opening market access to trade in services.

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Table 4. Commitments on Market Access for Goods by Arab Countries in the Uruguay Round

Country	Accession to GATT	Signatories to Final Act of the Uruguay Round (April 15, 1994)	Agricultural Products	Industrial Products
Bahrain	1993	Yes	Bound tariffs	Bound tariffs
Egypt	1970	Yes	Bound tariffs, tariffication	Tariff reductions, bound tariffs, nontariff concessions
Kuwait	1963	Yes	Bound tariffs	Bound tariffs
Mauritania	1963	Yes	Bound tariffs	Bound tariffs
Morocco	1987	Yes	Bound tariffs, tariffication,[1] AMS reductions[2]	Bound tariffs
Qatar[3]	1994	Yes	—	—
Tunisia	1990	Yes	Bound tariffs, tariffication, AMS reductions[2]	Bound tariffs
United Arab Emirates	1994	Yes	Bound tariffs	Bound tariffs
Countries in the process of accession to GATT/WTO[4]				
Algeria	—	Yes	—	—
Jordan	—	No	—	—
Saudi Arabia	—	No	—	—
Sudan	—	No	—	—

Sources: Compiled from various GATT publications, including GATT (1994c) and (1994d).

[1]"Tariffication" means replacement of the nontariff measure by a tariff equivalent—that is, a customs duty as a border protection measure.

[2]The AMS (aggregate measurement of support) is referred to in the Agreement on Agriculture of the Uruguay Round.

[3]Qatar's lists of commitments were not available in the agreements.

[4]Working parties for accession to the GATT/WTO were established for Algeria in March 1987, for Jordan in January 1994, for Saudi Arabia in July 1993, and for Sudan in September 1994.

Scope and Coverage of Tariff Bindings by Arab Countries

The increase in bindings of tariffs by Arab country participants in the Uruguay Round is considered to be a key feature of their obligations to ensure predictability and stability of their import duties vis-à-vis other trading partners. Tariff bindings generally take the form of maximum or ceiling rates

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Table 5. Scope of Tariff Bindings by Arab Countries Before and After the Uruguay Round
(In percent of total tariff lines in country's tariff schedule; harmonized system (HS) basis)

Country	Agricultural Products[1] (share in total) Before	After	Industrial Products[2] (share in total) Before	After	Total (share in total) Before	After
Bahrain		100		70		75
Egypt[3]	3	100	3	80	3	97
Kuwait		100		95		98
Mauritania		100		65		70
Morocco		100		95		98
Qatar[4]		—	—	—	—	—
Tunisia[5]	10	100	16	45	15	53
United Arab Emirates		100		95		98
Memorandum[6]						
Developing countries	17	100	21	72	20	73
Industrial countries	58	100	78	99	78	99
Transition economies	57	100	73	98	73	98

Sources: Compiled from country lists of tariff schedules in the Final Act of the Uruguay Round (GATT/WTO, 1994).

[1]The product coverage comprises the products defined in the Uruguay Round Agreement on Agriculture (HS, chapters 1–24, excluding fish and fish products).

[2]The product coverage is as defined in the U.R. (HS, chapters 25–97, including fish and fish products, and excluding crude petroleum).

[3]Egypt's pre–Uruguay Round rates of bindings are from GATT (1992).

[4]The list of Qatar's concessions were not included in the Final Act of the Uruguay Round (April 15, 1994).

[5]Tunisia's pre–Uruguay Round bindings are from GATT (1994a).

[6]GATT, "News of the Uruguay Round," Marrakesh, April 1994.

for the tariffs applied to the products listed in the national schedules. Table 5 shows the scope of bindings—that is, the percentage of tariff lines bound for industrial and agricultural products by Arab country participants.

In the case of industrial products, for instance, the percentage of tariff lines bound by Egypt, Kuwait, Morocco, and the United Arab Emirates has been between 75 and 98 percent. Mauritania and Tunisia have bound 65 and 45 percent of tariff lines, respectively. As far as the coverage of tariff bindings is concerned, it appears from reading the national schedules of commitments that, for instance, Egypt, Morocco, and Tunisia have extended concessions to include a number of exported industrial goods in the textile and clothing industry, one of the most important and strategic sectors of their economies, where a uniform bound tariff rate will be applied at 40 percent for Morocco, 60 percent for Egypt, and 90 percent for Tunisia.

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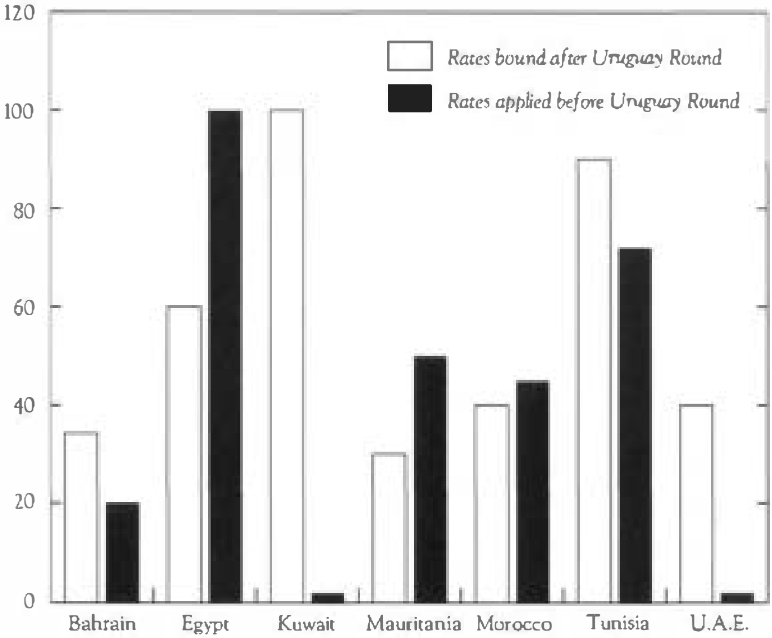
Figure 2. Uruguay Round Bound Tariffs on Industrial Products
(Percent ad valorem)



Furthermore, another main aspect of Arab countries' concessions in the Uruguay Round is that the post–Uruguay Round bound tariffs in the national schedules have been established at a level above the currently applied level (see Figures 2 and 3). This was considered very much within the negotiation rules in the Uruguay Round to give flexibility to developing countries for the implementation of domestic reform programs. The binding of tariffs at a higher level than the actually applied level enables developing countries to provide national and newly established industries with protection from foreign competition. This binding process also provides developing countries with the flexibility to create customs unions in the future, as in the case of the Arab Maghreb Union and the GCC.

For agricultural products, all Arab country participants have bound tariff lines virtually at 100 percent, as required by the Uruguay Round agreement. In addition, since nontariff barriers on agricultural products were converted into tariffs, the tariffication resulted in higher protection in agricultural than in industrial products for some Arab countries (for example, Egypt, Mauritania, Morocco, and Tunisia; Table 6).

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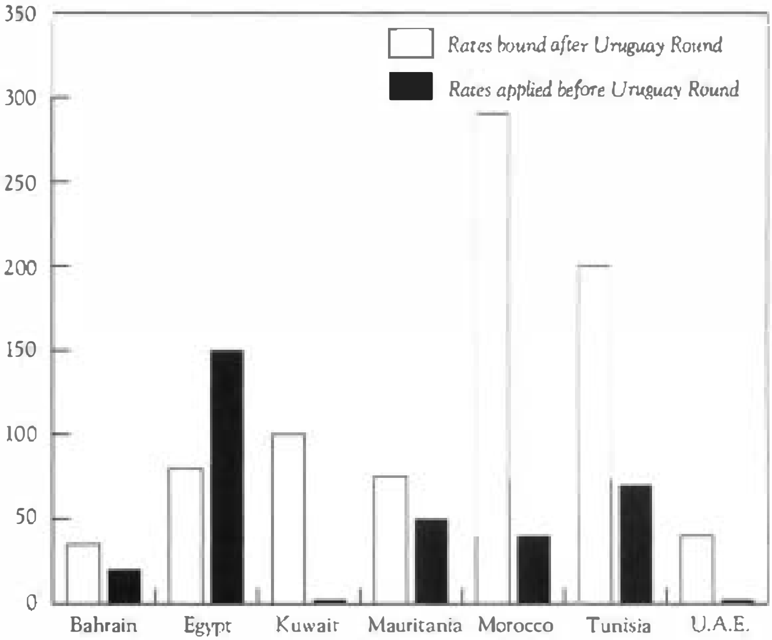
Figure 3. Uruguay Round Bound Tariffs on Agricultural Products
(Percent ad valorem)



Source: See Table 6.

Commitments on Domestic Support to Agricultural Products

The Uruguay Round Agreement on Agriculture specifies that industrial countries and WTO members are required to reduce export subsidies by 36 percent below the 1986–90 base-period level over the six-year implementation period, and the quantity of subsidized exports for specified products by 21 percent over the same period. Developing country members are required to reduce export subsidies by only two thirds of the figures required of industrial countries over a period of ten years. Least developed nations are exempt from reductions.

The schedules of commitments in agriculture submitted by Arab country participants show that they do not maintain export subsidies to agriculture. Therefore, they are not scheduled for any reductions.

In addition, the Agreement on Agriculture specifies that domestic support to agriculture (for instance, price support or subsidies extended to in-

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Table 6. Bound Tariffs (Upper Ceiling) on Industrial and Agricultural Products by Arab Countries Before and After tbe Uruguay Round[1]

	Bound Tariff Rates After Uruguay Round (in percent ad valorem)		Applied Tariff Rates Before Uruguay Round (in percent ad valorem)	
Country	Industry	Agriculture	Industry	Agriculture
GATT members				
Bahrain	35	35	20	20
Egypt	60	80	100	153
Kuwait	100	100	4	4
Mauritania	30	75	—	—
Morocco	40	289	45	45
Qatar	—	—	—	—
Tunisia	90	200	73	73
United Arab Emirates	40	40	4	4
Non-GATT Arab countries				
Jordan	—	—	150	150
Saudi Arabia	—	—	30	20
Memorandum				
Industrial countries	3.8		6.8	

Sources: Compiled from country's Uruguay Round tariff schedules (April 15, 1994); actual applied tariffs are from GATT Trade Policy Review Mechanism (TPRM) reports for the respective countries; national data were used for the other countries; and data for industrial and developing countries are from GATT (1994b).

[1]The table shows the upper ceiling at which tariffs are to be bound after the implementation of the Uruguay Round, and actual applied (upper ceiling) tariff rates.

puts) be reduced to a level of 20 percent below the base-period (1986–88) level for industrial countries, and 13 percent below their 1986–88 levels for developing countries. Least developed countries are exempt from these reductions. Accordingly, Morocco and Tunisia, for instance, are committed to phase out in equal installments, by 2005, 13 percent of subsidies extended to inputs, including fertilizer, pesticide, animal feed, seeds, and irrigation water.

Commitments on Services

The General Agreement on Trade in Services (GATS) requires that each member government submit a national schedule of commitments that comprise two sections: first, "horizontal" commitments covering all sectors included in the schedule, such as restrictions on purchase of real estate by foreign investors; second, sector- or subsector-specific commitments applying to particular services or activities.

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Table 7. Extent of Commitments to Open Markets for Trade in Services by Arab Countries

	Commitment Within Sector/Subsector	Number of Service Activities Within Sector/Subsector
Bahrain	Insurance/reinsurance	4
Egypt	Construction and engineering, tourism and travel services, banking, insurance/reinsurance, maritime transport and auxiliary services	28
Kuwait	Business, construction and engineering, environmental services, health-related and social services, tourism and travel, recreational and sporting services	44
Mauritania[1]	—	—
Morocco	Business, telecommunications, construction and engineering, environmental services, banking, insurance/reinsurance, tourism and travel services, air and road transportation	41
Qatar[2]		
Tunisia	Banking, insurance/reinsurance, tourism and travel services	11

Sources: Compiled from national schedules of specific commitments (April 15, 1994) in the Uruguay Round.

[1]Mauritania, classified in the Uruguay Round as a least developed country, will have an extension of one year after the conclusion of the round to submit specific commitments to market access in services.

[2] Qatar and the United Arab Emirates did not submit their schedules of commitments as of April 15, 1994.

In assessing commitments made by Arab countries in their national schedules, two key aspects are to be highlighted (Table 7). First, Arab countries in general granted concessions to foreign suppliers of services in those sectors where they possess comparative advantage (for example, tourism and travel activities) and in those where market opening is judged as needed for economic and social development. Accordingly, commitments to open market access to foreign suppliers of services focused on sectors through which Arab countries can acquire technology transfer (for instance, construction and civil engineering, telecommunications, and transport) and also on those sectors through which know-how and efficiency can be gained (for example, financial services and insurance/reinsurance).

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Second, horizontal commitments made by Arab countries in national schedules specify market-opening measures applying to all sectors, although with explicit limitations. For instance, most Arab countries have entered in their national schedules horizontal limitations related to the supply of foreign services through commercial presence, and to entry and temporary stay of natural persons for the purpose of supplying services. Commitments with respect to the exercise of commercial activities range from placing limitations on equity participation by foreign investors, which have been listed in the national schedules of Bahrain and Egypt, to limitations on national treatment of foreign service suppliers to purchase real estate, which have been entered in the national schedules of Bahrain, Kuwait, and Egypt.

Finally, as regards the supply of services through the presence of natural persons, most Arab countries have entered in their schedules limitations on the admission of intracorporate transferees and professionals, subject either to a quota or national immigration laws or to an economic needs test.

Assessment of Arab Countries' Integration in the Multilateral Trading System

The process of full integration of Arab countries in the multilateral trading system through membership in the GATT/WTO shows their willingness to undertake binding commitments to offer security in their own import markets. This, in turn, will promote the predictability and transparency of their trade regimes, both of which are necessary to increase investment opportunities and capital flows to these Arab countries.

In addition, this important development has showed that these countries have in fact locked in their unilateral trade and exchange reforms through the multilateral liberalization process. For instance, Egypt, Morocco, and Tunisia have considerably increased concessions—in the forms of bound tariff schedules in GATT/WTO and specific commitments to begin opening market access to foreign suppliers of financial services—in part to secure trade and exchange reforms implemented so far. In addition, Morocco and Tunisia have made commitments to reduce domestic support to specific agricultural products. These commitments are in line with the adopted reform of price deregulation of basic commodities, which aimed to improve efficiency in the economy and to help redress the budgetary imbalance.

Policy Implications and Recommendations

The foregoing discussion of the potential effects of the new liberalization of world markets on Arab countries' trading interests provides a background

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against which policy implications can be viewed. As shown above, Arab countries in general will encounter both negative and positive effects. This section seeks to provide policy advice that maximizes the opportunities provided by the new world trading environment and minimizes the potential negative effects arising from increased world competition. Furthermore, the effectiveness of such policy recommendations will depend in large part on individual countries' efforts to adjust to the new opportunities and challenges of the international trading environment. In addition, there are others that require broader regional cooperation and coordination in order for Arab countries both to keep pace with the current integration of the world economy and to make the most out of the strengthened rules-based multilateral trading system, as a result of the Uruguay Round.

Sectoral Implications

First, there are specific policy options that address the potential static losses associated with the erosion of preferential treatment and possible food price hikes. In addition, other policy instruments are suggested to help Arab countries to maximize the dynamic but nonquantifiable gains from the rules-based multilateral trading system—for example, the emphasis on outward-oriented market strategies and the development of regulatory frameworks and administrative capacity.

Compensation for Erosion of Preferential Treatment

The possible erosion of Arab countries' margins of preferences will involve some transitional costs. As European Union markets become more competitive, the comparative advantage of Arab country beneficiaries will be increasingly challenged by other more efficient producers among developing economies. There will also be erosion of the Arab countries' preference margins under the GSP.

A durable solution to an erosion of preferential treatment should be pursued by taking advantage of world market openings as a result of the Uruguay Round, through a diversification strategy aiming at the wider perspectives of trade liberalization with respect to more quality products that are competitive in world markets. This is in contrast to a preferential arrangement, be it through the European Union or the GSP.

Furthermore, there is widespread agreement that the positive results of the Uruguay Round with respect to market access are likely to favor outward-oriented developing countries with more efficient and diversified production structures at the cost of those relying on trade preferences for their market access. Outward orientation of the trade regime implies liberalization of import

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and export regimes, with more neutral policy measures toward both. Accordingly, the reciprocal market liberalization within the framework of the Uruguay Round will, on the one hand, secure access to foreign markets in the areas in which countries have a comparative advantage. On the other hand, countries' offers to secure their import markets will improve the transparency and predictability of their trade regimes vis-à-vis trading partners.

Progress in reciprocal liberalization has been made by Arab country participants in the Uruguay Round. As far as their development strategy is concerned, the change from import substitution to a more market- and export-oriented policy since the mid-1980s was aimed at enhancing Arab countries' productivity and competitiveness through more efficient resource allocation.

The extent of Arab countries' ability to exploit the new trade opportunities resulting from improved market access will be determined by their ability to achieve rapid change in their outward orientation through further import liberalization and more neutral trade policies toward the export sector. Budgetary and balance of payments pressures on the government to keep border protection relatively high in some Arab countries have to be weighed against the longer-term potential gains from enhancing the productivity and competitiveness of the economy through a relatively open trade system.

Supply Responses in Agriculture

There are two likely effects of the Uruguay Round Agreement on Agriculture for Arab countries: first, the direct impact on net food-importing countries of possible increases in food prices after agricultural liberalization; second, the indirect effect of the general elimination of nontariff measures (tariffication) on Arab country producers of agricultural goods.

Regarding the latter, and given the long implementation periods of the agreement (five to ten years) and the idea that tariffication might lead to short-term increases in tariffs, benefits of these changes for Arab countries as producers of agricultural products are likely to come not only in the form of prospective increase in export sales, but also in greater predictability of access to markets for exports and greater price stability in international markets. These are necessary conditions to ensure efficient investments in the agricultural sector of individual countries. Consequently, to ensure potential welfare improvement in this sector, Arab governments need to bring domestic market conditions and world market conditions into closer alignment.

As regards the likely deterioration in the terms of trade of Arab countries from possible higher food prices, since the implementation period of agricultural subsidy reductions extends up to the end of the decade, this should

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in fact provide more leeway to net food-importing countries in the region. These countries will need to improve supply responses in the form of increases in investments, utilization of new technologies, and, most important of all, elimination of remaining distortions affecting local production in the agricultural sector.

Efficiency Gains in Services

The implications of trade liberalization in services for Arab countries are limited to their specific commitments on the level of market access that they agreed upon in the Uruguay Round or for accession to the WTO. As previously mentioned, these market-opening commitments reflect countries' comparative advantage in specific sectors (for example, tourism) and their economic need for transfer of technology and know-how. The crucial policy issue of opening domestic markets to foreign service suppliers should be best dealt with by assessing whether there are efficiency gains that a country stands to reap as firms and consumers obtain access to lower-cost and higher-quality services. When services are used as intermediate inputs in the production of goods (for instance, financial services and shipping), the access to lower-cost and higher-quality services should increase the competitiveness of domestic producers of goods on world markets.

To limit possible adverse effect from the previous liberalizing measures, the GATS allows the use of a safeguard clause for the balance of payments that may be taken if the domestic service industry experiences a threat from foreign service suppliers.

Subsidies to Domestic Industries

The Uruguay Round addressed subsidies, a widely used instrument of industrial policy for promoting national industries. The new Agreement on Subsidies and Countervailing Measures restricts the freedom of a country to use export subsidies. As mentioned in the first section of this chapter, the agreement lists three categories of industry subsidies: prohibited (export subsidies), actionable, and nonactionable. Only nonactionable subsidies, which include subsidies for research and development activities and aid for industries in disadvantaged regions of a country, are not prohibited and are nonactionable. All other specific production subsidies (that are not tied to exports) when limited to certain enterprises are actionable.

In recognition that subsidies may play an important role in the economic development programs of developing countries, these countries are provided with a set of "graduation" criteria. First, developing countries with GNP per capita of $1,000 or over must phase out their export subsidies within a tran-

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sitional period of eight years, and subsidies tied to using domestic inputs within five years. Special exemptions are provided for least developed countries, until such a time as their annual GNP per capita reaches $1,000.

As regards the implications for Arab country members of the WTO of the application of the new disciplines of the Agreement on Subsidies and Countervailing Measures, considerable adjustment toward curtailing export subsidies will be required across both categories of countries—that is, those that have moved away from import substitution and adopted an active export-promotion strategy under macroeconomic policy reforms (Egypt, Jordan, Mauritania, Morocco, and Tunisia), and Arab country members of the GCC that have used export-promotion schemes for diversification away from hydrocarbons. According to the phase-in period of the subsidy reform for developing countries, Arab country members of the GATT/WTO will have to review their export-promoting schemes for export-oriented enterprises. Policy advice would be to rationalize these schemes by gradually replacing sectoral subsidies to encourage exports with more horizontal subsidies, such as support for the development of national research capabilities to foster the long-term diversification of comparative advantage in the manufacturing sector.

In broad terms, it is noteworthy to mention that the resistance of developing country governments to alter their behavior on subsidies may be met by increasing countervailing measures taken by industrial countries.

Regulatory Framework

Arab countries' commitment to liberalize imports within the Uruguay Round framework will make Arab markets more open and more competitive. At the same time, this import liberalization will put pressure on domestic industries. To limit possible threats from increasing imports and to ensure the proper administration of nontariff measures on imports, Arab country governments need to adopt regulatory measures as follows. First, there is a need to put into place antidumping and countervailing laws as well as customs valuation procedures that conform to the Uruguay Round agreements. Second, there will be a need to develop an administrative capacity to administer these laws through "trade remedies" machinery, to conduct material injury inquiries related to antidumping and countervailing duties actions as well as invocation of safeguard measures.

Third, Arab countries' pursuance of future multilateral trade negotiations, especially in services, calls for enhanced expertise of national trade administration in collecting adequate national statistical data and conducting related analyses, to enable the government to identify national trade interests accurately and develop a corresponding trade policy strategy.

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Regional Implications

The ongoing efforts of Arab countries toward outward-oriented market strategies and their active participation in the GATT/WTO will ensure a convergence of their trade regimes and policies as well as a greater openness to each other. This might provide a solid basis not only for reciprocal exchange of concessions in terms of market access for agricultural and industrial production, but also for policy harmonization in industrial subsidization, market opening in services, intellectual property rights, and investment measures.

As far as intra-Arab trade liberalization is concerned, there have been several attempts to create a single Arab Common Market, notably within the framework of the regional preferential agreement concluded in 1981. In addition, there has been the establishment of the GCC in 1981 and more recently, of the Arab Maghreb Union (AMU) in 1989. To date the GCC has achieved a free-trade area and has made steady progress toward the creation of a common market. The AMU has made some progress in duty-free treatment for product groups originating in its member countries.

Nevertheless, these efforts at regional integration have not achieved significant increases in intra-Arab trade (Zarrouk, 1992; and Shafik, 1994). Limited production and export bases, and the failure to reduce high levels of protection among Arab countries, have in part been causes for the low regional integration. It has even been advocated that protectionism in many Arab countries may have prompted the countries with more diversified exporters to increase their dependency on access opportunities in less protected industrial markets.

The likely loss of preferential treatment of Arab exports in industrial country markets, notably in the European Union markets, as a result of the Uruguay Round raises a new concern about the issue of compensation through other access opportunities. Arguably, the Arab markets may potentially compensate for the forgone opportunities. First, inter-Arab markets are an important destination for Arab exports of agricultural and industrial products (see Figure 1). These have even been predominant importing markets for a number of individual countries (Jordan, Lebanon, and Sudan). In addition, a regional grouping—such as a free-trade area grouping all Arab countries—offers more diversified factor endowments and a larger market size for exploiting economies of scale than smaller subregional groupings whose members tend to be competitors and have a similar comparative advantage, thus limiting the scope for trade creation.

Furthermore, a free-trade area, which is permitted under provisions of GATT Article 24 and is compatible with MFN liberalization, would lead to a substantial net creation of trade if it extends liberalization to all the areas covered by the Uruguay Round agreements, including services and service-related

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movement of natural persons, investment, and intellectual property rights. As shown in the case of regional arrangements among industrial countries, intraregional trade liberalization is likely to increase when country members are "like-minded," outward-oriented economies and have the ability to "lock in" internal policy reforms, by making use of nondiscriminatory rules and committing to a binding and transparent mechanism for dispute resolution. These lessons from "doers" also show that regional liberalization requires a high level of regulatory coordination and harmonization among the members.

The possible creation of a free-trade area among Arab countries has become vital in order to keep pace with the rapid integration of the world economy. For instance, despite the conclusion of the Uruguay Round, the trend toward regional trade arrangements has continued along with the successful cases of the European Union, the North American Free Trade Agreement (NAFTA), and the most recent Asian-Pacific Economic Cooperation forum (APEC) decision to establish a free-trade area among 18 developing and industrial countries by 2010.[9] The need for an urgent response to this challenge is especially pressing for Arab countries. The European Union, the Arab countries' major trading partner, considers integration of the region as mutually beneficial. Consequently, the creation of an Arab free-trade area would strengthen the negotiating position of Arab countries seeking integration based on reciprocal trade liberalization with the outside world.

Conclusions

Surveys of some empirical evidence on Arab trade structure and trade-related policies suggest that the post–Uruguay Round market liberalization will lead to two potentially adverse effects on the Arab economies: the erosion of preferences in industrial country markets and the increase in food expenditures as a result of possible higher food prices.

A main finding in surveying the Uruguay Round results of Arab countries' commitments to market access for goods and services is that the binding commitments reflect the progress that these economies have made in liberalizing their trade regimes and reforming their exchange systems. This active participation in the GATT/WTO will provide outward-looking Arab countries with security of access to world markets in the areas where they have comparative advantage.

Finally, this chapter has identified two main policy implications. The Uruguay Round results are likely to strengthen those Arab economies that have initiated structural reforms using effective microeconomic policies to

[9]Some developing country members will be given an additional ten years, until 2020.

