PREPARING FOR THE WTO 2000 NEGOTIATIONS: MEDITERRANEAN INTERESTS AND PERSPECTIVES

Economic Research Forum (ERF)
Istituto affari internazionali (IAI)
World Bank
Cairo, 14-15/VII/1999

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- b. List of participants
- 1. "A birds-eye view of the agenda: the developing countries and the Millennium Round"/ Paolo Guerrieri, Isabella Falautano
- 2. "The MENA countries and the Uruguay Round and beyond"/ Subidey Togan, Raed Safadi
- 3. "Deep integration, Euro-med free trade and the WTO 2000 negotiations"/ Franco Zallio
- 4. "Impact of the WTO agreemnet on MENA agriculture"/ Nabil Chaherli, Moataz El-Said
- 5. "General equilibrium assessment effects under cournot oligopoly market structures: the case of Tunisia"/ Rim Chatti
- "Textiles and clothing in the Mediterranean region: opportunities and challenges of returning textiles and clothing to GATT disciplines"/ Hana Kheir-El-Din, M. Maamoun Abdel-Fattah
- 7. "Assessing market access preferences for Mediterranean countries on the EU market for industrial goods"/ Stefano Inama, Lorenza Jachia
- 8. "Case study of Egypt's service liberalization, service barriers and implementation of the GATS agreement"/ Sahar Tohamy
- 9. "Maritime and air transport: the potential gains from liberalization"/ Riad Al Khouri
- 10. "Competition laws in MENA: an assessment of the status quo and the relevance of a WTO agreement"/ Mohamed El Hedi Lahouel
- 11. "Dealing with regulatory regimes and trade costs in MENA region"/ Jamel Zarrouk
- 12. "Liberalizing trade in services: harnessing reciprocal negotiations to regulatory reform"/ Bernard Hockman, Patrick A. Messerlin









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Preparing for the WTO 2000 Negotiations: Mediterranean Interests and Perspectives

Eugenie Ballroom-Marriott Hotel, Cairo, 14-15 July 1999

Wednesday July 14

8:15 - 8:45 Registration

8:45 – 10:15 Session I: Openning and Introductory Remarks

H.E. Ahmed Goueily H.E. Yousef Boutros Ghali Prof. Heba Handoussa

Paolo Guerrieri & Isabella Falautano

- "A Birds-Eye View of the Agenda The Developing countries and the Millennium Round"

Discussants:

H.E. Yousef Boutros Ghali Hassan Abouyoub (to be confirmed)

Session II: Where Does the Region Stand?

Chair: Bernard Hoekman

10:15 - 11:00 Subidey Togan & Raed Safadi

- "The MENA Countries and the Uruguay Round and Beyond"

Discussant: Taher Kanaan

11:00 - 11:45 Franco Zallio

- "Deep Integration, Euro-Med Free Trade and the WTO 2000 Negotiations"

Discussant: Sultan Abou Ali

11:45 - 12:00 Coffee Break

Session III: Major Merchandise Trade Issues for the Mediterranean Region

Chair: Paolo Guerrieri

12:00 - 1:00 Nabil Chaherli & Moataz El-Said

- "Impact of the WTO Agreement on MENA Agriculture"

Discussants: Sam Laird

Luca Salvatici

1:00 - 2:00 Lunch Break

2:00-3:00 Rim Chatti

- "General Equilibrium Assessment of Trade Liberalization Effects Under Cournot Oligopoly Market Structures: The Case of Tunisia"

Discussants: William Martin

3:00 – 4:00 Hanaa Kheir El Din & M.Maamoun Abdel-Fattah

- "Textiles and Clothing in the Mediterranean Region: Opportunities and Challenges of Returning Textiles and Clothing to GATT Disciplines"

Discussant: Dean Spinanger

4:00 - 4:15 Coffee Break

4:15 - 5:15 Lorenza Jachia

- "Assessing Market Access Preferences for Mediterranean Countries on the EU Market for Industrial Goods"

Discussants: Tarek Moursi

Bernard Hoekman

Thursday July 15

Session IV. Services and Investment

Chair: Sam Liard

9:00 - 10:15 Sahar Tohamy

- "A Case Study of Egypt: Identifying the Policy Bottlenecks"

Discussant: John Suomela

10:15 - 11:30 Riad El Khouri

- "Maritime and Air Transport: The Potential Gains From Liberalization"

Discussants: Lelio Iapadre

Mahmoud Moheildin

11:30 - 11:45 Coffee Break

Session V.: The New Trade Agenda

Chair: Sultan Abou Ali

11:45 – 1:00 Mohamed Lahouel

- "Competition Law in MENA: An Assessment of the Status Quo and the Relevance of a WTO Agreement"

Discussant: Raed Safadi

1:00 - 2:15 Jamal Zarrouk

- "Dealing with Regulatory Regimes and Trade Costs in the MENA Region"

Discussant: Abdel Rahman Sabri

Bachir Hamdouch

2:15 - 3:30 Lunch Break

3:30 - 4:30 Session VI: Panel Discussion

"Setting Government Priorities and Identifying Opportunities in the WTO 2000 Round"

H.E. Yousef Boutros Ghali

H.E. Mutaher Al Saidi

H.E. Ahmed Goueily

H.E. Mohamed K. Al Mahayni

H.E. Taher Kanaan

H.E. Sultan Abou Ali

H.E. Hassan Abou Youb

<u>Background paper:</u> Harnessing the Potential of Multilateral Negotiations (Bernard Hoekman and Patrick Messerlin).







Preparing for the WTO 2000 Negotiations: Mediterranean Interests and Perspectives Cairo, Egypt, 14-15 July, 1999

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Contribution of the World Bank and IAI made possible by financial support from the Government of Italy and the Netherlands

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n° Inv. 19914 23 LUG, 1999

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Preparing for the WTO 2000 Negotiations: Mediterranean Interests and Perspectives Cairo, Egypt, 14-15 July, 1999

A Birds-Eye View of the Agenda The Developing countries and the Millennium Round

Paolo Guerrieri and Isabella Falautano

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Istituto Affari Internazionali
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Contribution of the World Bank and IAI made possible by financial support from the Government of Italy and the Netherlands

Workshop on "Preparing for the WTO 2000 Negotiations: Mediterranean Interests and Perspectives"

Economic Research Forum, Institute of International Affairs, World Bank Institute

Cairo, 14-15 July 1999

Paper on

A Birds-Eye View of the Agenda The Developing countries and the Millennium Round

by

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First Draft, Please do not quote without the permission of the authors, July 1999

This paper is part of a IAI research project on the WTO 2000. The authors are grateful to Marco Chirullo, Silvia Nenci and Elena Rigacci Hay for their valuable research assistance at different stages of the project.

They want to thank also The Italian Trust Fund and the World Bank Institute for their financial support.

A Birds-Eye View of the Agenda The Developing countries and the Millennium Round

1. Introduction

Fundamental change have been occurring in the world economy in the last two decades. Globalization is the term most commonly used to synthesize and link these sweeping changes, dramatically increasing the degree of interdependence among countries. In the global economy, production tends to be organised more and more across national boundaries, and an increasing number of firms and countries are becoming more active in world markets in response to new competitive pressures.

The world trading environment has also experiencing parallel fundamental changes. Trade in manufactured goods has outpaced trade in primary commodities, and trade in technology-intensive and more sophisticated products, accompanied by increasing intra-industry trade, has increased even more rapidly. Associated with the growth in the manufactured-goods trade has been a rise in foreign direct investment, and Foreign Direct Investment (FDI) and trade have become increasingly complementary. FDI has been growing particularly rapidly in services and global integration in many services sectors has increased substantially so raising the share of services in total trade.

The quantitative and qualitative changes that occurred in recent years in the world trading environment are important in understanding the new challenges facing the establishment of a global trading system today. Globalization has induced major pressures towards a much deeper form of international integration that have been seen in efforts to broaden the goal of World Trade Organization and to reconcile divergent national policies and practices. These pressures have emerged in the international arena as countries discuss the agenda of a new Round of multilateral trade negotiations next year, so called Millennium Round. The central challenge of the 'Millennium' Round will be how best to promote and secure internationally contestable markets. This includes both the desirability and the feasibility of integrating different domestic policies and practices within the evolving architecture of the multilateral trading system.

Unlike the past developing countries are participating actively and have a very strong interest in the current evolution of trade and investment international regimes today. It is well known that for many years developing countries have claimed and received exemptions from the rules of General Agreement on Tariff and Trade (GATT), as in General System of Preferences (GSP) arrangements where they were granted access, even though limited, without having to assume reciprocal obligations. In recent years this has changed. For various reasons reform programs have made trade liberalization and openness an essential component of the development strategies and policies. Unilateral trade liberalizations, regional trade agreements, and multilateral trade initiatives have characterized the behavior of major groups of developing countries in recent time. With the Uruguay Round developing countries became full-

scale participants in multilateral trade negotiations, by adhering to the same rules as developed countries, having only more time to adjustments.

The liberalization of global markets has undoubtedly benefited the developing countries, making possible several successful stories based on outward-orientation and export-led growth. With regard to the impact of openness to the global economy upon economic performances there are significant differences between these growth experiences according to different strategies and policy interventions that were adopted. Individual countries developed their own ways of exploiting the potential benefits of the global economy.

There is a strong interest in further integrating developing countries into the multilateral trading system and World Trade Organization (WTO). In this regard the central challenge is that of reconciling the further promotion of an open multilateral systems towards contestable markets with the needs of developing countries to follow independent strategies characterized by various forms of policy interventions.

In recent years the path of further liberalization of trade and investment has been reinforced at different level, by many unilateral initiatives especially of developing countries in East Asia and Latin America, by new sectoral agreements, like the Information Technology Agreement (ITA) and those in telecommunications and financial services, and by various expansion of the scope and coverage of regional trade agreements. At the same time new threats have arisen to the multilateral trading system in many countries, particularly in the most advanced area, with increased resort to anti-dumping measures and other forms of implicit protection. In the United States (US), for example, trade liberalization has come increasingly to be identified with falling compensation for the low skill and low wage earners. In Europe too liberalization is associated with persistently high unemployment. So there is considerable risk that the multilateral open trading system could be severely weakened.

According to many a new Round of multilateral trade negotiations could be the best way both to arrest these negative trends and assure the continuation of the multilateral trade liberalization (Bergsten, 1999; Krueger, 1998). To accomplish this task the new Round should address a broader range of topics including the new challenges stemming from the existence of trade distorting practices closely linked to the structure of markets, the behaviour of the actors operating in it and public policies and interventions.

As regard to the agenda of the new Round one should first point out that much remains to be done in terms of addressing the traditional issues so as to further eliminate all remaining tariff and nontariff border barriers. The Uruguay Round in this regard represented a major advance by converting agricultural quotas into tariffs, removing quota protection from textiles and apparel, and obtaining bindings of most duties. One major effort is to fully implement these measures and try to offer new important results on this Round. Developing countries have a considerable interest in further progress in this traditional area as well as in the implementation of the Uruguay Rounds agreements.

Alongside the progressive elimination of the more traditional barriers there are negotiations on the new trade items – the so-called *new trade agenda* – and on the ways of removing those obstacles stemming from the *domestic rules and policies* which impede the access of many products and services to markets of various countries. International

negotiation runs it more difficulties here, since domestic policy choices and approaches are involved.

The items on the agenda should include some of the new trade issues of the Uruguay Round - trade in services and intellectual property rights – up for revision and new topics and further liberalisations, which we will call respectively the first and second generation of new trade issues. The latter comprise competition policies, the rules on FDI and labor and environmental standards. There are also some hybrid issues in between sectors, such as e-commerce and information technology. The progress of negotiations on all the new trade issues varies considerably, and as we shall see not all the issues are likely to be included in the new Millennium Round. However, the inclusion in the Round's agenda of some of the more thorny issues could already be considered a success.

In this context the developing countries and, specifically the countries of the MENA (Middle East and North Africa) area, have specific interests at stake in every negotiating framework. In this paper we attempt to analyse the various issues starting from the traditional trade barriers to the first and second generation new trade issues, and the prospects for success in further market liberalization in the new Round

The paper is divided as following. The next section describes the broad changes that have occurred in the global trading environment and how the different groups of developing countries have taken advantages in different ways of these changes. The third section deals with the traditional trade barriers and further progress to be achieved in this area. The fourth part examines the first generation of the new trade issues such as trade in services and intellectual property rights, together with some new areas as the e-commerce that is between old and new trade issues. The fifth section assess the second generation of the new trade issues showing the opportunities and also the risks associated with these new topics. Especially if we are referring to developing countries and their growth prospects. The last part of the paper analyzes a few issues directly related to the WTO and its organization, and in the final section, the paper's main findings are summarised and some overall suggestions are drawn.

2. The changing world trading environment and the developing area

2.1 The new trading environment

Globalization has exerted a significant influence on the evolution of world trading relations, with relevant implications for international competition at country and firm level. In this respect, three facts could be stressed: (i) the simultaneous rise in foreign direct investment and trade; (ii) the increasing role of trade in services; (ii) the changing composition of the world trade.

At the level of international markets, a first important trend is the extraordinary rise in capital mobility, and especially of foreign direct investment. In 1997 the FDI amounted to more than 450 billion dollars (United Nations Conference on Trade and Development –UNCTAD-, 1998) and last year they increased even further to more than 640 billion dollars (UNCTAD, 1999). Developing countries as a whole received more than 30 percent of all FDI in the period 1995-97, but this FDI was concentrated in few countries in Asia and to some degree Latin America, while inflows to other areas especially the least developed countries remain at extremely low levels (tables 1-2).

The surge of FDI has been an important device for organizing production and distribution at international level and has been accompanied by new linkages with trade

flows. Traditional theory has viewed trade and FDI as substitutes, but increasingly FDI and trade are becoming interrelated and to a certain extent they complement each other. On the other hand the rise of FDI and transnational enterprises has meant that a large share of world trade is accounted for by the exchange of goods and services within a single firm and/or a corporate network based in different countries. Thus a significant proportion of world trade is conducted on the basis of corporate strategies that interact with complementary suppliers and with customers across many countries and areas.

The rise in trade in service is another fundamental trend that has accompanied the globalization of economic activity and has significantly influenced the world trading relations in recent times. It is well known that modern economies have become services economies. Especially development in information technologies have increased global integration in many services sectors that were in the past isolated. Moreover, in many developed economies trends towards financial liberalisation, privatisation and deregulation has created investment opportunities in sectors such as banking, telecommunications, utilities. So FDI has also been growing particularly rapidly in services. The increasing role of services is confirmed by the higher growth of trade in services than trade in goods during the 1980s and large part of the 1990s: in 1990 services covered already 20% of all trade and given the fact that the balance of payment data only partially register exchanges of services through firm networks that share is certainly underestimated (Hoekman, Primo Braga, 1997).

The third important factor has been the change in world trade composition. The share of trade in world output has continued in the last decade in all major groupings of economies (WTO, 1998) and at the same time the composition of all trade is significantly changed. To take into account it a specific sectoral taxonomy is used here, following the works of the Organization for Economic Cooperation and development (OECD, 1992), Pavitt (1988), and Guerrieri (1992; 1997). Five type of industries are identified, primarily through a combination of technology sources, technology user requirements and means of technology appropriation: natural resource-intensive, supplier-dominated or traditional sectors, science based, scale-intensive and specialized supplier. Whereas in the first two categories (natural resource-intensive, supplier-dominated or traditional sectors), factor endowments have a major influence on the generation of comparative advantage, since technology is easily accessible and firms' competitiveness is notably sensitive to price factors; in the last three categories of products (science based, scale-intensive, specialized suppliers) comparative and absolute advantages are dominated by technological change and capability. All other non-industrial goods are grouped into three remaining categories (agricultural products; fuels; other raw materials)

As already noted, the share of manufactured products has increased over the past decade arriving to cover more than 73 per cent of world trade. In contrast, there was a corresponding drop in the share of primary products, both agricultural products and raw materials (Table 3). The growth of trade and manufactured exports is the result of several factors, such as recent trade liberalization trends and the opening up for trade and investment in many countries and regions, as in the case of the Newly Industrialized Countries (NICs) in Asia and Latin America. Among the manufactured exports there was a slight increase, in the more recent period, of the share of traditional laborintensive industries (such as garments, furniture, shoes, etc.), but the share of the most

sophisticated products (*science based* goods) has increased even more rapidly, more than doubling in the period from the early 1980s to the mid-1990s in world trade of manufactures (Table, 3). Thus, there has been an evident shift toward products and industrial sectors characterized by an high technological content, since *science based* goods are related in that they embody, either directly, or indirectly through the intemediate goods used in their production, relatively intensive technological inputs (Scherer, 1994). Trade in this type of goods takes place very often along intra-industry lines with countries simultaneously exporting and importing the same kind of products. As many theoretical contributions explain, these trade patterns can be understood once scale economies, product differentiation and technological change are taken into account (Grossman and Helpman, 1991).

There are various implications deriving from these change in the world trading system. To compete effectively in sophisticated technologically products and sectors a significant domestic presence for producing, selling and marketing is often required to firms. Furthermore competition in many service sectors also require the presence in many domestic markets, so that differences among domestic regulatory structures become increasingly relevant. In addition transnational firms that make FDI and plan to source in one country and sell in others are seeking secure and transparent operating rules for their networks, that are internationally compatible. All that has led to a change in economic incentives and to greater emphasis on increased market access for firms as well as products. The importance of access, in turn, leads to potential confrontations resulting from differing systems of domestic rules and policies. Even when border barriers are removed differing corporate governance rules, competition policies, FDI policies, regulatory policies could limit 'de facto' the new entries. The emphasis has thus naturally shifted from traditional trade barriers to what we called earlier the first and second generation of new trade issues (intellectual property rights, technical standards, investment policies, competition policies, labor and environmental standards).

For supporting an increasingly open multilateral trading system the key goal is then to move gradually to achieving greater market access and international contestable markets (deep integration). A comprehensive approach, therefore, is required to deal with deep integration, so to include many fields and new topics related to domestic economic policies that go well beyond the traditional rules for trade. The Uruguay Round, for example, established global rules for intellectual property, domestic subsidies, foreign investment. For the agenda of the next Round a first important question is what new topics and policy issues will be the most important for improving the contestability of markets. A second question is what type of cooperation and/or international agreement, ranging from co-ordinated application of national policies to the harmonization of rules and norms, with regard to these topics of deep integration will be necessary for greater access to markets. Naturally there aren't overall and univocal answers to both questions absent the specific nature of the issues concerned. As we will note in what follows, it is possible to conceive in each issue area very different agreements and the details play very important role for predicting their impact. Anyway, a a general prescription one could point out that given that economic conditions and preferences vary significantly across countries, to harmonize rules and policies is not necessary, and wherever possible national diversity should be permitted and guaranteed. Even more so since in many new trade issues, especially those of the 'second

generation', there is the risk —as explained below- of entering into zero-sum game negotiating regimes. This is true especially in the case of developing countries.

2.2. The different development strategies and performances of developing countries

In the last two decades most of the developing countries adopted structural adjustment programs based on domestic market liberalisation and outward-oriented growth to rapidly integrate their economies into the world trading system, thus reversing the bilateral and inward-oriented policies followed during the post-war years, at least up to the early 1980s. Excluding the very recent period, the 1990s was a relatively high growth period for the developing area as a whole. The liberalization of global markets and the new trading environment has therefore undoubtedly benefited the developing countries

One should immediately point out, however, that average figures are not able even to approach the different evolutions of individual countries and areas. In fact the growth experiences of different countries have widely diverged in this recent period. In particular with regard to the impact of openness to economic performances there are significant differences between these growth experiences according to the different strategies and policy interventions that were adopted. Individual countries have been able to exploit to a different extent the potential benefits of the global economy.

Tables 4-5 provide detailed figures on trade performances and specializations² of individual developing countries grouped a Round large geo-economic areas in Latin America, East Asia, Mediterranean and Arab regions. Although very different one to another they have all been characterized by trade liberalization processes over the past two decades. Let's try to depict some stylized facts derived from the patterns observed for these different groups of developing countries:

South-east Asian NICS had a very successful growth and trade performances up to the first half of the 1990s combined with changing and upgrading of their trade composition towards higher value added and higher technology intensity goods and sectors. After a short experience of import substitution in the 1950s, all countries in this group shifted towards trade openness accompanied by various industrial and technological policies. Within this common context, however, there was different patterns for each Asian NICS and the recent crisis also affected very differently each of them. As a result, each economy had an individual pattern of export growth, industrialization, technological progress, reliance on FDI and policy interventions.

Latin American NICS (Brazil, Argentina and Mexico) have performed very differently from the Asian group, particularly in relation with structural change and technological upgrading of their production structure. Its trade specialization is at present still based on relatively abundant natural resources, such as exports of raw materials and resource intensive goods. Also Latin American NICs, however, had very different patterns one to another. In more recent years they had better trade performances, especially in the case of Mexico, where more trade openness has been accompanied by progress in medium-high technology intensive exports and higher intra-industry trade.

The third group of countries, the *Mediterranean NICS* (like Tunisia) experienced significant changes in terms of trade specialization and composition in the course of the 1980s. Their trade specialization has shifted from raw materials and agricultural products towards industrial products, mostly 'traditional' labor intensive exports. These structural changes have been favoured by a process of trade liberalization implemented gradually, on the one hand, and low costs in labor-intensive sectors, mostly textile-apparel, on the other. Trade liberalization, however, was combined, in the same period, with very intense policy intervention to support export activities. In more recent years their trade performance, however, was much less positive and their trade specialization remained locked into less dynamic medium-low technology intensive products where competitiveness rests primarily on relatively cheap labor costs.

The trade specialization pattern of the Arab NICs (Egypt, Jordan) has maintained rather primitive features, largely based on natural resource-intensive and low-valued added products. Over the past decade the trade performance of the Middle-east countries was also very poor. There is a broad consensus that long term economic growth should be based on export-led strategy, also to take advantage of scale economies made possible by access to the world market. At the light of the past experience, however, this goal seems very hard to achieve. The main obstacle is how to increase the Middle Eastern countries' production capability by significantly upgrading their production and trade patterns in such a way as to generate endogenous sources of investment, innovation and growth.

To sum up, as to developing economies, deep changes took place over the past decade. First of all structural adjustment programs have been implemented, but leading to very different results in term of growth performances. Significant divergencies have thus arisen within the developing area, greatly enhancing its heterogeneity. The label of Developing Countries (DCs) as a whole has thus become a rather vague and useless term of reference. These inequalities not only macroeconomic policies have contributed to, but also opportunities and constraints stemming from the new global competitive environment have played a key role. What is evident is that there are no ready to use formula to face these new challenges.

Even though relatively sketchy this evidence seems to show that wide differences have characterized the various groups of countries in their ability to grow and integrate into the global economy. Certainly there are many reasons behind this increasing divergence. There is no doubt that openness and macroeconomic policies were very important. Structural factors and policies, however, related to the challenges and opportunities stemming from the 'new global economy' have also played an important role.

As well known, there are different views on economic openness, and its costs and benefits (Edwards, 1998; Rodrik, 1999). Recently the economic literature on the influence of trade openness and liberalization on the industrialization and development process has been enriched by many contributions. Significant relationship between key variables, such as trade performance, international specialization and long-run growth, has been defined and/or re-defined and new policy implications have also been offered (Dowrick, 1997). To sum up the broad conclusions that emerge from these theoretical and empirical contributions could be listed in the following way: (i) trade liberalization can indeed be expected to stimulate growth at world level, but it is not true that every

country must benefit; (ii) benefits at country level are variable and depend on a set of heterogeneous endogenous factors (i.e. policies and institutions), (iii) the pattern of specialization could play an important role, since countries can experience vicious (virtuous) circles and be locked into a pattern of specialization in low(high)-skill, low(high)-growth activities characterized by tight (loose) external constraint; (iv) to avoid the low growth trap it is important to provide macroeconomic stability and trade liberalization, but it requires more than just low inflation and getting price right; it requires technological up-grading and policies to facilitate industrialization and structural change.

One could sum up by saying that it is not realistic to expect that national development efforts will converge on a single optimal model, nor it is desirable that they do so. The countries that have been successful in these decades have all succeeded through their own particular set of strategies and policies (Rodrik, 1999). So developing countries need a sustainable approach to development that will be able to accommodate the growing heterogeneity in the South.

What does all imply for the participation of developing countries to the new multilateral trade Round? One major implication is that the major challenge in the future of the open trading system will be reconciling the increased requirements of deeper integration in the new trade agreements with the needs of developing countries to follow independent development strategies which might involve different policies and government intervention. In this case there is the danger of moving towards zero-sum games, such as in some new trade issues of the first and second generation. But different devices could be used to maintain the trade liberalization momentum from the linkages across issues to the side-payments, to mutual recognition approach. In this regard it is important to recognize that there are also many common identifiable interests of developing countries in launching the Millennium Round and strengthening the multilateral trading system. We are going to consider them in details in the next sections of the paper together with the various issues that may arise in future trade negotiation

3. The traditional challenges

The agenda of the Millennium Round will certainly include a relevant chapter on the elimination of remaining tariff and nontariff border barriers. Topics where positive-sum games are predominant. Developing countries have a considerable stake in further progress in this area, such as in the elimination of the very high tariffs on agricultural imports and many apparel and textile exports, even considering the significant weight of these sectors in production and trade structures of many emerging economies.

3.1 Agricultural barriers

The November 1992 Blair House agreement marked a crucial, but not conclusive, step in the long negotiating process in the agricultural sector. In fact, in Marrakech in 1994 new negotiations were called for, to commence one year before the end of the six-year implementation period. These negotiations are slated to begin by 31 December 1999.

The goal of the Uruguay Round was to dismantle a strong protectionist regime in the agricultural sector. The commitment to shift to "tariffication" of protection was higly significant. But the Agreement has actually led agriculture under WTO rules rather than to real liberalization. The OECD (Organization for Economic Cooperation and Development countries) have not modified the regimes of their heavily protected products, such as sugar and dairy goods (Ingco, 1995). During the entire negotiating process the European Union (EU) and European Free Trade Agreement (EFTA) countries successfully maintained a defensive position (Croome, 1998).

In short, the Marrakech Agreement has had positive aspects but much remains to be done. The goal of the new Round will be first to deal with tariffs: the reduction of the very high tariffs on agricultural imports in many industrialized countries; the reduction of the tariff peaks and of the high tariff bindings, especially in the developing countries; and the increase in tariff quotas.

Second, almost all countries have an interest in negotiating a further reduction in export subsidies.

Third there is market access rules and the role of state-trading agencies, especially of monopolistic importing agencies, which can actually regulate the flow of goods on the domestic market and which are subject to non-discriminatory treatment in accordance with commercial practices (art XVII, GATT, which has not been respected). Because of the action of such agencies in distorting domestic prices, even if tariffs are cut, consumers may not benefit through lower prices and exporters may not acquire greater competitive advantages.

Fourth, the elimination of aggregate measures of support (AMS) and the blue box, strongly championed by the United States and which may be subject to revision, is opposed by the EU. These two issues were the subject of a showdown between the US and the EU and risked compromising the entire agreement. The US concessions were made with a view to the next Round of negotiations (Croome, 1998).

During the new negotiations the aspects of agricultural trade linked to safeguarding citizens and health rising out of scientific progress in agriculture will emerge, especially in the field of genetically engineered crops. These aspects have already generated serious tensions in European-US relations - the dispute in the WTO over bovine meat treated with growth hormones - and risk inducing new waves of protectionism. This matter will be discussed below.

Other issues of pertinence to the developing countries will also be relevant. These include: (i) the introduction of greater flexibility for the developing countries in the framework of import restrictions and domestic support measures, since the production structure of many developing countries is still tied to small family farms with subsistence production and risks being swept away by the opening of markets (Lal Das, 1998); (ii) the exclusion of subsidies that developing countries establish for the purchase of food to create reserves and for public distribution from the AMS.

On the basis of art. XX of the Agriculture Agreement, negotiations should begin by 31 December 1999. Reviewing the positions of the individual countries, we have no reason to believe that the governments want to modify the approach adopted during the past negotiations (Croome, 1998). So the antagonism between the USA and EU are likely be the main issue of the entire negotiation process. The US will push for further liberalization, while Europe, caught between the need to reform Common Agricultural Policy (CAP) because of budget problems and future enlargement, will have a defensive position. The EU will presumably find allies in the countries candidates for membership in the coming

enlargement, which will be future beneficiaries of CAP, and among the developing countries, which fear losing their preferential access to the Community market, and among the EFTA countries. The Cairns Group (Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Uruguay and Venezuela) will side with the United States, adopting the same inflexible position maintained during the Uruguay Round. Their goal remains the total elimination and prohibition of every obstacle to complete liberalization of agricultural trade. The Cairns Group has also espoused the principle of special and differential treatment for the developing countries. Japan and Korea are likely to be affected by the end of the transitory period in which they benefited from special treatment for rice imports and they will seek to maintain it, requiring them to make concessions in other areas.

Although the developing countries are attempting to find common Round on the key questions, they will probably take sides with one coalition of countries or the other depending on the issues of negotiations, as occurred in the Uruguay Round. The division between net food importers and net food exporters will persist. The former, fearing an increase in prices, are less concerned about further cuts in export subsidies. The latter are more inclined to ask for enhanced market access for specific products. The exporting developing countries which are not highly competitive are likely to channel their efforts on maintaining preferential access to the markets of industrialized countries (Croome, 1998). The domestic support measures are of less concern to the developing countries. For various reasons, especially because of budget restrictions, the developing countries rarely resort to these measures, as many AMS near or equal to zero confirm.

As for the developing countries as a whole, the issue of agricultural barriers is also crucial to the MENA countries. In the MENA area the agricultural population is still between 40% and 60% of the total. Three quarters of the region's entire production is concentrated in two categories of products: cereals (38%) and fruit and vegetables (38%) (De Rosa, 1997). Agricultural production varies significantly from country to country in the area because of climatic and geographical factors.

There is a wide range of positions in the area regarding the opening of markets. The countries most receptive to the international market are Kuwait and Saudi Arabia, with average tariffs equal to 10% and Non Tariff Barriers (NTBs) equal to 5%. Most of the other MENAs apply tariffs equal to 20% and NTBs equal to 30% (De Rosa, 1997). In the last decade Algeria and Tunisia have significantly reformed their trade regime, opening it to the world market. In the past, in order to achieve food self-sufficiency many MENA countries adopted a high level of protection, while it is evident they could benefit more by expanding their key sectors, not only the agricultural sector, rather than by protecting largely inefficient forms of production (Ingco, 1997).

Only Cyprus, Egypt, Israel, Kuwait, Mauritania, Morocco and Tunisia are members of the WTO (De Rosa, 1997); Algeria, Iran, Saudi Arabia, Lebanon, Jordan and Syria have applied for membership. The MENA countries now members identify with the positions of the net food exporters, since with few exceptions they are important exporters of agricultural commodities (De Rosa, 1997). The aspiring WTO members are interested in swift admission to benefit from the liberalization process and, in other cases, to take advantage, as Algeria and Saudi Arabia have been doing in recent years, of a unilateral policy of openness they have undertaken.

3.2. Product Barriers

Although no built-in agenda in the trade of goods is foreseen, the new Round will probably enact new tariff reductions, since tariff barriers are still important, especially for developing countries. The final declaration of the 1996 Singapore Ministerial Conference reiterated the commitment for a progressive liberalization and elimination of tariff and non-tariff barriers in the trade of goods.

In general, the tariff reductions on industrial products established in the Uruguay Round were applied in five successive annual stages, the last of which expired on January 1, 1999 (Croome, 1998). The intensity of the cuts varied widely from sector to sector. For most products the cuts were over 40%, but they were much less drastic in the textile-clothing, leather goods and fish products sectors. It can be said that the high-tariff sectors, most of which are of great concern to developing countries, are those which were subject to the lowest cuts.

Differential reductions in tariff barriers were also made between developed and developing countries. The developed countries consolidated all the tariffs at the levels applied (on average particularly low) to the point of calling into question the economic utility of collecting those duties. While the developing countries have diminished their tariffs over the years, they still maintain high consolidated tariff levels (Croome, 1998). The Uruguay Round exasperated this difference, calling for greater tariff reductions among developed countries, rather than between the developed and developing countries.

Through the zero for zero tariff commitments the developed countries have virtually eliminated the tariffs on specific categories of products (pharmaceuticals, steel, paper, agricultural equipment) and increased the percentage of products enjoying duty-free status (from 20% to 43%). But progress on the tariff peaks (in other words, tariffs over 15%) has been modest: the percentage of commerce affected declined from 7% to 5%. NTBs continue to play a significant role, since in certain cases they offset tariff reductions.

In the years following the Uruguay Round important sectorial negotiations took place on the global level. For example, in December 1996 the ITA was signed with the scope of diminishing tariffs of important categories of Information technology (IT) products by 1 January 2000. On the regional level the voluntary liberalization of various sectors within the Asia-Pacific Economic Cooperation has taken place, including tariff reductions for countries expected to join the EU and openness within Mercado del Cono Sur (Mercosur) and Association of Southeast Asian Nations (ASEAN). This highly fragmented picture of negotiations underway sectorially is preferential and ensures that the initial phase of a new multilateral Round will be arduous.

In this regard, analysis of the results achieved in the Uruguay Round allows us to identify the issues on which the next Millennium Round will inevitably focus.

As we mentioned above, there is a significant difference between developed and developing countries regarding consolidation of applied tariffs. This situation leaves room for negotiating maneuvers. On one hand, the tariff consolidation of the developing countries could be adjusted to lower levels effectively applied, giving these countries considerable bargaining power at the negotiating table at a minimum cost. On the other, the industrialized countries could reduce their tariffs peaks, especially on products of interest to the developing countries. The EU has proposed reviewing all tariffs and guaranteeing at the end of the Round duty-free access to the products of the less developed countries on the markets of the industrialized countries (Brittan, 1999). The most relevant

problems will arise for the developed countries. For certain industrial products some tariffs are higher than average and precisely in export sectors of the developing countries; reduction of these tariffs will inevitably be opposed by domestic interest groups in developed area.

As we have already pointed out, the Uruguay Round determined moderate cuts for the high tariff sectors. Many of these sectors have tariff peaks the elimination of which constitutes the first commitment of the imminent new Round. A second issue involves tariff escalation, which entails an increase of the tariff applied to a given sector depending on the phase of production. This nullifies the advantages in terms of opening the market by cutting tariffs and discourages the developing countries from investing to increase their production capacity (Grimwade, 1996). Examining the sectors on an individual basis, much remains to be done in textiles and clothing, as well as in transport equipment, the tanning industry, footwear, and fish products, with tariff levels still too high to be able to speak of a real opening of the market (De Paiva Abreu, 1996).

Two key aspects concern market access agreements - safeguard and antidumping agreements. The former still sanctions quantitative restrictions for individual exporters, although limited in time and only after presenting proof of injury. This risks becoming a protection tool, even though recourse to antidumping measures is easier. Antidumping measures remain a thorn in the side of international trade. Despite more restrictive provisions, this is the greatest shortcut for importers wishing to protect their industries. Furthermore, more stringent investigation procedures entail a heavy cost in human resources, making them far more difficult for developing than for developed countries (Finger, 1996).

In this regard technical assistance is another key point of the Millennium Round, especially for the developing countries. In facing greater openness, the developing countries will have to sustain high adjustment costs. In addition, the new regulations call for application of high technical standards. For example, in the case of antidumping, countervailing measures and the safeguard clause. In this case, the developing countries could form a united front to strengthen their request of technical and financial assistance measures.

The position of the MENA countries regarding the new Round generally coincides with the one expressed by the developing countries: they are directly interested in the liberalization of key sectors such as textiles and clothing, for which they will request full implementation of the Agreement on Textile and Clothing (ATC), but also in the sectors of machinery, transport equipment and metals through the elimination of the tariff peaks and escalations on which the Uruguay Round had little impact. These are, of course, particularly sensitive sectors in which negotiations will be more difficult, as was the case in the Uruguay Round. Precisely for this reason the MENA countries are in favor of a single Round of negotiation, to overcome through reciprocal concessions obstacles to higher openness especially for those high tariff sectors where in the past have been impossible to surmount (Croome, 1998).

The Uruguay Round modified the tariff barriers for the MENA countries' exports, with a reduction ranging between 2.4% and 4%. Greater progress was made in the removal of NTBs, especially in textiles and clothing, through the progressive elimination of the Multifibre Agreement (MFA). But the region still is characterized by important tariff and non-tariff barriers, with the exception of oil. While the countries in the Gulf Cooperation Council (GCC) (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE) have average

import duties equal to 5%, the average tariff for countries such as Egypt, Jordan, Mauritania and Tunisia is a Round 30%.

So the region is far from the average levels of liberalization of the rest of the world. This is important since future development can only take place through real liberalization, accompanied by structural reforms (Yeats, 1996; Alonso-Gamo, Fennell, Sakr, 1997). The positive results achieved recently by Morocco, Tunisia, and Jordan through the openness confirm this conviction.

3.3. Implementing the Agreement on Textiles and Clothing

Confrontation will be especially fierce in the textile and clothing sector because of the "transitional" nature of the 1994 Agreement (ATC), whose major achievement was to bring these industries back into GATT/WTO rules. Their full integration will only become effective after completion of the third phase of liberalization from quantitative restrictions - as of January 2005.

Four phases are foreseen. Phase 1 ended January 1995, and members had to integrate into GATT 1994 products corresponding to not less than 16% of the total volume of their 1990 imports disciplined by the MFA. In phase 2 (January 1998) member countries had to integrate an additional 17% (in volume) of their total imports on the basis of 1990 data. In phase 3, by 1 January 2002, another 18% will have to be integrated. In phase 4, by 1 January 2005, the entire sector will have to be integrated into GATT 1994. This means that the remaining 49% of products previously the object of agreements in the context of MFA will have to be integrated. The opportunities for market access are destined to increase considerably following the progressive abolition of the MFA quotas.

Effective improvements will not be detected until 2002, when the third phase begins. In fact, the products involved in the first two phases are considered non-sensitive (De Abreu Paiva, 1996). The large exporting countries will make greatest use of the third phase, including Brazil, Hong Kong, India, Thailand, and Malaysia. The small exporters will have to await the end of the ten-year transition period (UNCTAD, 1996a).

The results achieved so far cannot been deemed encouraging (Croome, 1998). The advanced countries have been accused of substituting quantitative restrictions with new protectionism by abusing antidumping actions and applying restrictive rules of origin. On their side, the developing countries have maintained high tariffs and non-tariff restrictions. In fact, the principles of minimum liberalization in the sector have not been respected. On the other hand as with the agriculture, a great deal in terms of lowering the level of protection was achieved relative to the past and to what might otherwise have been the case.

A further source of concern is the fact that a major part of the integration process will take place in the final phase of the transition period. This "end-loading process" has raised doubts on the credibility of the entire liberalization process and raises questions about the political likelihood of commitments being less than fully implemented (UNCTAD, 1996a). The transitional safeguard measures are another key concern, since they entail determination of the "serious injury" guidelines (including the level of wages and of domestic prices) never before utilized. The increase in the parameters may facilitate their adoption, and this will damage the major exporters, in other words, mainly the developing countries. The possibility of adopting safeguard measures applicable simultaneously to

numerous countries is considered by many a negative aspect. The US has invoked these measures against imports of cotton and handmade goods from eight countries, basing their claims on the concept of "cumulative damage" deriving from the concurrent inflow of products from the countries in question.

Furthermore for many items the reduction of tariffs may in the long run have an unfavorable impact on those developing countries which benefit from systems of preferential access to the advanced markets. This is the case of the Caribbean countries and Mexico regarding US markets and the MENA and Central and Eastern European Countries (CEECs) regarding EU markets (ERF, 1998).

The textile-clothing sector is one of the few in which the developing countries have taken a strong common position. When the Uruguay Round was due to be launched, they made clear that their participation was conditioned to the high place to be given on the agenda for liberalization of textiles and clothing. Most of the developing countries, including the MENA countries, are contrary to any reformulation of the previous agreements. They fear that new negotiations would mean new concessions to be made five years before expiration of the agreement already signed, while they want to keep their negotiating power intact and benefit from the entire transition period available to them. So a new agreement designed to accelerate the process of openness is quite improbable and extensions of implementation times are also not foreseen (Croome, 1998).

3.4 Other traditional challenges

3.4.1 . NTB and Harmonization of standards

Standards, technical regulations and conformity assessment are having a growing impact –in parallel with the elimination of traditional barriers– on global trade. The presence of "opaque standards" (to favour inefficient national producers) and the proliferation of costly and complex systems of conformity assessment are leading to lower efficiencies and act as barriers to trade (Wilson, 1996), above all towards developing countries (Stephenson, 1997). Conversely, the implementation of efficient international standards would make it possible to achieve important results, favouring for example, the spread of innovation and the achievement of economies of scale, better product quality and an increase in exports (Wilson, 1996).