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improve the competitiveness and productivity of manufacturing. Furthermore, the magnitude of transition costs from the loss of preferential treatment in industrial country markets could be compensated by improving access opportunities among Arab country markets. In this respect, further regional cooperation in intra-Arab trade liberalization and trade policy harmonization is needed to keep pace with the increasing integration of the world economy, in which regional economic groupings are expected to be a dominant feature. The creation of an Arab free-trade area would provide a solid basis for regional integration in terms of markets for agricultural and industrial production. Such a regional grouping would stimulate domestic as well as foreign investments and would also allow Arab countries to pursue more vigorously multilateral liberalization with the outside world in the context of the WTO.

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5

The Uruguay Round and International Trade in Agricultural Products

Implications for Arab Countries

*Ian Goldin and Mylène Kherallah**

For the first time, the GATT has addressed agricultural trade policies in a comprehensive manner. Although only eight Arab countries are currently members of the GATT,[1] the Uruguay Round agreement will have important repercussions for the whole region. The agreement will affect world prices and the direction and volume of world trade. The impact on Arab countries will depend on their export and import structures, their trade links, and the composition of their economic activities.

The agricultural sector of Arab countries constitutes, on average, around 19.5 percent of their GDP, ranging from 1.7 percent for the United Arab Emirates to 65 percent for Somalia (Table 1). Although the agricultural and economic systems of these countries vary widely, the Arab countries all face a limited agricultural resource base and, with the exception of Morocco, have to rely on imports to meet over half of their food requirements. Because of the Arab countries' large dependence on agricultural trade, the Uruguay Round

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[1]For the purpose of this paper, the Arab countries include 9 North African countries (Algeria, Morocco, Tunisia, Mauritania, Libya, Egypt, Sudan, Somalia, and Djibouti) and 11 Middle Eastern countries (Jordan, Lebanon, the Syrian Arab Republic, Iraq, Saudi Arabia, Bahrain, Kuwait, Oman, Qatar, the United Arab Emirates, and Yemen). The Arab countries that are GATT members, and their dates of accession, are Bahrain (1993), Egypt (1970), Kuwait (1963), Mauritania (1963), Morocco (1987), Qatar (1994), Tunisia (1990), and the United Arab Emirates (1994). More countries are considering joining the World Trade Organization (WTO) in 1995.

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of the GATT will have particularly important price and welfare consequences for these economies.

This chapter begins with a discussion of the agricultural trade provisions of the Uruguay Round agreement. After the likely consequences for world trade and agricultural commodity prices are examined, the implications for Arab agriculture are assessed by reviewing the specific economic and trading arrangements of selected Arab countries. In conclusion, the agricultural analysis is placed in a wider context, through recommendations for policy reforms in Arab countries that will serve to enhance the effects of the Uruguay Round agreement.

The Uruguay Round and Agriculture

The agricultural provisions of the Uruguay Round will lead to major policy changes in market access, domestic support policies, export subsidies, and phytosanitary ttade barriers. The implementation period, starting in July 1995, will be phased in over six years for the industrial countries and over ten years for the developing countries. The base period for calculating reductions in tariffs and domestic support measures is 1986–88. For export subsidies, the base period is set at 1986–90.[2]

The Target

Since the 1970s, the agricultural sector of most industrial countries has been protected through government support programs and import barriers. This has resulted in a severe misallocation of resources, inefficiencies, and distortions in agricultural trade and world prices. In 1993 total transfers to the agricultural sector from consumers and taxpayers in the OECD countries amounted to about $335 billion.[3] As a result of protectionist policies, OECD consumers paid, on average, 34 percent more for agricultural products than they would have paid in a free-trade environment, implying a direct cost to consumers of $125 billion. Direct subsidies from governments to agricultural producers amounted, on average, ro 42 percent of producer prices—at a total cost to taxpayers of $163 billion. The highest levels of transfers are found in Japan (where the cost to consumers averages $569 a year), followed by the European Free Trade Association (EFTA) ($540 per capita), the European

[2]Under certain conditions where export subsidies have increased, the base year is set at the 1991–92 average.

[3]The calculations are based on OECD Consumer Subsidy Equivalent (CSE) and Producer Subsidy Equivalent (PSE) measures and are presented in OECD (1994).

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Table 1. Arab Countries: Total and Agricultural GDP and Trade Figures, 1992
(In millions of U.S. dollars and percent)

Country	Total GDP	Total Merchandise Exports, f.o.b.	Imports, c.i.f.	Agricultural Value Added	Agricultural Exports	Agricultural Imports
Algeria	35,674	10,729	8,131	5,403	52	2,250
Egypt	33,553	3,050	8,293	6,079	401	2,624
Jordan	4,091	1,220	3,257	300	187	733
Kuwait	21,703	4,325	6,205		6	637
Morocco[1]	28,401	3,977	7,356	4,220	581	1,155
Oman	11,520	7,462	3,769	374	72	529
Saudi Arabia	111,343	2,269	33,273	6,844	532	4,751
Somalia	879	118	184	571	4	107
Sudan[2]	7,720	420	1,193	2,625	364	224
Syrian Arab Rep.	17,236	3,093	3,490	5,138	664	711
Tunisia	13,854	4,044	6,434	2,467	338	593
United Arab Emirates[3]	37,068	24,149	19,983	637	534	1,792
Yemen	9,615	1,053	2,859	2,012	51	885
Arab countries	454,541	65,909	104,427	36,671	4,024	20,765
World		3,687,000	3,846,100		351,716	381,841
Arab countries' trade as percent of world trade		1.8	2.7		1.14	5.44

Sources: GDP figures are from World Bank (1994). Total trade figures are from International Monetary Fund (1994). Agricultural trade figures are from FAO (1992).

[1]Morocco was hit by a severe drought in 1992; therefore, its 1992 agricultural production and export figures are below average.

[2]Estimates.

[3]GNP figures.

Union ($385), and the United States ($339). Table 2 shows the levels of direct subsidies for the main OECD countries. In the European Union, support for domestic production has been maintained through variable levies on imports, guaranteed producer prices, and export subsidies. In the United States, sugar and dairy products have been supported through administered prices and import quotas, whereas beef was protected through voluntary export restraints (VERs). In Japan, tariffs and quotas support domestic prices at levels that are well above world prices for rice, sugar, wheat, barley, and dairy products.

Tariffication

Under the market access provision of the Uruguay Round, the most important change is the tariffication of all nontariff barriers into bound tariffs

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Agricultural Value Added as Percent of GDP	Total Exports as Percent of GDP	Total Imports as Percent of GDP	Agricultural Exports as Percent of Agricultural Value Added	Agricultural Imports as Percent of Agricultural Value Added	Agricultural Exports as Percent of Total Exports	Agricultural Imports as Percent of Total Imports
15.15	30.08	22.79	0.96	41.64	0.48	27.67
18.12	9.09	24.72	6.60	43.16	13.15	31.64
7.33	29.82	79.61	62.33	244.33	15.33	22.51
	19.93	28.59			0.14	10.27
14.86	14.00	25.90	13.77	27.37	14.61	15.70
3.25	64.77	32.72	19.25	141.44	0.96	14.04
6.15	2.04	29.88	7.77	69.42	23.45	14.28
65.00	13.42	20.93	0.61	18.73	2.97	58.15
34.00	5.44	15.45	13.87	8.53	86.67	18.78
29.81	17.94	20.25	12.92	13.84	21.47	20.37
17.81	29.19	46.44	13.70	24.04	8.36	9.22
1.72	65.15	53.91	83.80	281.23	2.21	8.97
20.93	10.95	29.73	2.53	43.99	4.84	30.96
19.51	14.50	22.97	10.97	56.63	6.10	19.88

and the reduction of these tariffs by 36 percent on a simple unweighted average basis (24 percent for developing countries), with a minimum tariff cut of 15 percent for each product (10 percent for developing countries). The least developed countries[4] are exempt from reduction commitments but have to bind their tariffs. The tariff binding of all agricultural products will result in a more transparent, predictable, and stable environment for world trade. Minimum access opportunities are also introduced, as well as temporary mechanisms to safeguard against sudden jumps in import prices or quantities.

[4]The least developed countries are developing countries with GNP per capita below or equal to $675.

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Table 2. Levels of Support for Agriculture in OECD Countries
(All commodities; in billions of U.S. dollars)

Country	Transfers from Taxpayers (1)		Transfers from Consumers (2)		Total Transfers[1] (3)		Producer Subsidy Equivalent (PSE)[2]		PSE per Farmer (in thousands of U.S. dollars)		PSE per Hectare Farmed (in thousands of U.S. dollars)	
	1987	1993	1987	1993	1987	1993	1987	1993	1987	1993	1987	1993
Australia	0.3	0.7	0.4	0.3	0.6	1.1	1.0 (10)	0.9 (9)	3	422		
Austria	1.0	1.2	2.8	3.2	3.8	4.4	2.2 (47)	3.0 (56)	9	15	725	1,034
Canada	5.6	4.5	3.6	2.7	9.1	7.2	6.9 (51)	4.8 (32)	18	13	113	84
European Union	38.2	59.0	82.7	77.1	120.0	135.5	71.6 (49)	79.6 (48)	10	12	675	745
Japan	17.9	20.8	60.0	74.6	66.4	71.4	34.4 (74)	35.0 (70)	16	20	8,941	9,359
United States	51.6	68.6	31.4	19.4	81.5	87.5	35.5 (32)	28.4 (23)	21	17	103	82
OECD	120.3	165.3	192.9	196.6	297.8	335.3	165.0 (47)	163.1 (42)	13	14	162	163

Source: OECD (1991, 1994).
[1]Column (3) is not the sum of columns (1) and (2) owing to the contribution of government export and import tariff revenues.
[2]Figures in parentheses are in percent.

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Reduction in Level of Subsidies to Agricultural Production

Under the Uruguay Round agreement, internal measures of supporr are quantified using an Aggregate Measure of Support. This measure includes market price supports, direct payments to producers, and input subsidies. The Aggregate Measure of Support quantifies the costs to taxpayers and consumers of trade-distorting policies. The Uruguay Round commits countries to capping the Aggregate Measure of Support to the 1986–88 base period and to subsequent reductions of 20 percent beginning in 1995 (13 percent for developing countries).

Expenditures on domestic support for agricultural producers in the base period were estimated at $150 billion in industrial economies, $4 billion in transition economies, and $19 billion in developing economies. To the extent that the effect of the tariff reductions envisaged in the Uruguay Round agreement are not associated with reductions in overall levels of government support to agriculture, the provisions that impose a decline in subsidies (as measured by the Aggregate Measure of Support) will lead to further reforms that should enhance market access. Nevertheless, because the concessions on domestic support policies were less specific than those on tariffs (and excluded U.S. deficiency payments, European Union compensation payments, and similar support measures), they are not anticipated to act as a binding constraint on Uruguay Round signatories.

Reduction in Level of Subsidies to Agricultural Exports

The export subsidy provision of the Uruguay Round specifies a 21 percent reduction in the volume of subsidized exports and a 36 percent contraction in the associated budgetary transfers (14 percent and 24 percent, respectively, for developing countries). In addition, no new products can be subsidized if they were not included under the list of subsidized exports in the base period (1986–90).

Export subsidies have been used extensively by the European Union and the United States to support domestic producers and to get rid of the resulting excess supply of agricultural products. The GATT Integrated Database estimates that the base-period value of export subsidies in industrial countries was $21 billion (roughly a fifth of the value of total agricultural exports from industrial countries to countries covered by the GATT database). During the base period, industrial economies subsidized 48.2 million tons of wheat, 19.5 million tons of coarse grain, 1.8 million tons of sugar, 1.2 million tons of beef, and 1.2 million tons of cheese and butter. In 1986–90, the European Union subsidized more than 95 percent of its exports of wheat and butter, more than 90 percent of its cheese exports, 40 percent of its sugar exports, and more

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than 30 percent of its milk powder exports. Similarly, the volume share of U.S. subsidized exports was largest in butter (94 percent), wheat (55 percent), nonfat dry milk (40 percent), and cheese (23 percent) (see Ingco, 1994; and Hathaway and Ingco, 1995).

Many Arab countries benefit from U.S. food aid, export credit programs, subsidized commodity-specific export programs, and the Export Enhancement Program (EEP).[5] They also receive food aid and subsidized exports from the European Union under the Common Agricultural Policy (CAP). Export subsidies have provided a cheap source of agricultural imports for many Arab countries, especially for Algeria, Egypt, and Morocco, and have increased the share and volume of European Union and U.S. agricultural exports in world markets. Combined with the internal measures of support, these policies have greatly increased the supply and export of agricultural products and have depressed world food prices. The industrial countries' commitment to reduce the volume of subsidized exports (over the six-year period) covers 17 million tons of grains; 32 million tons of animals and their products; 37 million tons of dairy products; 12 million tons of oilseeds, fats, and oils; 15 million tons of fruit and vegetables; and 23 million tons of coffee, tea, cocoa, and sugar. As a percentage of 1992 world trade, the relative size of final export subsidy commitments by the five largest country users will be 41 percent for wheat, 3 percent for rice, 35 percent for meats, 22 percent for coarse grains, and 45 percent for vegetable oils.[6]

Changes in Protection Rates and World Prices

The Uruguay Round will not lead to a liberalization of all commodities in all countries. A study of the pre- and post-Uruguay Round "tariff-equivalent" border protection rates, based on the tariffication and export subsidy concessions for major commodities in 63 participating countries, highlights the extent and degree to which trade liberalization will be uneven across commodities and countries (see Ingco, 1994). Most countries have met the 36 percent average unweighted reduction in tariff rates by reducing the tariffs on highly protected commodities less (that is, by the 15 percent minimum reduction or 10 percent for developing countries) than the tariffs on relatively insignificant commodities (which were reduced the most). Commodities that benefited

[5]The current major recipients of the EEP program for wheat are Algeria, Egypt, and Morocco. Around 67 percent of U.S. wheat exports to the region are covered under the EEP. The primary commodity under the program is wheat, but many other commodities are also covered—such as wheat flour, barley, dairy cattle, table eggs, frozen poultry, vegetable oils, rice, and semolina.

[6]See Hathaway and Ingco (1995). This will result in a final export subsidy commitment of 39.6 million tons of wheat, 19.7 million tons of coarse grains, about 2 million tons of meat, and less than 1 million tons of rice or vegetable oil.

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from government support programs before the Uruguay Round will still be subject to high protection rates. In addition, many countries have set their base-period tariff-equivalent rates at such high levels (either through "dirty tariffication" or very high ceiling binding rates) that, even after the end of the implementation period of the Uruguay Round agreement, some commodities will end up with higher protection rates than before the Uruguay Round.[7] The Uruguay Round agreement, however, does not prohibit the use of multiple or overvalued exchange rates. In some countries (the Syrian Arab Republic and Yemen) overvalued rates are used to import staple commodities, and this acts as a disincentive to domestic production. The extent to which the Uruguay Round will provide new export opportunities cannot be judged a priori. For each country, the impact of the round depends on the unique combination of the specificity of domestic economic factors and the dynamic combination of external and internal reforms. Although for individual countries, the small-country assumption in general means that world prices and markets are generally given, the reforms associated with the Uruguay Round will lead to changes in world prices and markets and in the competitive advantages of all countries. The extent to which countries are able to seize the opportunities offered by the Uruguay Round depends both on their own potential to respond to new opportunities in a flexible manner and on the actions of others (notably, customers and competitors).

The Uruguay Round agreement heralds a change in the rules governing trade that has ramifications for world production, consumption, trade flows, and prices. In the European Union, the CAP will comply with the Uruguay Round agreement,[8] and the United States is committed to reduce the volume and budgetary expenses on export subsidies under the EEP and other programs. These factors, at the very least, will serve to reduce the volume of subsidized exports of agricultural products from the European Union and the United States. The policy reforms associated with the Uruguay Round

[7]Ingco (1994) shows that in the European Union, for example, sugar, milk, rice, pork, and wheat will have higher border protection rates at the end of the implementation period than in 1989–93. The same holds for rice, sugar, milk, and dairy products in the United States. Japan, in contrast, has committed itself to substantial reductions in agricultural protection rates. Milk, sugar, and wheat, however, will continue to benefit from high tariffs. In the Maghreb countries, higher protection rates will occur for wheat, coarse grains, oilseeds, and milk. In the Mediterranean countries, binding ceiling rates will be higher for many commodities. In general, however, protection rates for cotton and fruit and vegetables should decline in the main export markets of Arab countries.

[8]The 1992 CAP reform will allow the European Union to meet its GATT commitments for cereals but not for beef or sugar. The European Union may need to decrease its support for these two subsectors in order to keep its commitment to the Uruguay Round agreement (Josling and Tangermann, 1992).

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agreement are also anticipated to reduce production and exports of the other commodities that are highly protected in the OECD. Lower levels of exports and, where applicable, higher levels of imports are the main factors underlying anticipated increases in world prices for cereals, feed grains, vegetable oils, meat, dairy products, and sugar. At the margin, production of these commodities should shift to other countries that have a comparative advantage, including those in Latin America, the region of the former Soviet Union, and lower-income Asia and Africa. OECD countries that apply relatively low protection rates, such as Australia and New Zealand, are also expected to benefit from a more level playing field. The relocation of some production from countries with high subsidies to those with lower subsidies is not, however, expected to occur immediately. Thus, in the short run, higher prices may be anticipated. Any price rises should, however, be viewed in the context of the continuation of the long-run decline in world prices that has characterized commodity markets for the past fifty years.

A range of studies have attempted to quantify the possible effects of trade reform on world income, production, trade, and prices.[9] The most widely cited and detailed study, in terms of the coverage of developing countries and agriculture, is that by Goldin, Knudsen, and van der Mensbrugghe (1993). Their general equilibrium analysis suggests that partial trade liberalization, such as has been accomplished in the Uruguay Round, will lead to small increases in the price of grains (except rice), sugar, meat, dairy products, vegetable oils, and textile fibers. World prices of rice, fruit and vegetables, beverages, and coffee are expected to decline. Nevertheless, as is evident from Table 3, the anticipated price changes are modest and, because they will be felt over a period of almost ten years, are not expected to lead to any significant price dislocation in any given year. More recent analysis, which includes the actual tariff submissions agreed at Marrakech rather than the anticipated ones, suggests that the price changes resulting from the Uruguay Round are likely to be even more modest than the changes indicated in Table 3 (see Goldin and van der Mensbrugghe, 1995). Indeed, the price changes associated with the Uruguay Round are likely to be overwhelmed by the normal instability in the world markets and by the longer-term secular downward trend in real commodity prices. Viewed in this light, it may be argued that the Uruguay Round is unlikely to lead to any changes in prices beyond those that have already been experienced by countries. Indeed, because greater participation in world markets and reduced uncertainty regarding trade are likely to be associated with more stable world prices, the overall effect of the Uruguay

[9]Examples of these studies are presented in Goldin and Knudsen (1990), which contains a series of papers that have used both partial and general equilibrium models to project the effects of agricultural trade liberalization on world prices, income, and trade.

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Table 3. World Agricultural Prices: Multisectoral Reform
(Percent change in 2002 from base simulation)

Commodity	Percent Change in Prices
Wheat	3.5
Rice	–5.0
Coarse grains	1.5
Sugar	8.0
Beef, veal, and mutton	2.8
Other meats	–1.2
Coffee	–8.2
Cocoa	–5.7
Tea	0.1
Vegetable oils	1.7
Dairy products	5.1
Fruits, vegetables, and beverages	–3.8
Wool	–0.1
Cotton	0.9
Other agriculture	2.9

Source: Goldin, Knudsen, and van der Mensbrugghe (1993).

Round on prices may be anticipated to be a smoothing of the long-run distribution of prices around a declining trend.

Impact of the Uruguay Round on Agricultural Exports and Imports of Arab Countries

To assess the impact of the changes in prices and trade on the Arab countries, it is necessary first to review their structure of production, consumption, and trade. Because the Uruguay Round embraced the full range of economic activities, an evaluation of its impact needs to go beyond a single sector, such as agriculture. Indeed, the extent to which countries can benefit from the Uruguay Round will be determined by their flexibility in adjusting the sectoral composition of their economic activities in favor of those sectors in which they enjoy the most dynamic competitive advantage. Potential losses or gains in the agricultural sector, consequently, need to be evaluated in light of the impact of the Uruguay Round on the rest of the economy and on all relative prices, not least those of labor, capital, and land. In this section, the focus is primarily on the agricultural sector, with a view to providing a review of the current situation and the likely changes to be associated with the round. To the extent that the analysis is sectorally focused, it should be viewed as a tentative first step in the analysis of agriculture in the Arab countries, which requires further development to reflect economy-wide considerations.

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Export Structure

On the basis of their export structure, Arab countries can be divided into three main groups. The first is composed of the oil exporting countries and includes Algeria, Libya, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. For these countries the largest source of export earnings is petroleum exports, and agriculture's share of the total value of exports is less than 5 percent. The second group is composed of "diversified exporters" and includes Egypt, Syria, Jordan, Lebanon, Morocco, and Tunisia. In this group, the share of agricultural exports in total exports ranges from 8 percent for Egypt to 22 percent for Syria. The main agricultural commodities exported are fruit and vegetables,[10] live animals, cotton lint, pulses, and, for some countries, cereals. Finally, Mauritania, Somalia, and Sudan constitute the "primary exporters" group because more than 50 percent of their exports are composed of two or three commodities: Mauritania's main agricultural export is fish; Somalia exports cattle and bananas; and Sudan exports cotton and cattle. The Arab countries' total exports of agricultural commodities constitute less than 2 percent of the world total (see Table 1).

The new dynamic areas for agricultural production in the Arab countries include barley, rice, wheat, milk, and cream. Many countries such as Lebanon, Egypt, and the Maghreb countries have good potential for food processing. However, production and exports of processed food have been constrained by high trade barriers in OECD countries.

Import Structure

Total agricultural imports of Arab countries amount to around $21 billion, which is less than 10 percent of world agricultural imports. The main imported commodities are cereals (wheat, feed grains, and rice), followed by vegetable oils and meals, meats, dairy products, fruit and vegetables, coffee, tea, and sugar. The average self-sufficiency ratios are 51 percent for wheat, 28 percent for vegetable meals, and 80 percent for meat. The largest agricultural importers are Saudi Arabia, followed by Egypt, Algeria, and the United Arab Emirates. The average share of agricultural imports in total imports is around 16 percent (excluding Sudan and Yemen, where agricultural imports constitute 51 percent and 31 percent of total imports, respectively). The major countries or regions from which Arab countries import their agricultural products are the European Union (around 33 percent), the United States (about 11 percent), Turkey, Latin America, Australia, and Thailand. The United States is the major supplier of bulk commodities such as cereals

[10]The value of total Arab exports of fruit and vegetables was around $776 million in 1992.

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(wheat, corn, and rice), feed grains, and vegetable meals, whereas the European Union dominates in the provision of meat, dairy products, fruit and vegetables, and sugar. Brazil and Argentina are also important suppliers of vegetable oils and meals. Thailand competes with the United States for rice exports to the region. The leading markets for the United States are Egypt, Saudi Arabia, and Algeria which respectively absorb 24 percent, 26 percent, and 13 percent of total U.S. agricultural exports to the region.[11]

Arab countries have also attempted to facilitate inter-Arab trade through various multilateral and bilateral trade agreements that prohibit the imposition of tariffs on agricultural commodities but do not prevent the use of nontariff barriers. In general, these agreements have not been effectively implemented and have not served to reduce barriers to inter-Arab trade. Thus, the accession of Arab countries to the WTO should be seen as providing stimulus to inter-Arab trade, to the extent that it will reduce nontariff barriers that restrict this regional trade.

Agricultural Trade Policies

Many changes have occurred in the agricultural policies of Arab countries in the past decade. Since the mid-1980s, some countries (Egypt and Morocco) have moved from taxing their agricultural producers to subsidizing them. Table 4 presents the available nominal protection coefficients (NPCs) for Arab countries. Figures 1, 2, and 3 compare selected Arab countries' NPCs for selected commodities. Aside from tariffs, Arab countries have resorted to a range of nontariff barriers on agricultural imports and exports. These include quantitative restrictions such as import bans and quotas, import licenses, state monopolies over imports or exports, advanced import deposits, and fiscal charges. Most countries promote self-sufficiency policies for sensitive food commodities such as wheat, barley, and meats through guaranteed producer prices, state monopolies, and restrictions on imports. Table 5 shows the self-sufficiency ratios for certain commodities in selected Arab countries. Arab countries have also adopted policies to reduce the dependency on food imports and to encourage exports of high-valued agricultural commodities. In the past few years, however, many countries have been moving toward the liberalization of their agricultural sectors by eliminating input subsidies, reducing guaranteed producer prices, reducing the number of subsidized commodities, and liberalizing the exchange rate and the trade regime (in Table 4, note the decline over time of some countries' NPCs). Consumer subsidies have also been reduced, although in most countries they persist for certain sensitive, basic food commodities such as bread and flour.

[11]The appendix to this chapter presents a summary of Arab countries' main agricultural exports and imports for the average of the two periods 1986–89 and 1990–92.

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Table 4. Nominal Protection Coefficients (NPCs) for Major Crops in Selected Arab Countries[1]

Country	1986–89	1990	1991	1992
Algeria				
Durum wheat	2.04		3.11	2.52
Bread wheat	2.41		2.89	2.44
Barley	2.36		1.23	1.23
Egypt[2]				
Wheat	0.83	1.13	1.11	0.83
Barley	1.41	1.05	0.95	1.16
Sugar beet	1.39	1.91	2.20	2.53
Rice	0.53	0.38	0.38	0.39
Jordan				
Bread wheat	2.19	1.22	1.28	1.15
Barley	1.70	1.00	1.16	1.20
Morocco				
Durum wheat	1.13	1.00	1.00	1.00
Bread wheat	1.43	1.60	1.70	1.59
Barley	1.56	1.00	1.00	1.00
Maize	1.64	1.00	1.00	1.00
Saudi Arabia				
Wheat	3.24	2.99	3.17	2.71
Syrian Arab Republic				
Durum wheat	0.45	1.58	1.49	1.38
Bread wheat	0.46	1.27	1.39	1.20
Barley	0.55	1.27	1.18	1.36
Sugar beet	0.06	0.13	0.24	0.24
Tunisia				
Durum wheat	1.20	1.58	1.70	1.61
Bread wheat	1.27	1.46	1.42	1.39
Barley	0.96	1.16	1.27	1.26
PSE by crop (in percent)				
Corn	52.75	46	48	36
Cotton	–178.5	–293	–303	–175
Rice	–92	–15	11	–15
Sugar	–119.75	–11	–12	17
Wheat	28.25	21	35	31

Sources: U.S. Department of Agriculture; and World Bank.
[1]NPC = Domestic price/world price.
[2]NPC and PSE (producer subsidy equivalent).