There seems to be substantial consensus on this. Disagreement centres on the way to achieve it, either through harmonisation of technical standards at the international level and/or mutual recognition at the level of regional bloc. Initial responses have come from the adoption of the Mutual Recognition Agreement (MRA) between the US and the EU as regards testing, product certification and laboratory accreditation and the multilateral agreement on Technical Barriers to Trade (TBT) signed during the Uruguay Round, which obliges governments to define product and process standards.

The most advanced agenda as regards regulatory reform and standards seems to be the one adopted at the regional level by Asia-Pacific Economic Cooperation (APEC). The objectives set in it for standard and conformity assessment are much more ambitious than those in the WTO-TBT Agreement, with respect to both selective harmonisation of standard products and the mutual recognition of foreign standards on domestic markets. For developing countries, recognition and adhesion to international standards and agreements still seems to be rather limited. At domestic level, most currently lack the infrastructure and skills needed to operate and keep up laboratory testing facilities. At

international level, although a number of developing countries are members of the International Organisation for Standardisation (ISO) and the International Electrical Commission (IEC), their actual participation is still poor both in the working groups and in working out the standards accepted. The same considerations hold for the WTO and the TBT agreements.

Under these circumstances, the priorities of developing countries in terms of standards should be the following (Stephenson, 1997): i) to adopt preferably international standards, in particular, those established by the ISO and the IEC, and – lacking those – adopt those of their most advanced trade partners rather than formulate their own; ii) to achieve more active and concerted participation in the working groups of international bodies in order to favour the adoption of standards much closer to their requests; iii) to implement the rules and regulations contained in the WTO's TBT agreement, especially concerning notification of national practice.

It should be acknowledged that the regional approach to the removal of technical barriers to trade has generally contributed to liberalisation much better than the multilateral one, both within regional areas and with respect to third countries. This can be explained by the fact that the number of countries that have to reach agreement is smaller than in the WTO with its 130 members. Financial support for technical assistance, including the training of personnel and the updating of laboratory infrastructure and testing facilities, is also easier at the regional than at the multilateral level (Stephenson, 1997).

3.4.2. Trade Facilitation

There is unanimous agreement also on the positive impact and usefulness of trade facilitations (Croome, 1998). The task assigned to the WTO's Goods Council clearly identifies the objective of the negotiations on trade facilitations, defining it as "... the simplification of trade procedures in order to assess the scope for WTO rules in this area". In effect, the import and export procedures of many countries must be simplified, harmonised and made more automatic, so that documentation is reduced and transparency increased. These are provisions which would benefit all, especially smaller firms and developing countries, for which the costs involved in respecting the present procedures are relatively higher.

The EU proposals hinge on a few major points: i) the principle of proportionality in order to eliminate superfluous procedures; ii) immediate checks rather than subsequent checks as is currently the case; iii) measures that favour the transparency of checks to avoid arbitrariness and abuses; iv) the gradual introduction of computerised systems based on cooperation between exporters and importers.

With respect to the last point, a World Bank study has defined the use of electronic data interchange (EDI) a "critical component of a trade facilitation strategy" (Schware and Kimberley, 1996). Cox and Ghoneim (1998) state, for example, that in the case of many developing countries, such as Egypt, the adoption of an EDI system could bring about efficiency advantages and an increase in trade equal to 350 million dollars. Substantial gains have already been achieved in Singapore with the implementation of trade facilitation measures (Schware and Kimberley, 1996).

Yet the EU proposal has not found many supporters; in particular, the US does not seem to be convinced that the WTO should be responsible for these measures. Nevertheless,

there is strong pressure from private business for trade facilitation measures to be brought into the WTO sphere and the next Round of negotiation (Croome, 1998).

3.5 Public procurement practices

One of the working groups set up in Singapore is the group on transparency in public procurement. Indeed, a plurilateral agreement on public procurement (Government Procurement Agreement - GPA) was signed in 1994 by 28 countries, among which the 15 EU countries, the US and Japan. The agreement lays the foundation for real transparency in government procurements relative to both goods, as set down in the preceding 1981 agreement, but it has the limit of being binding only for the WTO members who signed it. Its weak point remains the limited number of adhesions.

Furthermore, the General Agreement on trade and Services (GATS) contains specific rules on public procurements in services (Article XIII) which are among the GATS' "incomplete rules" and are to be completed by a specific working group. The working group on GATS is still in its preliminary stages, though, as far as government procurement is concerned, with respect to identifying both the key issues and the room for manoeuvre for such an agreement.

Three different levels of future goals of negotiations in this area can therefore be distinguished. The first is linked to the transformation of the 1994 agreement from the plurilateral to the multilateral level overcoming the developing countries' opposition to granting national treatment to foreign enterprises and to giving up privileged access to national enterprises for development purposes. Only a few developing countries have adhered to the GPA, in spite of measures favouring their participation. Chile and Mexico, while showing interest, have criticised its "complex, bureaucratic and costly structure" (Croome, 1998). In the coming years, more developing countries will adhere, above all because candidates for admission to the WTO are required to belong to the GPA. To encourage adhesion, many propose use of transitory price preferences, which would therefore gradually erode. At the same time, policies such as offset could be converted into price preferences, following a logic similar to the one that led to the tariffication of quotas and other NTBs in agriculture (Hoekman, Mavroidis, 1994).

The second level is connected to the setting up, as proposed by the QUAD countries, of a general transparency agreement in government procurement. Transparency is fundamental for attracting firms that intend to bid for government procurement and above all for avoiding corruption, a real scourge in developing countries (and elsewhere). Besides paving the way for corruption, a lack of transparency also leads to greater costs, which discourage FDI and constitute an NTB for trade. In consideration thereof, and although developing countries and above all ASEAN countries have strongly rejected all attempts to introduce anti-corruption regulations in the WTO, it is imperative that adequate provisions in this respect be set up (Croome, 1998). Furthermore, it is also important to improve the currently easily circumvented procedures for enforcement and dispute settlement which often discourage firms from developed countries from bidding for government procurements in developing countries (Hoekman, Mavroidis, 1994).

The third level involves the negotiations on the "incomplete" GATS rules and envisages the inclusion in the GATS 2000 of matters of transparency, dispute settlement, market access and national treatment in government procurement of services. As regards this

last point, the developing countries can negotiate exceptions to national treatment, even after the signing of the agreement. They therefore have a certain margin for manoeuvre to favour national companies. Nevertheless, the option is limited to certain public actors, products and services that are included in the lists of the signatory countries. In general, in any case, the principle of non-discrimination prevails. As is known, discrimination may, in certain cases, reduce costs (Hoekman, Mavroidis, 1994; Mattoo, 1996). But all studies agree when looking at the benefits of a discriminatory approach, that they are usually very meagre, since the profits of the national companies are mostly compensated by an increase in prices (Mattoo, 1996; Hoekman, Mavroidis, 1994). Furthermore, a discriminatory policy can only function if the preferential margin to be allowed - that is, the competitive disadvantage of domestic companies in each sector is known precisely. Even if that were possible, it would mean achieving information, which is always costly. In light of these considerations, it can be concluded that, even for developing countries, the principle of non-discrimination responds more closely to their efficiency and transparency needs, as it limits all forms of discretionality as much as possible.

The MENA countries have the same needs as all developing countries, especially as concerns transparency and the introduction of measures aimed at safeguarding buyers of goods and services. Although government procurements are of considerable importance for many of them, given the abundant infrastructure works, only Israel belongs to the GPA (Turkey is an observer). The fact is that public procurement regulations in MENA countries are generally based on substantial discrimination in favour of national companies (ERF, 1998), thus making it difficult for these countries to adhere to the agreement, unless they are specifically requested to do so, for example because of membership in the WTO.

4. The first generation of new trade issues

4.1. The core issues of trade in services

It is known that services play a fundamental role in economic development and are not merely its by-products. The increasing tertiarisation of the economy, as pointed out earlier, is general and can also be seen in developing countries, and in the MENA too. With the growth of per-capita Gross Domestic Product (GDP) manufacturers have become increasingly dependent on services and the share of services in total trade increases (Francois and Reinert, 1996). The importance of producer services in developed countries is three times that in the developing countries. But in the developing countries retail and wholesale trade plays a crucial role (Hoekman, Braga, 1997).

There are many policy measures in the trade in services aimed at limiting market access as in trade in goods, such as subsidies, tariffs, taxes, quotas and technical standards. Border measures are however difficult to monitor for services, and it is often regulatory regimes that create discriminations (Hoekman, Braga, 1997). Whereas in the trade in goods barriers have a direct impact on commodities, the trade in services affects especially the providers (Mohieldin, 1996b). The issue thus lies in the use of distribution networks and in the effective possibility of tapping them.

The most significant barriers to the trade in services are: a) quantity based measures such as Air Service Agrrements (ASAs) in the air sector; b) local content

requirements, as in the case of domestic suppliers or basic telecoms service providers; regulations on privacy, moral and intellectual property rights also generate new barriers of this type; c) price based instruments, such as visas, tariffs on goods need for services (computers), procedures approved by international agencies (accounting rates in the International Telecommunication Union –ITU-); d) subsidies, for example in railway services; e) standards and licensing, for example in professional services; f) government procurement, with discriminatory practices against foreign firms; g) discriminatory access to market distribution networks. Snape (1998) proposed a tripartition into tariff and non tariff at-the-border barriers, linked to the restriction on commercial presence, transit of people and transfer of funds; internal barriers, such as particular regulations and taxation imposed on foreign services and providers; and barriers which are applied indiscriminately on local and foreign providers, in the presence of anticompetitive regulations and monopolies.

There is no doubt that policies that reduce competition in services industries are very costly, since the restrictions on the global communication and transport networks have an immediate impact on the various sectors of production, even more so with the use of just in time. CGM have shown that the advantages of lowering industrial tariffs would have been three times as much if there had been a cut of at least 25% in services barriers (Hoekman, Braga, 1997).

Competition policies, contestability of markets and FDI are the key elements of trade in services (Hoekman, Braga, 1995); even more so since trade in services tends to be complementary to FDI. Regulatory regimes therefore play an essential role, and without domestic liberalisation, privatisation and protection of competition any regional and multilateral effort risks being frustrated.

In recent years there have been many developments in domestic regulatory systems and much deregulation in services, imputable to policy-driven, technology and industry driven developments and to new regulatory challenges (WTO, 1999a). Unilateral liberalisation has occurred in many developing and developed countries (Sauve', 1997). Regional agreements have also been very diffused, since it is easier to harmonise procedures or apply mutual recognition of systems (Hoekman e Braga, 1995). So network externalities (telecoms and information services) and agglomeration externalities (banking and consultancy services) are increasing in the Regional Investment Agreements (RIAs). At the same time, the regional liberalisation schemes seems to complement that of the multilateral ones, since RIAs appear to have been useful laboratories in which to experiment with ever more sophisticated services, investment and procurement rules and disciplines (Mohieldin, 1996b). In many cases (apart from the Single Market) liberalisation has had an overlap between the GATS and "deeper integration" regional schemes (GATS equal and not GATS plus): in the case of the Euro-Mediterranean Countries (EMAs) there is an explicit link with the multilateral liberalisation in the GATS. (Hoekman, Braga, 1997).

No univocal interpretation of the level of tertiarisation in the MENA area is possible, since great differences exist between countries (Hoekman, Braga, 1995). There are also striking differences in the number of sectors which the individual MENA countries have liberalised out of a total of 160 odd sectors. The importance of the network and service infrastructure for developing countries has been mentioned. It is of

low quality in the MENA area because of state monopolies and state-owned enterprises protected by artificial barriers to trade and based on non-economic criteria such as national security and "strategic" interests. Lack of competition and contestability have resulted in poor quality and higher costs (Mohiledin, 1996a).

For Mohiledin (1996a) and Hoekman (1995) the commitments of the MENA region do not imply, if any, liberalisation and the Euromed agreements have analogous results. MENA's minimalist approach is also connected to the poor collective commitments on labour force movements. For the future, a recent Economic Research Forum (ERF) report stresses the relevance of the trade in services for the integration of the MENA region, given its important movement of workers across borders and the need to integrate the region's labour market.

4.2The existing multilateral framework in services.

The GATS is a major achievement in liberalising for the first time a sector where considerations of national economic policy and development objectives continue to play a fundamental role. The two principles of standstill cohabit in the agreement, understood as a general commitment not to introduce new distorting and rollback measures, as also revealed by the built-in agenda, ex article 19. Characteristic of the trade in services is the interaction between providers and consumers, hence the multilateral classification of the four modes of supply: cross-border supply; provision involving movement of the consumer; services sold through a commercial presence; and temporary movement of natural persons.

The core principle of the GATS is non-discrimination, both at home and abroad, as reflected in its most-favoured-nation (MFN) and national treatment rules (Hoekman, Braga, 1997). But its impact is more limited than in the GATT: whereas the coverage of MFN for each GATS Member is subject to a negative list (to have negotiating pressure for obtaining sectoral reciprocity), coverage of national treatment is determined by a 'conditional' positive listing approach. In addition to the two central GATT principles, the GATS introduces a commitment not found in the GATT: a market access obligation, to be reached through a positive listing of sectors by each GATS Member (Hoekman, Braga, 1997). In fact the GATS is a "hybrid of a positive and negative list approach" to scheduling specific commitments (Hoekman, Braga, 1995). The positive list means that only scheduling commitments are applicable and this is a serious shortcoming (Hoekman, Braga, 1995).

The system of positive commitments has meant that member states are locked in their market opening and national treatment on the basis of national development and economic policy objectives. In addition, the combination of positive listing in the specific commitments and negative listing in the MFN encourages a liberalisation underpinned by sectoral or horizontal reciprocity on the individual modes of supply to the detriment of a global approach (Snape, 1998). The picture of the specific commitments in services is therefore decidedly incomplete. This is why, at the end of the Uruguay Round, it was decided to continue negotiations on them in four key sectors: basic telecoms; financial services; maritime services; and movement of natural persons. As will be seen, for basic telecoms and financial services, the post-Uruguay Round

negotiations have achieved positive results; for maritime services and the movement of natural persons the postponement does not necessarily mean the negotiations will be successful. In both cases, the matter of specific commitments will be taken up again during the next negotiation, expected to start in 2000 according to article 19.

The liberalisation obtained after the specific commitments is not very advanced. The developed countries have made commitments equalling 47.3% of the total, the developing countries 16.2%. The commitments are very heterogeneous among developing countries: over a quarter of them are committed in just 3% of the sectors; large developing countries (with GDP of \$40 billion or more) have achieved up to 38.6% of the possible maximum (WTO, 1999b). The greatest restrictions kept by developed countries are precisely in those sectors where developing countries have a comparative advantage, such as low and high skill labour-intensive activities that require either temporary entry or establishment work permits (Hoekman, Braga, 1997). The greatest restrictions to the presence of natural persons have also come from the developed countries. The poor commitment on mode 4 has meant that an extension of negotiations has been requested, mostly by developing countries (WTO, 1999b).

4.3 Service sectoral agreements: telecommunications and financial services

The February 1997 agreement led to the liberalisation of telecommunications in 89 WTO countries by the end of 1998. The level of liberalisation varies considerably between developed and and developing countries. The almost total liberalisation of the European, US and Japanese markets contrasts with the limited and deferred openness in Asia and Africa.

The liberalisation of market access and national treatment on a MFN basis in telecommunications risks being thwarted by the anticompetitive practices of the dominant operators, especially because of the infrastructural component of telecom services. This is why WTO members, in addition to the traditional liberalisation issues, have also agreed on a Reference Paper containing a series of competition safeguards compulsory for member states, to prevent anticompetitive practice among dominant operators, such as anticompetitive cross-subsidisation and the use of technical and commercial information for anti-competitive aims (Gamberale, 1999). Other safeguards of the Reference Paper ensure the connection of new operators with the dominant operators, the independence of the regulatory authority and universal service duties. This creates an important precedent, because it anticipates the debate on competition policy in the WTO and will be an interesting model for other sectors. This applies especially in those areas where the infrastructural component of services requires a national regulation of competition to implement the liberalisation commitments made under the WTO.

Despite the commitments of some MENA countries, Alonso-Gamo (1997) has emphasised how much Arab countries are lagging behind in telecommunications and also the disadvantages for consumers in terms of higher tariffs and poorer services. The implementation of the agreement on telecoms by the MENA countries, its extension to countries which have not signed it and its negotiation for countries about to enter it, will be key elements for the modernisation and expansion of the network in the area.

The negotiation on financial services were concluded with an agreement on 15 December 1997 and by the end of 1998 it had 104 adherents. The negotiation was delayed because of the conclusion of the reform process in the sector underway in many WTO countries. The commitments were undertaken through the 4 modes of supply in all the financial sectors, including insurance, banking and other financial instruments.

In the case of the financial services however, the "right to regulation" of services, possessed by members states on the basis of Article VI, is broader than in the other sectors. The annex to financial services allows a state to adopt "prudential measures" to project consumers of financial services and to ensure the integrity and stability of the financial system. It is no coincidence that the worsening of the Asia financial crisis in 1997 did not affect the positive conclusion of the GATS negotiations on financial services in which various countries from that region took an active part (Gamberale, 1999).

Although there is no doubt that developed countries have a comparative advantage in many financial sectors, liberalization in this area is greatly in the interest of developing countries too. Low cost and efficient financial services has a great impact on the competitive position of producers in developing area. As demonstrated by Mohieldin's study (1996b), the liberalisation of financial services in developing countries, and especially in the MENA ones, involves the reduction or elimination of the barriers to trade and requires detailed negotiations of within-the-border barriers such as laws and regulations". On the other hand, the commitments made to date show that MENA countries are not yet ready to tackle the challenge of international competition. Thus domestic reforms and new regulations are necessary to face a growing complexity, according to the sequence illustrated earlier. Multilateral liberalisation must be accompanied by improvements in the regulating framework and by the internal reform of the domestic banking system, given the linkage between domestic regulations, IDE rules and the contestability of service markets. Through the EMA, specific arrangements can be negotiated with the EU for further liberalisation of trade in services, reaching a GATS plus status (Mohieldin, 1996b).

4.4 The crucial issues for GATS 2000

The liberalisation scheme that the GATS 2000 will have to tackle is extremely complex: there are petitions for global liberalisation, cross-sector liberalisation with horizontal forecasts, sectoral and regional liberalisation, "unbound" unilateral liberalisation, hooked on to regulatory reforms. After six years, the GATS' institutional rules and structure need to be reformed and continually adjusted to face the challenges of the global economy (Sauvè, 1997). Proposals regard both its institutional packaging and mechanisms - increasing its transparency and providing greater clarity on its legal framework, as well as the horizontal rules (those on FDIs) - and the negotiating procedures of the GATS 2000 and the specific commitments.

There are numerous proposals for the reform of the GATS mechanisms and institution. Some suggest overturning the positive and negative listing system (Sauvé, 1997) and streamlining and enhancing its mechanisms, removing regulations on IDEs and competition and putting them in a more general agreement covering both to services

and goods (Snape, 1998). The GATS would thus become less general and more focussed on domestic and foreign non-discrimination (MFN and national treatment) with specific exceptions; the reference model is the Northern America Free Trade Agreement (NAFTA) one. But this proposal to limit the GATS range and the total subversion of its principles has been criticised because it would undermine the balance of concessions achieved across different issue areas that was so important in the Uruguay Round (Baldwin, 1998).

Others propose a greater integration between the GATT and GATS discipline through a common framework (Feketekuty, 1999). Hoekman has proposed locking in investment rules in the GATS, given the difficulty in achieving a consensus on a horizontal Multilateral Agreement on Investments (MAI) for developing countries (Hoekman, Saggi, 1999). Another reflection concerns the modes and packaging of the GATS 2000 itself-whether there should be many sectoral agreements in which several sectors are liberalised or a single approach. The success of the agreements on telecoms, ITA and financial services could mean favouring the sectoral approach to negotiations. The greatest consensus is, however, on the idea of the all-encompassing negotiating Round to achieve a positive balance and effectively proceed with liberalisation (Sauve, 1997). The approach suggested to the developing countries is two-prone: there should be an across-the-board horizontal approach which deals with trade liberalisation and overall adjustment in the global context, complemented by a practical approach aimed at identifying sectors of specific interest. (UNCTAD, 1996a).

The core of the GATS 2000 will anyway consist of a series of negotiating items. The built-in agenda ex article 19 provides for negotiations on specific commitments (market access, national treatment) in all sectors. Despite the recent sectorial agreements, there are still significant quantitative impediments in these sectors, discriminatory to international trade. The removal of these obstacles is a priority of the liberalisation process, especially in sectors such as maritime services, audiovisuals, the other transport services and energy, where very little was obtained in the last Round. Liberalization of maritime services is of greater interest fro some group of developing countries, both for demand, lower costs of access to these services, and supply reasons, possible comparative advantage in maritime shipping. In some sectors, the issue of principles for encouraging competition will be tackled, as in the case of telecommunications. This applies particularly to energy and transport, where the behaviour of the dominant operators and access to the networks are crucial for ensuring the contestabity of markets.

Developing countries are paying particular attention to the negotiations on the movement of natural persons. Limitations to the movement of natural persons also limits the participation of developing countries in the GATS and the strengthening of these provisions would mean a greater involvement of developing and MENA countries too. Greater symmetry in the treatment of the factors of production – capital and labour – in the WTO is important, since the liberalisation of the movement of persons is undoubtedly lagging behind that of the circulation of capital. Some are suggesting a NAFTA type solution (Sauvè, 1997), by introducing the principle of equivalence between labour and capital, and horizontal rules for the temporary entry of foreign workers. The mobility of labour would thus become the object of a global WTO agreement, encompassing services and goods (Feketekuty, 1999).

The revision of the GATS also includes that of the MFN exemption lists. The MFN exemptions are a temporary instrument, for not more than 10 years, to achieve the target of the general application of MFN for 2005. This revision will serve to see if the conditions for granting each exemption still exist and to determine the date of the next revision.

The revision of the annex on air transport can take as a model the approach of the telecoms agreement on access to the market in the presence of networks, given the infrastructural component in the trade of transport services (Sauvè, 1997). The annex excludes services directly connected to the exercise of traffic rights (passenger transport, slots attribution, gRound services) from the application of the GATS and includes the repair and sale of planes and sale and booking of tickets. It is unlikely that this revision will lead to including traffic rights services within the GATS framework, but it can clarify whether or not the GATS covers important economic activities linked to the exercise of traffic rights, including gRound services.

The unfinished agenda of GATS rules (safeguards, domestic rules, subsidies, government procurement) means they will inevitably be included on the agenda of the 2000 Round. An agreement on issues such as domestic regulations, subsidies and public supplies would have a great influence on the liberalisation of services, in quantitative terms no less than the work on specific commitments. As said earlier, a protection mechanism would be a useful tool for tackling certain emergency situations and could convince many developing countries to liberalise more; the problems are linked to the definition of the injury in trade in services. The increase which can be estimated in cross-border trade due to electronic commerce makes the adoption of safeguards even more timely. For domestic regulations, objectives of economic and social policy could be pinpointed to justify the regulation (not quantitative and not discriminatory) of the sector, especially for developing countries. For improving Article VI some proposals are linked to (Feketekuty, 1999): transparency of regulatory objectives, to clarify the social objectives of domestic regulations; appropriate use of market mechanisms, sets of economic incentives or disincentives to achieve the social objectives; minimising the scope of regulations; use of international regulatory standards. Government procurement remains a key issue and it is to be hoped that this agreement can become multilateral, as well as coordinated with government procurement forecasts in the GATS and on the transparency of government procurement in general (Sauve', 1997).

Also awaited are additional commitments on competition and domestic rules similar to those made with the Reference Paper, especially where the level of access to markets and to national treatment is already relatively high and the obstacles are represented by non quantitative and non discriminatory measures and anticompetitive practices. The introduction of regulatory regimes on the model of the Reference Paper is very important, especially in sectors with still many monopolistic conditions, such as distribution, energy and electronic commerce. One problem is how to transfer rules laid down in the telecom's Reference Paper into the wider framework of services. Some interim results could be reached in the Working Group on GATS rules for a competition-oriented approach to service subsidies. Cooperation between authorities must also be fostered, so that safeguards for consumers and the welfare of the state do not restrict competition in a discriminatory manner.

The WTO has identified the pillars of a greater participation of developing countries in the GATS as increasing trade opportunities, recognising and safeguarding interests, flexibility and technical assistance. In general developing countries have a strong interest in international access to low price and high quality services in support of their domestic producers. Certainly it is necessary to assess how to foster exports in the sectors of interest for developing countries ex article 4 by increasing commitments in these sectors and those under mode 4 (movement of natural persons). There is no doubt that construction services and worker mobility is an area of great interest to the developing countries. The latter can thus be offered greater possibilities by eliminating the barrier created by information asymmetries and the requisite qualifications: in many services the problem does not lie so much in access to the network as in the real possibility of exploiting the distribution channels. This is often due to a lack of transparency and information: in this sense it is important to strengthen paragraph 4 of article 3 of the GATS, requiring developed countries to provide more detailed enquiry points.

A bargain between developed and developing countries could consist of developing countries having access to the established information networks and distribution channels and in return they could offer market access in information-related industries such as telecoms (Chan, 1996). This would also foster the technological trade with developing countries, not only in basic infrastructure (telecoms, IT, energy, transport) but also in soft infrastructure, such as education, financial, human capital (Chan, 1996). Since barriers for operators of developing countries are often more of a practical than regulatory nature, involving the search for business opportunities rather than access to the market, the creation of trade facilitation agencies to guarantee an effective business opportunity access could be fostered (Chan, 1996).

For the MENA region, it is important to pinpoint service sectors in which there could be competitive advantages, even if one shares the cross-sectoral view approach rather than that of single sectors, given also the linkages between different sectors (Chan, 1996). The major export earnings come from tourism and labour services (nationals working abroad, remittances of workers abroad). The tourism sectors, in which the greatest openness have been made by developing countries, is an important resource for the MENA area, but obstacles to its growth concern the possibility of access to and use of the global networks of advertising and marketing and the lack of

technological means (computer reservation systems -CRS-). The construction sector is also important, but here the problems are linked to the temporary nature of the work and the restrictions to movement of natural persons.

4.4. Intellectual Property Rights (IPRs)

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), during the Uruguay Round was one of the new trade issues, with GATS and Trade-related Investment Measures (TRIMs). It was prompted by the consideration that know-how and new ideas increasingly underpin the value added in tradable goods and services (WTO, 1999a). The first part of the TRIPS sets forth some general principles, such as national treatment, MFN and transparency. The second part establishes the minimum standards to apply in regulating the IPRs: copyright and related rights, trademarks, geographical indications, industrial design, patents, layout design of integrated circuits, undisclosed information (trade secrets) e anticompetitive practices in contractual licences.

Many developing countries opposed the preparatory negotiations and the agreement was a symbol of the north-south confrontation. There is undoubtedly a very strong relationship between per capita income and index of protection of intellectual property rights: the greater the former, the greater the protection; economies become more innovative as income levels rise and with the increase in innovative capacity the request for protection increases. The greatest differences between north and south are therefore the fact that the north generally offers high levels of protection and the south either decidedly inadequate, especially with regards to trademarks, copyrights and trade secrets, or none at all, as in the case of patents for new plant varieties.

It was long thought that a very partial protection of IPRs would benefit developing countries, thanks to the effects on development linked to faking and to prices of developed countries' products, forced to compete with local imitations. However, more recent analyses of the relation between IPRs, trade, FDI and transfer of technologies demonstrate that it should not be necessarily true (Maskus, 1997). A greater protection of trademarks from fakes could lead to an increase in trade, especially in developing countries with great innovation imitative capability, thanks to the prevailing market-expansion effect (Maskus, 1997). However, it is possible that a substitution effect can occur, for which the granting of licences could limit the influx of investments, especially in difficult-to-imitate high technology sectors. For products with easily reproducible technologies, such as software or medicines, the impact of the IPR protection regime has a greater effect on the FDIs. There are few studies on this: Lee and Mansfield (1996) show that the volume and technological quality of investments are directly proportional to the level of protection: the greater the protection, the better and greater the investments. For the transfer of technologies, several studies have demonstrated that the protection regime for IPRs affects the quality of the technology transferred (Davies, 1977; Contractor, 1980; Mansfield, 1994). All this proves that developing countries could obtain significant advantages from the provisions on IPRs and their implementation.

The TRIPS agreement has certainly increased the level of protection of Intellectual Property Rights, leading to a greater harmonisation among the various national regimes. For the developing countries there is a transition period of five years, except for national treatment and MFN measures. For patents with a high technological content, there is even longer transition period of 10 years. Article 71 establishes a built-in agenda authorising the TRIPS Council to examine the agreement execution process every two years, starting from 1st January 2000; also to acquire greater levels of protection through new multilateral negotiations.

The issue of the effective implementation of the TRIPS is destined to become the greatest cause of conflict between the member countries (Primo Braga, 1996; Lal Das, 1998; Maskus 1997). The fact that many developing countries will not have adjusted to the provisions by the deadline might affect the validity and credibility of the agreement. The inclusion of the IPRs in the agenda of the Millennium Round must not call into question the effective application of the provisions laid down by the Uruguay Round. In view of the new negotiations it is therefore fundamental to provide financial and technological support by enhancing technical assistance under part VI of the agreement, without which the agreement might well not be implemented at the end of the transition period; some industrial groups of developed countries have also stated they are willing to contribute to technical assistance (Union of Industrial and Employers' Confederation of Europe –UNICE-1999).

Moreover, some developing countries could reap benefits from an interest in protecting traditional products (Croome, 1998). Also to be tackled is the issue of the notification and registration of geographical indications for wines and spirits, categories not contemplated by the TRIPS. A review of Article 27 on biotechnological products, an issue of considerable sensitiveness in world public opinion, could help the developing countries bargain for compensation in sectors such as that of geographical indications (Croome, 1998).

The fight against fakes would also benefit from more restrictive regulations; because of the opposition of the developing countries, the TRIPS had not determined on any measures for resolving the problem. Then there is the problem of parallel imports of products for which no licence has been granted in the importing country. Finally, Article 40 recognises that patent registration practices can have anticompetitive effects, assigning extensive discretion to members on the compensatory measures to apply. The agreement also provides for a bilateral consultation between members to give access to necessary information, to evaluate anticompetitive measures and to avoid arbitrary compensatory measures. The language of Article 40 is however merely prescriptive without actually defining anticompetitive practices, which generates friction among members rather than limiting these practices.

4.5 The new frontier of electronic commerce: between old and new trade issues

Recent advances in three areas — computer technology, telecommunications technology, and software and information technology — are changing trade and investment relations under many aspects. The Internet, for example, will extend the range of what is tradable. In the past, many services were considered non-tradable, but

through Internet-based electronic commerce many medical, legal, architectural, travel, accounting, education and other services have become tradable (ESN, 1999).

Electronic commerce as an instrument for multilateral trade started catching on after the end of the Uruguay Round. The Declaration on Global Electronic Commerce adopted at the May 1998 WTO Ministerial Conference established a working programme to analyse trade-related issues relating to e-commerce, and to make recommendations for action at Seattle; a moratorium has also been fixed on customs duties and free trade on e-commerce up to 2000 (Gamberale, 1999).

The recent explosion of the electronic commerce called into question even recent reforms in many other sectors. It is possible to identify two categories of economic activity in electronic commerce: the distribution of services and goods, then physically consigned to the purchaser, and the electronic supply of services and goods. In the first case, the electronic aspect is only that of the distribution, since the goods purchased, like all other goods, can then be subject to customs duty when they physically cross a border. In the second case, almost all the economic activities that take place via the Internet are services, and as such subject to the GATS rules on multilateral trade. This it the case, for example, of financial and professional services, telecommunications (Internet telephony), distribution and audiovisuals. The only part of electronic commerce on which there are doubts about the applicability of the WTO agreements is that of virtual goods, that is those products which if provided in an electronic manner constitute commodities subject to GATT regulations, including books and audiovisuals which need not be incorporated in audio and video cassettes.

The central aspect of the applicability of the GATS to e-commerce is that of technological neutrality. Article I of the GATS affirms that it is applicable to government measures affecting trade in services in one of the four supply modes, without distinguishing between the technological means used for supplying a service. This means that the same banking service supplied via post, telephone or the Internet from one country to another is considered equal from a GATS point of view. Services provided via the Internet – with few exceptions – would therefore not be considered "new services", subject to new negotiations on specific commitments just because transmitted by technological means, but subject to the already existing commitments applied to the same services supplied not electronically.

The regulation of electronic commerce can thus be imposed within the framework of the GATS as a negotiating area in itself; because of the greater clarity of the "services" aspect in e-commerce, it is probable that the conclusions of the working programme will influence the negotiations of the Round on GATS 2000 (Gamberale, 1999). In the case of an agreement on e-commerce within the framework of the GATS, the two modes of delivery most relevant to the electronic supply will be: i) cross-border supply; ii) consumption abroad (ESN, 1999; Sauve', 1997). However, others claim that the advent of the new technologies and e-commerce will make it even more difficult to distinguish between at-the-border and behind-the-border barriers and between the same modes of delivery (Feketekuty, 1999). The current four modes of supply do not seem to best solve the problem of e-commerce, an alternative approach may be to create a fifth mode for the sale of services through the Internet, negotiating a common regulatory framework for such transactions (Feketekuty, 1999). Finally, one asks what regulatory jurisdiction can be applied to the Internet and to e-commerce.

Also important is the applicability or not of the emergency safeguard measures to e-commerce; this element will be all-important for encouraging developing countries to make more liberalisation commitments (ESN, 1999). On the other hand the enhancing of the participation of developing countries in electronic commerce and the use of information technology in the integration of developing countries into the multilateral trading system will be a key issue in the new trade agenda. It cannot be denied that electronic commerce and the Internet added a new technological means of facilitating trade, but it is equally true that in the lack of adequate and effective measures it can further marginalise developing countries.

4.6 Information Technology Agreement: towards "ITA Two"?

The successes of the post-Uruguay Round trade liberalization included the conclusion of the ITA launched by the Singapore Conference of 1996. The keynote of "ITA One" was free trade in IT products, covering five main categories of IT products: computers, telecommunications products, semiconductors. semiconductor manufacturing equipment, software and scientific instruments. "ITA One" covers free trade of 44 countries, for about 93 percent of global trade in IT products worth more than \$600 million annually. The tariff reductions, which are scheduled to begin on 1 July 1997 and to conclude on 1 January 2000, are to be implemented by signatories on a MFN basis. For some developing countries the deadline has been postponed to 2005. The ITA includes also a broad definition of software products, which covers multimedia and interactive software and "Nuisance Tariffs" on software (tariffs below 3%) will be eliminated as soon as 1 July 1997. The agreement also covers a wide array of telecommunications equipment and products, including fibre optic cable. It is an important item in the multilateral liberalisation of trade in goods, with positive effects also on the trade in services.

The ITA and the WTO Agreement on Basic Telecommunications Services were of vital importance for the information technology and telecommunications industry, but they marked a turn toward sectoral negotiations. But the "ITA One" was only relatively successful since many developing countries and entire areas, including Africa, did not participate, and many products were excluded. This is why the idea of an "ITA Two", was launched, where countries were to submit a list of other products to be added to this list. The major players, including the U.S. and Europe, have produced a list of more than 400 products, including printed circuit-board manufacturing equipment; flat-panel-display manufacturing equipment; capacitor manufacturing equipment; audio, radio, TV, and video apparatus; telecom products; electrical/electronic machines; instruments; and parts and inputs for IT products.

Another proposal is to extend the ITA to certain services, and the category be changed to information technology services, including consultancy services, software implementation services, data processing services, data base services, management consulting, and customer services (Aggarwal, 1999). Despite the rapid growth in this area, a few barriers remain. Barriers also remain with regard to the current commitments of some countries. Restrictions on foreign ownership and requirements for local partners of varying descriptions hamper the ability to provide information technology services seamlessly. In addition, requirements to use public networks and restrictions on the use of leased lines also provide barriers to true global market access. Practices in

government procurement vary dramatically across the globe and offer considerable barriers to the provision of information technology services to governments (Aggarwal, 1999).

The opposition of many developing countries, and especially the Asian ones most effected by the crisis, blocked so far the plan's progress. The open issues are still therefore those of an enlargement of the number of the signatories to the agreement, as well as a possible extension to other categories of IT products and free-trade services. The possible ITA2 agreement together with that on e-commerce are also important because of their constituting "separate" items on the Millennium Round agenda. This could mark a reinvigorated "sectoral" approach with its inevitable consequences for the development of the multilateral trading system.

5. The second generation of new trade issues

5.1. Implementation of competition law and policy

There are two key aspects of the current debate on "trade and competition". First, the need for a discipline regulating the anticompetitive practices of transnational corporations (TNCs), through a multilateral antitrust and "international trust busting" agreement (Holmes, 1999). Secondly, the preparation of rules on a national level which do not impede market access and the full contestability of markets (Low, Subramanian, 1996). The current debate seems to be concentrated on the "competition law versus market access" paradox. The main interest for developing countries is towards antitrust policies, unlike the agenda of the developed countries on competition policy, dominated by marketaccess and export-driven impulses (UNCTAD, 1997). The second issue was based on the "evolutionary" path of the European experience; the Treaties of Rome did not expect member states to prevent anticompetitive practices tout court: they were only forbidden when they provoked distortions in trade between member states. Later on, a common antitrust policy was developed with articles 85 and 86 of the EEC Treaty, According to some (Holmes, 1999) this European "evolutionist" path could be the reference model for the future global agreement, since the competition policy triggered off by market access concerns has shown itself to be an "integrating force".

Another important distinction is that between competition law and competition policy. Competition law (antitrust) defines a set of rules for anti-competitive behaviour of firms and dominant position abuse, since its scope is efficient resource allocation and the maximisation of national welfare by eliminating distortions. Competition policy indicates the extensive set of rules determining the conditions of competition on the market, to which antitrust practices also belong. Privatisation, subsidy polices and deregulation are also part of competition policies, covering both the actions of private firms and government operations (Hoekman, Holmes, 1999).

The limit of the WTO as a possible forum for global agreement lies in its own mercantilist nature and its tendency to solve the problem from a point of view of free trade, export promotion and market access rather than that of antitrust and welfare enhancing

practices (Hoekman, Holmes, 1999). The regulatory framework for competition is complicated by numerous bilateral and unilateral initiatives. On a national level, regulatory reforms have been launched more or less everywhere, underpinned by competition principles, but profoundly different even if one considers only the adoption of one or the other aspect of competition. Developing countries often have the most problems in implementing antitrust practices, given the lack or weakness of independent authorities. On a multilateral level there are already agreements which concern the trade and competition linkage to a greater or lesser extent.

However, there is no single agreement that disciplines the practices of across-the-board competition, which the WTO's Working Group is attempting to achieve. In article 46, the Havana Charter envisaged states' commitment to cooperate to prevent restraints to competition and limits to market access; the fact that it has not entered into force and the failure of the International Trade Organization (ITO) have meant these provisions have not been adopted. In the TRIPS, the competition policy measures in the case of abuse of IPRs are explicitly authorised (Hoekman, Holmes, 1999, Cottier, Meitinger, 1998). Other important references are GATS articles 8 and 9 and, above all, the Reference Paper of the agreement on telecommunications, noted earlier. The GATT, article 23, refers to distortional trade practices imputable to states and not to the market structure. Antidumping provisions are aimed at impeding unfair exports towards another country thanks to an asymmetrical advantage in the country of origin.

The cases of the TRIPS and antidumping are emblematic of the paradoxes of the linkage between trade and competition. Antidumping comes from an indirect form of competition policy but, given its application, ends up by favouring domestic firms and damaging the competition. Also because from a certain point of view, antidumping goes against "market" behaviour prompted by international competition. There is then the problem of predatory behaviour, and a predatory intention cannot be proved just by selling below costs. (Lawrence, 1996). In some cases it has been proposed to replace antidumping with competition policies, but even in the case of the Europe Agreements with the CEECs it was decided to wait and see if competition policies were actually effective before eliminating antidumping. This exchange was also suggested in the case of the EMAs, but the backwardness of the MENA area's competition policy makes this hypothesis very improbable for the moment (UNCTAD, 1998). In the Mediterranean Association's agreements the antidumping measures are even stricter than the WTO's, since they do not apply the "special regard" for the "special situation of developing countries" laid down in article 15 of the antidumping agreement (UNCTAD, 1998).