Effects on Arab Countries' Agricultural Imports

In general, all Arab countries are net food importers and have benefited from low world food prices and the subsidized exports associated with food aid and the export subsidy and credit programs of the European Union and

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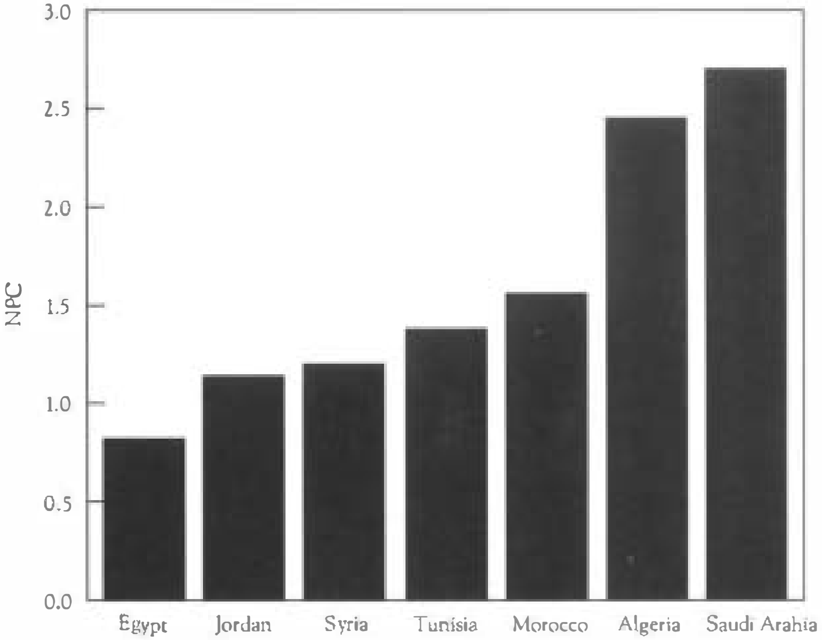
Figure 1. Nominal Protection Coefficients (NPCs) for Bread Wheat, 1992



United States. If the volume of these export subsidies declines to abide by the new GATT provisions and production of major food commodities in the industrial countries also falls because of lower protection rates, then the resulting higher food prices could be detrimental for the Arab countries. If, as anticipated by Goldin, Knudsen, and van der Mensbrugghe (1993), the Uruguay Round leads to higher prices for grains, meat, vegetable oils, meals, milk, and sugar and to lower prices for fruit and vegetables (see Table 3), trade liberalization in agriculture will increase many Arab countries' expenditures on agricultural imports and could undermine their agricultural trade balances.[12] In certain circumstances this could lead to higher food prices for the urban poor.

[12]Although coffee and tea prices will fall and cotton prices will rise—which would improve the terms of trade of Arab countries—the share of these commodities in the import and export structures of Arab countries is small compared with their imports of cereals, feed grains, meat, and dairy products and with their exports of fruit and vegetables.

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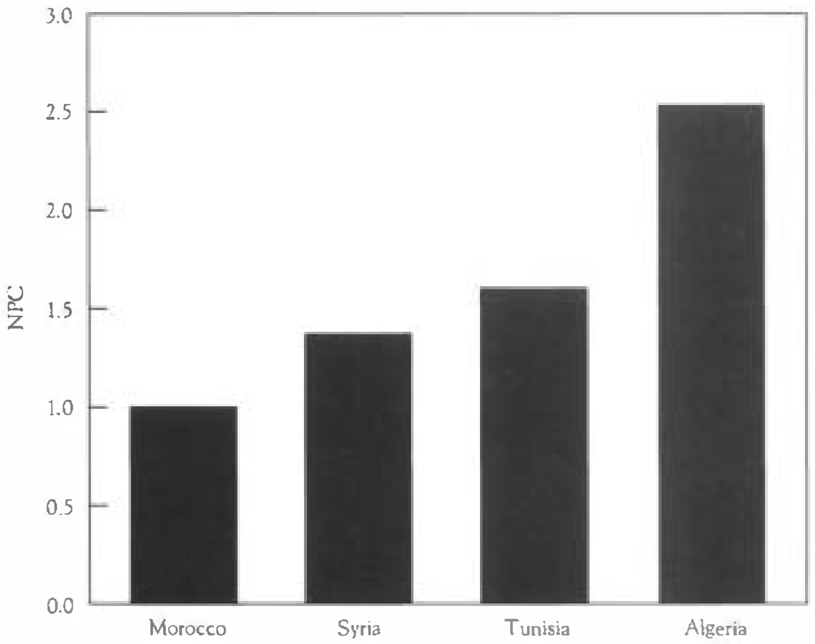
Figure 2. NPCs for Durum Wheat, 1992



An examination of the Uruguay Round submissions by the Maghreb and the Mediterranean countries reveals, however, that these countries will not necessarily liberalize their wheat, coarse grains, sugar, meat, or milk markets by the end of the Uruguay Round implementation period. The ceiling bindings submitted provide these countries with the right to maintain, or even to increase, their tariff levels and to continue to subsidize domestic producers at past levels. Much of the cost of this protection is paid by consumers, who will be compelled to pay higher than world prices for food products. To the extent that tariffs are reduced, consumers will benefit, and these reductions in tariffs should offset any possible negative implications for consumers that arise from higher world prices. However, where consumers were subsidized, the negative impact of reduced consumer subsidies could be compounded by higher world prices. In practice, as noted above, the key question for consumers and producers is likely to be one of price instability. Small changes in world prices associated with the Uruguay Round are unlikely to alter the overall behavior of agricultural producers or consumers in Arab countries, but changes in the

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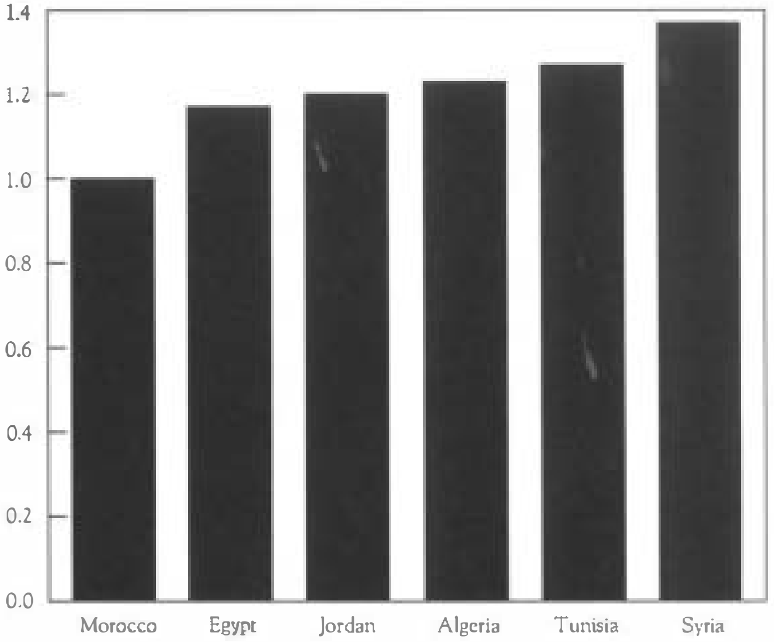
Figure 3. NPCs for Barley, 1992



perception of risk could be significant and could affect patterns of saving and investment. To the extent that Arab countries pass on higher and less volatile food prices resulting from the Uruguay Round as well as increased access to world markets to farmers, investment in agriculture should be stimulated and costs of hedging against risk, which currently is a significant drain on public expenditures, reduced.

Effects on Arab Countries' Exports

Based on GATT figures, developed countries' tariff rates on food and agricultural products will decline by an average of 37 percent after the implementation of the Uruguay Round agreement.[13] The effect of these tariff reductions on Arab countries depends on the extent to which the trade reforms

[13]This covers a 36 percent reduction in tariff rates for fruit and vegetables; 39 percent for grains; 26 percent for dairy products; and 40 percent for oilseeds, fats, and oils.

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Table 5. Self-Sufficiency Ratios for Selected Arab Countries, 1992

Country	Grains	Wheat	Corn	Barley	Rice	Vegetable Meals	Sugar	Beef, Veal, and Buffalo	Lamb, Mutton, and Goat	Poultry
Algeria	37.5	31.1	0.2	80.60	2.4	0	1.1	88	94.5	100
Bahrain, Kuwait, Oman, Qatar, and United Arab Emirates	0	0	0	0.00	0	100	0	14.6	45	13
Egypt	64.4	44.2	77.6	100.00	108.7	55.7	64.5	77.7	100	99.1
Iraq	69.2	63.6	100	100.00	9.5	0	2.3	100	100	98.8
Jordan	8.7	9.4	0.3	15.70	0	0	0	9.1	37.5	83.3
Lebanon	4.3	4.9	2	5.70	0	18.3	8	75	100	92.9
Morocco	35.4	27.8	38.2	53.50	85.7	97.9	56.1	96.6	100	100
Saudi Arabia	49.5	248.5	0.4	6.70	0	0	0	37.3	87.7	55.5
Syrian Arab Rep.	88.2	90.3	74.4	100.00	0	60.7	21.8	100	99	100
Tunisia	68.7	76	0.4	71.30	0	0	17.4	74.4	100	100
Yemen	33.7	6.5	25	100.00	0	100	0	90.6	97.5	84.9

Source: U.S. Department of Agriculture (1993).

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lead to changes in major agricultural export markets and affect competition. Arab countries export most of their agricultural products to the European Union (fruit and vegetables, olive oil), to each other (wheat, fruit and vegetables, live animals), and to other European countries (mainly Turkey), and very little to the United States (fruit and vegetables, cotton lint) or Asia. The Arab countries compete with each other in agricultural export markets and with Eastern Europe, Latin America, and other countries in the Middle East such as Israel, Turkey, and the Islamic Republic of Iran. Before the Uruguay Round agreement, the tariffs imposed on the major Arab agricultural exports were higher in the European Union than in the United States. The reduction of trade barriers in both these regions should lead to greater market access, especially for fruit and vegetables and textile fabrics. Increased market access may be anticipated to provide the opportunity to offset the potential negative effects of the forecast decline in the price of fruit and vegetables. For the Arab countries that export these commodities, higher prices for cotton, vegetable oils, meat, and grain (except rice) may be anticipated to improve the agricultural terms of trade.

One important consequence of the Uruguay Round for developing countries is that, because many of their exports benefited from reduced tariffs under the Generalized System of Preference (GSP) and other preferential trade agreements, the decline of all tariff barriers will diminish their margin of preference. This could increase the export competition from non-GSP recipient countries.[14] The GSP, however, has included only a limited set of agricultural products, and developing countries have continued to face quantitative restrictions and other barriers to their exports to OECD markets. The impact of the Uruguay Round on the countries that have benefited from GSP will depend on the extent to which it will lead to greater market access for the Arab countries' products and on whether the lower margin of preference attributable to liberalization is offset by the overall growth in the market and the decline in trade barriers. This is a function of the ability of Arab countries to market their exports in the European Union, United States, and other industrial countries.

The principal agricultural export commodities of Arab countries are fruit and vegetables, and these are mainly shipped to the European Union. Before the Uruguay Round agreement, fruit and vegetables benefited from prefer-

[14]Most Arab countries receive GSP treatment from the European Union and Japan. Egypt, Jordan, Mauritania, Morocco, Oman, Somalia, Sudan, Syria, and Tunisia receive GSP treatment from the United States. In addition, Algeria, Egypt, Jordan, Morocco, Tunisia, and Syria receive preferential treatment through bilateral agreements with the European Union. In general, the GSP scheme for agriculture is commodity selective and entails reduced tariff rates rather than tariff exemptions. Mauritania, Sudan, and Somalia receive an additional special treatment because of their status as least developed countries.

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ential tariffs but faced nontariff barriers in the European Union. The tariffs varied by product, country of origin, and season—with higher tariffs being imposed during the periods when imports competed with domestic production. In 1985, effective tariffs in the European Union averaged 6–7 percent for fresh fruit and vegetables and 15–16 percent for processed fruit and vegetables (see Islam, 1990). The decline in the GSP and preferential tariff margins owing to the Uruguay Round will erode the benefits of increased market access. However, as noted earlier, the European Union's GSP and preferential agreements covering fruit and vegetables have been fairly limited and accompanied by various quantitative restrictions. Accordingly, the erosion of GSP benefits is not anticipated to lead to dislocation of export markets.

The nontariff barriers on fruit and vegetables include quotas, VERs, variable levies, minimum price systems, and countervailing duties and taxes, as well as technical and health standards. Trade in fruit and vegetables will be liberalized in most regions because of lower tariffs and nontariff barriers under the Uruguay Round agreement. Furthermore, the greater transparency of phytosanitary standards should facilitate access to European Union markets. Greater transparency and less uncertainty regarding standards will also enhance investment in export-oriented agriculture. It should particularly benefit fruit and vegetable exports, since these have been subject to the greatest uncertainty in terms of phytosanitary standards and nontariff barriers. Arab countries may be anticipated to benefit from the potential offered by the Uruguay Round agreement in this area. Furthermore, even though the Uruguay Round may lead to a short-run decline in fruit prices, in the long run, because the demand for fruit and vegetables is income elastic, the prices of these products are expected to remain relatively robust compared with those of other agricultural commodities.

Country Analyses

The structure of economic activity, including agricultural production, consumption, and trade in Arab countries is not homogeneous. Accordingly, the impact of the Uruguay Round will differ across countries. To explore this specificity, the following pages present preliminary analyses of the impact of the Uruguay Round on agriculture in selected Arab countries.[15]

[15]This section draws on data from the United Nations Food and Agriculture Organization (FAO), the U.S. Department of Agriculture, and the World Bank.

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Oil Exporting Countries

Algeria

Algeria has to rely on imports for most of its food needs. Its overall self-sufficiency ratio for food is around 20 percent, and agricultural imports account for almost 25 percent of its total imports. Its major import suppliers are the United States for dairy products, grains, and vegetable oils (subsidized mainly through export subsidy programs); the European Union for grains, dairy products, flour, semolina, and rice; and Turkey for pulses. The main imports are milk powder, wheat, flour and semolina, vegetable oils, coffee and tea, sugar, soybean meal, tobacco, and cotton. Algeria's agricultural export potential in the longer term is likely to be based on dates, citrus, fruit, and wine. Wine and citrus exports are subject to trade restrictions in European Union markets. Although Algeria has started liberalizing the agricultural sector, state monopolies continue to dominate the supply of basic food commodities such as cereals, oilseeds, and dairy products. Cereals, milk, and tomato production are encouraged through guaranteed support prices and import controls. Consumer prices for bread, semolina, flour, and milk are subsidized. Algeria has become almost self-sufficient in poultry production by imposing import controls and subsidizing imported feed. The liberalization of the import regime is anticipated to be associated with a reduction of the self-sufficiency levels, at least in the short run. However, to the extent that consumers benefit from lower world food prices, and farmers from lower machinery and other input prices, domestic liberalization is expected to lead to improvements in agricultural production, consumption, and trade.

Because Algeria is such a large net food importer, it will stand to lose if the Uruguay Round agreement leads to higher food prices and from the decline in the United States' EEP and in other export subsidy programs. However, as a result of improved access to OECD markets, Algeria could improve the volume of its citrus and other fruit exports, building on its low base in this area.

Saudi Arabia

Saudi Arabia has relied on direct government subsidies and high domestic producer prices to promote domestic production of key commodities such as cereals, poultry, and oilseeds. The extent of support for domestic producers is reflected in the fact that wheat production rose from 3,000 tons in the mid-1970s to over 4 million tons in 1992. By the mid-1980s, Saudi Arabia was producing more than it could consume; by 1992, 2.5 million tons, well over half of its production, was sold on world markets. Subsidies to wheat producers, which exceeded those in even the most generous OECD countries, transformed Saudi Arabia from a major importer to the world's sixth largest wheat

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exporter. In 1980, domestic procurement prices for wheat were set at $1,000 a ton, whereas world prices were around $190 a ton. More recently, procurement prices for wheat have declined to around $480 a ton; world prices, after declining, have rebounded to their 1980 level. In addition to the direct output subsidies, agricultural input subsidies assist domestic producers. Farmers pay only a small fraction of the full economic cost of the key inputs (land, irrigation infrastructure, and water) and also enjoy subsidized agricultural credit, machinery, and other equipment. For wheat production alone, direct subsidies were estimated to reach $2.5 billion a year, with this figure not including the costs associated with the mining of nonrenewable fossil underground water supplies (*The Financial Times*, November 17, 1994).

As a result of growing awareness of the budgetary and environmental costs of agricultural subsidies, Saudi Arabia is reviewing its wheat program and its overall agricultural development strategy. It may be anticipated that future agricultural growth will be less dependent on public expenditures and will more closely follow Saudi Arabia's competitive advantages.

By liberalizing its agricultural sector, Saudi Arabia will maximize its benefits from the Uruguay Round agreement. In particular, to the extent that wheat and poultry prices rise on international markets, the reduction in subsidies going to protecred domestic wheat and poultry producers could be accelerated. Other than wheat, Saudi Arabia exports dates, melons, and grapes. However, Saudi Arabia is also the largest importer of agricultural products in the Arab region and imported approximately half of its food supply in 1990–93. The primary imports are corn, barley, animal feed, live animals, and inputs for its food-processing industry. A further reduction in the import tariffs for these commodities will benefit consumers and, by improving real incomes, will improve overall economic performance. The United States supplies about 10 percent of Saudi Arabia's food imports, and the European Union provides one-third.

Because Saudi Arabia is likely to remain a large food importer, it remains vulnerable to higher world prices. On balance, however, given that it is a wheat exporter and also exports other products, such as fruit, that will enjoy improved market access, and given that the Uruguay Round is also anticipated to lead to more stable world food prices, the Uruguay Round offers considerable opportunities to Saudi Arabia. Not surprisingly, Saudi Arabia has expressed interest in joining the WTO.

Diversified Exporters

Egypt

The Egyptian agricultural sector is fairly diversified, with high self-sufficiency ratios in many products, including rice, cotton, citrus fruit, fluid milk,

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cheese, beans, poultry, and lamb meat (see Table 5). Egypt nevertheless relies on food imports to meet about half of its food needs. Its main agricultural suppliers are the United States for cereals, vegetable oils and meals, and cotton; the European Union for meats and dairy products; and the EFTA for forest products. In addition, Egypt imports wheat from Australia and oilseeds from Latin America. Egypt benefits from food aid and from the EEP and several other commodity-specific U.S. export and credit programs. As part of the government's recent Economic Reform and Structural Adjustment Program, Egypt has taken several measures to liberalize its agricultural sector. Controls on crop areas and deliveries have been removed, input subsidies have been eliminated (except for water), and producer prices and marketing have been liberalized. However, the government still intervenes in certain agricultural subsectors, including through its control of rhe marketing of sugar and its program of subsidies for irrigation and water. In addition, poultry imports are restricted, and import licenses are required for many food products. At present, import tariffs on food items vary from 1 percent to 60 percent, with the highest rates applied to poultry, live animals, and bananas and the lowest rates applied to cereals and oilseeds.[16] Egypt subsidizes the consumer price of bread, vegetable oil, and sugar. Egypt's agricultural exports provide around 15 percent of its total export earnings. Its major exports are rice, followed by citrus fruit (mainly oranges), cotton, other fruit and vegetables (mainly potatoes), sheep, and goat. Its largest export markets are Europe and the Middle East. Egypt benefits from the GSP in its trade with the United States and has a bilateral preferential agreement with the European Union. Certain fruit and vegetables, such as onions, nevertheless remain subject to quantitative restrictions in the European Union.

Egypt is a GATT member and in the Uruguay Round agreement has committed itself to lower border protection rates on agricultural products. As a result, the price of most imports is expected to decline over the coming decade. If the benefits of lower tariffs are passed on to consumers, domestic food prices are expected to decline in real terms even if the Uruguay Round agreement leads to short-run increases in world prices. Because Egypt is a major recipient of subsidized U.S. agricultural exports through the EEP and other progtams, however, any contraction of these export subsidy programs will serve to raise the food import bill, especially for wheat.

Although the Uruguay Round agreement may increase expenditures on imports, it is simultaneously expected to improve export earnings. Years (1994) has predicted that Egypt will gain from the Uruguay Round agree-

[16]At the end of 1994, the highest tariff rate of 80 percent was reduced to 60 percent (on pork, whole milk powder, and eggs), while most other tariffs fell by 5 to 10 percentage points.

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ment.[17] The average applied pre–Uruguay Round tariff rates faced by all Egyptian food and feed exporters (taking into account GSP treatment) are 21.2 percent in Japan, 12 percent in the European Union, and 0.6 percent in the United States. If, as Yeats has predicted, industrial countries' average most-favored-nation (MFN) tariff rates on agricultural products decline by 37 percent, then for Egypt this is projected to result in an increase of 7.4 percent in the value of agricultural exports to the European Union and in a 0.3 percent increase in the value of agricultural exports to the United States. Egypt's exports of food and feed are not subject to nontariff barriers in Japan and the United States, but 20 percent of these products face nontariff barriets in the European Union. Yeats has forecast that the percentage of Egyptian exports that face nontariff barriers in the OECD markets will fall from 32 percent to 2 percent after the Uruguay Round. The reduction in nontariff barriers will improve the access of Egyptian exports. However, the margin of tariff preference under the GSP and other preferential agreements is expected to be eroded, and fruit, vegetable, and rice prices could decline after the Uruguay Round agreement, so that the benefits from greater market access could be dampened. In contrast, the combination of the reform of the Multifibre Arrangement (MFA) and improved world cotton prices offers the potential for a revitalization of the cotton and textile sector. Domestic reforms, including a reduction in taxes and export tariffs, are required, and these need to be passed on to improve incentives to farmers and agro-processors in order to maximize the benefits accruing from rhe Uruguay Round agreement. Protectionist policies that aim to achieve self-sufficiency in strategic crops such as wheat, and to underpin the expansion of high-value commodity exports such as cotton, rice, citrus, and potatoes, should give way to an agricultural strategy focusing on food security and Egypt's comparative advantages rather than self-sufficiency. The scarcity of water and arable land makes it imperative that Egypt, like other countries facing acute ecological constraints, orient agricultural and other economic activity toward the most efficient and rational use of nonrenewable factors of production.

Morocco

By Arab standards, Morocco has a large and diverse agricultural sector. It is the only Arab economy with a positive trade balance for food commodities. Most of its trade is with the European Union, followed by the United States, Argentina, and West Africa. Morocco's major agricultural exports are fish and fruit and vegetables. It also exports other commodities such as cot-

[17]On the basis of Yeats's SMART simulation model, Egypt is projected to gain $8 million of increased agricultural exports to the European Union after the Uruguay Round is implemented.

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ton, paper pulp, hides and skins, olive oil, and pulses. Morocco receives preferential tariff treatment for its agricultural exports to the European Union, but many of its exports, including fruit and vegetables, olive oil, and wine, face quantitative restrictions under the CAP. Morocco enjoys duty-free access to the French market for some products, including potaroes, certain fruit and vegetables, citrus juice, and wine. Morocco is a large recipient of subsidized exports through food aid and the United States' EEP and Export Credit Guarantee Program. Morocco's main imports are cereals, vegetable oils, forest products, sugar, tea, coffee, cotton, and dairy products.

Morocco has recently taken steps to liberalize its trade, but import licenses remain for many commodities, including meat, dairy products, and certain fruit and beverages. Furthermore, the government continues to monopolize the import of grains, vegetable oils, sugar, tea, and tobacco. The average import tariff for all agricultural products is around 25 percent. The highest tariffs (45 percent) are imposed on meat, dairy, and fruit imports to stimulate domestic production, and the lowest duties (2.5 percent) are applied to grains. In addition to the customs tariff, imports are subject to an ad valorem tax rate of 15 percent as well as other fees and surcharges. Consumer subsidies remain on basic foodstuffs such as flour, edible oil, and sugar.

Morocco, like other Uruguay Round signatories, is committed to "tariffying" its existing nontariff barriers and to reducing tariff rates by 24 percent over the ten-year implementation period. However, for 1995, the first year of the Uruguay Round implementation period, it set a substantially higher binding rate of protection for meats, sugar, rice, wheat, and oilseeds than the rates that were applied previously. Starting in 1995, the tariff-equivalent rates of protection were calculated as the difference between world prices and domestic prices occurring during the base period 1986–88, and then customs duties, set at their maximum rate of 45 percent, and a tax rate of 15 percent were added to the tariff-equivalent rates. Consequently, the binding tariff rates submitted to the GATT were substantially higher than the actual tariff-equivalent rates. Although these tariffs are to be reduced by 24 percent, many commodities will still have higher protection rates at the end of the Uruguay Round period than before the agreement. For wheat, for example, although the tariff-equivalent rate for 1986–88 was 130 percent and the 1994 rate was 110 percent, the tariff rates submitted ro the GATT for 1995 were set at 190 percent. This rate will be reduced by 24 percent to 144 percent in 2005, but it will remain higher than the pre–Uruguay Round level of 130 percent. In the Moroccan Uruguay Round submission, as in that of many other countries, this type of tariff escalation was applied to many "sensitive" commodities, resulting in no or minimal liberalization for wheat, coarse grains, sugar, oilseeds, and milk.

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Application of the higher binding ceilings would mean that Moroccan consumers would pay higher food prices. Given that Morocco previously benefited from subsidized exports from the United States and the European Union, the price paid for cereal imports would also rise. Higher ceiling bindings imply that the government has reserved the right to increase the protection of domestic producers from world competition. To the extent that tariffs are not reduced, or that they are increased, domestic producers are unlikely to feel the pressure of international competition, which serves to increase productivity and efficiency.