There is much to say for supporting a single multilateral agreement, including: i) the inadequacy of national concepts of competition in a context of increasing globalisation and internationalisation; ii) the importance of barriers behind the border due to actions of private operators; iii) the risk of conflict between authorities; iv) the risks connected to the growth of mergers and global acquisitions and the need for some form of global surveillance; v) risks caused by a mere summation of sectoral approaches to competition (Marsden, 1998); vi) the favourable impact of a supranational commitment to domestic protectionist impulses (Hoekman, Holmes, 1999); vi) fixing standards so that competition policies would be more uniform and thus easier to coordinate and harmonise (Lawrence, 1996). Scherer (1994) suggests a very ambitious approach and the creation of an international competition policy office (ICPO) to collect information and to investigate anticompetitive policies; the focus would be on cartels

and mergers to give stimulate national authorities and convince international panels. For Hoekman, (1997), a Trade Related Antitrust Policy TRAP could do away with price-fixing and market sharing practices and export cartels and lead to replacing antidumping with the enforcement of competition laws. But it should be immediately added that the antitrust agreement seems more difficult to achieve than the competition policy one. Another possible solution to give competition regulations a multilateral status is to establish minimum standards on an international level, leaving their enforcement on a national level (Low, Subramanian, 1996). It could be limited to a commitment to exchange information on anticompetitive behaviour, but governments' reluctance to distribute information considered confidential has still to be overcome.

However there are many sceptics who point out how difficult it is to find mechanisms that would constrain the effective enforcement by states, and suggest intermediate or alternative solutions in terms of a greater voluntary cooperation between states and private operators, for a greater access to the market. It is also hard to pinpoint restrictive business practices of a transnational scope and impact. And even when these are pinpointed they could be better regulated on a national and macro-regional level than on a multilateral one. The cultural homogeneity of the macro-regions makes it easier to find consensus on the new obstacles to trade caused by domestic policies, as demonstrated by the EU. Even the simple exchange of information on anticompetitive behaviour raises several problems. One could instead pinpoint the best practices, and then immediately extend them to the greatest number of countries through bilateral cooperation networks. Finally, many stress that, despite the importance of competition policy, any agreement on international competition policy that goes beyond general procedural cooperation and the introduction of transparency mechanisms is likely to have to be plurilateral, at least initially, since it would require substantial cross-issue linkages.

There is no doubt that there are unresolved anticompetitive practices behaviour that cause trade distortions. On a multilateral level, this need has already been incorporated, as demonstrated by the first steps taken within the GATT, GATS and Reference Paper on the telecommunications agreement of 1997. As stressed earlier, developing countries are mainly interested in antitrust policies, unlike the developed countries' agenda on competition policy which is dominated by market-access and export-driven interests. But it seems difficult at the moment to reach a single, international antitrust agreement, and perhaps it is easier to guarantee greater access to the market through specific provisions on competition in the various agreements (Hoekman, Holmes, 1999). A key role would thus be played by the domestic competition authorities in strengthening antitrust practices and, where this is lacking, technical and financial assistance should be provided. Competition policy, insofar as it seeks to prevent monopolization of markets and predatory pricing, is clearly in the interest of developing countries. So, some suggest that the developing countries should unilaterally ensure that competition policies are implemented that foster a liberal trade and investment regime (Hoekman, Holmes, 1999).

The trade distortions to trade caused by anticompetitive practices are particularly evident in the services sector, as illustrated earlier for the MENA area. It is thus particularly important to lock in the principle of competition in the general services

framework represented by GATS 2000, introducing similar provisions to those of the Reference Paper for the networks, but bearing in mind the risks of fragmenting competition rules through a merely sectoral approach. The European position in the Millennium Round will probably be mainly that of having all WTO members adopt some form of competition law. This could be a good moment to understand the quid pro quo for developing countries, who could ask for technical assistance from developed countries in exchange for their support of antidumping amendments and commitment.

5.2. The FDI policy rules

The growing interdependence of world markets has given a great impulse to FDI flows. The developing countries are also tending to recognise the positive effects of the *spillover* of FDIs on the rest of the economy, with direct consequences on their international trade (Blomstrom, Kokko 1994, Blomstrom, Person, 1983). A key issue for both developed and developing countries has become how to attract the most productive investments and how to guarantee their proper regulation. (Aitken, Hanson, Harrison, 1997)

Although increasingly advanced forms of liberalisation and regulation have been provided for foreign trade, there is no equally systematic and multilateral set of rules in the investment field. The issue of investment rules is extremely complex, also because of the proliferation of unilateral (national investment policies) and bilateral initiatives (Bilateral Investment Treaties), regional agreements (RIA) and plurilateral agreements. In various regional areas, such as the EU and NAFTA, the development of rules within the RIAs has fostered intra-area investments. The Mercosur and APEC agreements also stress the need to promote and protect investments that help to stimulate economic initiative and development.

On a WTO multilateral level there are two agreements signed in Marrakech in the "GATT 1994" context: one on 'Subsidies and Countervailing Measures', (SCMs); the other on TRIMs. Whereas the agreement on SCMs essentially defines the concepts of subsidies and tax and loan incentives that provoke trade distorsions, including those on investments, the TRIMs go further detailing FDI-related measures considered incompatible with GATT articles III (national treatment) and XI (quantitative restrictions). So the results of the two 1994 agreements most directly connected to investments seem of modest impact, since they are limited to the goods sector and to only some aspects of the liberalisation of FDIs.

Other agreements were also made in Marrakech that indirectly treat the FDI issue, but from special angles: the TRIPS prescribes standards and forms of intellectual property protection, understood as a form of investment; the plurilateral agreement on Public Tenders fully covers investment issues; the GATS expressly contemplates the strong link between trade, investment and services in mode 3, commercial presence, and in article XVI bans some types of restriction directly referring to investment operations.

In the meantime, the MAI in the OECD failed after two years of negotiation. The major opposition came precisely from Europe, from governments (France), Community institutions (European Parliament) and non-governmental organisations and the academic world, highlighting the new role of civil society in trade negotiations. The reasons are mainly the lack of clauses protecting development, environmental standards and the objections of the cultural industry; the basic problem remains the difficulty in

sanctioning a regime which, according to some, directly impact upon states' sovereignty (Johnston, 1998). One lesson from this is connected to the centrality of the consensus of the "civil society" on these new issues. The MAI-OECD, although a plurilateral agreement, represented a test bench for the same multilateral negotiations, and has highlighted how, from a technical-negotiating angle, a "negative" list approach to scheduling commitments is not necessarily a better way of dealing with complex barriers to competition (Hoekman, Messerlin, 1999).

The issue of a WTO's multilateral regulation of investments has recently aroused great interest and a lively debate on various levels (Drabek Z. 1998). The main negotiating impediments to a possible agreement can be summarised as: i) the prior definition-delimitation of the concept of foreign direct investment; ii) the commitment to the right of establishment, free of any performance requirement; iii) national treatment, with the various restrictions ensuing from the protection of national security; d) the MFN principle, whose full application is impeded by regional agreements; e) the transferability of funds, which can come up against balance of payments constraints and the problem of international laundering; iv) the protection of investments from actions such as discriminatory expropriation without adequate compensation; v) the commitment to eliminate trade distortions caused by incentives used in favour of national firms or to attract foreign investors (Messing J.W. 1997; Graham, 1996, UNCTAD 1996b); vi) the choice of the positive and negative listing approach with all its implications.

Opinions on the MAI are, however, complex and in a certain sense remain conflicting (Drabek, 1998). A key issue which puts developed against developing countries, but also developed countries against each other, as occurred in the MAI-OECD case, is linked to national security and sovereignty. The fear of losing control, because of globalisation, of the right to impose taxes and promote economic activities are big impediments to the MAI. According to some, (Hoekman B., Saggi K., 1999) a MAI would mark the end of the FDI's destructive attraction policies, but to obtain this a whole series of complex issues have to be taken into consideration: incentives, taxation, performance requirements, discrimination by the RIAs. Since it currently seems difficult to obtain consensus on all these issues, it is suggested locking the policies already launched on a multilateral level, such as those on services (GATS, given that opening the trade in services means opening FDIs) and the TRIMS, and to pursue an agreement on competition. The claim that developing countries can obtain the same results with unilateral policies makes all the more reason for doing so.

The issue is therefore one of the most complex, but is likely to be included in the negotiating agenda. The Working Group set up in Singapore will present its conclusions in Seattle, and in a certain sense can learn something from the unsuccessful OECD experience. The European Union has not however failed to support a multilateral agreement on investments, in the conviction that the political context and the certainty of rules have a profound influence on private choices on FDIs and that the WTO represents the most suitable forum for a "predictable framework of investment rules" (Brittan, 1998).

In the new Round, the developing countries can give an important contribution to reading the key issues of relations between trade, investment and development. The

problem lies in reconciling in a single agreement the needs of a multilateral framework for investment within the WTO (a framework which encourages FDI flows towards developing countries - promotion effect - and which at the same time guarantees high protection standards for investors -protection effect) with respect for the vulnerability of developing countries in their competitive position with the advanced countries, through a gradual liberalisation and strengthening of domestic policies.

To increase their attractiveness, MENA countries have launched unilateral policies for FDIs in recent years, reformed corporate legislation, regulated portfolio investments and safeguarded industrial property. But the MENA countries have not only had a very limited flow of FDIs in recent years but have also suffered from their uneven distribution on both a local and sectoral level (UNCTAD, 1998). The MENA region's case shows how a unilateral policy of incentives, aimed at influencing investment decisions in similar areas, is not enough to convince firms to locate in areas which do not satisfy certain essential requisites. What counts more is a generally favourable environment for investments in terms of macroeconomic stability, structural reforms, improvement of social conditions and strengthening of institutions. Because of that in recent years many of these countries have launched reforms and restructuring measures (El-ErianM., El-Gamal M., 1997). The effectiveness of these programmes will be determinant for successfully attracting FDIs, since the location is now chosen less on the basis of the low costs of labor and more on "les advantages construits" (Bellon, Gouia, 1997). In addition to these national policies, there are the bilateral ones pursued through Bilateral Investment Treaties, for the reciprocal protection and promotion of investments and against double taxation. Egypt, Tunisia and Turkey have recently made various Bilateral International Treaties (BITs) agreements with other countries in the same area (ERF, 1998). Some Mediterranean countries are negotiating Association Agreements with the EU and it widely agreed that a free-trade area between the EU and Algeria, Egypt, Morocco and Tunisia could significantly promote trade and investment flows, especially export-oriented FDIs. In this perspective, regionalism would be seen as a *stepping stone* to global liberalisation (ERF, 1998).

5.3 Design and enforcement of labor and environmental standards

5.3.1. Labor standards

The issue of the linkage between labour standards and international trade or "the social dimension of international trade" has taken on great importance in international debate. The interest in the subject is dual. On the one hand there are undoubtedly "protectionist" motivations behind requests to link trade and labour standards, given the competition in low-cost products in some developing countries, above all in 'mature' sectors where the cost of labour is a decisive factor. On the other, it cannot be denied that there is a growing awareness of trade union rights and of the iniquity of forced and child labour, as is evident from the requests of many labour organisations in advanced countries. Yet, while one of the objectives of the WTO is certainly to raise the quality of life, in both quantitative and qualitative terms, and it is generally accepted that respect for minimum standards is fundamental to that end, there is much opposition to linking those minimum standards to the binding mechanisms of the WTO. Indeed, the matter of labour

standards has always been seen as an International Labour Organization (ILO) rather than a GATT-WTO prerogative.

The more advanced countries are exerting increasing pressure to set "fair trade" rules. The rapid growth of NICs in Southeast Asia and Latin American has increased competition and led to the belief that the "low labour standards" of those countries are an "unfair competitive advantage" (Maskus, 1997). Hence the "social clauses" inserted in a number of trade agreements (among them NAFTA) containing provisions for imposing trade sanctions on countries that do not respect certain labour standards.

The topic of labour standards is not on the WTO agenda at the moment, even though its inclusion is urged by many developed countries (Croome, 1998). An attempt was made in December 1996 by the US and France, with Norwegian support, to have a commitment to core labour standards included in the Singapore ministerial declaration. But it met with strong opposition from developing countries, especially Malaysia, India, Pakistan and Egypt. The resulting compromise expressed the need for "internationally recognised core labour standards", and identified the ILO as the only competent institution. The declaration goes on to reject the use of labour standards for protectionist ends, recognising that the comparative advantage of developing countries deriving from more flexible standards must not be put into question.

The approach of the ILO, however, is determined by the voluntary adhesion of member countries and, consequently, the limited participation of developing countries. Enforcement is also inadequate, as no sanctions are in place, to the point that many developed countries have criticised the inefficacy of the Conventions'provisions, systematically violated by many member developing countries (Croome, 1998). More recently, with the start of the WTO, there has been suggestion of linking membership in the latter to ratification of the ILO Conventions and the possibility of applying trade sanctions if provisions are not respected. The advocates of this proposal affirm that without minimum labour standards, there will be a "race to the bottom", or rather a general downward harmonisation of labour standards – even in developed countries – in order to attract investments.

Other proposal is product labelling, that is, labelling those products that are in violation of labour standards. But developed countries consider such a measure insufficient because it can be applied only to exports. At the same time, there are a number of doubts concerning product labelling. For instance, boycotts would only sanction the violations with a strong emotional impact on public opinion, such as those involving child labour. It would presuppose complete and impartial (and therefore difficult to obtain) information, which could be instrumentalised by protectionist lobbies in developed countries (Anderson, 1996).

Then again, before advancing measures like those mentioned above, the rights of workers for whom minimum labour standards are to be established must be defined. In that regard, Markus makes reference to a list drawn up by the OECD (1995): i) prohibition of slavery and forced labour, such as bonded labour; ii) no discrimination between sexes, ethnic groups, etc.; iii) prohibition of exploitation of child labour; iv) freedom of association and collective bargaining. These are the core labour standards recognised by the UN Declaration as basic human rights. The real contrast only arises, however, when the question of how these rights are to be safeguarded comes up. Here,

there are cultural differences that cannot be bridged and the imposition of principles by developed countries is seen by developing countries as "cultural imperialism".

The strong hostility on the part of the developing countries is based on a number of arguments (Anderson, 1996); i) the question of labour standards is not linked in any way to the liberalisation of international trade and is strictly a matter of domestic competence, in which each country exercises its national sovereignty; ii) the differences between standards constitute a legitimate source of comparative advantage, reflecting existing cultural and economic differences; iii) the labour standards of a county are linked to its level of affluence and growth of per capita income; iv) there is no empirical evidence that not defining core labour standards will drag the developed countries into a "race to the bottom"; v) the request for minimum labour standards conceals protectionist intentions.

The last suspicion is, in fact, shared by a large part of the literature (Anderson, 1996; Grimwade 1996; Maskus, 1997). On the other hand, experience concerning the abuse of the safeguard clause is a clear warning in this regard. Much of the literature also agrees that the level of protection of workers' rights is also closely linked to the country's development stage and is destined to grow in parallel to its well-being. This seems to be confirmed by the experience of the European Community, which saw an upward harmonisation of labour standards as the per capita income of initially backward countries increased (Anderson, 1996). The OECD has also stated that "an attempt to raise labour standards in countries in which self-employment predominates and in which there are a majority of small, family-based businesses would cause serious difficulties" (OECD, 1995).

In light of these considerations, some mediating proposals have been put forward (Anderson, 1996; Grimwade 1996; Maskus, 1997). They can be summarised as follows: (i) the adoption of higher labour standards by developing countries in exchange for greater access for their products to the markets of developed countries as compensation for losing part of their comparative advantage; (ii) the adoption of a financial assistance program allowing for the application of such labour standards, to alleviate the conditions of worker families which could be negatively affected, for example through members of the family losing their jobs if provisions (e.g. against child labour) are enforced; (iii) the strengthening of institutional mechanisms creating an effective system of enforcement to guarantee developed countries that the standards established are actually being applied.

For the moment, the developing countries do not seem to support these kinds of solutions (Grimwade, 1996) either. Indeed, given the foregoing, it is unlikely that the Millennium Round will be able to take up the question of labour standards. Yet, although all signs point in that direction, the matter is "very much in the minds of the organisation's member governments" (Croome, 1998) and constitutes a negotiating card which the developed countries are not about to give up, especially considering the pressure put on them by producers and workers' organisations. It could, therefore, be in the interests of the developing countries to not close themselves completely to the issue, and to seek a sort of multilateral solution before unilateral solutions begin to be adopted. As for the MENA countries, they are strongly involved in the issue of labour standards, also because of the comparative advantages characterising their specialisations. If we look at the declarations of MENA countries during the 85th session of the International

Labour Conference in 1997, only Tunisia, Algeria and Turkey stated that they were willing to adopt higher labour standards and a sanctioning system to ensure their application. The rest of the MENA countries took the position generally expressed by developing countries (ILO, 1997).

5.3.2 Food and environmental standards

The interaction between trade and environment is one of the new areas in which WTO members have to find formulas for reconciling trade liberalisation with the protection of the environment and promotion of sustainable development. The business *lobbies*, on one side, complain about the growing use of environmental regulations with a protectionist aim; on the other, the environmental groups accuse the WTO of not recognising the legitimate role of national and international environmental standards and to deliberate always in favour of free trade against the protection of the environment.

Undoubtedly the imposition of environmental standards can sometimes have negative impacts on the international trade of the country adopting them. They can become a restrictive measure for imports of those products without the requested standards or penalise exports of those national products for which high environmental standards mean higher production costs (San Martin, 1997). National measures for raising environmental standards are implemented by imposing product requirements. Manufacturers, besides adjusting their products to these requisites, must also prove they are met by producing conformity assessments. All this involves higher costs, for both domestic and foreign manufacturers, to the extent in which environmental standards between trading partners differ.

The issue of the linkage between environment and international trade is faced for the first time in the context of a multilateral trade system in the WTO. The first paragraph to the preamble to the WTO agreement refers to the objective of sustainable economic development and the need to protect and conserve the environment. In Marrakech, the Committee on Trade and Environment was set up, with the double mandate of identifying the relation between trade and environmental measures for sustainable development and making recommendations on amendments to the multilateral trade system.

Multilateral environmental protection measures which restrict international trade can waive GATT principles in some specific circumstances. Article XX of the GATT allows governments to waive its general principles under specific conditions by adopting environmental measures that imply trade restrictions. Article XIV of the GATS copies Articles XX and XXb of the GATT, covering the services sector (WTO, 1999c). In the agreement on Technical Barriers to Trade, TBT, which regulates the adoption of technical requisites for products, member states are permitted to take the necessary measures for protecting public health and the environment and every state has the right to decide on the level of national protection it considers most appropriate. However, governments have to establish technical regulations and standards that do not create impediments to trade. They also have to provide a high degree of transparency by means of notifications and allow sufficient time for domestic and foreign economic operators to adapt to the new requisites.

The Sanitary and Phytosanitary (SPS) agreement enables states to adopt sanitary and plant protection measures to ensure against excessive quantities of additives, contaminating substances, toxins, and pesticides present in products and to prevent the spread of diseases to plants and animals. These measures must be applied both to national products and those imported from third countries; they must neither be discriminatory nor create unnecessary barriers to trade, and they must harmonise as much as possible with international *standards*. Countries adopting these measures have the duty to notify them to third countries and to provide all the information requested.

Article 27.2 of *TRIPS Agreement* specifically refers to the protection of the environment, forbidding states to patent inventions which could lead to commercial exploitation for protecting the life and health of humans, animals and plants.

On an international level there are numerous conventions protecting the environment. Developing countries have especially expressed anxiety about the possible negative impact of about 20 of the 200 Multilateral Environment Agreements (MEAs) containing restrictive measures for trade. These measures are aimed at achieving environmental objectives more effectively through bans, quotas and notifications (Zarrilli, 1997). However, the relation between MEA and WTO regulations is still unresolved. The industrialised countries claim, in conflicts between MEA norms and WTO principles, that the former prevail over the latter, whereas the developing countries claim that the WTO's general principles can never be waived (Croome,1998). The issue of the environment is also tied up with other negotiating items, such as the FDIs. The discipline of expropriations ends up limiting all the regulations and reduces the profitability of an investment, including those connected with environmental conservation. The issues are made more complicated by the fact that they also involve some externalities that spill over national boundaries.

The definition of a multilateral agreement on the environment with implications on the various aspects of trade seems extremely unlikely. But the strategy to resist the WTO involvement into these issue is highly risky since it could lead to aggressive unilateral use of trade measures by advanced economies. More feasible is the promotion of environmental sustainability in a series of agreements currently being negotiated, such as that on the FDIs. At the same time, when environmental measures legitimately adopted by the various national governments have an impact on international trade, it should be checked that they meet the requisites of Article XX, GATT. Instruments could also be found, even within the WTO, to limit the negative impact of these measures on developing countries. In this regard one could think of a greater technical assistance and dissemination of information; the transfer of technologies to developing countries to foster innovation and higher quality products; the promotion of the active participation of developing countries in International Standards Bodies, MEAs and regional economic integration schemes that include compensatory mechanisms (EU-NAFTA) One could, finally, think of effective mechanisms for resolving disputes generated by the conflict between MEA norms and WTO principles. In this regard the European Union has presented a systematic proposal on trade and environmental standards aiming both at the application of already existing rules and the promotion of new ones.