Export market opportunities are expected to improve with the implementation of the Uruguay Round agreement. In particular, the elimination of nontariff barriers and the application of transparent phytosanitary standards is expected to provide a more robust investment climate for high-value export products, including fruit, vegetables, citrus, and flowers. Whereas Morocco has considerable potential in these areas, its potential for exports to the European Union has been frustrated by a range of trade barriers designed to protect southern European producers. Through improved production techniques and more sophisticated marketing, Morocco should be able to capitalize on the reduced trade barriers facing exports to the United States, Canada, Japan, and Arab countries. It could reduce its dependence on the European Union, to which it currently sends over 80 percent of its high-value agricultural exports. This diversification would serve to offset the potential negative impact on Morocco of an erosion of its preferential access to European Union markets provided through bilateral arrangements.

Morocco's agricultural growth has been underpinned by protectionism, which has served to raise domestic prices, and by input subsidies, especially for irrigation water and credit. Subsidies to these inputs are not sustainable, and the cost of both water and subsidies to farmers is anticipated to increase. At the same time, trade reform will lead to lower output prices. Consequently, farmers will come under increasing pressure to improve productivity and efficiency. In meeting the challenge of competitiveness, the farm sector and export enterprises will reap the benefits of trade liberalization.

Tunisia

Tunisia is a net importer of food and agricultural products, notably cereals, livestock, meats, dairy products, vegetable oils and meals, sugar, coffee, and tea. Agricultural products account for 13 percent of its total imports. Its main trading partners are Europe, Libya, and the United States. Tunisia, like Morocco, receives large quantities of subsidized exports from the United States and the European Union. Agricultural imports are subject to trade restrictions applied through import licenses, customs duties, and tariffs. Tariffs on

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agricultural products vary between 15 percent (on sugar) and 43 percent (on high-value products such as meat, vegetable oils, and processed food).

Tunisia's major exports are olive oil, which constitutes 50 percent of its agricultural exports, followed by fruit (mainly citrus, palm date, and almonds), vegetables, and fish. Although it has a preferential agreement with the European Union, Tunisia faces quantitative restrictions on its exports of wine, oranges, potatoes, dates, and olive oil to the European Union. The government's objective is to promote agricultural production and exports. It has protected producers through high support prices, various types of subsidies, and import restrictions applied through import licenses, customs duties, and tariffs. The government is slowly trying to liberalize agricultural trade and reduce price subsidies. It joined the GATT in 1990. Supplementary customs duties do not apply to agricultural products, and for most other commodities they are scheduled to be eliminated within the next three years, with the object of reducing the average basic tariff to a target of 25 percent, down from a level of about 36 percent.

The effects of the Uruguay Round agreement on Tunisia's imports would be similar to the agreement's impact on Egypt and Morocco. To the extent that the Uruguay Round results in higher prices for the basic imported food commodities and a diminished volume of subsidized exports from the United States and the European Union, it would increase import costs and reduce the agricultural trade balance. Lower tariffs would also reduce government revenues. However, if higher world prices are passed on to domestic producers, the farm sector would benefit, and support programs would become less expensive. On the export side, improved market access for fruit, vegetables, citrus, and processed products, and higher prices for olive oil, would be beneficial and would improve Tunisia's agricultural terms of trade. As a result of greater transparency and less volatile prices, investments in the agricultural sector should become more attractive, while the cost of risk management to the government should be reduced. The overall effect of the Uruguay Round agreement should thus be to encourage the private sector and to diminish the need for government intervention in the agricultural secror.

Jordan

Jordan has applied for GATT membership and has a strong interest in greater market access and more stable trading conditions for its high-value exports to other Arab countries and to Central and Western Europe. A growing scarcity in water resources in Jordan, as in most other Arab countries, implies that it is increasingly necessary that production be focused on products with a high return to water use. Citrus and fruit and vegetables provide such high returns, but they currently face restrictions in the European Union. Jor-

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dan is currently focusing its efforts in agricultural trade on regaining its share of markets in Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, with which trade was disrupted in the wake of the regional conflict in the Middle East. Jordan also has good prospects of exporting agricultural commodities, particularly fresh fruit and vegetables to the West Bank and Gaza and to Israel.

Jordan's food imports are subsidized under the EEP and U.S. food aid and export credit programs, and as a result the United States is its main source of wheat, barley, corn, and rice. In addition, Jordan imports meat and live animals, sugar, dairy products, and oilseed products from the United States and other countries. Import restrictions and state monopolies over procurement serve to raise domestic producer prices and protect domestic producers. Consumer subsidies on basic foodstuffs mean that this protection is funded from public expenditures. As in other Arab countries, there is an increasing recognition that, from the perspective of public expenditure and natural resource use (mainly of water), these policies are not sustainable. Membership in the GATT therefore is likely to be associated with a reform of Jordan's trade policies. This would place Jordan on a sustainable growth path in which agricultural growth is underpinned by high-value crops.

Syrian Arab Republic

The Syrian Arab Republic has aimed to achieve self-sufficiency in major food products by restricting imports and foreign exchange and by setting relatively high domestic producer prices. Recently, the private sector has been allowed to import several commodities that were previously under government control (rice, sugar, tea, coffee, vegetable oil, and butter). However, wheat and flour imports are still banned. Consumer prices for bread, rice, sugar, and tea are subsidized through a rationing system, and producer prices for wheat and other grains are set above world market prices to stimulate production.

Syria has traditionally exported cotton lint to Europe and to other Arab countries through a monopolistic government procurement and export structure. In addition, it exports sheep, poultry products, and fruit and vegetables to Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, and pulses to Egypt, Lebanon, and Jordan. Syria's main agricultural imports come from the European Union and Turkey (wheat and vegetable oils). Rice, corn, and soybeans are imported from the United States. Some commodities are also imported from Southeast Asia, Egypt, and Brazil. In recent years, Syria has not benefited from subsidized exports from the United States, but its exports to the United States do not face any trade barriers.

The Uruguay Round agreement is anticipated to strengthen cotton prices, and this, together with a reform of European Union and other OECD cotton

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markets, should improve the market for cotton exports and offer potential market growth to Syria and other high-quality cotton exporters. Higher world meat prices and improved market access are expected to enhance Syria's meat sector. Meanwhile, higher world prices for wheat and other grains—and, more significant, a domestic commitment to lower protection—would reduce the costs of government support for these commodities.

Primary Exporters

Somalia and Sudan

Somalia and Sudan are heavily dependent on pastoral activities and export most of their cattle to other Arab countries. Somalia exports some bananas to Italy. Because both are classified as least developed countries, their exports face no trade restrictions other than those associated with phytosanitary and health regulations. Somalia is an extremely poor country and is highly dependent on imports to meet its food requirements. It, and other food-importing least developed countries, are the most vulnerable participants in world trade. To the extent that the Uruguay Round agreement results in higher cereal and other food prices, these fragile economies may require balance of payments support to meet unanticipated shortfalls and to ensure that potential negative effects of the Uruguay Round are compensated by those who stand to benefit from the overwhelming gains of the agreement. Higher world cereal prices may not, however, lead to greater poverty in these importing countries, because to the extent that the higher prices are passed on to domestic farmers, and the benefits of more transparent and stable markets are reflected in improved incentives and lower government and private expenditures on risk management, rural communities in the least developed countries will benefit. It is in these communities where the greatest poverty is found.

Sudan is a net food importer, but its cotton exports provide it with a positive balance in agricultural trade. The factors associated with the Uruguay Round agreement that will benefit the Egyptian and Syrian cotton exporters will equally advantage Sudan's cotton exporters. Similarly, there is a risk that higher cereal prices will negatively affect the poor. This requires vigilance on the part of the government and international agencies. The combination of domestic and external reforms is anticipated to facilitate agricultural growth. The reduction in preferences accorded to Sudan and Somalia could, however, erode their markets and intensify competitive pressures. Under the Uruguay Round agreement, least developed countries are exempt from many of the commitments to reduce protectionism and engage in trade reform. Nevertheless, domestic reforms are vital if least developed

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countries are to avail themselves of the opportunities offered by the Uruguay Round agreement.

Trade, Agriculture, and the Environment

Environmental issues increasingly require integration into analyses of trade and agriculture.[18] This is particularly true in the Arab countries, where agricultural production rests on relatively fragile ecological foundations. In particular, the exhaustion and degradation of nonrenewable water supplies and growing competition from nonagricultural water users are anticipated to sharply influence the cost and availability of water, a vital factor of production. In many Arab countries, water scarcity threatens to act as a binding constraint on agricultural growth and overall development. The development of appropriate pricing and other mechanisms to ration water use is required, with a view to securing sustainably high growth. Evidence suggests that the continuation of current practices fosters suboptimal and unsustainable patterns of water use, and that inefficiencies arising from inappropriate pricing at the microeconomic levels have been compounded by distortions in relative prices resulting from macroeconomic and trade policies.

Results derived from Goldin and Roland-Holst's (1995) computable general equilibrium analysis of the relationship between trade and environmental policies in Morocco indicate that, if undertaken in isolation, reforming water prices in the agricultural sectors will have a contractionary effect on the economy.[19] This is to be expected, since the water price increase basically takes the form of a distortionary tax on a leading sector of the economy. Incomes and the real consumption of both rural and urban households decline slightly, and real consumption falls somewhat more as increased water prices are passed through to agricultural commodities. Thus, the static effects of the policy appear to be detrimental, but as water use is reduced the economy moves decisively toward greater sustainability.

Trade liberalization alone has more salutory effects on the static efficiency of production and real incomes.[20] Economy-wide real GDP rises only slightly because the main factors, labor and capital, are fixed in total supply in the analysis. Despite this, household incomes and real consump-

[18]For more discussion on this topic, see Goldin and van der Mensbrugghe (1992).

[19]In this first simulation, prices for irrigation water, which accounts for 92 percent of the country's marketed water use, are doubled from 8 percent to 16 percent of urban water prices.

[20]This second simulation entails the liberalization of all nominal tariffs, which in the database average 21 percent across the whole economy and 32 percent in agriculture.

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tion post significant gains as substantial import barriers are reduced, domestic purchasing power rises, exports become more competitive, and resources are allocated more efficiently across the economy. Two drawbacks, however, are associated with this typical neoclassical result. First, the government has forgone important sources of revenue by eliminating tariffs; the budget deficit increases by as much as 35 percent. Second, the expansionary influence of liberalization increases domestic water use substantially. Thus, the economy is on a more growth-oriented, but less sustainable, trajectory.

Combining both trade and water reform would confer substantial advantages to the economy, both in the medium and long term.[21] The expansionary effects of trade liberalization are largely retained, but reforming water prices still induces substantial reductions in agricultural (and economy-wide) water use. Although this conservation is partially offset by expanding demand in urban sectors, the net result for the economy is less water consumption. Thus, the higher growth path under the combined policy is sustainable. The government budget still declines appreciably with tariff revenues, but this is offset by alternative, nondistortionary sources of revenue. The combination of economy-wide and sectoral reforms thus provides a win-win solution, which provides the basis for sustainable growth and significantly higher incomes. Trade reform alone, it is suggested, may facilitate agricultural secror growth, bur this is not sustainable unless it is undertaken in tandem with a reform of water and other environmental resource prices. It also may need to be accompanied by fiscal reforms.

Conclusions

The Uruguay Round agreement of the GATT will have important consequences on the agricultural sectors and the overall economies of Arab countries. Most studies show that world prices for many food commodities imported by Arab countries will rise because of lower protection rates in industrial countries and a decline in the volume of subsidized exports. Most Arab countries are net food importers and have benefited from large volumes of export assistance and food aid. Their agricultural terms of trade could deteriorate as a result of the Uruguay Round agreement, although higher import costs for foodstuffs are anticipated to be offset by improved export revenues. The rise in food prices could be more significant for oil producing countries, which imporr most of

[21] The last simulation involves simultaneous trade refonn and raising irrigation water tariffs.

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their food items. For other Arab countries, it is partially offset by the incentive provided for higher domestic production and investment in agriculture. For the vulnerable least developed countries, temporary compensatory assistance should be offered if necessary to provide balance of payments support for those countries that suffer unanticipated shortfalls due to higher world prices.

The impact of the Uruguay Round agreement on any country will mainly depend on its domestic economic environment, rather than on changes in external prices or markets. The extent to which governments facilitate a flexible and transparent trading environment and minimize the transaction costs involved in pursuing existing, or establishing new, trade opportunities will critically influence the extent to which the Uruguay Round agreement will be able to facilitate trade expansion and economic growth. The transmission of the benefits of the Uruguay Round agreement to domestic producers and consumers is essential because this will determine the extent to which higher and more stable world prices, improved transparency, and greater market access are translated into improved incentives to domestic producers, consumers, and investors.

Given the natural resource and environmental constraints facing Arab countries, economic policies are required that encourage more efficient use of scarce resources. This implies that Arab countries increasingly will focus their agricultural activities in high-value-added and processed products. The Uruguay Round agreement offers considerable scope for development of these products and will reduce trade barriers that hitherto have curtailed exports to the European Union and other high-income markets.

In this chapter, we have analyzed only the effects of liberalization of the agricultural sector. It should be stressed that a full evaluation of liberalization requires an economy-wide analysis. Improvements or setbacks in one sector cannot be examined in isolation and are an inevitable part of economic growth. Indeed, the decline of the agricultural sector is often an indicator of development and, rather than being a cause for alarm, may signify a maturing of other more dynamic and less protected parts of the economy. The key question is that of the dynamic comparative advantage of the country concerned. The maximization of the benefits offered by the Uruguay Round agreement may be achieved if governments focus their actions and public expenditures on the development of basic infrastructure, education, and health, rather than on protecting specific sectors or commodities. The phasing out of the MFA and the reduction in OECD protection in other sectors, such as in textiles and clothing[22] and small-scale manufacturing, offer

[22]The MFA, which controlled world trade in textiles and garments, expired in December 1992, and the liberalization of the two sectors was incorporated in the Uruguay Round.

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considerable potential to Arab countries, as does improved market access and transparency in trade in high-value and processed agricultural products, such as fruit and vegetables.

The Uruguay Round agreement marks a significant milestone in multilateral trade negotiations, building on the Tokyo Round through its comprehensive inclusion of agriculture and the new areas of trade in services, investment, and intellectual property. By bringing all trade within a transparent rules-based system, the Uruguay Round agreement provides developing countries with means to enter established and protected markets.

However, the Uruguay Round has not fully achieved its bold Punta del Este objective "to halt and reverse protectionism and to remove distortions to trade" (GATT, 1986, Part 1, paragraph 1). Distortions remain, and the playing field has not been completely leveled. OECD countries, and notably the European Union and the United States, retain a comprehensive system of subsidies and tariffs to protect domestic producers from world markets. Developing countries similarly have failed to remove distortions. Taking advantage of their exemption from the constraints on binding tariffs imposed on OECD countries, many developing countries have submitted tariff ceilings that are well in excess of historical levels, so that they could increase rather than reduce their tariffs and still meet Uruguay Round commitments. "Dirty tariffication" and the raising of tariffs is against the spirit of trade liberalization. Following the tariffication of all nontariff barriers in the Uruguay Round agreement, subsequent agreements are expected to reduce tariffs to well below historical levels.

In retrospect, the main achievement of the Uruguay Round agreement is likely to be its establishment of a comprehensive rules-based trading system. For many countries and commodities, the reductions agreed in the Uruguay Round agreement are modest.

Arab and other countries will benefit by going beyond the Uruguay Round agreement and committing themselves to trade reforms that seek to reduce impediments to trade. Unilateral reforms that entrench the process of liberalization will serve to maximize the potential gains offered by the Uruguay Round agreement. This is particularly the case in the agricultural sector, since Arab country agriculture is at a turning point. Trade reforms, in conjunction with other economy-wide reforms that enhance the efficiency of scarce natural, human, and financial resources, provide a historical opportunity for agriculture to contribute to sustainable growth in the Arab countries.

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Appendix: Agricultural Trade Values for Arab Countries, Averages 1986–89 and 1990–92
(Total and major commodities, in ten thousands of U.S. dollars)

	Exports		Imports	
Country	1986-89	1990–92	1986–89	1990–92
Algeria				
Total	3,055	5,204	238,787	228,553
Meat and meat preparations		2,427	2,190	13
Cereals and preparations	11	55	78,966	50,484
Wheat and flour		77	57,366	53,780
Rice			944	809
Barley			4,282	2,418
Maize			13,301	1,242
Pulses			6,246	6,344
Fruit and vegetables	995	2,700	15,717	15,867
Sugar			22,408	31,048
Egypt				
Total	59,705	40,641	315,260	276,571
Meat and meat preparations	86	874	29,403	17,586
Cereals and preparations	2,236	4,508	163,359	108,033
Wheat and flour	10	2	142,830	86,776
Rice	2,033	3,807	428	71
Barley	30	40	365	156
Maize	226	40	19,350	20,026
Pulses	1,369	290	3,476	8,403
Fruit and vegetables	14,477	15,050	8,858	11,718
Sugar	277	161	30,017	23,415
Jordan				
Total	11,429	16,631	54,975	73,949
Meat and meat preparations	45	172	7,602	7,702
Cereals and preparations	798	586	14,635	24,472
Wheat and flour	553	317	5,732	9,425
Rice	185	27	2,297	3,747
Barley			1,583	3,137
Maize		11	3,410	6,158
Pulses	20	80	852	1,282
Fruit and vegetables	5,910	7,684	8,138	6,571
Sugar		47	2,389	6,376
Kuwait				
Total	6,615	1,430	109,017	57,463
Meat and meat preparations	1,387	589	9,810	6,029
Cereals and preparations	1,046	108	14,071	10,164
Wheat and flour	85		2,254	1,810
Rice	127		6,545	5,233
Barley			1,907	943
Maize			1,049	460
Pulses	20	5	614	373
Fruit and vegetables	817	230	28,906	11,759
Sugar			1,745	1,847

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Appendix *(continued)*

Country	Exports 1986–89	Exports 1990–92	Imports 1986–89	Imports 1990–92
Morocco				
Total	50,166	63,255	72,878	93,148
Meat and meat preparations	6	669	876	
Cereals and preparations	733	180	21,348	28,558
Wheat and flour	121	23	18,596	22,210
Rice		1	144	805
Barley	731	105	52	2,005
Maize	4		1,784	2,497
Pulses	1,497	1,009	82	221
Fruit and vegetables	41,402	50,890	1,311	2,330
Sugar	20	2	5,942	8,132
Oman				
Total	4,668	7,172	40,358	53,510
Meat and meat preparations	97	180	5,517	5,570
Cereals and preparations	839	949	7,599	9,723
Wheat and flour	86	479	1,802	2,259
Rice	54	68	3,831	4,737
Barley	25	10	423	764
Maize	14	10	195	546
Pulses	4	2	261	381
Fruit and vegetables	1,064	996	9,084	11,170
Sugar	32	2	789	1,228
Saudi Arabia				
Total	32,833	45,093	361,240	425,977
Meat and meat preparations	810	1,577	32,450	48,503
Cereals and preparations	17,210	17,137	100,028	102,967
Wheat and flour	16,609	15,499	4,669	6,566
Rice	80	275	17,909	20,654
Barley	80		58,650	50,933
Maize	2	4	5,821	8,535
Pulses	26	27	1,937	1,909
Fruit and vegetables	4,453	6,990	51,093	59,843
Sugar	116	47	5,326	3,694
Somalia				
Total	8,610	3,761	11,595	8,981
Meat and meat preparations	5,285	3,550		
Cereals and preparations			6,170	6,553
Wheat and flour			3,003	2,750
Rice			2,137	2,983
Barley				
Maize			520	245
Pulses			215	337
Fruit and vegetables	2,188	1,107	378	364
Sugar			1,078	533

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Appendix *(continued)*

Country	Exports 1986–89	Exports 1990–92	Imports 1986–89	Imports 1990–92
Sudan				
Total	50,552	43,259	26,936	26,072
Meat and meat preparations		25	6	1,587
Cereals and preparations	4,645	2,200	10,825	
Wheat and flour			9,800	9,267
Rice			1,313	1,350
Barley				
Maize			233	263
Pulses		183	1,058	1,900
Fruit and vegetables	2,347	2,343	1,440	2,195
Sugar			666	530
Syrian Arab Republic				
Total	26,183	68,184	47,788	73,393
Meat and meat preparations	7	72	1,455	184
Cereals and preparations	1,981	1,728	17,595	29,795
Wheat and flour	72	226	12,807	19,179
Rice			2,409	4,506
Barley	2,122	124	126	1,629
Maize			2,099	4,313
Pulses	1,594	1,953	32	58
Fruit and vegetables	5,962	21,592	1,699	1,866
Sugar			7,553	12,916
Tunisia				
Total	18,932	36,564	55,821	56,829
Meat and meat preparations	31	39	1,934	2,363
Cereals and preparations	845	2,083	21,945	15,875
Wheat and flour			15,833	10,071
Rice		3	213	345
Barley		311	3,020	686
Maize			2,901	3,872
Pulses	34	62	301	207
Fruit and vegetables	6,895	8,286	1,719	1,649
Sugar	52		3,900	6,280
United Arab Emirates				
Total	35,446	50,490	139,148	177,118
Meat and meat preparations	2,330	15,037	18,094	
Cereals and preparations	6,232	8,427	18,823	23,388
Wheat and flour	453	148	2,255	1,433
Rice	4,015	6,937	9,931	13,470
Barley	94	163	1,057	508
Maize	3	68	738	598
Pulses	301	549	928	1,662
Fruit and vegetables	12,813	16,574	43,507	47,819
Sugar	850	6,514	2,681	10,318

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Appendix (*concluded*)

	Exports		Imports	
Country	1986-89	1990-92	1986-89	1990-92
Yemen				
Total	4,658	5,503	61,323	80,200
Meat and meat preparations			2,621	2,731
Cereals and preparations	342		19,539	27,682
Wheat and flour			15,246	21,215
Rice			3,806	4,348
Barley	1,917		22	1
Maize			212	2,111
Pulses	36		655	610
Fruit and vegetables	5,815		1,340	
Sugar			6,624	13,533

Sources: FAO (various years).

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6

The Uruguay Round and International Trade in Textiles and Clothing

*Naheed Kirmani, Rupa Chanda, and Clinton Shiells**

Textiles and clothing occupy an important position in the world economy. They contribute significantly to manufacturing production, employment, and trade. World trade (as measured by exports) in textiles and clothing was worth nearly $187 billion in 1992, some 7 percent of world merchandise exports (Table 1).

The importance of textiles and clothing in the economies of industrial countries has been declining, but textiles and clothing are still a significant contributor to employment and trade. A number of industrial countries are very large exporters and importers of textiles and clothing (Table 2). Trade in textiles and clothing products is of particular importance for developing countries, which account for more than half of world textiles exports and nearly three-fourths of world clothing exports (see Table 1). These ratios are much higher than developing countries' share in world manufacturing exports as a whole (less than 20 percent), indicating their comparative advantage in the textiles and clothing sectors. In many developing countries, the share of textiles and clothing exports in their own exports is substantial (Table 3), and these sectors are a crucial element in these countries' drive for industrialization and growth. Thus, the international trading regime governing textiles and clothing has far-reaching implications for the incomes and growth of developing countries.

However, the history of these sectors has been characterized by persistent and increasing protection over several decades, reflecting strong resistance to structural adjustment. Unfortunately, bilateral and multilateral agreements have, until recently, legitimized this protectionism. The Uruguay Round thus faced a tremendous challenge to integrate these sectors into the multilateral trading system. This chapter briefly describes past protecrion in the textiles

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Table 1. Value and Area Distribution of World Trade in Textiles and Clothing, 1992

	Textiles	Clothing	Total
Textiles and clothing exports (in billions of dollars)	85.3	101.6	186.9
Area distribution of world trade in textiles and clothing			
In percent of world exports			
Industrial countries	44	22	
Developing countries	55	74	
Transition economies	1	4	
In percent of world imports			
Industrial countries	42	83	
Developing countries	53	14	
Transition economies	5	3	

Source: GATT (1993b).

and clothing sectors, and the implications of this protection for exporting and importing countries. It outlines the recent agreement on textiles and clothing in the Uruguay Round and its potential implications for different groups of countries, with particular reference to the Arab countries.

Protection in Textiles and Clothing

Restrictions on trade in textiles and clothing have taken the form of high tariffs, tariff escalation, and, most important, quantitative restrictions. The incidence of protection in these sectors is well above protection in other manufacturing and more labor-intensive product lines in industrial countries (Figure 1).

Pre–Uruguay Round tariffs in industrial countries averaged over 15 percent compared with an average of some 6 percent on all industrial products (excluding petroleum) (Table 4). Tariffs on textiles and clothing products have also tended to increase with the stage of processing. For example, the average tariff on fibers in industrial countries is about 1 percent, while that on clothing is often more than 20 percent (see Table 4; see also Goto, 1988). Such tariff escalation is intended to protect higher-value-added production in industrial countries.

While tariff barriers are clearly important, the principal obstacle to trade in textiles and clothing has been an array of quantitative restrictions that have persisted for decades. Before the 1960s there were many quotas and vol-

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Table 2. Leading Exporters and Importers of Textiles and Clothing
(Value c.i.f. in billions of U.S. dollars; share in percent)

	Textiles			Clothing		
		Share in world imports/exports			Share in world imports/exports	
	Value 1992	1980	1992	Value 1992	1980	1992
Exporters						
Germany	13.9	11.4	11.9	8.4	7.1	6.4
Italy	10.2	7.6	8.7	12.2	11.3	9.4
France	6.3	6.2	5.4	5.3	5.7	4.0
United States	5.9	6.8	5.0	4.2	3.1	3.2
United Kingdom	4.3	5.7	3.7	3.7	4.6	2.8
Netherlands	3.0	4.1	2.5	2.7	2.2	2.1
Hong Kong	11.0	—	—	20.1	—	—
Domestic	2.2	1.7	1.9	10.0	11.5	7.6
Re-exports[1]	8.8	—	—	10.1	—	—
China[2]	8.6	4.6	7.3	16.7	4.0	12.8
Korea	8.2	4.0	7.0	6.8	7.3	5.2
Taiwan Province of China	7.6	3.2	6.5	4.1	6.0	3.1
Indonesia	2.8	0.1	2.4	3.2	0.2	2.4
Importers						
Germany	12.4	11.9	10.1	24.8	19.5	18.1
United States	8.2	4.4	6.7	33.0	16.3	24.0
France	7.5	7.1	6.1	9.8	6.2	7.1
United Kingdom	6.9	6.2	5.7	7.9	6.7	5.7
Italy	5.6	4.5	4.6	4.3	1.9	3.1
Japan	4.2	2.9	3.4	11.2	3.6	8.1
Netherlands	3.6	3.9	3.0	5.8	6.7	4.2
Belgium-Luxembourg	3.6	4.0	2.9	4.2	4.3	3.0
Spain	2.5	0.6	2.0	3.2	0.4	2.3
Canada[3]	2.5	2.2	2.0	2.4	1.7	1.8
Hong Kong	13.1	—	—	10.3	—	—
Retained imports[4]	4.3	3.6	3.5	0.3	0.9	0.2

Source: GATT (1993c).
[1]World trade figures including re-exports are not available.
[2]Includes trade through processing zones.
[3]Imports f.o.b.
[4]Retained imports are defined as imports less re-exports.

untary restraint agreements—known as the "hard core" residual restrictions—that had resisted the dismantling of quantitative restrictions in much of nonagricultural trade that occurred after the establishment of the GATT. The Short-Term Arrangement Regarding International Trade in Cotton Textiles covered 1961–62, and this was followed by the Long-Term Arrangement Regarding International Trade in Cotton Textiles for the period 1962–73. The purpose of these arrangements was to control trade so as to avoid "mar-

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Table 3. Exports of Textiles and Clothing
(In percent of own exports)

	Textiles		Clothing		Textiles and Clothing	
	1980	1992	1980	1992	1980	1992
World	2.7	3.2	2.0	3.6	4.7	6.8
Industrial countries						
Portugal	13.0	7.9	13.6	22.0	26.6	29.9
Italy	5.3	5.7	5.9	6.9	11.2	12.6
Austria	6.1	4.6	3.3	2.9	9.4	7.5
Belgium-Luxembourg	5.5	5.3	1.5	1.9	7.0	7.2
Germany	3.3	3.2	1.5	1.9	4.8	5.1
France	3.0	2.7	2.0	2.2	5.0	4.9
Switzerland	5.1	3.5	1.2	1.0	6.3	4.5
United Kingdom	2.8	2.3	1.7	1.9	4.5	4.2
Netherlands	3.1	2.1	1.2	1.9	4.3	4.0
Spain	3.4	2.5	1.5	1.1	4.9	3.6
Japan	3.9	2.1	0.4	0.2	4.3	2.3
United States	1.7	1.3	0.6	0.9	2.3	2.2
Developing economies						
Macau	19.2	9.4	78.4	67.8	97.6	77.2
Pakistan	33.5	49.5	3.9	19.9	37.4	69.4
Bangladesh	52.2	15.4	0.2	51.5	52.4	66.9
Mauritius[1]	...	...	17.0	51.1	17.0	51.1
Turkey	11.8	11.0	4.5	28.5	16.3	39.5
Tunisia[1]	...	...	15.4	36.6	15.4	36.6
India	13.3	14.3[2]	6.9	15.9	20.2	30.2[2]
China	14.0	10.1	8.9	19.7	22.9	29.8
Hong Kong	9.0	9.2	25.2	16.8	34.2	26.0
Morocco	4.9	4.4	4.4	20.1	9.3	24.5
Indonesia	0.2	9.7	0.4	10.8	0.6	20.5
Korea	12.6	10.7	16.8	8.8	29.4	19.5
Thailand	5.1	3.8	4.1	11.7	9.2	15.5
Uruguay	4.1	4.7	11.4	10.4	15.5	15.1
Taiwan Province of China	9.0	9.3	12.3	5.1	21.3	14.4
Egypt[3]	8.5	13.0	...	...	8.5	13.0
Colombia	3.4	2.5	3.0	6.4	6.4	8.9
Malaysia	1.2	1.4	1.2	4.6	2.4	6.0
Singapore	1.9	1.7	2.2	2.9	4.1	4.6
Brazil	3.3	2.8	0.7	1.0	4.0	3.8

Source: GATT (1993c).
[1]Data on textiles are not available; total refers to clothing only.
[2]The number for textiles refers to 1991.
[3]Data on clothing are not available; total refers to textiles only.

ket disruption" in industrial countries. In some cases, certain developing country interests also saw them as a way to share in cartel-like rents. Developing countries reluctantly agreed to participate in these arrangements because they feared that the alternative would be even tighter restrictions by in-

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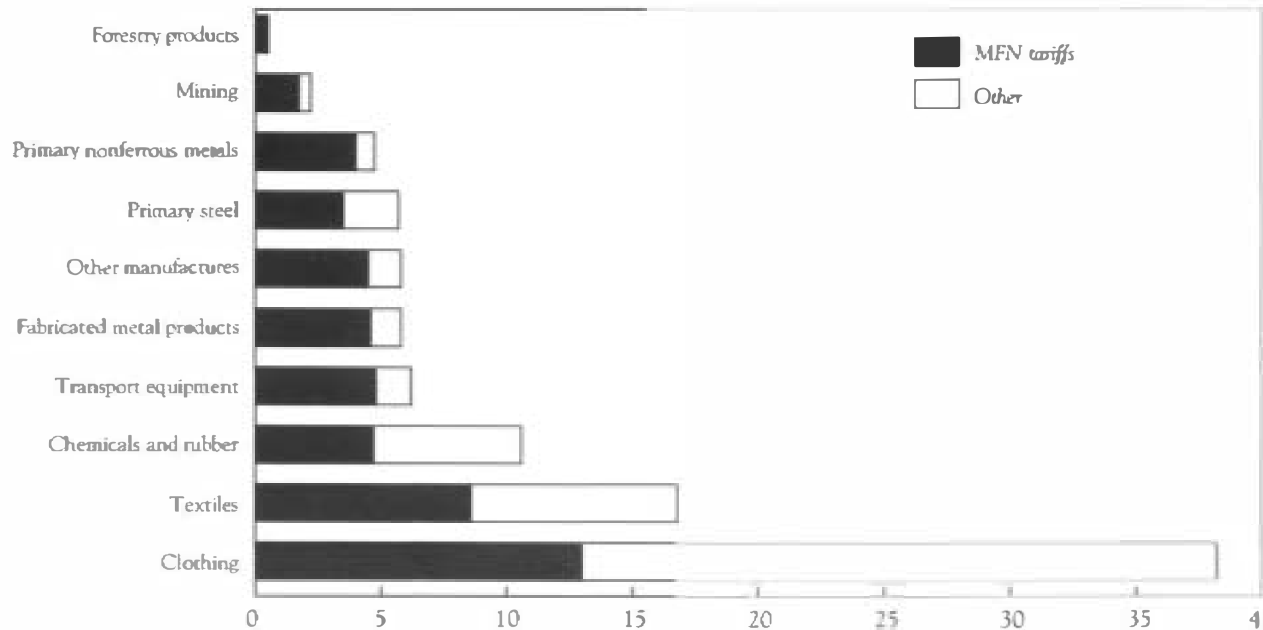
Figure 1. OECD Manufacturing Protection, 1990

(Goods excluding agriculture; in percent)



Source: Francois, McDonald, and Nordström (1995).

Note: Tariffs reflect MFN-based tariffs and regional preferences. Regional preferences result in trade with weighted protection below MFN rates. "Other" protection is not comprehensive but represents a lower bound covering major industrial quotas and dumping actions.

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dustrial countries imposed outside the multilateral trading system. But these arrangements proved neither temporary nor limited. They were followed by successive Multifibre Arrangements (MFAs), with restrictions spreading to more and more types of fibers and articles of clothing.

The MFA

The MFA is a system of bilaterally negotiated agreements under a multilateral framework that restricts textiles and clothing exports from developing countries to participating industrial countries. The MFA was intended to provide "temporary" protection to domestic textiles and clothing industries in industrial countries to allow them to adjust to foreign competition, and to provide developing country exporters with "orderly" access to industrial country markets. In practice, it became semipermanent through four successive phases: MFA I (1974–77), MFA II (1978–81), MFA III (1982–86), and MFA IV (1986–July 1991 and extended three times, until December 1994). The MFA has over 40 participants and covers 80 percent of world textiles and clothing exports, with around 100 bilateral restraint agreements. The extent of coverage has varied among exporting developing countries, with the severest restrictions applying to the most efficient producers. The aggregate bilateral restrictions of MFA quotas (based on estimated MFA quota price wedges) are approximately 15 percent to 25 percent for textiles and 25 percent to 40 percent for clothing (Centre for Economic Policy Research, 1994). Over time, the MFA has become both more restrictive and more complex.

In addition to the MFA, there are various other restraints that are imposed by importing industrial countries on exports of developing countries that are not participants in the MFA or on textiles and clothing products that are not included in the MFA. Thus MFA plus non-MFA restraint agreements affecting trade in textiles and clothing totaled 127 in 1992 (GATT, 1993a).

It is worth noting that while developing countries' trade is restricted, intra-industrial country trade in these sectors is not subject to quantitative restrictions (though tariffs are applicable). Textiles and clothing are "special" sectors in this regard—they are the only areas where GATT has authorized the widespread use of quantitative restrictions against developing countries. However, not all industrial countries are equally restrictive within the MFA framework. Some participating countries have imposed few formal quantitative restraints (for example, Austria, Finland, Japan, Sweden, and Switzerland), while others (for example, the European Union and the United States) have more restrictive regimes (Kirmani and others, 1994). The MFA is a derogation from the fundamental GATT principle of nondiscrimination (and also violates the injunction against the use of quantitative restrictions). Its very existence has undermined credibility in the GATT, especially among de-

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Table 4. Pre–Uruguay Round Tariffs on Textiles and Clothing and Manufacturing
(In percent; weighted average)

	Comparative Tariffs		By Processing Stage			
	Textiles and clothing	Manufacturing	Fibers	Yarns	Fabrics	Clothing
Austria	30.0	12.5	0.0	7.0	23.5	37.0
Canada	21.5	8.5	3.0	13.0	21.5	24.0
European Union	11.5	6.0	0.5	7.0	10.5	13.5
Finland	29.0	6.0	0.5	6.5	28.5	39.0
Japan	11.5	5.5	0.5	6.5	9.5	14.0
Sweden	12.5	4.5	0.5	7.5	13.0	14.0
Switzerland	8.5	2.5	0.0	3.5	8.5	11.0
United States	19.0	5.0	3.5	9.0	11.5	22.5

Source: Goto (1988).

veloping countries, and has been a constant reminder of the GATT's inability to discipline major trading nations.

It must be pointed out that many developing countries, including some of the major exporters of textiles and clothing, also resort to extensive and very high restrictions on their imports of textiles and clothing. Many apply both quantitative restrictions and high tariffs to limit foreign competition, notwithstanding that they have achieved efficiency in many product lines in these sectors. For example, developing countries such as China, Egypt, India, Indonesia, and Pakistan have long maintained very restrictive imports for textiles and clothing, as well as significant tariff escalation. In some cases the restrictions are imposed for balance of payments purposes, or on grounds of "reciprocity" for treatment of their exports in industrial countries. The high incidence of restrictions in developing countries in turn has provided a platform for textiles and clothing industries in industrial countries to resist dismantling their own trade barriers and to call for "reciprocity" in market opening. Some developing countries have embarked on programs to reduce protection in these sectors.

Effects of the MFA

An important rationale for the MFA was that it would provide time to domestic industries in industrial countries to adjust to increased foreign competition (although an approach using safeguards might have been sufficient in this regard). However, because protection has been viewed as if it were a long-term entitlement, adjustment has been sluggish, particularly in the clothing sector. The textiles industry has made some strides through produc-

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tivity improvements and labor-saving mechanization. The demands for continued protection have arisen mostly from the clothing industry; but the textiles industry is politically closely aligned with the clothing industry and has supported the latter's call for trade barriers.

Substantial welfare costs have resulted from the MFA in industrial countries. For example, De Melo and Tarr (1990) estimated that welfare costs attributable to MFA quotas amount to almost $12 billion (at 1984 prices) in the United States. The U.S. International Trade Commission (1993) has estimated that the welfare cost of each job protected by the MFA in the United States is about $270,000.

For efficient developing country exporters, the MFA has impeded the growth of textiles and clothing exports and has caused a substantial loss in potential export earnings. This loss is generally estimated to outweigh the quota rents that have accrued to developing country exporters under the MFA.[1] One may question the effectiveness of MFA restrictions in the face of evidence that several developing country exporters have increased the value and market share of their textiles and clothing exports to industrial countries. However, it is valid to say that the MFA has restricted potential imports in major industrial markets, and that growth in the volume of textiles and clothing exports of developing countries has been lower because of the agreement (see Cline, 1990).

The MFA has penalized good performance; countries that were most successful at increasing their textiles and clothing exports were most vulnerable to the imposition or tightening of MFA quotas. Other effects of the MFA include trade diversion to less restricted countries away from more competitive suppliers. The MFA has also caused a diversion of foreign direct investment to the textiles and clothing sectors of these less restricted countries. It has resulted in product switching and quality upgrading as countries have moved toward higher-value-added product lines in order to overcome volume restrictions. The rigidities of the quota system under the MFA have also enabled traditional suppliers to maintain their market shares despite declining competitiveness (for example, Hong Kong and Korea) and thus have prevented more efficient new entrants from competing on equal terms. Moreover, the complexity of the MFA has imposed high administrative costs. In some cases it has resulted in corruption and excessive official intervention in these sectors, while in other cases it has led to circumvention of quotas through transshipment or fraud.

[1]Harrison, Rutherford, and Tarr (1995), however, have shown that the reverse may be true for an exporting country if demand does not expand very much in formerly quota-constrained markets, or if the country does not gain much from higher prices in formerly unconstrained markets, following removal of the MFA.

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The Uruguay Round

Textiles and clothing trade played an important part in the Uruguay Round negotiations. This was an area in the negotiations that galvanized developing countries to take a united stand to demand that textiles and clothing be subject to normal GATT rules and that decades of discrimination and restrictions be ended. Developing countries had made similar demands during the Tokyo Round, but to no avail; their success this time during the Uruguay Round was a result of various factors. They were united and held firm. Also, industrial countries could not achieve their objective in the Uruguay Round to incorporate "new" areas (services and intellectual property rights) under multilateral disciplines without offering developing countries the possibility of integrating the "traditional" areas of textiles and clothing into the framework. But the opposition of the textiles and clothing sectors in industrial countries remained strong until the very end. This intense opposition explains the nature of the compromise agreement that finally emerged.

The Uruguay Round agreement on textiles and clothing envisages the phased elimination of the MFA over a ten-year transition period. The phasing is back-loaded, leaving the major part of the liberalization to the end of the period. It is in four phases, starting with the entry into force of the World Trade Organization (WTO) on January 1, 1995. Importing industrial countries must initially integrate products accounting for at least 16 percent of total (1990) import volume into the WTO, followed by an additional 17 percent and 18 percent, respectively, in the fourth and eighth years; the remaining 49 percent is to be integrated at the end of ten years. Table 5 summarizes the integration scheme for textiles and clothing under the Uruguay Round agreement.

Developing countries feared that the liberalization of the more important and "sensitive" items would be pushed to the end stage of the transition. To mitigate this possibility, the final agreement requires importers to include at least one product from each of four groups (tops and yarns, fabrics, made-up textiles, and clothing). However, since the agreement does not specify how much from each of these four categories must be liberalized at each stage of the transition period, it still leaves substantial room for discretion on the part of industrial countries in structuring their quota liberalization.

Concurrent with the integration of products, outstanding quotas must be initially expanded by an additional 16 percent, over and above the growth agreed previously under the MFA; an additional 25 percent in the next four years, and 27 percent in the next three years. There are also provisions for redistributing quotas in favor of quota-constrained and efficient exporters, and flexibility provisions (to carry over quotas across product lines and time periods) will con-

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Table 5. Integration Scheme for Textiles and Clothing

	Integration (Base: 1990 import volume of the products listed in annex of the agreement)	Growth Rate of Residual Quotas (Base: previously agreed MFA growth rates of quotas)
Stage I (January 1, 1995)	16 percent	16 percent higher growth rate than initially (for example, from 3 percent to 3.48 percent)
Stage II (January 1, 1998)	Further 17 percent (total 33 percent)	Increase by 25 percent (for example, from 3.48 percent to 4.35 percent)
Stage III (January 1, 2002)	Further 18 percent (total 51 percent)	Increase by 27 percent (for example, from 4.35 percent to 5.52 percent)
End of the ten-year transition period (January 1, 2005)	Remaining 49 percent (total 100 percent)	

Source: Francois, McDonald, and Nordström (1995).

tinue to apply. Exporting countries must also commit to take anticircumvention measures to deal with rerouting, false declaration of origin, and transshipment.

The agreement establishes transitional safeguard mechanisms in case of temporary surges in imports of products not yet integrated into the WTO or products not currently restrained under the MFA. Developing countries were concerned that this provision could be abused to retain restrictions, thereby effectively negating the intent of the Uruguay Round. Despite their efforts during the negotiations, they did not succeed in preventing the inclusion of this provision. But they were able to put time limits on these safeguards, which must be applied selectively and can be kept up to a maximum of three years. Also, there is less flexibility in the use of these safeguard measures against small exporters, the least developed countries, wool producers, outward processors, and cottage industries.

In addition to phasing out quantitative restrictions, the Uruguay Round agreement provides for an average reduction of 22 percent in industrial countries' bound tariffs on textiles and clothing. However, products in these sectors will continue to have a considerable number of tariff peaks (tariffs in excess of 15 percent). After full implementation of the Uruguay Round, about 28 percent of industrial country imports of textiles and clothing will remain subject to tariff peaks, compared with 35 percent at the start of the Uruguay Round (GATT, 1994a). Thus, the proportional tariff cuts in these sectors will be limited relative to the average reduction (close to 40 percent) in bound tariffs on industrial products as a whole.

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An interesting feature of the negotiations was the issue of access to developing countries' own markets. Industrial countries, especially the United States and the European Union, wanted reciprocal liberalization by developing countries as a condition for terminating the MFA. After difficult negotiations, consensus was reached on the wording of the final agreement, which calls for industrial and developing countries alike to "achieve improved market access in textiles and clothing through such measures as tariff reductions and bindings and reduction or elimination of nontariff barriers." The substitution of the word "achieve" for the initial phrasing in the Dunkel draft—which referred to "promote"—reflects the importance given to reciprocity during the negotiations. It was insisted upon by the United States and the European Union as a means to strengthen their ability to seek redress if developing countries failed to liberalize their own imports of textiles and clothing.

The manner of implementation of the Uruguay Round agreement will determine whether meaningful liberalization takes place during the ten-year period. Many developing countries are skeptical about this, and some of the early proposals by industrial countries appear to justify such skepticism. For example, none of the products integrated in the first stage (from January 1995) by the United States is currently under restraint; it appears that substantial liberalization will not take place until the third and fourth stages (from January 2002 and January 2005, respectively). Similarly, few items designated by the European Union for integration during the first three years were covered by bilateral quotas under the MFA. If industrial countries postpone liberalization of all the sensitive products to the end, this could make the final decisions on full implementation of the agreement even more difficult. Hence, it is important that industrial country governments give early signals to their domestic industries that this time the MFA will really be buried for good.

Implications of the Uruguay Round

Elimination of the MFA is expected to have profound effects on both importing industrial countries and exporting developing countries. The trade and welfare effects of liberalization have been estimated in several studies. With regard to trade effects, studies have shown that elimination of the MFA would lead to substantial increases in exports of textiles and clothing from most developing countries to industrial countries. Examples of such studies include GATT (1993b), Hertel and others (1995), Trela and Whalley (1990a), and Yang (1993). The estimated changes in exports of developing countries vary widely, from 10 percent to 36 percent in Yang (1993), to between 200 percent and 300 percent in Trela and Whalley (1990a), owing to different as-

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sumptions and methodologies. Hertel and others (1995) showed that most developing countries would experience substantial increases in exports of textiles and clothing as a result of MFA reform, but Latin America and sub-Saharan Africa may reduce their exports; imports of textiles and clothing into Canada, the European Union, and the United States would increase.

With regard to welfare (income) effects, the U.S. International Trade Commission (1993) estimated that abolishing the MFA (but not tariffs) would increase U.S. incomes by about $10 billion (at 1991 prices). Trela and Whalley (1990b) estimated that the elimination of tariffs and quotas would yield income gains of $8 billion for all developing countries. Francois, McDonald, and Nordström (1995) estimated that industrial countries would gain substantially from liberalization of trade in textiles and clothing as a consequence of the Uruguay Round agreement, with results for the European Union and the United States ranging from around $10 billion to $24 billion (1992 prices) in each case; estimated gains to developing countries vary widely, from $6 billion to $79 billion (1992 prices), depending on modeling assumptions. Harrison, Rutherford, and Tarr (1995) found that developing countries as a group would gain nearly $4 billion (1992 prices) from MFA reform in the long run, with losses for some countries within the group, and that global income would increase by nearly $25 billion (1992 prices). However, they also showed that developing countries may lose from removal of the MFA in the short run if demand does not expand very much in previously quota-constrained markets, so that loss of quota rents outweighs gains from higher export sales; or if a country's export share in previously unconstrained markets was low before the MFA reform, so that it does not gain much from higher prices.

Although the literature to date shows that importing industrial countries will likely gain from abolition of the MFA and tariff reductions under the Uruguay Round agreement, and that developing countries will generally gain, there may be adverse consequences for inefficient suppliers in some developing countries, especially in the short run, owing to the loss of quota rents. Quota rents, however, have been earned as a consequence of an inefficient system of managing the world market for textiles and clothing, and eliminating this system will yield substantial long-run benefits for producing and consuming countries alike, notwithstanding the losses to some inefficient producers.

Developing countries that are likely to gain the most are those efficient producers that are currently constrained by quotas and that will be able to generate an adequate supply response as the quotas are liberalized. These countries would be able to increase their market share in industrial countries significantly at the expense of other industrial or developing country exporters. These major beneficiaries are likely to be low-wage or high-produc-

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tivity exporters (or both) with an indigenous base in operating skills, garment design, and marketing; with well-developed institutions; and with good transportation and delivery facilities (for example, China and India). New entrants that possess competitive industries (or are able to improve the productivity of their textiles and clothing industries in response to the creation of new market opportunities) will also be beneficiaries of the liberalization. Traditional exporters that enjoyed large quotas simply on the basis of historical trade trends are likely to further diversify out of these sectors or to move up the ladder to higher-value- added products (for example, Hong Kong and Taiwan Province of China). Countries that have attracted "quota-hopping" exporters or have gained a niche because of offshore processing and preferential arrangements could be adversely affected by the elimination of the MFA. These countries may lose to the bigger, more competitive suppliers to the extent that their own processing industries are artificial creations of the MFA. Some sub-Saharan African countries may also lose from elimination of the MFA because of more intense competition, although clothing and manufactured textiles do not constitute important exports for most of these countries. The impact is more ambiguous for Latin American and Caribbean countries that currently enjoy preferential access to the U.S. market via outward processing schemes, or for the African, Caribbean, and Pacific (ACP) countries with preferences in the European Union under the Lomé Convention or with special arrangements with Canada. Their net gains will depend on the extent to which their preferential access is eroded, the extent to which they have been utilizing preferences, and on other factors such as proximity to industrial country markets, transport costs, and their underlying competitiveness (including trends in labor costs and productivity).

Implications for Arab Countries

The implications of the Uruguay Round textiles and clothing agreement for Arab countries will depend primarily on the significance of these sectors in their trade flows and on future developments in competitiveness. With the exception of Egypt, Arab countries do not participate in the MFA. However, some of them face restrictions on their exports in industrial country markets imposed outside the MFA.

Textiles and clothing exports are particularly significant in the case of four Arab countries— Morocco, Egypt, Tunisia, and the Syrian Arab Republic— where exports of these products account for between 20 percent and 40 percent of their total exports (Table 6). For these countries as well as for the United Arab Emirates, textiles and clothing exports also constitute a significant part of manufacturing trade, accounting for between 20 percent and almost 60 percent

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of theit total manufactured exports. Although recent data are not available, indications are that textiles and clothing exports are also potentially important for Sudan. In most other Arab countries, textiles and clorhing constitute a small part of exports and imports. This is especially true of the oil exporting countries such as Kuwait, Bahrain, and Qatar, as well as others such as Jordan and Lebanon. Among Arab countries, Kuwait and Saudi Arabia are the two largest importers—textiles and clothing account for 9 percent or more of their total imports (see Table 6).

The European Union is the main export market for those Arab countries that are significant producers of textiles and clothing. For example, the European Union accounts for about 40 percent of Egyptian exports of textiles and clothing, and for between 60 percent and 70 percent of Tunisian and Moroccan exports of these products. The United States accounts for less than 10 percent of Egypt's textile and clothing exports, and for even less in the cases of Morocco and Tunisia.

Textiles and clothing exports from major exporting countries among Arab countries currently enjoy duty-free access to the European Union market. They are, however, subject to nontariff barriers in the form of quotas, monitoring, voluntary export restraints (VERs), and antidumping measures in both the European Union and U.S. markets. Among the Arab countries,

Table 6. Textiles and Clothing Trade in Selected Arab Countries, 1990

	Exports of Textiles and Clothing		Imports of Textiles and Clothing	
	In millions of U.S. dollars	In percent of total exports	In millions of U.S. dollars	In percent of total imports
Algeria	43.8	0.3	212.4	2.2
Bahrain[1]	4.6	0.1	97.7	2.6
Egypt	883.3	34.2	344.2	3.7
Jordan	9.4	0.8	130.9	5.0
Kuwait	20.2	0.2	704.9	11.4
Libya	4.6	0.0	161.6	3.0
Morocco	831.8	19.5	360.9	5.3
Oman	19.8	0.3	69.9	2.6
Saudi Arabia[2]	0.7	0.0	2,044.2	8.5
Syrian Arab Republic	908.2	21.3	170.5	7.1
Tunisia	1,231.8	34.9	189.0	3.4
United Arab Emirates	134.4	0.8	1,037.6	9.2

Source: United Nations commodity trade statistics.
[1]Figures are for 1988.
[2]Figures are for 1989.