6. Opportunities to further strengthen the WTO

The WTO grew out of the GATT and is a negotiating forum in which government attempt to reach agreement on specific issue. The success of the WTO is reflected in the increasing number of member countries that are now 135 while over 30 countries are currently seeking to join. Membership entails the automatic acceptance of a "single package" (Jackson, 1998) and enjoyment of the benefits of liberalisation on condition that specific and binding commitments are taken, thus preventing any kind of free riding.

It is in the interests of both individual countries and the multilateral system itself to act on two levels. The first by strengthening the *commitments* of the countries already members and the second by enlarging participation in the WTO to new countries. A relevant issue is the length of the accession process, on average about 4-5 years. This is a very complex procedure, with various phases in which each country has to specify exceptions and commitments and remove any internal regulations that could constitute an impediment. The EU is promoting the WTO Accessions Initiative which aims to admit the greatest possible number of countries within the year by streamlining procedures. This is because of the conviction that, after Seattle, the focus will be on the new Round and many countries could remain excluded from the negotiations.

As the member states increase, the problem arises of developing and transition countries' participation in the decision-making mechanisms. The poor participation of the developing countries will become a serious problem for the WTO. As a recent study (Michaelopulos, 1998) demonstrates, over 50% of the developing countries belonging to the WTO have serious difficulties in just taking part in the meetings or presenting their negotiating positions. This is partly because of domestic problems of an institutional and capacity building nature – lack of experts at home and even in missions to Geneva – and impediments linked to the complexity of issues, to information flows and transparency and to irrational mechanisms (for example only government employees can access Dispute Settlement Bodies). Trade strategies have to be elaborated by collecting information, concerted domestic action, pinpointing priorities, analysing costs and benefits and monitoring the effects of commitments. This is very costly, both in economic terms and for the human resources involved.

If there is to be full participation of all the members countries, alternative solutions are needed. These include a) the activation of technical support mechanisms during both the accession and participation phases (but the assistance-driven reforms have to be internalised and owned by the recipient countries, Michaelopulos, 1998); b) cooperation with the other international development assistance agencies (UNCTAD, World Bank); c) support for initiatives fostering a kind of common "representation" among like-minded countries or groups (Michaelopulos, 1998). The business groups and associations of the industrialised countries can also support this rapprochement and involvement of developing countries in the WTO through technical assistance in determinant sectors.

One of the major changes of the Uruguay Round is the establishment of the dispute-settlement mechanism. This made the system more "rule-oriented" and also more attractive to developing countries because of mechanisms made automatic by

eliminating the "blocking" of a panel report and the adoption of a unified procedure (Jackson, 1998). Some "birth defects" still hinder developing countries' participation, such as the provision that delegations of countries presenting cases before the dispute-settlement body should only be government employees (Michaelopulos, 1998). This rule can be changed so that private attorneys might participate in the courtroom. The "judicialisation" of the WTO and its dispute procedures is very costly and requires additional resources and full-time staff. One suggestion could be to have a unit able to provide support and advice for the small and poorest developing countries. The cost of it could be relatively small. Finally, it should be pointed out that the anti-dumping agreement severely limits the mechanisms of the panel (Lal Das, 1998). So strengthening the WTO System through making more efficient dispute-settlement mechanism could be of great value to developing countries.

Another key issue is the increasingly new role of "civil society" and non-state actors in the multilateral trade negotiations. The growing globalisation of the economy and its impact on society means that the activities and decisions made in multilateral organisations have become more significant, highlighting a serious lack of information. The MAI-OECD negotiations and the second WTO Ministerial Conference prove that international negotiations are no longer matters reserved for a few adepts. Decision-making mechanisms can no longer be limited to government representatives and there is the need for a growing involvement of "non-state actors", according to the WTO's definition of the "civil society": industrial and sectoral associations, trades-unions and lobbies, but also non-governmental organisations. These are all bodies concerned with market access, the issues of environmental sustainability, the labor standards and the development of the least developed countries (LDCs).

Two trends can be distinguished: firstly, the involvement of the "civil society" in a strict sense, initiated in Marrakech with informal dialogues. This was later institutionalised by the participation of non-governmental organisations (NGOs) in the Singapore Ministerial Conference of 1996, and the recent innovations of the General Council of 1998, launching an information and transparency policy. Secondly, it is undeniable that some sectoral lobbies can have a great influence on decision-making processes, as in the case of the "banana war" and that of hormones between the US and the EU, and this generates further imbalances. The problems are thus how to fill the information gap and foster participation in the "civil society", and how to strengthen institutional concerted action on a national level.

In this regard there is a more general problem of transparency of mechanisms and the accessibility of information. Many of the secretariat's documents are not available to the general public, although they do not contain restricted information. Many proposals have been made on this matter, including the European one, based on a wider circulation of de-restrictable documents and regular information innovations under way. There should also be news published about the organisation of symposia and dialogue with WTO representatives, the creation of a consultation body with civil society and the institution of an information ombudsman for cases lacking in transparency.

Furhtermore, a very important issue is how to use regionalism to foster multilateral integration. Regionalism can constitute a strength in the developing

countries' bargaining process. The importance of the new regionalism in the new multilateralism is already recognised in the GATT and GATS, where exceptions are allowed to the general principle of non-discrimination towards other countries (MFN) for RIAs. However, the agreements leave some issues unresolved, such as the "substantially all trade" clause, not respected by some FTAs which explicitly exclude or do not contemplate the liberalisation of certain sectors. The APEC, presented as a reference model of open regionalism (Bergsten, 1997), pursues a sectoral liberalisation approach (Aggarwal, 1999). Further disagreements are linked to the use of the enabling clause, allowing developing countries meeting in an FTA to waive the principle of non-discrimination, choosing a sectoral approach. The creation of MERCOSUR was notified under the enabling clause, with the consequent opposition of developed countries. The Enabling Clause shows that a greater flexibility has also been envisaged for developing countries in the RIAs; the GATS goes further with article 5 and its flexibility formulas for Developing countries belonging to a RIA (Jachia, 1999).

The multilateral regulation of the RIAs thus has conflicting aspects, just as the interpretations of the compatibility of the RIAs with the multilateral context, in terms of the dichotomy between building blocs or stumbling blocs. However, we have seen in many cases that regional and multilateral agreements display a fairly strong degree of complementarity, being RIA "laboratories" in which to experiment with ever more sophisticated services, investment and procurement rules and disciplines; a further factor is linked to the integration experimented within countries with different levels of development. There are thus innumerable benefits from the cross-fertilisation between the regional agreements and the multilateral trading system, as long as the basic rules of general non-discrimination and flexibility are updated and respected for developing countries, through longer times and exceptions in cases of safeguards.

Finally a last institutional note, linked to the need for coordination between WTO secretariats, activities and regimes and the other institutions of *multilateral economic governance*. One significant example is that of the social dimension of international trade: in the Final Communication of Singapore it is specified that labour standards are the domain of the ILO. Should an agreement not be reached in Seattle on this issue and the respect of core standards is not linked to the WTO's "bound" levels, formulas will have to be found to "institutionalise" the cooperation between the WTO and the ILO, as the latter has no enforcement powers. A recent study has also analysed the possible synergy between the WTO, the IMF (International Monetary Fund) and the World Bank. The possible benefits of a greater coordination are stressed, especially since the WTO is moving from its institutional mandate to eliminate tariff barriers to more effective *rule-making* and intervention in domestic regulatory regimes. Given the WTO's limited resources and size, a linkage is suggested with the research and policy advice structures of the World Bank (Vines, 1998).

7. Concluding remarks

In the light of what has been shown so far in our paper it is clear that developing countries have a considerable stake in supporting a new comprehensive Round of multilateral trade negotiations in order to achieve further trade liberalization across the board. For their constructive participation in the preparation of the agenda and in the

negotiation, however, it is necessary to assess carefully costs and benefits of the various issues starting from the traditional trade barriers to the first and second generation of new trade issues, since they differ significantly in terms of prospects for success in further liberalization and specific interests of developing countries. As already noted the central challenge is that of reconciling the further promotion of an open multilateral systems towards contestable markets with the needs of developing countries to follow independent growth strategies characterized by various forms of policy interventions.

A first distinction one could introduce is between topics offering opportunities for positive-sum games and other issues where zero-sum games could also be contemplated. In the former many traditional issues, such as agricultural and industrial tariffs, and many non tariff barriers could be included. Insofar they can influence the agenda, developing countries could gain significantly by the elimination of the very high tariffs on agricultural imports in many industrialized countries and future reduction in agricultural subsidies; the elimination of tariff escalation and peak tariffs together with the remaining high tariffs on many apparel and textile exports after the phase-out of quotas under the MFA could also be of great interest to developing countries. Moreover, implementing Uruguay Round Agreements (especially with respect to agriculture and the MFA) is vital for the developing area, and it is clearly in their interest to insist upon it.

Among the first generation of new trade issues, in services the adhesion to GATS and its sectoral agreements is not sufficient to guarantee efficiency of the systems and contestable markets. The commitment to revise domestic regulatory reforms unilaterally and to restructure the market structures can be strengthened by a multilateral locking in; this is also essential for the success of the multilateral system. Nevertheless, the liberalisation scheme that the GATS 2000 will have to tackle will be extremely complex. After six years, the GATS' institutional rules and structure need to be reformed and continually adjusted to face the challenges of the global economy. Proposals regard both its institutional packaging and mechanisms - increasing its transparency and providing greater clarity on its legal framework, as well as the horizontal rules (those on FDIs) - and its negotiating procedures together with specific commitments. Of particular relevance for a greater involvement of developing countries is the success of the negotiation on mode 4, with regard to the movement of natural persons.

The TRIPS is part of the built-in agenda and the success of its re-negotiation is linked to the effective implementation of the TRIPS 1994. This is because many developing countries did not amend their provisions within the deadline and this risks affecting the validity and credibility of the agreement. In view of the new negotiations it is therefore fundamental to provide financial and technological support by enhancing technical assistance, without which the agreement might well not be implemented at the end of the transition period.

It is also very important to reach a consensus on electronic commerce for the developing countries, whether an agreement is achieved within the GATS on the basis of the "technological neutrality" principle, or outside it. The enhancing of the participation of developing countries in electronic commerce and the use of information

technology for the integration of developing countries in the multilateral trading system will be a key issue in the new trade agenda. It cannot be denied that electronic commerce and the Internet added a new technological means of facilitating trade, but it is equally true there are risks of further marginalisation of developing countries. An "ITA Two" could be negotiated in coincidence with the Round with the aim of extending the number of signatory countries and liberalised sectors. The e-commerce and the "ITA two" agreements are also important because their "separate" placement on the Millennium Round agenda stresses an reinvigoration of the "sectoral" approach with the inevitable consequences for the development of the multilateral trading system.

Among the second new trade issues, competition policy could be included on the agenda, but it seems difficult at the moment to reach a single, multilateral antitrust agreement. The limit of the WTO as a possible forum for global agreement lies in its own mercantilist nature and its tendency to solve the problem from a point of view of free trade, export promotion and market access rather than that of antitrust and welfare-enhancing practices. In addition to this, regulatory regimes play an essential role, and without domestic liberalisation, privatisation and protection of competition any regional and multilateral effort risks being frustrated. First step could be to lock the principle of competition in the general services framework represented by GATS 2000, introducing similar provisions to those of the reference paper for the networks, but bearing in mind the risks of fragmenting competition rules through a merely sectoral approach. The European push towards an agreement should make it easier to understand the quid pro quo of developing countries, who could ask for technical assistance and antidumping amendments.

The multilateral regulation of the FDIs is at an advanced stage; the issue is very complex, but is likely to be included in the negotiating agenda. Both passive and active internationalisation is currently a structural weakness of the developing countries also because of a problem of "credibility". These countries need a FDI scheme which both protects, to help create a stable investment environment, and promotes investments. In the new Round, the developing countries can give an important contribution to reading the key issues of relations between trade, investment and development.

There is considerable resistance, however, to the introduction of many of these items, in both developed and developing countries. These are typical issues of the zero-sum game types. It is so doubtful therefore whether the new Millenium Round will provide a major forum for negotiating such measures of deep integration. It is so probable that deep integration will be achieved for some of these issues in blateral and regional arrangements at least for some significant period of time. From this point of view, regional integration could have positive effects on the global trading system provided the emerging regional integrated areas are 'open' systems. In the terminology coined by Bhagwati in most cases regional groups more often act as building blocks than stumbling blocks. There are thus innumerable benefits from the cross-fertilisation between the regional agreements and the multilateral trading system, as long as the basic rules of general non-discrimination and flexibility are updated and respected for developed and developing countries, through longer times and exceptions in cases of safeguards.

The protection of the environment and the link between trade and environment are very significant issues for the developed countries and risk generating a head-on battle with developing countries. An agreement should clarify the relation between commercial and environmental measures for a sustainable development and recommend possible amendments to the multilateral trading system. As in the case of labour standards, there is disagreement about who should implement these rules and on enforcement mechanisms for the already existing conventions. However a first step, such as cooperation among the different international agencies and the ILO and WTO on the matter of social standards, should certainly be supported. In terms of Millenium Round we believe that labor and environmental standards should not be negotiated in the WTO. Instead the standards should be designed and adopted by other international forum, including ad hoc groups. In other terms trade sanctions should remain a last resort, employing first other devices such as labeling requirements, supplier certification and civil damages.

Finally, some remarks on the WTO as an international institution: it is necessary to extend the global trading system to the greatest number of countries and to foster the accession of big countries. The WTO Accessions Initiative aims to complete the greatest possible number of accessions before the end of the year by streamlining procedures. For the countries which already belong a strengthening of their commitments is to be hoped.

As the number of countries increases, mechanisms are needed to reinforce the participation of everyone into the decision-making processes. Technical support instruments are necessary both in the accession and participation phases, cooperation with other international development aid agencies and initiatives fostering a kind of common "representation" between like-minded countries or groups. An important contribution can derive from the business groups and associations of the industrialised countries. The Millennium Round will be complex and will embrace such different sectors and policies that the need for extensive preparation is very clear.

The "rule-oriented" system of the WTO could be improved through a strengthening of the dispute-settlement mechanism and an increased involvement of developing countries into it. It is necessary to review those elements hindering developing countries' participation, such as the provision that delegations of countries presenting cases before the Dispute Settlement Body include only government employees. The "judicialisation" of the WTO and its dispute procedures is also too costly for some LDCs.

Finally, there is the need for coordination among multilateral economic governance institutions. Even more so since with the start and the taking place of the Millenium Round it is very likely that trade negotiations will continue to be pursued trough a complex mixture of bilateral, regional and multilateral measures and agreements. The complex impact of the first and second generation of new trade issues seem to require regional and bilateral initiatives as complementary approaches to the global level. How to reconcile these different levels is a major task ahead. In this regard a new reound of multilateral trade negotiations will provide a unique opportunity for effective international rules.

ANNEX TABLES

Table 1 FDI inflows, 1979-98 (billions of dollars and percentage growth)

		World			Developed.		A 1 10 11	Developing	
Years	Value	9/6. 30 s	% growth	value	countries %	% gröwth	value	countries	% growth
1979-81	53	100	46	37	69	68	16	31	89
1982-86	61	100	11	43	70	24	19	30	-11
1987-91	174	100	4	142	82	0	31	18	16
1992	170	100	8	111	65	-3	55	32	34
1993	208	100	22	129	62	16	73	35	34
1994	239	100	9	142	60	2	90	38	24
1995	316	100	25	206	65	45	96	30	6
1996	349	100	10	208	60	1	129	37	34
1997**	463	100	-	271	59	-	171	37	-
1998**	644	100	39	462	71	70	165	26	-4

Source: Unctad, World Investment Report 1997; **Unctad, Press Releas, June 1999

Table 2 FDI by host region and economy, 1986-1995 (millions of dollars and percentage)

Host	* 198	1-85	. 19	86-90.	19	91-93	1. v 1	994	kš ti	995	545.1	996	為其前	997
Region/ Economy	value	% Dc	valu	%,Dc	valu	% Dc	value		Value	%Dc	value	CALL TO SERVICE	value	# 15 Card
Africa	1.7	8.7	2.8	10.8	3.1	5.5	5.6	5.9	5.1	4.8	4.8	3.7	4.7	3.2
Latin America	6.8	34.9	8.5	32.3	17.6	31.3	28.6	29.9	31.9	30.2	43.7	33.7	56.1	37.7
West Asia.	6.0	30.7	0.9	3.5	1.4	2.5	1.5	1.6	0.7	0.7	0.3	0.3	1.8	1.2
South Est Asia	4.9	24.9	13.8	52.5	33.6	59.7	58.2	60.9	66.5	63.0	77.6	59.8	82.4	55.3
The Pacific	1.0	0.7	0.2	0.7	0.3	0.6	0.1	0.1	0.5	0.5	0.1	0.0	0.3	0.2
Developing countries	19.6	100.0	26.2	0.00	56.3	00.0	95.5	100.0	105.5	00.0	129.8	100.0	148.9	100.0
Ldcs	0.3	1.3	0.6	2.2	0.9	1.5	0.8	1.0	1.1	1.0	1.9	1.5	1.8	1.2

Source: Unctad, World Investment Report 1998

Table 3 Weights of the Sectoral Groups in the World Exports (average value in each subperiod, in percentage)

	. 1970	, 1973 ,	1979	1985	1988	1991,	1993.	, 1995 _a	1970-95
Food Items	9,8	10,5	8,0	6,6	6,2	5,2	4,6	4,6	-5,30
Fuels	6,5	7,8	14,8	13,1	5,8	6,8	6,0	4,7	-1,73
Other Raw Materials	2,9	2,0	1,8	1,5	1,1	1,0	0,8	0,9	-2,01
Food Industries	7,2	7,6	6,2	5,4	5,8	5,7	5,6	5,5	-1,70
Resource intensive	10,1	8,6	9,2	9,4	7,8	7,2	6,4	6,6	-3,48
Agricultural P.	36,5	36,5	40,0	36,0	26,6	25,8	23,4	22,2	-14,22
and Raw Materials									
Traditional	14,9	16,0	14,5	14,0	16,5	16,9	17,4	16,8	1,89
Scale Intensive	24,7	24,9	23,0	24,6	26,2	25,2	25,0	25,0	0,35
Specialized suppliers	10,9	10,2	9,2	8,6	10,0	10,4	10,1	10,5	-0,43
Science based	9,5	9,4	10,9	14,4	17,5	18,9	19,9	21,5	12,07
Manufactures	60,0	60,5	57,6	61,6	70,1	71,4	72,4	73,8	13,88
Others	3,6	3,0	2,4	2,4	3,2	2,8	4,1	3,7	0,09

Source: Elaboration from OECD and UN trade data, SIE-World Trade Data Base (see Taxonomy)

Table 4 Shares in world exports of selected groups of countries

Sala ana ar	1970	1979	1989	1992	1995	San Salvan Alana San San San San San San San San San	1970	1979	1989	1992	1995	
	1970	1979	1707	1992	1773		1970	1979	1707	1994	1993	
Agricultural prod.	3,22	3,71	4,66	4,56	4,11	Agricultural prod.	5,98	5,50	5,62	6,14	7,23	
Fuels	0.71	1,03	0,96	1,08	0,98	Fuels	0,05	1,70	4,18	3,38	3,82	
Other raw materials	1,03	1,10	1,40	1,30	1,37	Other raw materials	6,05	8,40	12,45	13,73	14,2	
Food industries	2,08	2,59	4,07	4,41	4,33	Food industries	6,76	7,45	6,68	5,65	6,79	
Traditional ind.	6,53	11,56	18,53	18,01	16,45	Traditional ind.	1,06	1,61	1,46	1,37	2,30	
Resource intensive	1,85	3,30	5,66	7,13	7,47	Resource intensive ind.	4,04	2,63	4,34	4,14	4,58	
ind, Scale intensive ind.	1,05	3,16	6,67	7,45	8,59	Scale intensive ind.	0,64	1,16	2,16	2,08	3,30	
Specialized suppliers	0,87	1,92	5,66	6,83	8,76	Specialized suppliers ind.	0,33	0,85	1,12	0,98	2,53	
ind. Science based ind.	1,07	4,94	11,56	13,41	17,75	Science based ind.	0,43	0,68	1,19	0,90	1,92	
Fotal Trade	2,36	4,21	8,63	9,57	10,84	Total Trade	2,42	2,38	2,59	2,32	3,2	
*Korea, Hong Kong, S	ingapore.	Taiwan				*Argentina,Brazil,Mexico						