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Egypt faces the tightest restrictions on its textiles and clothing exports to these markets. Under their trade and cooperation agreements, Morocco and Tunisia have preferential access to the European Union market for their textiles and clothing products; the exceptions are one item for Morocco and two items for Tunisia, which are subject to VERs or quotas. These quotas in practice have not been a binding constraint. Morocco has often exceeded its ceiling by large margins without penalty, and Tunisia has not fully utilized its quotas. There are also special arrangements between the European Union and some Arab countries (for example, Tunisia and Morocco) whereby fewer and less restrictive quotas apply to textiles and clothing export items produced with raw materials originating from the European Union. Some Arab countries (for example, Morocco) can also take advantage of flexibility provisions in the European Union trade regime that allow them to substitute textiles and clothing exports within quantitative limits. Central and East European countries have in recent years negotiated association agreements that will eventually establish free-trade areas between them and the European Union; these countries constitute new competitive challenges for Arab countries in the European Union market, quite apart from the effects of the Uruguay Round.

The reduction in most-favored-nation (MFN) tariffs on textiles and clothing under the Uruguay Round will benefit Arab countries in markets where this was a constraint and where they did not enjoy preferential access. For example, Egypt is likely to gain in the U.S. market, where its textiles and clothing exports do not enjoy preferential duty treatment under the Generalized System of Preferences (GSP) and face high tariffs. Export opportunities will also expand with the elimination of MFA and non-MFA quantitative restrictions under the Uruguay Round agreement. The beneficial impact may be significant for Arab countries such as Egypt that face binding quotas in both the U.S. and European Union markets. It is likely to be less so for exporters such as Tunisia and Morocco that do not participate in the MFA and that have not faced binding quotas in their main export markets. The extent to which Arab exporters of textiles and clothing can effectively exploit the opportunities created by the elimination of the MFA will depend on their ability to improve competitiveness relative to other suppliers. Factors such as labor costs, transport costs, and the cost of capital will be important determinants in this regard. In particular, inflation rates and wages would need to be kept in line with, or below, those of competitors.

Some Arab exporters of textiles and clothing will experience an erosion of their preferential status in some industrial markets following the Uruguay Round agreement. Because several Arab countries have duty-free access to the European Union (Egypt, Tunisia, and Morocco), a reduction in MFN tariffs will lower the preference margin of these countries relative to that of other sup-

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pliers of textiles and clothing in the European Union. It is important to point out that this erosion of preferences applies to products that will be granted quota increases under the agreement. Since there is substantial discretion on the part of importing countries on the structuring of quota liberalization, the significance of preference erosion and its impact during the transition period will vary across these exporting countries and also across their different export markets. Given the phased and discretionary nature of liberalization under the agreement, it is difficult to generalize the implications of preference erosion for Arab exporting countries. The loss of preferential status is likely to result in increased competition from previously restricted, efficient low-cost suppliers in the European Union market. Hence, there is likely to be some displacement in the domestic textiles and clothing industries of Arab textiles and clothing exporters in the European Union market. The extent of this displacement will depend on their relative cost competitiveness and underlying structural factors. As noted earlier, competition from Central and East European countries in the European Union market may be a more important structural change facing some Arab countries than the Uruguay Round.

Preliminary evidence indicates that major Arab exporters of textiles and clothing may be at a cost disadvantage relative to their competitors in the European Union and thus are likely to be adversely affected by increased competition in this market. In the cases of Morocco and Tunisia, the World Bank (1994) has found that textiles and clothing exporters in these countries are not cost competitive relative to their main competitors in the European Union market, particularly those in Asia. The study attributes these cost disadvantages to various factors—low labor productivity (which, despite low real wages, results in relatively high unit labor costs), high energy costs, high transport costs, generally poor infrastructure, and lack of investment in human capital. Problems facing their textiles and clothing sectors include slow productivity growth; reliance on a few low-quality and low-technology products; dependence on a few markets; the small size of garment-producing firms; and weak linkages between spinning, weaving, and finishing and garment production. In some Arab countries, public investments have focused only on the spinning and weaving subsectors while neglecting the dyeing and finishing sectors; this has impaired the building of strong linkages within the garment-exporting industry.

Thus the Uruguay Round agreement, as well as the integration of Eastern and Western Europe, is likely to pose a challenge for a number of Arab exporters of textiles and clothing, especially in European markets. This challenge was evident even before the Uruguay Round agreement was reached; competing suppliers both from Eastern Europe and Asia were beginning to capture larger and more rapidly growing shares of the European Union market relative to exporters from Arab countries. Such competition is likely to intensify fol-

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lowing elimination of the MFA and the MFN tariff reductions under the Uruguay Round. Some Arab countries (for example, Morocco) are attempting to negotiate association agreements with the European Union. In any case, these countries will need to improve their competitiveness if they are to meet the emerging challenges. Thus, it is important not to overplay the loss of preference erosion under the Uruguay Round—in most cases, general trends in competitiveness related to movements in labor costs and productivity have already been affecting the positions of Arab countries. Global liberalization under the Uruguay Round will accelerate emerging trends. Arab countries need to face the increased competition by adjusting to the emerging new realities.

Elimination of the MFA may also reduce the importance of subcontracting arrangements between Arab exporters of textiles and clothing and the European Union. For example, Tunisia and Morocco are among the most important "outward processing trade" partners of the European Union (European Union clothing manufacturers export European Union fabrics to these countries, which are re-exported in the form of finished clothing). Subcontracting dominates the clothing sector, especially in activities that do not require high technology or skills (such as garment assembly). Under current arrangements, textiles and clothing exports to the European Union that use European fabrics are partially excluded from quantitative restrictions.

Although such subcontracting arrangements may continue to confer certain advantages to Arab countries (for example, Tunisia and Morocco), in part because of their proximity to the European Union, the benefits arising from them may be temporary. This is because offshore enterprises engaged in subcontracting arrangements have very few linkages with the rest of the economy, simply importing raw materials from the European Union and using local manpower and infrastructure to re-export finished items to the European Union. Hence, they can easily relocate when conditions offered elsewhere are more favorable. In this context, textiles and clothing exporters in Eastern Europe present a serious challenge to Arab exporters such as Tunisia and Morocco; the former have favorable preferential trade agreements with the European Union and also enjoy the advantages of relatively cheap labor and proximity to the European Union. Thus, the Arab countries will find it more difficult to retain the particular benefits available through subcontracting arrangements.

Concluding Remarks

As with any major liberalization, the Uruguay Round will induce changes in the status quo—whether arising from protection received or preferences granted. In most cases, Arab countries are small exporters and importers of

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textiles and clothing and are unlikely to be significantly affected by the new agreement. Major Arab country exporters of textiles and clothing will be affected positively by the liberalization in industrial country markets, but possibly negatively by the erosion in their preferential margins and by increased competition from third countries. The net impact will depend crucially on their ability to compete and to adapt to the new, more efficient global structure that will ensue from the Uruguay Round.

Even before the Uruguay Round agreement, Arab countries were beginning to face increased competitive challenges in their main markets. The ultimate impact of the Uruguay Round reforms depends on the policies adopted by Arab country governments to facilitate adjustment in their economies in general, and in the textiles and clothing sectors in particular.

Governments need to maximize the opportunities opened up by the Uruguay Round and to minimize the adverse consequences arising from increased competition. More generally, Arab countries will need to maintain sound macroeconomic policies and provide an environment that is competitive and stimulates investment and the acquisition of improved technology. They must liberalize the external sectors of their own economies and strengthen the supply of exports by increasing the ability of firms to respond to changes in demand and by broadening and creating areas of comparative advantage. They must also improve cost competitiveness through higher productivity growth and the accumulation of human and physical capital. As regards the textiles and clothing sectors, steps are needed to increase productivity and competitiveness through improvements in labor skills, investment in new technology, and modernization and restructuring of the spinning and weaving sectors. Market-based policies may be needed to facilitate a shift into the more efficient product lines within the textiles and clothing sectors to overcome labor cost disadvantages if these countries do have a comparative advantage in these lines. This may require increased investment and deregulation, as well as better integration of the textiles and clothing subsectors. More broadly, efforts should be made to decrease product and geographical concentration to reduce vulnerability to changes in market conditions. Market-based export-promotion policies to diversify the economy could play an important role in this regard. A stable legal and institutional framework must also be created to facilitate the operation of markets.

In conclusion, the Uruguay Round agreement should be viewed in a global context and not simply from the point of view of any one group of countries or sectors. The overall package will provide global welfare gains and opportunities, provided that countries bring forth the supply response. Although there may be potentially adverse effects on some countries in some areas, the transitional costs will be spread over a long implementation period. Arab countries should utilize this time to promote industry-specific and more gen-

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eral adjustments, as required, to meet the challenges of the new world market structure that will arise from the implementation of the Uruguay Round agreement.

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7

Trade in Services, the GATS, and the Arab Countries

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In September 1986, governments embarked on the longest and most ambitious multilateral trade negotiations held under the auspices of the GATT. They concluded the negotiations on April 15, 1994 with the signing of the Final Act of the Uruguay Round in Morocco. More than the end of a journey, however, the Marrakesh ceremony ushered in the beginning of a new era in international trade rules and the birth of the World Trade Organization (WTO).

The venues for launching the negotiations (Punta del Este, Uruguay) and signing the Final Act (Marrakesh, Morocco) had more than a symbolic meaning. For the first time, a large number of developing countries were active participants in the multilateral negotiations. Increased involvement by developing countries in the GATT is explained by several factors: better understanding of the limits to "free riding" on the multilateral trading system; growing appreciation for market-oriented policies and an outward-oriented strategy of development; and, perhaps the leading factor, the realization that multilateral disciplines offer the best hope for curbing unilateral actions by large economies.

One of the major results of the Uruguay Round was the creation of a General Agreement on Trade in Services (GATS). The GATS establishes rules and disciplines on policies affecting access to service markets, greatly extending the coverage of the multilateral trading system. It is a landmark achievement in terms of creating multilateral disciplines in virgin territory. As discussed below, however, the amount of liberalization generated by the

*This chapter draws on Primo Braga, Low, and Sorsa (1994) and Hoekman (1995). Assistance and comments from A. Amjadi, F. Konigshofer, N. Shafik, and A. Yeats are gratefully acknowledged. The findings, interpretations, and conclusions herein are the authors' own; they should not be attributed to the World Bank, its Board of Directors, its management, or any of its member countries.

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negotiations on services was limited. On a more positive note, it can be argued that the agreement paves the way for future multilateral liberalization and creates a mechanism through which countries may lock in their policies, thus reducing uncertainty for investors.

This chapter describes the main characteristics of the GATS and analyzes its implications for selected Arab countries—those that made offers on services. First, the terms of the debate that marked the negotiations on services are introduced, and the meaning of the concept of trade in services discussed. Subsequent sections present the basic framework of the GATS and analyze the content of the GATS offers, including offers made so far by Arab countries. The chapter concludes with some comments about the implications of the GATS for service importers and exporters in Arab countries.

Trade in Services: Terms of the Debate

Services, trade-related intellectual property rights (TRIPs), and trade-related investment measures (TRIMs) were the so-called new issues negotiated in the Uruguay Round. The demand for multilateral disciplines in these areas was driven by the growing globalization of economic activities and by the recognition that domestic policies were becoming increasingly relevant in determining international competitiveness. These were themes of particular interest to transnational corporations, and as such they were perceived as part of the negotiating agenda of industrial economies. Most developing countries, in turn, initially opposed the negotiations in these areas either because they believed that they did not enjoy comparative advantage in the relevant industries (services, high-tech goods) or because these negotiations were perceived to constrain their liberty in setting foreign direct investment policies and domestic laws. Moreover, from a negotiating perspective they were not eager to accept an expansion of the multilateral trade agenda while old issues that were more pertinent to them (for example, agriculture and textiles and clothing) continued to defy GATT disciplines.

At the beginning of the round, services were the most divisive topic on the negotiating agenda. Progress in the negotiations on services, however, occurred at a faster pace than most analysts predicted in 1986. Billed as the villain in Punta del Este, services were gradually replaced by TRIPs as the issue that symbolized the North-South divide and, even more important, by agriculture as the critical negotiating topic for the completion of the round.

International trade in services is not a new phenomenon. Transportation and travel, for example, have always been important economic activities. What is new is the rapid expansion of international service transactions during the past decade and the advent of new modes of supply, as in the case of

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services transmitted over electronic networks. The growth of trade in "long-distance" services, however, accounts for only part of the process of internationalization of services.

From a balance of payments perspective, a cross-border transaction refers to exchanges between residents and nonresidents, either firms or persons. Accordingly, international trade in services encompasses not only long-distance services, but also transportation and activities that require the temporary physical movement of the producer (as in the case of international consultants) or of the consumer (as in the case of tourism) across borders (Box 1). The concept of "commercial services" (GATT, 1989) has often been used to group the relevant items of the balance of payments to provide a proxy for international trade in services. Commercial services encompass transport (shipment and other transportation services), travel, and other private services. This last category includes brokerage, communication, nonmerchandise insurance, leasing and rental of equipment, technical and professional services, as well as income generated by the temporary movement of labor and property income (basically, royalties and license fees related to intellectual property).[1]

As shown in Table 1, over the past decade trade in commercial services has grown faster than trade in merchandise. The average annual growth rate of trade in commercial services over the 1980–92 period was 8.3 percent, compared with 5.5 percent for merchandise trade (in nominal terms). As a consequence, the share of commercial services in global trade (merchandise and commercial services) grew from 17 percent in 1980 to 22 percent in 1992. Preliminary information for 1993 confirms this trend, with global exports of commercial services surpassing the $1 trillion mark and continuing to grow faster than merchandise trade (GATT, 1994a). The relative importance of commercial services for Arab countries has also increased significantly over this period.[2]

It is well known that statistics on services have many deficiencies (Box 2). Part of the growth identified above, for example, reflects improvements in statistical practices in reporting countries. Moreover, changes in relative prices of services and goods have also influenced the trend in question, although the absence of constant-price data for services impedes definitive statements in this area. Still, it is clear that commercial services, and in particular "other private services," have been a dynamic component of interna-

[1]The fifth edition of the IMF's *Balance of Payments Manual*, in contrast to previous editions, explicitly identifies "services" as a standard component of the balance of payments. It is worth noting that labor income is not listed as a service by the IMF. For details, see IMF (1993).

[2]Note that commercial services do not encompass worker remittances and migrant transfers. These items generated $10.5 billion for the Arab countries in 1992, underscoring the importance of labor-related revenues for some of these economies.

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Box 1. International Transactions in Services[1]

Sampson and Snape (1985) have focused on the need for physical proximity of providers and consumers as a way to classify service transactions. Their analytical scheme can be summarized by the following matrix:

	Consumer does not move	Consumer moves
Producer does not move	A	B
Producer moves	C	D

Type A transactions can occur in the case of "long-distance" services (for example, transborder data flows). Tourism, education, and health services are typical examples of type B transactions. Type C transactions, in turn, involve the international movement of conventional factors of production (capital or labor). Foreign direct investment and the temporary movement of labor (skilled or unskilled) provide the main modes of supply for this class of transactions. Finally, type D transactions constitute what is sometimes referred to as "footloose" services (for example, a tourist going to a hotel run by a transnational corporation in a third country). Some service transactions (for example, air transport) may be classified in different cells of the matrix "depending on the carrier's traffic rights" (Weisman, 1990, p. 50). A type B transaction, for example, may occur when a tourist takes a domestic flight in a carrier of the country being visited, or a type C transaction when a resident flies a foreign carrier domestically.

The Sampson-Snape scheme also provides a convenient way to classify restrictions to international service transactions. These restrictions inhibit either service transactions per se (typically in the context of type A transactions, although restrictions on international transport can affect other categories), the movement of factors of production (transactions of types C and D), or the movement of service consumers (transactions of types B and D).

[1]Sources: Sampson and Snape (1985); and UNCTAD and World Bank (1994).

tional trade during the past decade. Trade in other private services grew at an average annual rate of 10.1 percent in the period 1980–92. In this context, the share of "other private services" in global commercial service trade increased from 37 percent in 1980 to 44 percent in 1992.

Table 2 provides an overview of the relative importance of these three main categories of trade for major country groups. Industrial countries dominate global exports in all three categories. This, however, does not imply that

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Table 1. Global Trade Flows
(In billions of U.S. dollars)

Country Group	1980	1985	1990	1992
Total exports of commercial services	358.0	379.6	790.8	930.7
OECD[1]	283.3	298.5	648.2	764.9
Rest of the world	74.6	81.1	142.6	165.8
Share of services in total trade				
(in percent)[2]	17.0	18.2	20.4	21.9
OECD	18.8	19.3	21.8	22.7
Rest of the world	12.7	15.3	17.8	19.0
Memorandum				
Arab countries[3]				
Total exports of commercial services	13.8	13.0	16.7	19.8
Share of services in total trade				
(in percent)	7.3	13.9	14.0	20.1

Source: Compiled by the authors on the basis of IMF, *Balance of Payments Statistics Yearbook* (Washington, various years).

Note: Only countries reporting to the IMF were considered in preparing this table. No estimates for missing data were used.

[1]Mexico is included in the rest of the world.

[2]Total trade = merchandise exports + commercial service exports.

[3]Data for Arab countries are based on available information for Algeria, Bahrain, Egypt, Jordan, Kuwait, Libya, Morocco, Oman, Qatar, Saudi Arabia, and the Syrian Arab Republic.

developing countries have little interest in trade in services. To the contrary, many developing countries are relatively specialized in exporting services. Table 2 illustrates this by providing information from revealed comparative advantage (RCA) indices constructed for selected country groups.[3] Small countries (defined as those with populations of less than 1 million people) are the most specialized in exports of services. Moreover, their relative specialization increased significantly during the past decade. These countries have higher than average export intensities for all three services categories but are clearly most highly specialized in travel (that is, tourism). The relative importance of travel receipts was about twice the world average in 1980, rising to over three times the world average in 1992.

Arab countries can be classified in two different groups as far as trade in services is concerned. Those in the Middle East typically present a lower than

[3]These are defined as the ratio of exports of a product category to a country's total exports of goods and services, divided by the same ratio for the world: $RCA = [X_{ij}/Y_j]/[X_{iw}/Y_w]$, where X_{ij} are exports of product i by country j, Y_j are total exports of goods and services by country j, and w stands for the "world" (the sum of all countries). The value of this index may range from zero to a very large number. If the index is greater than unity, this implies that the country is relatively specialized in the product concerned.

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Box 2. Taking Service Statistics Seriously[1]

Balance of payments statistics provide the main source of information for international trade in services. The data, however, embody many weaknesses. Until recently, some large economies (for example, the former Soviet Union) did not report data on trade in services. The level of disaggregation is limited and varies significantly among countries. There are also inconsistencies in the methodologies used to report certain items (countries do not report exactly the same items, for example, under "port services"). Moreover, net recording is a common practice for some items (for example, insurance transactions are often recorded as premiums less claims). All of these factors contribute to generate a downward bias in the value of service trade reported at the balance of payments level.

Efforts are being made to improve the coverage, quality, and consistency of the data. The OECD and the European Union, for example, are cooperating with a view to foster better collection of statistics on trade in services in their member countries. The IMF, in turn, is now engaged in the implementation of the new classification of trade in services introduced in the fifth edition of its *Balance of Payments Manual* (IMF, 1993). As countries adopt this new reporting system, an improved statistical picture will emerge.

Unfortunately, given the difficulties in capturing all the dimensions of international trade in services, this picture will remain at best partial. Cross-border intrafirm service transactions are increasing at a fast pace as foreign direct investment expands and electronic networks become pervasive. Intrafirm financial and technical advice, for example, is increasingly exchanged internationally. Transnational corporations can now use their mainframe computers around the clock by exploiting time-zone differences between the home country and the host countries of their affiliates. In the off-peak periods in the home country, access to the mainframe is given to the affiliates for data processing and other activities (for example, software development). Such transactions are generally not captured in conventional balance of payments statistics.

[1]Source: GATT (1989).

average degree of specialization in service trade vis-à-vis developing countries in general. The opposite, however, holds for Arab countries in North Africa. Egypt, Tunisia, and Morocco, in particular, reveal a high level of specialization in service trade. Tourism, labor income (associated with temporary labor movement), and the fees of the Suez Channel (in the case of Egypt) explain this result.

The process of internationalization of services is not limited to the modes of supply identified with international trade (that is, cross-border trade, consumption abroad, and the presence of natural persons). Commercial presence

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Table 2. Shares in Global Service Exports and Relative Specialization

	Commercial Services		Travel		Transport		Other Private Services	
Country Group	1980	1992	1980	1992	1980	1992	1980	1992
Share in global trade (in percent)								
OECD	79.1	82.2	75.0	79.1	79.8	80.5	81.4	85.2
Rest of the world	20.9	17.8	25.0	20.9	20.2	19.5	18.6	14.8
Relative specialization (indices)[1]								
High-income OECD	1.09	1.02	1.01	0.96	1.10	1.02	1.13	1.06
Developing countries	0.72	0.87	0.93	1.12	0.65	0.82	0.65	0.74
Middle East	0.32	1.03	0.39	2.28	0.32	1.54	0.22	3.17
North Africa	0.22	1.20	0.23	3.05	0.42	0.48	0.59	1.23
Small developing countries (1 million people or less)	1.16	2.16	2.19	3.45	1.19	1.85	0.39	1.11

Source: Compiled by the authors on the basis of IMF, *Balance of Payments Statistics Yearbook* (Washington, various years).

Note: See note to Table 1.

[1]Relative specialization is defined by means of revealed comparative advantage (RCA) indices, calculated as the ratio of exports of a product category to a country's total exports of goods and services, divided by the same ratio for the world: $RCA = [X_{ij}/Y_j]/[X_{iw}/Y_w]$, where X_{ij} are exports of product i by country j, Y_j are total exports of goods and services by country j, and w stands for the "world" (the sum of all countries). The value of this index may range from zero to a very large number. If the index is greater than unity, this implies that the country is relatively specialized in the product concerned.

abroad (in the context of foreign direct investment, representative offices or branches) remains the preferred mode of supply for many services. Despite the growing tradability of services, direct contact between the producer and the consumer continues to be the norm for many service transactions. It is also worth noting that trade in services tends to be complementary to foreign direct investment in general. As foreign direct investment occurs, transactions in long-distance services (communication services, technical advice, and the like) and movements of service providers (intracorporate transferees) expand.

In the 1980s, foreign direct investment flows increased at a much faster pace than global trade and production. Worldwide liberalization of foreign direct investment policies, economic integration in Europe, the emergence of new major outward-investor economies (such as Japan, Singapore, and Taiwan Province of China), as well as technological and financial innovations contributed to this process. Foreign direct investment in service industries was the most dynamic component of foreign direct investment flows in the 1980s. Privatization and deregulation of service industries, together with liberalization of market access, played an important role in this process. The

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members of the European Union were the main recipients of foreign direct investment in services (taking into account intra–European Union flows), reflecting the reorganization of service industries fostered by the liberalization set in motion by the Single Market program. Developing countries also experienced a sectoral shift of foreign direct investment flows in favor of services in the 1980s, even though this trend was not as dramatic as in high-income countries.

In the early 1990s, global foreign direct investment flows slowed down, reflecting the economic downturn in major home countries such as Germany, France, and, particularly, Japan. But foreign direct investment into developing countries continued to grow throughout this period, and as a consequence the share of developing countries in worldwide flows increased from 15 percent in 1990 to roughly 33 percent by 1993. Countries in the Middle East and in North Africa, however, have not been among the dynamic receivers of foreign direct investment inflows. Indeed, their share in total foreign direct investment flows to developing countries decreased from 8 percent in 1987–89 to 4 percent in 1990–92 (World Bank, 1993, p. 55).

The prospects for continuing internationalization of services through foreign direct investment are good. Demand for modern producer services is growing fast all over the world. Regulatory barriers to entry in service industries are being reduced, either through unilateral reforms or in the context of reciprocal negotiations. The most prominent attempt to reduce regulatory barriers to market access in a reciprocal fashion is, of course, the GATS. In the next section, we discuss how the GATS framework can be used to foster a program of liberalization in services (that is, a movement toward elimination of market access barriers and discrimination against foreign providers).[4]

The GATS in a Nutshell

The GATS consists of four main elements:[5] (1) a set of general concepts, principles, and rules that apply across the board to measures affecting trade in services; (2) specific commitments on national treatment and market access that apply to those service sectors and subsectors that are listed in a member's schedule, subject to sector-specific or cross-sectoral qualifications or conditions (if any); (3) an understanding that periodic negotiations will be undertaken to progressively liberalize trade in services; and (4) a set of attachments that include annexes that take into account sectoral specificities and Ministerial Decisions that relate to the implementation of the GATS.

[4] The next section and the one following it draw heavily on Hoekman (1995).

[5] For the complete text of the GATS, see GATT (1994b).

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The GATS applies to measures imposed by a member to the agreement that affect the consumption of services originating in other members (Article I). The agreement applies to all four modes of supply: (1) cross-border supply of a service (that is, not requiring the physical movement of supplier or consumer); (2) provision involving movement of the consumer to the country of the supplier; (3) services sold in the territory of a member by (legal) entities that have established a commercial presence there but originate in the territory of another member; and (4) provision of services requiring the temporary movement of natural persons (see Box 1). The agreement does not apply to services supplied in the exercise of governmental functions.