		MEDITER	RRANE	N NICs				A	RÅB NI	Cs*	
	1970	1979	1989	1992	1995	4.2 4.4 5.4 5.4 5.4 5.4 5.4 5.4 5.4 5.4 5.4	1970	1979	1989	1992	1995
Agricultural prod.	4,62	2,49	2,83	2,76	2,42	Agricultural prod.	1,45	0,51	0,27	0,21	na
Fuels	0,45	0,62	0,65	0,75	0,48	Fuels	0,19	0.52	0,21	0,59	na
Other raw materials	3,19	4,12	3,90	2,90	2,77	Other raw materials	0,12	0,47	0,98	0,94	na
Food industries	1,25	1,20	1,52	1,77	1,84	Food industries	0,16	0,11	0,06	0,09	na
Traditional ind.	0,81	1,20	2,02	2,16	2,20	Traditional ind.	0,42	0,15	0,17	0,13	na
Resource intensive	0,33	0,87	0,98	0,93	1,01	Resource intensive ind.	0,01	0,15	0,21	0,17	na
ind. Scale intensive ind.	0,29	0,26	0,66	0,60	0,64	Scale intensive ind.	0,04	0,03	0,06	0,07	па
Specialized suppliers	0,02	0,07	0,15	0,25	0,28	Specialized suppliers	0,02	0,01	10,0	0,01	na
ind. Science based ind.	0,04	0,08	0,12	0,13	0,13	ind. Science based ind.	0,01	10,0	0,02	0,01	na
Total Trade	0,93	0,77	0,97	0,97	0,92	Total Trade	0,27	0.19	0,11	0,11	па
*Tunisia, Marocco, Tu	rkey					*Egypt, Jordan					

Source: Elaboration from OECD and UN trade data, SIE-World Trade Data Base (see Taxonomy)

Table 5 Trade specialization patterns of selected groups of countries

		EAST AS	IAN NI	feyek tar		LAC	PIN A MI	RICAN	NIC
	1970	1979	1989	1995		1970	1979	1989	1995
A and auditional mand					A ami audtural mand		•		
Agricultural prod.	-2,3	-5,5	-3,3	-2,0	Agricultural prod.	16,9	11,1	5,9	6,2
Fuels	-0,9	-7,3	4,8	-3,9	Fuels	-5,2	-9,3	0,2	2,2
Other raw materials	0,6	-0,5	-0,9	-0,5	Other raw materials	5,6	4,7	3,0	2,6
Food industries	-0,6	-1,2	-1,4	-1,3	Food industries	16,9	16,2	7,4	6,7
Traditional ind.	21,4	26,0	18,3	8,3	Traditional ind.	-1,1	4,5	0,6	-1,5
Resource intensive ind.	0,9	0,5	-2,3	-2,5	Resource intensive ind.	7,1	2,7	5,3	2,6
Scale intensive ind.	-9,3	-2,5	-1,0	0,0	Scale intensive ind.	-22,7	-14,2	-3,9	-1,8
Specialized suppliers ind.	-8,4	-7,4	-4,9	-2,3	Specialized suppliers ind.	-18,3	-11,8	-10,7	-7,4
Science based ind.	-5,3	-4,3	-0,1	4,5	Science based ind.	-13,5	-8,4	-8,0	-7,5
	ME	DITERR	ANEAN	NIC.			A DAI	3 NICs	y ar de s
	Marie Contra								
	1970	1979	1989	1995		1970	1979	1989	1995
Agricultural prod.	36,1	15,3	7,9	2,9	Agricultural prod.	33,2	4,3	-2,3	-3,2
Fuels	-0,9	-3,0	-5,4	-4,8	Fuels	6,6	38,2	17	20,9
Other raw materials	8,2	7,6	3,2	1,4	Other raw materials	2,5	3,6	5,2	4,2
Food industries	2,4	2,8	-0,4	3,1	Food industries	-4,9	-9,3	-8,7	-5,1
Traditional ind.	2.0	115	20,7	22,7	Traditional ind.	10,3	-3,5	4,9	7 (
rraditional mo.	2,8	11,5	20,7	22,1	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	. 0,5	٠,5	4,7	7,6
Resource intensive ind.	2,8 -3,4	2,1	1,4	0,7	Resource intensive ind.	-8.9	3,7	5,6	-0,1
			,			•			
Resource intensive ind.	-3,4	2,1	1,4	0,7	Resource intensive ind.	-8.9	3,7	5,6	-0,1

Source: Elaboration from OECD and UN trade data, SIE-World Trade Data Base (see Taxonomy)

INDUSTRIAL AND TECHNOLOGICAL TAXONOMY

The broad product groups classification used in this paper is based on the 450 product groups of the SIE-World Trade. A summary list of the product groups included in each class of products is below provided:

- 1) Food items and Agricultural raw materials (41 product groups): Food Live animals Animal oil and fats Natural rubber Vegetable and animal textile fibres Cork and Wood Skins
 - 2) Fuels (4 product groups): Coal Petroleum oil Gas
- 3) Other raw materials (17 product groups): Iron ore Ores of base metals Other crude minerals
- 4) Food industry (36 product groups): Meat and meat preparations Dairy products Vegetables and fruit preparations Cereal preparations Sugar preparations Other edible products
- 5) Science Based (59 product groups): Synthetic organic dyestuffs Radio-active and associated materials Polymerization and co-polymerization products Antibiotics and other pharmaceutical products Nuclear reactors Automatic data processing machines & Units Telecommunications equipment Semiconductor devices Electronic microcircuits Electronic measuring instruments Electric power machinery and apparatus Internal combustion piston engines Aircraft & associated equipment Medical instruments Optical instruments Photographic apparatus and equipment
- 6) Scale Intensive (88 product groups): Organic chemicals Inorganic chemical products Other chemical materials and products Medicinal and pharmaceutical products Rubber manufactures Iron and steel Television, radio, other image-sound recorder and reproducers Household type electrical equipment Ships and boats Railway vehicles & equipment Road vehicles
- 7) Specialized Suppliers (43 product groups): Agricultural machinery Machine tools for working metals Metal working machinery Other machine tools for specialized particular industries Construction and mining machinery Textile and leather machinery Paper and paperboard machinery Other machinery for specialized particular industries Other general industrial machinery & equipment Electrical equipment and components Measuring, checking, analyzing instruments Optical goods Other miscellaneous products
- 8.) Resource Intensive (18): Paper and paperboard Petroleum products Non metallic mineral manufactures Non-ferrous metal products
- 9) Traditionals or Supplier dominated (76 product groups): Textile products Articles of apparel and clothing accessories Leather manufactures Footwear Wood manufactures Furniture Paper and printed products Article of ceramic materials Glass products Miscellaneous manufactures of metal (structures, tools, cutlery and other

articles) - Jewellery, goldsmiths - Imitation jewellery - Musical instruments - Sporting goods - Toys & games - Other miscellaneous products

10) Residuals: Other product groups n.e.s.

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²The indicator of trade specialisation are calculated for a given number of product groups comprised in the taxonomy that we provided and discussed in other works (Guerrieri, 1994; Guerrieri 1993). To this end all industrial products are classified into nine categories, as already explained in the test. For the calculation we use an original database (SIE-World Trade Database), that includes data for trade flows from 1970 on related to OECD and non-OECD countries (Guerrieri, 1994).

As to the indicator of contribution to trade balance used here to measure trade specialization the formula for a country (j) with respect to a given group of products (i) is the following:

Xi = total exports of country (j) in the product group (i)

Mi = total imports of country (j) in the product group (i)

X = total exports of country (j)

M= total imports of country (j)

The sum of the indicators with respect to the various product groups (i) in which the total trade of a country is disaggregated, equals to zero.

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Preparing for the WTO 2000 Negotiations: Mediterranean Interests and Perspectives Cairo, Egypt, 14-15 July, 1999

The MENA Countries and the Uruguay Round and Beyond

Subidey Togan and Raed Safadi

Sponsored by the Economic Research Forum, Istituto Affari Internazionali and the World Bank

Contribution of the World Bank and IAI made possible by financial support from the Government of Italy and the Netherlands

The MENA Countries and the Uruguay Round and Beyond

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Abstract: The paper aims to identify the interests and concerns of MENA countries in the new round of multilateral trade negotiations (the WTO 2000 negotiations) with a view of helping these countries develop negotiating objectives and strategies. The introduction sets the stage by making the case for economic reforms in the MENA region and the role of the WTO in supporting these. After dealing with market access issues for MENA countries' exports the paper looks into the commitments in services MENA countries have undertaken in the context of Uruguay Round Agreements, and considers issues related with FDI.

There is a growing awareness among countries in the MENA region regarding the importance of trade and foreign direct investment (FDI) for stimulating growth and the integration into the world economy, and their decisive role in the development of the private sector and necessary structural adjustments. Consequently, many countries in the region have made efforts to increase their attractiveness to foreign investors. These efforts have included domestic economic policy reforms and the liberalisation of the FDI and trade regulatory framework, including the simplification of administrative procedures, the conclusion of bilateral investment protection and promotion treaties and free trade areas, the establishment of export processing zones, and the design of privatisation programmes.

Despite some progress made by some MENA countries in developing trade and FDI-related legislation and liberalising their FDI and trade regimes, the conditions for foreign investors in most of the economies are not yet sufficiently favourable to either attract a significant amount of FDI from regional partners as well as from other countries or to enhance intra and extra-regional trade.

A growing awareness among countries in the MENA region is observed regarding the importance of trade and foreign direct investment (FDI) for stimulating economic growth in the region. But despite some progress made by certain MENA countries in developing trade and FDI-related legislation and in liberalizing their FDI and trade regimes, the conditions for foreign investors in most of the economies are not yet favorable to either enhance intra and extra-regional trade or attract significant amount of FDI.

Data show that the MENA economies have attracted only small amounts of inward FDI, in spite of being a large economic area of about XX million inhabitants with a combined GDP of some USD XX billion in 1997. With the exception of Egypt, the ratio of FDI inflow to GDP has been volatile and has advanced relatively little over time. This experience contrasts with that of many other emerging market economies, where FDI inflows have grown substantially over time. In fact, MENA's share of world-wide FDI has sharply diminished, from around XX percent in the late 1970s to less than 1 percent today. Between December 1993 and January 1996, FDI inward stocks in the MENA economies increased only by some XX per cent to reach the estimated amount of USD XX billion. FDI inflows have been very unevenly distributed. In 1995, Egypt accounted for about 70 per cent of total inflows in the area, with Arab and OECD countries

accounting each for about one half of these inflows. Jordan had attracted 7 percent of these total amounts, and all the rest of the Arab countries shared amongst them the remaining 23 percent of total inflows.

The participation of the MENA economies in global international trade is also low, even though the share of some countries has increased since 1960. For example, the share of Jordan in world trade has increased dramatically since 1960. During the period 1960-94, Jordan's share in world exports tripled to reach 0.03 per cent in 1994. In contrast, the share of Egypt's exports in total world exports has dwindled from a high of 0.4 per cent in 1960 to 0.08 per cent in 1994.

{More to Come}

Intra-regional trade and investment flows have been very limited. Although the geographical distribution of FDI flows within the area is not well documented it appears that most of regional investment outflows go outside the area. For instance, in Egypt, by mid-1996, investors from the MENA region accounted for only some E per cent of total foreign investment registered under Law 230 (that is projects not operating in petroleum, in tourism and under the umbrella of Law 159 on companies), with Jordanian investors being the largest source of these flows (65 per cent), followed by the Palestinian Authority (35 per cent).

{More to Come}

At 6 per cent or less, intra-regional trade among the MENA countries also remains low. Similar figures for the European Union are 60-65 percent, and, in Asia, about 60 percent. Trade intensity indices provide insight into the nature of these bilateral trade flows. These indices indicate that Egypt's trade with its neighboring economies is much larger than would be expected, while its trade with the EU is what would be anticipated if Egypt's exports to the EU mirrored those of other countries. Jordan trades more heavily with other Arab countries, while its trade with all other partners, including Egypt, is less than would be expected. In short, it appears that opportunities exist to increase both regional and extra-regional trade in the MENA region.

The participation of the public sector in the national economies, either in the form of public monopolies, state-owned enterprises or via strategic shareholdings in privatized companies, remains considerable in many countries in the region. Traders and investors in addition face a bureaucratic process which is often labyrinthine, cumbersome and non-transparent. In Egypt and Jordan the extremely sophisticated investment incentives programmes discourages potential investors because it inevitably takes longer to process applications for them. Other barriers include: the ineffective enforcement of intellectual property rights, though many of the MENA countries are making efforts to improve the protection of such rights; uncertainties as regards expropriation without compensation in many economies in the region; the absence of transparent legal and regulatory framework, particularly in Algeria, Egypt, Jordan and the Palestinian Authority; and political uncertainties as well as remaining political differences between and among the countries in the region that still constitute major disincentives for foreign investors.

The above elements resulted in a large gap between MENA's economic performance and that of the rest of the world. In fact, a study by the World Bank concluded that "economic performance [in the MENA region] has been lagging, and the incentive regime is steadily falling behind that of comparator countries," (World Bank, 1995). Thus, it is clear that, as Hoekman (1998) writes "the major policy issue facing many of the countries in the MENA region is to follow the rest of

the world in liberalizing, privatizing and deregulating markets." The need for reform is not only clear, it is also imperative.

While attempts at reforms should be "home-grown," initiatives at the multilateral level can provide significant support, and in some cases may define the political feasibility of reforms. The "rules-based" global system that has evolved since World War II, epitomized by the GATT (now the WTO) helps developing countries in implementing economic reforms in a gradual manner through at least two channels. First, the GATT/WTO sponsors concerted multilateral negotiations that aim to liberalise the flow of goods and services internationally. Two important benefits emerge from this: (a) there is the enhanced prospect for political saleability when reform of domestic protection is part of a global effort; and (b) there is the additional benefit that can accrue from liberalisation by others, or in other words, the gains from trade liberalisation tend to be greater the larger the number of countries involved. Second, the GATT/WTO provides rules and disciplines for the conduct of international trade. It specifies the restrictions that are prohibited, those that are allowed and under what conditions. These rules and disciplines are legally bound and are subject to clear dispute settlement procedures, which provides added security and certainty to those engaged in international trade, investment and technology transfer.

In fact, for developing countries, be they small, medium-sized or even large economies, trading in the international markets on the basis of strong rules and disciplines agreed through multilateral, rather than bilateral negotiations is of critical importance, and relatively more important to them than it is for industrial countries. There are at least two reasons why this is the case. First, unlike developing countries, industrial ones have enough bargaining powers to unilaterally influence the behavior of others. And, second, the relatively smaller size of developing countries markets coupled with the fact that they enjoy comparative advantage in a narrower range of goods and services means that they have a larger stake in a healthy growing world economy than do industrial countries (Krueger, 1999). It is thus unsurprising to see that the most important accomplishments of the Uruguay Round in as far as developing countries are concerned were the substantial strengthening of the rules governing the conduct of international trade and their extension to new areas of activities.

Thus, reform-minded governments in the MENA region, as is the case with other developing countries around the globe, have a common interest in supporting the smooth functioning of the multilateral trading system and, equally importantly, its continued strengthening. These governments have a window of opportunity as momentum is building up for a new multilateral trade negotiation round to be launched at the Third WTO Ministerial Meeting in Seattle at the end of the year. Not only do MENA governments need to welcome this event, but also they should ready themselves to: (i) become fully engaged in both the process and the results of the evolving international system, and (iii) to contribute as full partners to the universal set of rules and practices that will emerge. In addition, MENA countries need to abide by the scheduled implementation of the various obligations they have agreed to in the Uruguay Round, as well as identify their priorities in improving market access and WTO rules and disciplines in the new WTO 2000 negotiations.

This paper aims to identify the interests and concerns of MENA countries in the new round with a view of helping these countries develop negotiating objectives and strategies. Discussions regarding the various elements to be included in the agenda have been underway for some time. Of course, it is impossible to predict at this time the result of these discussions (which are in fact negotiations in and by themselves). Our concern here is to examine the issues pertaining to industrial and agricultural goods, services and FDI, irrespective of whether or not these will

make it to the negotiating agenda. The paper is organized as follows. Section 1 deals with market access issues for MENA countries' exports. Section 2 looks into the commitments in services MENA countries have undertaken in the context of the relevant Uruguay Round Agreements, and their scheduled implementation. Section 3 considers issues related with FDI. Finally, section 4 gives some concluding remarks.

1. Market Access Issues for Goods

Market access issues for goods are studied under the headings of tariffs, tariff agenda beyond the Uruguay Round and agricultural trade policy.

1.1. Tariffs

The massive reductions in import duties, and the establishment of non-discriminatory tariffs as the principal means of trade protection are commonly viewed as one of the most significant success stories of post-war trade policy and multilateral trade negotiations under the GATT. The Uruguay Round marked the eighth time that GATT members have negotiated reductions of trade barriers in a multilateral framework. The success of these multilateral trade negotiations (MTNs) has been remarkable. Prior to the Uruguay Round, seven Rounds of MTNs had succeeded in lowering the average (trade-weighted) most-favoured-nation (MFN) tariff rates on industrial goods from a high of 40 per cent at the end of World War II to around 6 per cent at the end of the Tokyo Round (1974-79). And the Uruguay Round (1986-93) further reduced the average trade-weighted tariff rates to 4 per cent.

The continuing reductions of tariffs under GATT auspices suggests that progress toward trade liberalisation has been steady and marked. It would also seem that the process has occurred reciprocally, among major trading nations. Two reservations can be registered from the analysis about this picture. First, the tariff reductions have not been even for all products and sectors. Second, the practice of tariff escalation continues to plague some sectors. These two observations cast doubt on the popular assertion that tariffs no longer matter as an instrument of trade policy. An uneven tariff structure, with some high nominal rates stratified along the different stages of production, can yield high levels of effective protection.

1.1.1 Scope of bindings

Prior to the successful conclusion of the Uruguay Round, MFN tariffs in many sectors were not legally bound, and as such could potentially be raised. This created a lack of security in market access, and may have produced detrimental trade effects. A major goal of the Round has been to increase the proportion of industrial tariffs that are bound, thus providing added protection to trade liberalisation commitments. As is evident from Table 1, this goal has not been been successfully met in the cases of Tunisia and Turkey (more MENA countries to come). In Turkey's schedule, only 35 percent of industrial tariff lines have been bound in contrast to the agricultural lines that have been bound in their entirety. The corresponding figures for Tunisia are 46 and 97 percent, respectively. These results do not compare favourably with the EU and US tariff regimes where bindings are above 99 percent.

1.1.2 Products that remain unbound

As is evident from Table 1 above, the totality of the EU's tariff schedule has been bound. In the US, unbound lines affect the importation of mineral products (that include petroleum and its products) as well as plastic and rubber product. In the case of Tunisia, only Section 02 (vegetable products) contains lines that have been bound in their entirety. In Turkey, this includes in addition to Section 02 products included in Section 04 (prepared foods). It is evident here that both Tunisia and Turkey remain less committed to tariff bindings than other countries.

1.1.3 Mean bound rates

Table 2 reports simple bound tariff rates for Tunisia, Turkey, EU and US. It is evident from the data that the tariff regimes of the selected countries exhibit wide-ranging variations, both across different sectors of any one country, and also across countries. The simple bound mean for all products ranges from 7.2 per cent in the case of the United States, to 59 per cent in the case of Tunisia. In Tunisia, bound rates range from 25.5 to 128.1 per cent. The mean bound rate for all industrial lines stands at 41.2 per cent. The range in Turkey is between 20 and 99.6 per cent, and the mean bound rate for all industrial lines is 40.6 percent.

{more to come}

Examination of the difference between applied rates and those that are bound for the countries in the sample reveals that the EU and the United States are the two parties that have achieved increased levels of bindings together with reductions in the rates actually in force. In the cases of Tunisia and Turkey tariff rates have been bound at much higher levels than their corresponding applied 1996 MFN rates.

Between now and the end of the UR implementation period, mean tariffs will fall by a minimum of 39 per cent in the US and 25 per cent in the EU. In the cases of Tunisia and Turkey bound rates are on average higher than their corresponding MFN rates. Turkey has bound its tariffs at levels that were on average 34.4 percentage points higher than the applied ones. The same is true in the case of Tunisia's schedule where the difference between the two means is 30.2 percentage points. In the schedules of these countries, not a single product group at the Section level is affected by a bound rate that is equal to or less than the MFN one. In contrast, in almost each of the product groups at the Section level imported into the EU and the US, post-UR bound tariffs will be lower than those that are applied on an MFN basis. The difference between 1996 MFN and post-UR bound rates is very significant in the case of some HS 6-digit products, especially in agriculture. The largest difference can be found in Turkey's schedule.