MFN, National Treatment, and Market Access

The core principle of the GATT is nondiscrimination, as reflected in its most-favored-nation (MFN) and national treatment rules. These rules apply generally in the GATT—that is, to all trade flows—except insofar as explicit allowance is made for their violation (for example, in the context of regional integration). MFN and national treatment are also key elements of the GATS, but in the GATS their reach is less all-encompassing. The coverage of MFN for each GATS member is subject to a negative list—it applies to all services except those listed by each member. The coverage of national treatment is determined by a "conditional" positive list approach—that is, it applies only to sectors listed in a country's schedule, and then only insofar as existing measures are not exempted. In addition to the two central GATT principles, the GATS introduces a commitment not found in the GATT: a market access obligation. Its reach is determined by a positive listing of sectors by each GATS member.

Although MFN is a general obligation, the GATS contains an annex allowing countries to invoke an exemption to MFN. MFN exemptions may be made only upon the entry into force of the agreement. Once a country becomes a member, further exemptions can be sought only by requesting the Ministerial Conference of the WTO for a waiver (which must be approved by three-fourths of the members). MFN exemptions are in principle to last no longer than ten years and are subject to negotiation in future trade liberalization rounds, the first of which must take place within five years of the entry into force of the agreement.

The need for an annex on MFN exceptions in large part reflected a concern on the part of some industries that MFN allowed competitors located in countries with relatively restrictive policies to benefit from their sheltered markets while enjoying a "free ride" in less restrictive export markets. This concern was expressed vividly in GATS discussions on financial services and telecommunications, prompting industry representatives in relatively "open"

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countries to lobby for MFN exemptions as a way to force sectoral reciprocity. In the closing days of the Uruguay Round, it became clear that a number of participants were ready to invoke the annex on MFN exceptions for financial services, basic telecommunications, maritime transport, and, possibly, audiovisual services. Rather than allow a situation to develop where countries would withdraw already tabled commitments in these areas or exempt them from the MFN obligation, a compromise solution was reached under which negotiations on a number of these sectors were to continue without endangering the establishment of the GATS (and the WTO).

Negotiations on financial services, basic telecommunications, and maritime transport were restarted in the spring of 1994. Of the three, only those on financial services were to be concluded rapidly (within six months of the entry into force of the WTO). If negotiations were unsuccessful—that is, if the market access offers made by certain countries were not satisfactory to other "demandeur" countries—members would be free to withdraw conditional offers in this area (invoke an MFN exemption). Negotiations on basic telecommunications and maritime transport are to be concluded by end-April and end-June 1996, respectively. Until then, both the MFN requirement and the possibility of invoking an exemption shall not enter into force for these services, except to the extent that a member has made a specific commitment for a sector.

Over 60 GATS members submitted MFN exemptions. Three sectors in particular were affected: audiovisual services, financial services, and transportation (road, air, and maritime). Exemptions in the audiovisual area tended to be justified on the basis of cultural objectives, allowing for preferential coproduction or distribution arrangements with a limited number of countries. Exemptions for financial services were usually motivated by concerns for reciprocity: countries seeking the flexibility to retaliate against members that did not offer reciprocal access to financial service markets. Exemptions in the transport area often were motivated by the Liner Code of the United Nations Conference on Trade and Development (UNCTAD), a concern for many developing countries, or by the existence of bilateral or regional agreements.

As mentioned earlier, market access and national treatment are so-called specific commitments. These obligations apply only to services that are included in the schedules of members, and then only subject to whatever qualifications or conditions are listed. Six types of marker access restrictions are in principle prohibited. These consist of limitations on (1) the number of service suppliers allowed; (2) the value of transactions or assets; (3) the total quantity of service output; (4) the number of natural persons that may be employed; (5) the type of legal entity through which a service supplier is permitted to supply a service (for example, branches versus subsidiaries for bank-

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ing); and (6) participation of foreign capital in terms of a maximum percentage limit of foreign shareholding or the absolute value of foreign investment. National treatment is defined as treatment no less favorable than that accorded to like domestic services and service providers. However, such treatment may or may not be identical to that applying to domestic firms, in recognition of the fact that identical treatment may actually worsen the conditions of competition for foreign-based firms (for example, a requirement for insurance firms that reserves be held locally).

The introduction of a market access commitment reflects one of the distinguishing characteristics of service markets: their contestability is frequently restricted by nondiscriminatory measures. Because national treatment and market access are not general obligations in the GATS context, the schedules of commitments of members are very important in determining the extent of the market access opportunities resulting from the agreement. As discussed further below, these schedules are constructed in such a manner that the liberalization "dynamics" of the GATS may turn out to be weaker than those of the GATT.

Other Obligations and Disciplines

Other obligations address issues such as transparency, recognition of licenses and certification, payments and transfers, domestic regulation, and the behavior of public monopolies. Article III (Transparency) requires all members to establish inquiry points to provide specific information concerning any laws, regulations, and administrative practices with respect to services covered by the agreement. Article VI (Domestic Regulation) requires that members establish disciplines to ensure that qualification requirements, technical standards, and licensing procedures are based on objective and transparent criteria, are no more burdensome than necessary to ensure the quality of the services concerned, and do not in themselves constitute a restriction on supply (thereby possibly circumventing a specific commitment). Article XI requires members to refrain from applying restrictions on international transfers and payments for current transactions relating to their specific commitments. Article VII (Recognition) allows for the establishment of procedures for (mutual) recognition of licenses and education, or experience granted by a particular member. Article VII is noteworthy in requiring members to "afford adequate opportunity" for other members to negotiate their accession to an existing bilateral or plurilateral recognition agreement. Monopolistic or oligopolistic supply of services is allowed under the GATS, but governments are required to ensure that such firms do not abuse their market power to "nullify" any specific commitments relating to activities that fall outside the scope of their exclusive rights.

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Many of the GATS framework's rules and disciplines apply only to the extent that specific commitments are made. This is a serious shortcoming and is a consequence of the positive list approach taken for scheduling commitments. Clearly one would want—and expect—disciplines regarding payments and transfers to be general. To the extent that other parties are willing to allow a country to maintain restrictions, a negative list approach would have allowed for exemptions. But at least the principle would be general, not specific. Even worse is emphasis put in Article VI (Domestic Regulation) that the requirement that "all measures of *general application affecting trade in services* are administered in a reasonable, objective and impartial manner" applies only "in sectors where specific commitments are undertaken" (GATT, 1994b, p. 333; emphasis added).

The MFN, national treatment, and market access obligations of the GATS do not extend to government procurement of services. Negotiations on this issue are to be initiated within two years of the entry into force of the WTO.[6] This greatly reduces the coverage of the GATS, since procurement typically represents a significant share of total demand for many services—for example, professional services, consulting engineering, and construction. The GATS also does not impose general disciplines on subsidy practices, only subjecting subsidies to the agreement's general obligations (that is, transparency, MFN, and dispute settlement). Negotiations are also called for on this topic, the time frame to be determined by a future work program.

The GATS makes explicit allowance for preferential trade agreements, but—as in the case of the GATT—imposes conditions that must be mer for an agreement to be consistent with the multilateral framework. Article V of the GATS is entitled "Economic Integration" and imposes the conditions on GATS members pursuing preferential arrangements: (1) the agreement must have "substantial sectoral coverage" in terms of number of sectors covered, volume of trade, and modes of supply affected; (2) the agreement should provide for the absence or elimination of substantially all discrimination (in terms of violation of national treatment) among participants in those sectors in which commitments were made at GATS level (this is to be accomplished by the elimination of existing discriminatory measures and/or the prohibition of new discriminatory measures at the moment of entry into force of the agreement or within a "reasonable" time period); and (3) it should not result in higher trade and investment barriers against nonmembers.

[6] The revised GATT Government Procurement Agreement was expanded to include services. However, this is a plurilateral agreement that binds only signatories. There were 13 members, mostly OECD countries, at the beginning of the Uruguay Round (counting the European Union as one).

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There are a number of articles of a "safeguard" nature, including Article X (Emergency Safeguard Measures), Article XII (Restrictions to Safeguard the Balance of Payments), Article XIV (Exceptions), and Article XXI (Modification of Schedules). Article X allowing for possible industry-specific safeguard actions is largely a shell, calling for further negotiations on this topic within three years from the entry into force of the WTO. The balance of payments provision only applies to those services for which specific commitments have been undertaken. It requires that such measures be nondiscriminatory, temporary, and phased out progressively as the invoking member's balance of payments situation improves.[7] Article XIV on exceptions is similar to what is found in the GATT, providing members with the legal cover to take measures to safeguard public morals, order, health, security, consumer protection, and privacy. It also allows for measures that violate national treatment if used to ensure equitable or effective collection of direct taxes, or that violate MFN if resulting from a bilateral double taxation agreement.[8] The provision on modification of schedules allows "concessions" (specific commitments) to be withdrawn subject to negotiation and compensation. In the event that bilateral negotiations on compensation are unsuccessful, arbitration is foreseen. Retaliation will only be authorized in instances where a member does not comply with arbitration. Finally, the WTO's Dispute Settlement Body (DSB) will be responsible for the GATS, as well as the GATT and TRIPs. It is noteworthy in this regard that retaliation from goods to services and vice versa is possible.

Provisions Specific to Developing Countries

The GATS contains no provisions similar to Part IV of the GATT on more favorable treatment of developing countries (special and differential treatment), or to the (unilateral) arrangements for tariff preferences that exist for merchandise trade flows (for example, the Generalized System of Preferences, GSP).[9] Although Article XIX allows developing countries to offer fewer specific commitments than industrial nations, this is not a right (or obligation). No developing country (including least developed ones) has been allowed to

[7] As in the GATT context, no recognition is expressed that import restrictions are second-best instruments to deal with balance of payments difficulties.

[8] A Ministerial Decision included in the Final Act states that "since measures necessary to protect the environment typically have as their objective the protection of human, animal, or plant life or health, it is not clear that there is a need to provide for ..." an explicit "environmental" exception. The Committee on Trade and Environment is given the tasks of determining whether there is such a need and examining the relationship between trade in services and the environment.

[9] For a more detailed discussion, see UNCTAD and World Bank (1994, pp. 144–46).

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become a member of the GATS without scheduling at least one service sector. Other provisions addressing developing country concerns include Articles III (Transparency), IV (Increasing Participation of Developing Countries), V (Economic Integration), and XV (Subsidies).

On transparency, industrial countries are to establish contact points to facilitate the access of developing country service suppliers to information relating to (1) the commercial and technical aspects of specific services; (2) requirements for registration, recognition, and obtaining of professional qualifications; and (3) the availability of service technology. Article IV states that increasing the participation of developing countries in world trade in services is to be facilitated through negotiated specific commitments relating to (1) access to technology on a commercial basis; (2) the improvement of access to distribution channels and information networks; and (3) the liberalization of market access in sectors of export interest to them. Article V:3 gives developing countries flexibility in complying with the conditions required for a preferential agreement to be GATS consistent. Moreover, it allows them to provide more favorable treatment to firms that originate in member countries of the agreement (that is, to discriminate against firms originating from nonmembers even if they are established in the region). Article XV, in turn, recognizes the role of subsidies in development programs of developing countries.

The Content of the GATS Offers

The core of the GATS is the specific commitments. To a very large extent, the impact of the GATS depends on the commitments that are made by members. Negotiators chose to pursue a "hybrid" of a positive and negative list approach to scheduling specific commitments. It is a positive list with respect to determining sectoral coverage of market access and national treatment commitments and a negative list with regard to the maintenance of measures that violate either national treatment or the market access disciplines. Each member first decides (negotiates) which service sectors will be subject to the GATS market access and national treatment disciplines. It then decides (negotiates) what measures will be kept in place for that sector that violate market access or national treatment, or both. Such limitations and exceptions must be specified by mode of supply. Because there are four modes of supply, there are eight opportunities for GATS members to avoid full application of market access or national treatment.

In addition to the specific commitments, countries also make "horizontal" commitments. These usually consist of a compilation of laws and policies that restrict the use of a mode of supply by foreign suppliers, independent of the

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sector involved. A policy that is often scheduled is an "economic needs" test—laws or regulations stipulating that foreign service providers may contest a market only if domestic providers do not exist or are unable to satisfy demand. Another example is a general licensing or approval requirement. In many instances such horizontal "headnotes" simply involve a restriction on the inward movement of natural persons. Table 3 illustrates the format of the schedules. An entry of "none" means a member binds itself not to have any measures that violate market access or national treatment for a specific combination of sector and mode of supply; "unbound" implies that no commitments are made for a particular mode of supply.[10]

Quantifying the Specific Commitments: Conceptual Issues

To assess the schedules, a quantitative measure is required that allows for cross-country comparisons. No attempt is made here to determine the restrictiveness or change therein of the policies affecting either scheduled or nonscheduled services. The focus is instead on scaling the sectoral commitments of GATS members with a view to "quantifying" two things: the extent to which measures have been bound, and the share of sectors where the binding relates to "free trade" (that is, absence of market restrictions combined with national treatment).

For purposes of evaluating the specific commitments, each GATS member's specific commitments were entered into a spreadsheet (commitments made as of April 1994 were considered in this exercise). Because there are 155 nonoverlapping service sectors in the GATS classification list (see Appendix 1) and four modes of supply, this implies 620 possible commitments. Since commitments apply to national treatment and market access separately, there are 1,240 data cells for each member. Schedules were submitted by 96 members. Two country groups were created for comparison purposes, one for 78 "developing countries," and one for 18 "high-income countries." The latter group includes OECD members, the European Union (counted as one), Singapore, Hong Kong, and Korea.[11] The developing country group includes countries with a wide range of per capita incomes and substantial variation in service market size (GDP). Because of their relatively low per capita incomes, this group includes a number of East European transition economies—the Czech Republic, Hungary, Poland, Romania, and the Slovak

[10]Most members do not list horizontal restrictions on cross-border supply or consumer movement. It is not clear whether this implies that they have bound themselves. The GATS also allows for "additional commitments" going beyond national treatment and market access, but virtually no use was made of this option, and it will be ignored in what follows.

[11]The intention was to include countries that are, or are expected soon to be, OECD members.

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Table 3. Format and Example of a Schedule of Specific Commitments

Commitment	Mode of Supply	Conditions and Limitations on Market Access	Conditions and Qualifications on National Treatment
Horizontal commitments (that is, across all sectors)	Cross-border supply	None	None other than tax measures that result in differences in treatment with respect to R&D services
	Consumption abroad	None	Unbound for subsidies, tax incentives, and tax credits
	Commercial presence (FDI)[1]	Maximum foreign equity stake is 49 percent	Unbound for subsidies; under Law x, approval is required for equity stakes over 25 percent and new investment that exceeds y million
	Temporary entry of natural persons	Unbound except for the following: Intra-corporate transferees of executives and senior managers; specialist personnel for up to one year; specialist personnel subject to economic needs test for stays longer than one year; service sellers (sales people) for up to three months	Unbound except for categories of natural persons referred to in the market access column
Specific commitments (for example, 1.A.d. Architectural services)[2]	Cross-border supply	Commercial presence required	Unbound
	Consumption abroad	None	None
	Commercial presence (FDI)[1]	25 percent of senior management should be nationals	Unbound
	Temporary entry of natural persons	Unbound, except as indicated in horizontal commitments	Unbound, except as indicated in horizontal commitments

Source: Hoekman (1995).
[1]Foreign direct investment.
[2]For the GATS classification list, see Appendix 1.

Republic. Appendix 2 lists GATS members that submitted schedules, defines the membership of the two groups, and reports the number of commitments by each member. Among the Arab countries, the following had submitted offers by April 1994: Algeria, Bahrain, Egypt, Kuwait, Morocco, and Tunisia.

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There are working parties for accession to the GATT and/or the WTO for Algeria, Jordan, Saudi Arabia, and Sudan. Moreover, Qatar and the United Arab Emirates are GATT members and are expected to present their services schedules.

Commitments were classified into three categories: (1) "none," implying that no restrictions are applied on either market access or national treatment for a given mode of supply or sector; (2) "unbound," meaning that no policies are bound for a given mode of supply or sector; and (3) "other," which in practice implies that restrictions are listed for a mode of supply or sector. These limitations (policies) are bound. To allow calculation of the sectoral coverage of commitments, one of three numerical indicators (weights) was allocated to each of the cells of a member's schedule: 1 in all instances where "none" was stated in the schedule for a sector or mode of supply (that is, full market access or national treatment is provided); zero in all instances where a member is listed as "unbound" for a sector or mode of supply; and 0.5 in all instances where specific restrictions or limitations are listed for a sector or mode of supply. The values of these indicators were chosen so as to allow aggregation across sectors and countries. The higher the number, the greater is the implied extent of openness-cum-binding.[12] Scaling commitments of "unbound" as zero and scaling commitments implying maintenance of measures violating national treatment or market access as 0.5 reflect a perception that scheduling and binding have value, no matter how restrictive the policies that are maintained.

Measures of Sectoral Coverage of Specific Commitments

Market access and national treatment coverage ratios are reported in Table 4. For both market access and national treatment, three indicators were calculated. First, the number of sector or mode of supply combinations (cells) where a commitment was made. Second, the average coverage of the schedule, defined as the arithmetic mean of the scale factors allocated to each cell (zero for unbound, 0.5 for bound restrictions, and 1 for no restrictions). Third, the share of "no restriction" commitments in a member's total commitments (count) and relative to the 155 possible sectors of the GATS classification list. The higher the number, the more "liberal" is the country. These ratios are conceptually similar to frequency and coverage indices for nontariff barriers.

[12]A value of 1 for a sector or mode of supply does not necessarily imply that foreign service providers can freely contest a specific market through a given mode of supply. This depends on the applicable horizontal commitments. In all cases where a reference to a horizontal commitment (restriction) is made under the temporary entry mode of supply, a value of 0.5 was entered.

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Table 4. Sectoral Coverage of Specific Commitments[1]
(In percent)

	High-Income Countries[1]	Other Countries	Large Developing Countries	Selected Arab Countries: Algeria	Bahrain	Egypt	Kuwait	Morocco	Tunisia
Market access									
Average count (sectors/modes listed as a share of maximum possible)[2]	53.3	15.1	29.6	0.65	2.58	16.77	28.39	23.23	8.39
Average coverage (sectors/modes listed as a share of total GATS classification, weighted by openness and binding scale factors)	40.6	9.4	17.1	0.48	1.94	10.48	10.65	11.21	3.71
Coverage/count (average coverage as a share of average count)	76.2	62.3	57.7	73.9	75.2	62.5	37.5	48.3	44.2
"No restrictions" as a share of total offer made (no scaling)	56.4	47.3	36.7	75.0	75.0	47.1	25.0	28.5	23.1
"No restrictions" as a share of total GATS classification	30.5	6.7	10.9	0.48	1.9	7.9	7.1	6.6	1.9
National treatment									
Average count (sectors/modes listed as a share of maximum possible)	53.3	15.1	29.6	0.65	2.58	16.77	28.39	23.23	8.39
Average coverage (sectors/modes listed as a share of total GATS classification, weighted by openness and binding scale factors)	42.4	10.2	18.8	0.48	1.94	11.69	11.61	15.65	3.55
Coverage/count (average coverage as a share of average count)	79.5	67.5	63.5	73.9	75.2	69.7	40.9	67.4	42.3
"No restrictions" as a share of total offer made (no scaling)	65.1	60.4	49.3	75.0	75.0	61.5	28.4	64.6	40.4
"No restrictions" as a share of total GATS classification	35.3	8.5	14.6	0.48	1.9	10.3	8.1	15.0	3.4
Memorandum									
No restrictions on market access and national treatment as a share of total GATS classification	28.0	6.4	10.0	0.48	1.9	7.9	7.1	6.5	1.5

Source: Compiled by the authors on the basis of GATT (1994c).
[1]For the GATS classification list, see Appendix 1.
[2]As defined by the GATS classification list of service sectors.

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High-income countries made commitments of some kind for 53.3 percent of the GATS classification list, compared with 15.1 percent for developing countries. Commitments made by large developing countries, arbitrarily defined as those with GDP of $40 billion or more, were substantially higher than the developing country average, accounting for 29.6 percent of the GATS classification list, largely because many developing countries made very limited commitments. Indeed, over one-fourth of developing countries (22 out of 78 countries) scheduled less than 3 percent of the GATS list. Four of these countries (Algeria, Bangladesh, Fiji, and Tanzania) scheduled only one of the 155 service sectors identified on the GATS list; five others made commitments on only two subsectors. Countries in the developing country group with the highest number of specific commitments include the Czech Republic, Hungary, and the Slovak Republic, each with more than 300 sectors or modes of supply scheduled.

The average coverage of market access commitments for the group of high-income countries is 40.6 percent; for developing countries, 9.4 percent; and for large developing countries, 17.1 percent. If these figures are related to the simple count of the number of sectors where commitments were made, it can be observed that high-income countries tend to be more liberal. That is, the proportion of commitments implying either a 1 (no restrictions) or a 0.5 (some restriction, but bound) is higher than for developing countries. In Table 4 this can be seen in the third row of the first panel, which shows the average coverage of commitments divided by the count. This ratio for the large developing countries is almost 20 percentage points lower than for the group of high-income countries. Some 56 percent of the high-income countries' commitments imply no restrictions, compared with 36.7 percent for the large developing countries. Although many developing countries made only a limited number of specific commitments, many of these involve "free" access: on average, 47.3 percent of commitments imply no restrictions. Table 4 also reports the importance of "no restriction" commitments relative to the GATS classification list (that is, the maximum possible). Such commitments by high-income countries account for 30.5 percent of the total. For developing countries as a whole, the figure is 6.7 percent; for the large developing countries, the number is 10.9 percent.

Identical ratios were calculated for national treatment commitments. A comparison of commitments on national treatment and market access reveals that most countries tend to be more liberal with regard to national treatment. There is, however, a very high correlation between commitments on market access and national treatment. Finally, in a memorandum item, Table 4 reports the magnitude of commitments where "no restrictions" applies to *both* market access and national treatment as a share of the total GATS classification. The figure for high-income countries is 28 percent, and that for the

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other countries, 6.4 percent. These numbers vividly illustrate how far away GATS members are from attaining free trade in services, and the magnitude of the task that remains.

With respect to the Arab countries, the offers of Algeria, Bahrain, and Tunisia were even more limited than the average offer of developing countries as a group. Egypt, Kuwait, and Morocco, however, presented offers that can be characterized as slightly more comprehensive than that of the average developing country. In this context, it seems that Arab countries have adopted a minimalist approach with respect to the GATS and the use of the negotiations to support a liberalization program for services.

The data reported in Table 4 do not take into account the relative importance of different service activities in GDP (that is, the size of the various service markets). Hoekman (1995) has shown that commitmenrs by both high-income countries and developing countries were made in activities that are of "above average" importance in GDP terms. Accordingly, sectoral coverage indicators rise when the relative importance of service sectors is used to weight these offers. The results, however, conrinue to indicate the limited coverage of the offers—particularly in the case of developing countries.

Market access commitments by OECD countries tend be restrictive with respect to activities where developing countries have a comparative advantage—that is, both low- and high-skill labor-intensive activities that require either temporary entry or establishment or work permits. Most countries specified their commitments with respect to "presence of natural persons" in the horizontal section of their offers. Typically, these offers involve bindings only for the entry of intracorporate senior personnel, and economic needs tests and quotas are often imposed (see GATT, 1994c). Nothing is to be gained from a retaliatory policy stance, however. Most developing countries are simply too small to be able to influence market access policies of large traders. Nonliberalization by trading partners reduces the potential gains from liberalization, but it by no means eliminates them (as discussed further in the next section).

The Annex on the movement of natural persons—currently the only mode-of-supply-specific part of the GATS—requires only that natural persons who are service suppliers or are employed by a service supplier of a member be allowed to provide services in accordance with the terms of specific commitments relating to entry and temporary stay of such persons. The extent to which labor movement is allowed is therefore completely dependent on what is specified in the schedules. As already noted, individual schedules reveal an unwillingness to make commitments relating to the movemenr of people. Most members only allow for entry of specialists and higher-level management staff, significantly curtailing the scope for cross-border (non-establishmenr-related) trade in services. Similarly, a lack of general disciplines on discriminatory li-

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censing practices involving citizenship or permanent residency requirements can be expected to weaken the GATS' impact on trade in professional services. A Ministerial Decision taken in Marrakesh established a negotiating group on movement of natural persons to undertake negotiations on further liberalization of such movement for the purpose of supplying services, and to conclude its talks within six months of the entry into force of the WTO.

With respect to the sectoral coverage of the commitments, Table 5 reveals that there is a fair amount of variance in the offers. The fewest commitments by high-income countries were made in sectors such as land, water, and air transport; postal services; basic telecommunications; research and development; education; health and social services; and recreational and cultural services. Of these "sensitive" sectors, developing countries have a potential export interest in the last three, insofar as most "personal" services are included in these categories (none of which were scheduled). But the coverage of business services, computer-related services, and construction is quite high. These sectors cover many activities where developing countries have an export potential.

The commitments of developing countries, in turn, are only substantial in the area of hotel and restaurant services (that is, tourism-related services). The Arab countries covered in Table 5 also follow this pattern, although it is worth noting that in construction and financial services these countries as a group scheduled a higher than average (compared with the developing country group) number of service activities in their offers.

Implications of the GATS for Arab Countries

In evaluating the benefits of being a GATS member, one can focus on the following types of effects: (1) the role of the GATS as an anchor for domestic policies; (2) the GATS as a mechanism to foster access to efficient services by the domestic economy; and (3) the benefits of liberalization for domestic service exporters. The first two effects are determined by the coverage and degree of liberalization of the offers made by the member country. The third effect, although influenced by the country's offer, reflects the overall impact of the GATS agreement in reducing foreign market access barriers.

The "anchor" effect is a conventional by-product of participation in a multilateral agreement. By binding its policies in the GATS, a government is in a better position to resist demands from influential interest groups to alter these policies in the future. The GATS imposes costs on backsliding—that is, adopting more restrictive policies for services that are bound—by requiring countries to negotiate the withdrawal of specific commitments. In this context, even an offer to bind the status quo has a value to the extent that it improves the transparency of the regulatory regime and makes backsliding less likely.

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Table 5. Commitments by Sector

Sector	Number of GATS Items and Modes of Supply[1]	Average Number of Commitments			Commitments/GATS Items per Sector		
		HICs[2]	Developing countries	Arab countries	HICs[2]	Developing countries	Arab countries
Construction	20	13.6	2.9	3.6	68.1	14.2	17.9
Motor vehicle repair	4	2	0.3	0	50.7	6.7	0
Wholesale trade	8	4.9	0.5	0.5	61.8	6.1	6.3
Retail trade	8	4.9	0.7	0.3	61.8	8.9	3.1
Hotels/restaurants	4	3.3	2.7	2.5	81.9	68.3	62.5
Land transport	40	10.9	2.0	1	27.2	5.0	2.5
Water transport	48	6.1	2.6	1.3	12.7	5.5	2.6
Air transport	20	4.5	1.3	1	22.4	6.6	5
Auxiliary transport	20	5.7	1.1	0	28.5	5.7	0
Postal services	4	1.4	0.6	0	35.4	15.2	0
Basic telecommunications	28	2.2	1.1	0	7.8	4.1	0
Value-added telecommunications	28	21.1	4.6	2.5	75.4	16.5	8.9
Financial services	60	35.4	11.7	14	59.0	19.5	23.3
Real estate services	8	3.7	0.3	0	46.2	3.8	0
Rental activities	20	10.9	1.0	0	54.6	5.2	0
Computer and related services	20	15.6	4.3	1.3	78.1	21.4	6.3
Research and development services	12	4.4	1.0	0.8	37.0	8.3	6.3
Business services	108	62.9	11.3	5.3	58.3	10.5	4.9
Refuse disposal	16	9.2	1.0	1.8	57.6	6.3	10.9
Education	20	6.3	1.0	0	31.3	5.2	0
Health and social services	24	5.4	1.8	0.8	22.3	7.6	3.1
Recreational/cultural services	48	14.9	4.3	2.3	31.1	9.0	4.9

Source: Compiled by the authors.
Note: "Arab countries" comprise Algeria, Bahrain, Egypt, Kuwait, Morocco, and Tunisia.
[1]For the GATS classification list, see Appendix 1.
[2]High-income countries.

Most of the potential gains for developing countries associated with GATS membership, however, will result from liberalizing access to their own markets. There is substantial evidence that many of the constraints that reduce the economic efficiency of service industries are home grown, in that governments have not always pursued the appropriate policies (UNCTAD and World Bank, 1994). Producer services (that is, services that support other business activities), in particular, play a crucial role in the development prospects of any nation. Losses of agricultural output owing to poor transportation, and the impact of substandard communication networks on the costs of doing business, are familiar examples in this context.

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Efficient producer services are also fundamental for the pursuit of an outward-oriented strategy of development. In the case of manufacturing, for example, access to global networks in communications and transportation is becoming a necessary condition for international competitiveness. Products are becoming increasingly time-sensitive, both because of shorter product life cycles and because of the pervasive use of "just-in-time" production management techniques. Foreign buyers must be assured that a supplier can deliver to specification and on time. The latter requirement in particular may be difficult to meet if producer services are low in quality or high in cost. Monopoly provision of port and handling services, burdensome taxation arrangements, and high-cost insurance because of a lack of competition all inhibit export development.[13] Liberalization of trade in services provides an effective way to promote efficiency in producer services.

The level and the degree of liberalization provided by the offers of the Arab countries (and most developing countries for that matter) suggest that they were not attracted by these benefits. Very little use was made of GATS to bind policies, and no liberalization occurred. In part, this may reflect the fact that many of the services in which these countries are likely to have or develop a comparative advantage require movement of labor. To the extent that this mode of supply was basically kept off the table by developed countries, the "mercantilistic" bargain typical of multilateral negotiations—with export-oriented industries supporting domestic liberalization in exchange for better market access abroad—was weakened in the case of services. But such mercantilist arithmetic is ill conceived, since nonliberalization is very costly to the domestic economy.

It also seems that Arab countries did not use the GATS negotiations to explore more liberal terms for trade in services delivered by movement of labor among themselves. Intraregional migration flows are extensive, being probably the most visible aspect of economic integration in the Arab world (Shafik, 1992). The commitments of the Arab countries, however, are not more liberal than the typical GATS offer with respect to this mode of supply. The schedule of Kuwait (a common destination for guesrworkers), for example, makes explicit under its horizontal commitments that measures limiting market access or national treatment are unbound except those concerning the entry and temporary stay of managers, specialists, and skilled technicians.

[13]It is interesting to note, for example, that Eastern Europe has been able to exploit subcontracting of manufacturing products for export to the European Union to a much greater degree than the Arab countries. Under just-in-time management practices, the availability of adequate service links (transport, harbor services, customs operations, telecommunications, and the like) is fundamental for the decision on where to outsource. Many Arab countries (particularly in North Africa) can become competitive locations for outsourcing by European companies once access to efficient producer services is made available.

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This may simply reflect the existence of regional alternatives for negotiations on labor movement (for example, the Cooperation Council for the Arab States of the Gulf, GCC). But it again illustrates the lukewarm attitude of the Arab GATS members toward the negotiating process.

With respect to the benefits that Arab countries will enjoy by virtue of the GATS commitments made by the rest of the world, the following considerations are relevant: (1) as already noted, the lack of relevant liberalization with respect to movement of natural persons limits their potential export-led benefits in the near future; (2) the greater transparency of the regulatory regime for services in industrial countries, however, may help the outward orientation of some segments of the Arab service sector (for example, the banks of GCC countries); and (3) tourism will continue to be an important source of export revenues for some Arab countries, although these countries will be operating in an increasingly competitive environment.

Overall, the immediate implications of the GATS agreement for domestic service providers in Arab countries are quite limited. If one focuses, for example, on Egypt—the Arab country with the highest level of "no restrictions" applied on market access and national treatment (see Table 4)—it is clear that most offers consist of binding the status quo of protection for the sectors scheduled. The qualifications are extensive and include limitations on the share of foreign personnel in foreign-controlled enterprises (and even in the overall wage bill in the case of maritime transport); a maximum of 49 percent of foreign capital in several industries (construction and related engineering services, tourism projects in the Sinai region, and insurance); economic needs tests in the case of tourism, opening of branches by foreign banks, and insurance (for example, new companies should be able to work without "harmful" competition to existing companies); restrictions on the operations of representative offices; and so on (GATT, 1994c, Annex 1b). In short, the cost of making specific commitments (in terms of new competitive pressures upon domestic service providers) is in most cases nil, given the scheduling of measures that violate national treatment or market access.

Finally, it is worth noting that Article V's loose disciplines do not impose any significant constraint on preferential economic integration among Arab countries. It can be argued that the existing regional arrangements are GATS compatible, under the "special and differential treatment" provisions for developing countries that appear in the article in question.

Concluding Remarks

The GATS extends multilateral disciplines to the area of trade in services. Its immediate impact in terms of liberalization of trade in services is minimal.

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Much remains to be done to expand its coverage. On a more positive note, many offers at least involve a standstill promise with respect to protectionist policies toward services (that is, a commitment not to introduce new distortions), and the GATS agreement paves the way for future negotiations.[14]

For the Arab countries, the implications of the GATS are quite limited at this time. It is clear that these countries (as most participants in the negotiations) were not interested in using the GATS negotiations as a lever to promote reform in their service industries. Moreover, they adopted a minimalist approach with respect to the binding of their policies for services, as illustrated by the restricted coverage of their schedules. This defensive attitude does not bode well for economies that will be facing growing competitive pressures as the world economy becomes more integrated. The task ahead is to better explore the opportunities opened by the GATS in order to improve access to efficient services.

Appendix 1. GATS Classification of Services

1. BUSINESS SERVICES
   - A. Professional Services
     - a. Legal services
     - b. Accounting, auditing, and bookkeeping services
     - c. Taxation services
     - d. Architectural services
     - e. Engineering services
     - f. Inregrated engineering services
     - g. Urban planning and landscape architectural services
     - h. Medical and dental services
     - i. Veterinary services
     - j. Services provided by midwives, nurses, physiotherapists, and paramedical personnel
     - k. Other
   - B. Computer and Related Services
     - a. Consultancy services related to the installation of computer hardware
     - b. Software implementation services
     - c. Data-processing services
     - d. Database services
     - e. Other
   - C. Research and Development (R&D) Services
     - a. R&D services on natural sciences

[14]See Hoekman (1995) for a discussion of the GATS architecture and the prospects for future liberalization of trade in services.

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Appendix 1 *(continued)*

- b. R&D services on social sciences and humanities
- c. Interdisciplinary R&D services

D. Real Estate Services
- a Involving own or leased property
- b. On a fee or contract basis

E. Rental/Leasing Services Without Operators
- a. Relating to ships
- b. Relating to aircraft
- c. Relating to other transport equipment
- d. Relating to other machinery and equipment
- e. Other

F. Other Business Services
- a. Advertising services
- b. Market research and public opinion polling services
- c. Management consulting services
- d. Services related to management consulting
- e. Technical testing and analysis services
- f. Services incidental to agriculture, hunting, and forestry
- g. Services incidental to fishing
- h. Services incidental to mining
- i. Services incidental to manufacturing
- j. Services incidental to energy distribution
- k. Placement and supply services of personnel
- l. Investigation and security
- m. Related scientific and technical consulting services
- n. Maintenance and repair of equipment (not including transport equipment)
- o. Building-cleaning services
- p. Photographic services
- q. Packaging services
- r. Printing, publishing services
- s. Convention services
- t. Other

2. COMMUNICATION SERVICES

A. Postal Services

B. Courier Services

C. Telecommunication Services
- a. Voice telephone services
- b. Packet-switched data transmission services
- c. Circuit-switched data transmission services
- d. Telex services

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Appendix 1 *(continued)*

- e. Telegraph services
- f. Facsimile services
- g. Private leased circuit services
- h. Electronic mail
- i. Voice mail
- j. On-line information and database retrieval
- k. Electronic data interchange (EDI)
- l. Enhanced/value-added facsimile services, including store and forward, store and retrieve
- m. Code and protocol conversion
- n. On-line information and/or data processing (including transaction processing)
- o. Other

D. Audiovisual Services
- a. Motion picture and video tape production and distribution services
- b. Motion picture projection services
- c. Radio and television services
- d. Radio and television transmission services
- e. Sound recording
- f. Other

E. Other

3. CONSTRUCTION AND RELATED ENGINEERING SERVICES

A. General Construction Work for Buildings

B. General Construction Work for Civil Engineering

C. Installation and Assembly Work

D. Building Completion and Finishing Work

E. Other

4. DISTRIBUTION SERVICES

A. Commission Agents' Services

B. Wholesale Trade Services

C. Retailing Services

D. Franchising

E. Other

5. EDUCATIONAL SERVICES

A. Primary Education Services

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Appendix 1 *(continued)*

- B. Secondary Education Services
- C. Higher Education Services
- D. Adult Education Services
- E. Other Education Services

6. ENVIRONMENTAL SERVICES
   - A. Sewage Services
   - B. Refuse Disposal Services
   - C. Sanitation and Similar Services
   - D. Other

7. FINANCIAL SERVICES
   - A. All Insurance and Insurance-Related Services
     - a Life, accident, and health insurance services
     - b. Non-life-insurance services
     - c. Reinsurance and retrocession
     - d. Services auxiliary to insurance (including brokerage and agency services)
   - B. Banking and Other Financial Services (excluding insurance)
     - a. Acceptance of deposits and other repayable funds from the public
     - b. Lending of all types, including, inter alia, consumer credit, mortgage credit, factoring, and financing of commercial transaction
     - c. Financial leasing
     - d. All payment and money transmission services
     - e. Guarantees and commitments
     - f. Trading for own account or for account of customers, whether on an exchange, in an over-the-counter market or otherwise, of the following:
       - Money market instruments (cheques, bills, certificates of deposit, etc.)
       - Foreign exchange
       - Derivative products including, but not limited to, futures and options
       - Exchange rate and interest rate instruments, including products such as swaps, forward rate agreements, etc.
       - Transferable securities
       - Other negotiable instruments and financial assets, including bullion
     - g. Participation in issues of all kinds of securities, including underwriting and placement as agent (whether publicly or privately) and provision of service related to such issues
     - h. Money brokerage
     - i. Asset management, such as cash or portfolio management, all forms of collective investment management, pension fund management, custodial depository and trust services

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Appendix 1 *(continued)*

j. Settlement and clearing services for financial assets, including securities, derivative products, and other negotiable instruments
k. Advisory and other auxiliary financial services on all the activities listed in Article 1B of GATT document MTN.TNC/W/50, including credit reference and analysis, investment and portfolio research and advice, advice on acquisitions and on corporate restructuring and strategy
l. Provision and transfer of financial information, and financial data processing and related software by providers of other financial services

C. Other

8. HEALTH-RELATED AND SOCIAL SERVICES
(other than those listed under 1.A.h–j.)

A. Hospital Services

B. Other Human Health Services

C. Social Services

D. Other

9. TOURISM AND TRAVEL-RELATED SERVICES

A. Hotels and Restaurants (including catering)

B. Travel Agencies and Tour Operators' Services

C. Tourist Guides' Services

D. Other

10. RECREATIONAL, CULTURAL, AND SPORTING SERVICES
(other than audiovisual services)

A. Entertainment Services (including theater, live bands, and circus services)

B. News Agency Services

C. Libraries, Archives, Museums, and Other Cultural Services

D. Sporting and Other Recreational Services

E. Other

11. TRANSPORT SERVICES

A. Maritime Transport Services
a. Passenger transportation
b. Freight transportation
c. Rental of vessels with crew
d. Maintenance and repair of vessels

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Appendix 1 (*concluded*)

e. Pushing and towing services
f. Supporting services for maritime transport

B. Internal Waterways Transport
a. Passenger transportation
b. Freight transportation
c. Rental of vessels with crew
d. Maintenance and repair of vessels
e. Pushing and towing services
f. Supporting services for internal waterway transport

C. Air Transport Services
a. Passenger transportation
b. Freight transportation
c. Rental of aircraft with crew
d. Maintenance and repair of aircraft
e. Supporting services for air transport

D. Space Transport

E. Rail Transport Services
a. Passenger transportation
b. Freight transportation
c. Pushing and towing services
d. Maintenance and repair of rail transport equipment
e. Supporting services for rail transport services

F. Road Transport Services
a. Passenger transportation
b. Freight transportation
c. Rental of commercial vehicles with operator
d. Maintenance and repair of road transport equipment
e. Supporting services for road transport services

G. Pipeline Transport
a. Transportation of fuels
b. Transportation of other goods

H. Services Auxiliary to All Modes of Transport
a. Cargo-handling services
b. Storage and warehouse services
c. Freight transport agency services
d. Other

I. Other Transport Services

12. OTHER SERVICES NOT INCLUDED ELSEWHERE

Source: GATT (1991).

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Appendix 2. GATS Members: Number of Sectors Scheduled at the Mode of Supply Level
(Maximum number = 620; that is, 155 activities times 4 modes of supply)

Member	Number of Sectors	Member	Number of Sectors
	Developing countries		
Algeria	4	Kenya	84
Antigua and Barbuda	68	Kuwait	176
Argentina	208	Macao	76
Aruba	140	Madagascar	8
Bahrain	16	Malaysia	256
Bangladesh	4	Malta	28
Barbados	24	Mauritius	43
Belize	8	Morocco	144
Benin	44	Mozambique	48
Bolivia	24	Myanmar	12
Brazil	156	Namibia	12
Brunei Darussalam	76	Netherlands Antilles	144
Burkina Faso	8	New Caledonia	24
Cameroon	12	Nicaragua	196
Chile	140	Niger	20
China	196	Nigeria	96
Colombia	164	Pakistan	108
Congo	16	Paraguay	36
Costa Rica	52	Peru	96
Côte d'Ivoire	56	Philippines	160
Cuba	120	Poland	212
Cyprus	36	Romania	176
Czech Republic	304	St. Lucia	32
Dominica	20	St. Vincent and the Grenadines	32
Dominican Republic	264	Senegal	104
El Salvador	92	Slovak Republic	308
Egypt	104	South Africa	288
Fiji	4	Sri Lanka	8
Gabon	44	Suriname	16
Ghana	100	Swaziland	36
Grenada	20	Tanzania	4
Guatemala	40	Thailand	260
Guyana	72	Trinidad and Tobago	68
Honduras	64	Tunisia	52
Hungary	336	Uganda	8
India	132	Uruguay	96
Indonesia	140	Venezuela	156
Israel	180	Zambia	64
Jamaica	128	Zimbabwe	72

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Appendix 2 *(concluded)*

Member	Number of Sectors	Member	Number of Sectors
	High-income countries		
Australia	360	Mexico	252
Austria	412	New Zealand	276
Canada	352	Norway	360
European Union	392	Singapore	232
Finland	328	Sweden	320
Hong Kong	200	Switzerland	400
Iceland	372	Liechtenstein	312
Japan	408	Turkey	276
Korea	311	United States	384

Source: Hoekman (1995).

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Appendix

A Petition from the Candlemakers

*Frédéric Bastiat**

From the Manufacturers of Candles, Tapers, Lanterns, Candlesticks, Street Lamps, Snuffers, and Extinguishers, and from the Producers of Tallow, Oil, Resin, Alcohol, and Generally of Everything Connected with Lighting.

To the Honorable Members of the Chamber of Deputies.

Gentlemen:

You are on the right track. You reject abstract theories and have little regard for abundance and low prices. You concern yourselves mainly with the fate of the producer. You wish to free him from foreign competition, that is, to reserve the *domestic market* for *domestic industry*.

We come to offer you a wonderful opportunity for applying your—what shall we call it? Your theory? No, nothing is more deceptive than theory. Your doctrine? Your system? Your principle? But you dislike doctrines, you have a horror of systems, and, as for principles, you deny that there are any in political economy; therefore we shall call it your practice—your practice without theory and without principle.

We are suffering from the ruinous competition of a foreign rival who apparently works under conditions so far superior to our own for the production of light that he is *flooding* the *domestic market* with it at an incredibly low price; for the moment he appears, our sales cease, all the consumers turn to him, and a branch of French industry whose ramifications are innumerable is all at once reduced to complete stagnation. This rival, which is none other than the sun, is waging war on us so mercilessly that we suspect he is

*A French political economist and a brilliant satirist who wrote extensively in the first half of the nineteenth century showing the absurdity of protectionist arguments. The "Petition" illustrates his masterly technique. It has become a classic in the history of economic thought. Reprinted from Frédéric Bastiat, "A Petition," in *Economic Sophisms*, translated and edited by Arthur Goddard (Princeton, New Jersey: D. Van Nostrand, 1964); copyright 1964 by the William Volker Fund.

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being stirred up against us by perfidious Albion (excellent diplomacy nowadays!), particularly because he has for that haughty island a respect that he does not show for us.[1]

We ask you to be so good as to pass a law requiring the closing of all windows, dormers, skylights, inside and outside shutters, curtains, casements, bull's eyes, deadlights, and blinds—in short, all openings, holes, chinks, and fissures through which the light of the sun is wont to enter houses, to the detriment of the fair industries with which, we are proud to say, we have endowed the country, a country that cannot, without betraying ingratitude, abandon us today to so unequal a combat.

Be good enough, honorable deputies, to take our request seriously, and do not reject it without at least hearing the reasons that we have to advance in its support.

First, if you shut off as much as possible all access to natural light, and thereby create a need for artificial light, what industry in France will not ultimately be encouraged?

If France consumes more tallow, there will have to be more cattle and sheep, and, consequently, we shall see an increase in cleared fields, meat, wool, leather, and especially manure, the basis of all agricultural wealth.

If France consumes more oil, we shall see an expansion in the cultivation of the poppy, the olive, and rapeseed. These rich yet soil-exhausting plants will come at just the right time to enable us to put to profitable use the increased fertility that the breeding of cattle will impart to the land.

Our moors will be covered with resinous trees. Numerous swarms of bees will gather from our mountains the perfumed treasures that today waste their fragrance, like the flowers from which they emanate. Thus, there is not one branch of agriculture that would not undergo a great expansion.

The same holds true of shipping. Thousands of vessels will engage in whaling, and in a short time we shall have a fleet capable of upholding the honor of France and of gratifying the patriotic aspirations of the undersigned petitioners, chandlers, etc.

But what shall we say of the *specialties of Parisian manufacture?* Henceforth you will behold gilding, bronze, and crystal in candlesticks, in lamps, in chandeliers, in candelabra sparkling in spacious emporia compared with which those of today are but stalls.

There is no needy resin-collector on the heights of his sand dunes, no poor miner in the depths of his black pit, who will not receive higher wages and enjoy increased prosperity.

[1]["Perfidious Albion" is England, along with a typically French jibe at the English fog, which keeps the sun from interfering with artificial light in England as much as it does in France. During the 1840s, Franco-English relations were occasionally very tense.—TRANSLATOR.]

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It needs but a little reflection, gentlemen, to be convinced that there is perhaps not one Frenchman, from the wealthy stockholder of the Anzin Company to the humblest vendor of matches, whose condition would not be improved by the success of our petition.

We anticipate your objections, gentlemen; but there is not a single one of them that you have not picked up from the musty old books of the advocates of free trade. We defy you to utter a word against us that will not instantly rebound against yourselves and the principle that guides your entire policy.

Will you tell us that, though we may gain by this protection, France will not gain at all, because the consumer will bear the expense?

We have our answer ready:

You no longer have the right to invoke the interest of the consumer. You have sacrificed him whenever you have found his interests opposed to those of the producer. You have done so in order *to encourage industry and to increase employment*. For the same reason you ought to do so this time too.

Indeed, you yourselves have anticipated this objection. When told that the consumer has a stake in the free entry of iron, cola, sesame, wheat, and textiles, "Yes," you reply, "but the producer has a stake in their exclusion." Very well! Surely if consumers have a stake in the admission of natural light, producers have a stake in its interdiction.

"But," you may still say, "the producer and the consumer are one and the same person. If the manufacturer profits by protection, he will make the farmer prosperous. Contrariwise, if agriculture is prosperous, it will open markets for manufactured goods." Very well! If you grant us a monopoly over the production of lighting during the day, first of all we shall buy large amounts of tallow, charcoal, oil, resin, wax, alcohol, silver, iron, bronze, and crystal, to supply our industry; and, moreover, we and our numerous suppliers, having become rich, will consume a great deal and spread prosperity into all areas of domestic industry.

Will you say that the light of the sun is a gratuitous gift of Nature, and that to reject such gifts would be to reject wealth itself under the pretext of encouraging the means of acquiring it?

But if you take this position, you strike a mortal blow at your own policy; remember that up to now you have always excluded foreign goods *because* and *in proportion as* they approximate gratuitous gifts. You have only *half* as good a reason for complying with the demands of other monopolists as you have for granting our petition, which is in *complete* accord with your established policy; and to reject our demands precisely because they are *better founded* than anyone else's would be tantamount to accepting the equation: + × = + –; in other words, it would be to heap absurdity upon absurdity.

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Labor and Nature collaborate in varying proportions, depending upon the country and the climate, in the production of a commodity. The part that Nature contributes is always free of charge; it is the part contributed by human labor that constitutes value and is paid for.

If an orange from Lisbon sells for half the price of an orange from Paris, it is because the natural heat of the sun, which is, of course, free of charge, does for the former what the latter owes to artificial heating, which necessarily has to be paid for in the marker.

Thus, when an orange reaches us from Portugal, one can say that it is given to us half free of charge, or, in other words, at *half price* as compared with those from Paris.

Now, it is precisely on the basis of its being *semigratuitous* (pardon the word) that you maintain it should be barred. You ask: "How can French labor withstand the competition of foreign labor when the former has to do all the work, whereas the latter has to do only half, the sun taking care of the rest?" But if the fact that a product is *half* free of charge leads you to exclude it from competition, how can its being *totally* free of charge induce you to admit it into competition? Either you are not consistent, or you should, after excluding what is half free of charge as harmful to our domestic industry, exclude what is totally gratuitous with all the more reason and with twice the zeal.

To take another example: When a product—coal, iron, wheat, or textiles—comes to us from abroad, and when we can acquire it for less labor than if we produced it ourselves, the difference is a *gratuitous gift* that is conferred upon us. The size of this gift is proportionate to the extent of this difference. It is a quarter, a half, or three-quarters of the value of the product if the foreigner asks of us only three-quarters, one-half, or one-quarter as high a price. It is as complete as it can be when the donor, like the sun in providing us with light, asks nothing from us. The question, and we pose it formally, is whether what you desire for France is the benefit of consumption free of charge or the alleged advantages of onerous production. Make your choice, but be logical; for as long as you ban, as you do, foreign coal, iron, wheat, and textiles, *in proportion* as their price approaches *zero*, how inconsistent it would be to admit the light of the sun, whose price is zero all day long!

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Glossary

ACP	African, Caribbean, and Pacific
AMU	Arab Maghreb Union
APEC	Asia-Pacific Economic Cooperation
CAP	Common Agricultural Policy (of the European Union)
c.i.f.	Cost, insurance, and freight
DSB	Dispute Settlement Body (of the WTO)
EEP	Export Enhancement Program (U.S.)
EFTA	European Free Trade Association
FAO	Food and Agriculture Organization of the United Nations
f.o.b.	Free on board
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GCC	Cooperation Council for the Arab States of the Gulf (Gulf Cooperation Council)
GSP	Generalized System of Preferences
Maghreb countries	Algeria, Morocco, and Tunisia
Mashreq countries	Egypt, Jordan, Lebanon, and the Syrian Arab Republic
MFA	Multifibre Arrangement (Arrangement Regarding International Trade in Textiles)
MFN	Most-favored-nation
NAFTA	North American Free Trade Agreement
n.e.s.	Not elsewhere specified
OECD	Organization for Economic Cooperation and Development
OMA	Orderly marketing arrangement
OPEC	Organization of Petroleum Exporting Countries
TPRB	Trade Policies Review Body (of the WTO)
TPRM	Trade Policy Review Mechanism (of the WTO)
TRIM	Trade-related investment measure
TRIP	Trade-related intellectual property right
UNCTAD	United Nations Conference on Trade and Development
VER	Voluntary export restraint
VIE	Voluntary import expansion
WTO	World Trade Organization

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