1.1.4 Products experiencing continued high bound tariff rate

Although on average some important reductions in tariffs have occurred in some countries, yet a large number of product groups at the 6-digit level will still experience high bound rates in the post-UR trading environment.

Tariff peaks or spikes refer to the ratio of lines for which the tariff rates exceed a reference level to the total number of lines. Two sets of shares of lines are computed using two reference levels: the first is 15 per cent which we call "international peaks," and the second reference level equals

three times the national mean tariff which we refer to as "national peaks." A large number of peaks implies a highly differentiated tariff structure whereas a small number of peaks points to a more uniform or "flat" tariff structure. The difference between the two methods of calculation therefore depends on the national mean bound tariff.

Using the national definition of tariff peaks, the tariff schedule of the EU exhibits a more uniform structure than that of US. In the EU, 3 per cent of the 5113 products are considered national spikes. The US tariff schedule reflects equal incidence of national tariff peaks. 6 per cent or 298 lines in the US will be affected by a tariff that exceeds three times the national mean. The schedule of Tunisia shows a relatively flat distribution of tariffs when the national definition is used: thus, at most 2 per cent of the lines in the case of Tunisia. For Turkey, this indicator is smaller than 1 per cent.

A preponderance of lines affected by international tariff peaks (i.e., tariffs exceeding 15 per cent) is obvious in the cases of Tunisia and Turkey. In the case of Turkey a large number of tariff lines are international peaks (78% of all the 6-digit HS). In the EU 5 per cent or 269 lines will show tariffs over 15 per cent in the post-UR trading environment and in the United States 2 per cent or 112 lines.

Not surprisingly, the largest number of peaks is to be found in agriculture. Peaks in the agriculture sector are picked up using the outside-of-quota tariff rates (OQTRs, see Section 1.3 below) where applicable and where ad valorem equivalent (AVE) were available. National peaks as a percentage of the total number of lines in agriculture are 9 per cent in the United States and 28 per cent in the EU. A full 36 per cent of agricultural goods are subject to tariffs over 15 per cent in the EU. The corresponding figure for the United States is 7 per cent.

1.2 The Tariff Agenda: the Uruguay Round and Beyond

For those familiar with the history of negotiations during the Uruguay Round, the idea of launching another round of multilateral negotiations may not see too many trade officials racing to the negotiating room. And the negotiators' lack of enthusiasm may be well-understandable. Apart from the complexities and political difficulties encountered on agriculture, services and TRIPS, progress on the tariff front also eluded negotiators for the major part of the Uruguay Round as numerous and endless discussions revolved around modalities and product coverage. It was not actually until the very end of the Round that the tariff deal was concluded. Occasionally, lack of progress on tariffs also impeded progress in other areas, although it is more likely that the pace and scope of negotiations on other issues distracted from the urgency of the tariff negotiations. Perhaps the time has come to re-think the approach to tariff negotiations, and for

The 15 per cent threshold is used by some countries in multilateral trade negotiations. It is not an internationally accepted definition per se.

It should be stated that the case for a more uniform tariff structure rests on political economy arguments. According to these arguments, uniform tariffs make the trade regime more transparent and relatively easy to administer. This is most applicable in cases where tariff levels are taken to be endogenously determined and responsive to political pressure, and where efficiency arguments include the social costs of rent dissipation associated with the use of resources in lobbying.

the MENA countries to assume a leading role on this front. The experience gained during the Uruguay Round and subsequent to it provides some lessons (see Box 1 below).

Negotiations during the Uruguay Round have established for the first time a pattern for duty-free trade on a sectoral basis. During the tariff reduction exercise of the Round, interest grew for eliminating tariffs on a sectoral basis, and the "zero-for-zero" approach emerged --involving complete sectoral tariff elimination conditional on other trading partners doing the same. This new approach was adopted by the Quad countries following the G-7 meeting in Tokyo in July 1993, and eventually resulted in a considerable acceleration of the elimination of tariff barriers in selected sectors.

The zero-for-zero tariff commitments resulted in the total elimination of tariffs on pharmaceutical products, construction equipment, medical equipment, steel, furniture, agricultural equipment, beer, distilled spirits, toys and paper. While this approach did not address other barriers to trade, its results in the reduction of tariff barriers are significant: nearly half of the imports of OECD countries of the above-listed products have been enjoying since the beginning of 1999 duty free access regardless of the origin of imports --this share is even higher if account is taken of imports that are subject to preferential access.

More recently, the pattern for establishing duty-free trade on a sectoral basis was used to underpin the negotiations of the Information Technology Agreement. The ITA owes its origin to a transatlantic private sector initiative which later culminated in a joint set of recommendations by IT industry representatives from the Quad countries and presented to the G7 Ministerial Conference on the Global Information Society (Brussels, February 1995). A key recommendation suggested that the leading industrial countries negotiate the complete elimination of customs duties by the year 2000, or sooner on products that formed an essential basis for the realisation of the Global Information Infrastructure.³ With such support from the private sector in the Quad, negotiations proceeded expediently, and consensus amongst the Quad was reached in respect of negotiating modalities and product coverage. This allowed the Quad to expand the negotiating process to include other countries, and the package was announced during the first WTO Ministerial Meeting in Singapore in December 1996 and concluded three months later in Geneva.

The ITA establishes tariff-free trade in six product groups: computers, telecom equipment, semiconductors, semiconductor manufacturing and testing equipment, software and scientific instruments. Participating countries agreed to bind and eliminate all customs and other duties and charges on information technology products by the year 2000. The elimination will be carried out on an MFN basis and has in fact begun on 1 July 1997. It is to be realised in three stages with equal tariff reductions. The second stage has started on 1 January 1998 and the third stage on 1 January 1999. The fourth stage (complete elimination) will start on 1 January 2000.

³ USITC (1997), "Advise concerning an Information Technology Agreement and Modifications of Duties on Distilled Spirits," Publication 3031, April, p. 3.

⁴ During a meeting in Toronto in May 1997, the parties to the ITA agreed to include non-tariff barriers for discussion during the forthcoming review meeting in October this year.

⁵ For individual developing countries, tariff elimination schedules were agreed to be specified differently: Costa Rica, Indonesia, India, Korea, Malaysia, Chinese Taipei, and Thailand have been granted flexibility in cutting their

The strategy that the Quad countries have followed, at the beginning in building consensus amongst themselves, and later in expanding the negotiating process to include other important IT players, and to bind and eliminate all customs and other charges in a relatively short period of time, points to a new formula for expedient and successful trade negotiations. Thus, the ITA may in fact provide a model for new negotiating modalities. The novelty of the ITA can be found in the following:

- It aims at the complete elimination of tariffs in one given sector in a relatively short period of time with minimal or no exception in product coverage.
- It has some flexibility in respect of the scope of products included. This emerged following the definition of a landscape of specific products in commercial terms, rather than in reference to the traditional tariff nomenclature (HS); thus its "sector" definition is more arbitrary, which helped to harmonise different product classifications.
- The country coverage of the agreement secured that it would touch upon a substantial share (i.e., over 90 per cent) of world trade in the given sector. This significantly reduced "free-rider" concerns and helped to ensure an MFN agreement.
- Besides tariffs, all the participants voiced their commitments to address non-tariff barriers and to widen product coverage in the follow-up negotiations.
- The negotiation process itself proved to be very quick (2 years from start to finish)-especially compared to the burdensome and long UR processes.

While in theory any particular trade agreement which addresses only one segment of distorting trade policies can be perceived as a second best solution to a "total" approach, the ITA-type approach can result in further steps in the right direction, i.e., toward global trade liberalisation. Bearing in mind the recent trends in globalisation and outsourcing strategies of multi-national enterprises, production inputs and semi-processed products could also be targeted for the total elimination of tariffs, and so could other products or sectors where MENA countries enjoy a comparative advantage. The most obvious of these are those products which were left out from previous zero-for-zero agreements (for example in the product groups that are listed under textiles, clothing, footwear, toys, and of course petroleum and its products). Production inputs such as fuels, agricultural raw materials, non-ferrous ores and metals, wood, and papercan also be listed as candidates for the total elimination of tariffs.⁶ These products are already affected by negligible tariffs. Therefore, even small movements in exchange rates can wipe out the protection afforded leaving only the burden and the costs associated with collecting these duties. In addition, the share of these products in total world trade is relatively small; thus, one would not anticipate a surge in imports if these products were to be affected within a relatively short period of time by zero tariffs.

tariffs on a few products to zero after the year 2000 but not beyond 2005. Besides the infant industry argument, the longer period of the elimination of tariffs was justified on the basis of the fact that these countries had higher tariffs for these product groups.

Although, as has been stated earlier, tariffs on wood and paper products in the Quad will be bound to zero, this is not the case in respect of other OECD Member countries, as well as the selected non-OECD countries.

Another group of production inputs that may also be ripe for an ITA or zero-for-zero type of negotiations is semi-manufactures. Some (e.g., steel) were already touched upon by the UR negotiations. Additional production inputs, such as iron and chemical products, and also automotive parts, may be included. The abolition of tariffs in these "input" sectors can provide benefits in terms of lower costs of production and enhanced price competitiveness.

A different kind of welfare loss may also occur when tariff escalation affects sectors that are environmentally sensitive. For example, higher tariffs on paper compared to pulp result in double dying of the pulp, with consequent increases in energy consumption. In the forestry sector, environmental distortions are associated with tariff escalation on semi-processed and processed wood products. The same problem can be found in the metals and coffee sectors. Encouragement of local processing by levelling-off the tariffs would likely result in energy saving and in less burden on the environment in these sectors.

Fish and fish products were among the "losers" in the UR in terms of getting the lowest tariff reductions (on average, these products were affected by a 27 percent global reduction compared e.g. to 37 percent for industrial products). In addition to the observed reliance of many MENA countries (including the least developed amongst them) on exports of these products, high tariffs on fish and fish products hinder the upgrading and diversification of production and thus visit additional damage on the environment. Thus, a zero-for-zero approach in this sector would prove to be a win-win solution to both development and environmental preservation.

Another sector where MENA countries could provide initiative and leadership may be found in those product groups which are related to environmental protection, like environmental equipment and energy-related equipment in a wide sense, and also technologies and services associated with cleaner environment and more environment-friendly production processes. The commercial interest in promoting a more liberal trading environment in these product groups is obvious. In addition, such an initiative would generate a "public interest" dividend, particularly with those environmental groups that see the multilateral trading system and its promotion of more liberal trade as problematic to the environment.

Box 1. Efficient Negotiating Methods

Agreement at the outset on a "formula" (linear) reduction -- agreement on a percentage cut to apply to all tariff lines in a given product or sectoral category. This modality

- removes the need for line-by-line haggling except in the "verification" stage; and allows for some rebalancing (greater or lesser reductions) to meet the overall target;
- saves negotiating time while ensuring greater participation and contributions; helps to overcome the "reluctant concession" mentality in favour of individual and global welfare benefits; and helps to achieve broader harmonisation of tariff levels by achieving greater reductions in areas where there are peaks/ escalation.
- Formula approaches were used among OECD countries in the Kennedy Round (50% linear cut as the goal, with exceptions to be negotiated) and the Tokyo Round (using applied rates as the starting point, 30-50 % cuts were achieved). In the Uruguay Round, an overall "target" (but no formula requirement) of one-third was set.
- Identification of clear base-lines for reductions, e.g. the applied tariff rate in a given year rather than the bound rate to be the starting point.

- Binding of new commitments to be at the newly applied rates or at ceilings of no more than say, 10 percent above applied.
- Agreement on priority sectors/product categories of interest to each MENA country and building "partnerships" with other countries/groups with similar interests; and a target cut to be achieved.
- Agreement on a residual target cut to be achieved overall by each country, to ensure liberalisation beyond designated sectors.
- Conversion of remaining specific duties to ad-valorem rates for transparency purposes.
- Use of a Declaration to set out the participation, staging, coverage and exceptions, modalities for entry into force and future work programme and resumed negotiations intentions, in a transparent way.
- Agreement to eliminate tariffs altogether below, say 3 percent (where exchange rate fluctuation and administrative costs of collection often cancel out the protection afforded).

Non-tariff barriers to be the subject, on a sectoral basis, of circulated requests and collation into illustrative lists for negotiation of removal or referral to horizontal rule-making negotiating groups.

1.3 Agricultural Trade Policy

The Uruguay Round Agreement on Agriculture provided guidelines on how WTO-member countries were to convert their non-tariff barriers (and the variable levies) into tariff equivalents (this is the process known as tariffication). For industrial countries, the conversion was to be based on the observed difference between domestic prices and world prices, and the level of protection was not to exceed that which prevailed in 1986-88. Countries could express the level of protection as an *ad valorem* rate, a specific rate or a mixed rate. Tariffication by developing countries was not required to follow these guidelines.

The Agreement on Agriculture also provided for minimum import access by tariff quotas to be guaranteed in respect of all tariffied products. If current imports were less than 3 per cent of domestic consumption in 1986-88 base period, access must be increased to at least 3 per cent and 5 per cent at the beginning and end of the implementation period, respectively. If the access level was greater than 5 per cent in the base period, this level of access must be maintained.

In cases where the tariffication process has produced high levels of tariff protection to the point that such levels may in fact impede the achievement of the guaranteed minimum access, a lower rate, called tariff-quota rate has been introduced. This lower rate is referred to as the "inside of quota tariff rate" (IQTR), as opposed to the higher, more restrictive rate which is referred to as the "outside of quota tariff rate" (OQTR). Finally, the tariffication process allowed countries to claim special safeguards (SSG).⁷ In some cases the SSGs are claimed even where no tariff quota is in place.

⁷ The SSG can be applied in response to either a fall in import prices (price-based) or an import surge (volume-based). It is worth noting that SSGs are neither an anti-dumping measure nor a countervailing duty type measure as there is no injury or subsidisation requirement. In cases where SSGs have been introduced, the resulting tariffs are applied on top of their corresponding OQTRs.

In MENA countries agriculture has economy wide importance. It accounts for XX percent of GDP and XX percent of total employment in Egypt, XX percent of GDP and XX percent of total employment in Tunisia, and XX percent of GDP and XX percent of total employment in Turkey. These shares compared to FU countries are relatively high. Large proportions of Egyptian, Tunisian and Turkish populations still live in rural areas and in those countries the highest fertility rates are to be found in rural areas, with out-migration rates from the rural areas also tending to be high. The MENA countries aim in general to ensure adequate levels of nutrition and food supplies at reasonable prices to domestic consumers, raise production levels and yields while reducing the vulnerability of production to adverse weather conditions, increase farm incomes, improve their stability and develop rural areas. In pursuit of these objectives the MENA governments have implemented set of measures based essentially on the support of producer prices, complemented by trade related measures, the subsidization of farm inputs, and transfers related to investments in infrastructural projects.

Studies reveal that agricultural sector is highly protected in MENA countries. Consideration of the Turkish case reveals that the average applied tariff rate in agriculture during 1998, calculated for HS chapters 01-24, amounts to 47.9 percent. In the case of meat and preparations of meat, tariff duties amount to about 130 percent. According to the preferential regime applied by Turkey to the imports of agricultural products originating in EU tariff quotas apply for a relatively large number of agricultural products. On the other hand according to the preferential regime applied by the Community to the imports of agricultural products originating in Turkey almost all of the agricultural commodities originating in Turkey are imported into the Community free of ad valorem duties and EU applies almost no tariff quotas to these imports but only variable duties. Besides tariffs and tariff quotas protection is provided to agriculture in Turkey through a system of generous subsidies. The cost of this scheme is estimated annually by OECD for the OECD countries. According to the latest OECD report on agriculture (1997) the total transfers associated with agricultural policies in Turkey during 1996 has amounted to about 8 percent of Turkish GNP. According to OECD total transfers to agriculture consist largely of (i) transfers from taxpayers, who must pay higher taxes than otherwise to cover government expenditure on agriculture, and (ii) transfers from consumers, who must pay higher food prices than otherwise, because a high percentage of farm protection takes the form of market price support. These cost figures are gross, in the sense that the benefits accruing to farmers and landowners have not been deducted from the costs born by consumers and taxpayers.

Similar considerations apply to the cases of other MENA countries. Here access to European agricultural and food markets has been more restricted relative to the Turkish case. Consideration of the agricultural policies of the main trading partner of the MENA countries, the EU, on the other hand reveals that the EU through the Common Agricultural Policy (CAP) has used extensively trade instruments such as variable levies and export subsidies and has restricted foreign access to the European market. The CAP has developed into a major financial and administrative burden absorbing about 50 percent of the EU budget. According to OECD (1997) the total transfers associated with agricultural policies in EU has amounted to US\$ 120 billion during 1996, constituting about 1.1 percent of GDP.

Recently the agricultural policies followed by MENA countries and EU have been criticized extensively by various economists and even politicians. Lately countries tend to embark on reform programs either of their own making or at the suggestion of the lending and financing agencies considering the reform of international trade policies as a key part of domestic economic reform process.

The policies summarized above are in general consistent with the rules of the Uruguay Round Agreement on Agriculture of 1994. The agreement has resulted in a legally effective binding of tariff rates for agricultural goods and has imposed constraints on the most trade distorting types of agricultural policies such as export subsidies and total support. The reforms were more successful in changing rules than in reducing protection and liberalizing trade. Protection in many markets is still very high and the allowable export subsidies still distort the markets substantially. The Uruguay Round Agreement also confirmed the objective of substantial, progressive reductions in support and protection resulting in fundamental reform. The next round of multilateral trade negotiations will have to decide on the steps to be taken. It will have to address issues related with additional market access provisions, further reductions in export subsidies, setting limits to quantitative restrictions, and more discipline in the area of trade distorting domestic subsidies. Access to markets for imports of agricultural commodities could eventually be improved until entry is no more restricted for agricultural and food goods than for nonagricultural goods. Finally multilateral trade negotiations have to deal with national regulations governing food safety, animal and plant health. They should be established in a way that minimizes the chance that countries could use them to restrict market access.

It seems that the international environment for multilateral trade negotiations in agriculture are very favorable. The main trading partner of MENA countries, the EU, will have to reform the CAP as a pre-condition for the enlargement of the EU. Programs will probably be developed in EU that are decoupled from commodity production and that are targeted at particular categories of farmers and regions that merit support. If compensation payments can also be paid mainly from national treasuries many of the problems of enlargement will be solved in EU. Then it would seem that the EU will best be served by freer trade in global markets. This potential change in attitude by the EU would make it easier for the MENA countries to increase their access to European agricultural and food markets. The Euro-Med agreements would also increase the pace of liberalization of agricultural trade between the MENA countries and the EU.

The interest of MENA countries in promoting a more liberal trading environment in agricultural and food products is obvious. Such a change would not only decrease the burden on public budget and the welfare cost of agricultural programs in the MENA countries but also lead to better allocation of resources in those countries leading to increases in income per capita.

2. Services

It took more than four decades after the birth of GATT (the General Agreement on Tariffs and Trade) for the subject of trade in services to find its way onto the multilateral negotiating agenda. By about the latter half of the 1970s, the absence of rules and multilateral commitments on trade in services was beginning to be seen as a significant systemic gap. Awareness was growing of the importance of services-related activities in the world economy. The process of globalization probably accelerated the pace at which this perception became generalized, on account of the fundamental importance of a number of services sectors in international trade -- most notably, transport, telecommunications and financial services.

The production of services was increasingly seen as an independent activity, worthy of explicit multilateral attention. Prior to this, international trade had been seen largely through the prism of trade in goods. Services were altogether subsidiary, either in the sense of being embodied in goods, or as secondary activities undertaken in the cause of facilitating the supply and commerce of goods. Also missing from this perception of what was important in the world economy was the role of investment. Investment was treated largely as a matter of domestic policy concern.

The notion that investment and trade are merely different means of gaining access to markets, to be treated in a complementary fashion rather than as substitutes, is also a rather recent phenomenon.

Technological advances have also played a key role in bringing trade in services to the forefront of policy makers' concerns. Advances in transport and information technologies have contributed to a rapid expansion of services trade. Many international transactions, which previously would have been considered prohibitively expensive, have now become commonplace because of the ease with which people can move and communicate electronically across national boundaries. These trends are reflected in the fact that trade in services has grown faster than trade in goods for well over a decade. While services exports accounted for some 16 percent of world exports in 1980, the share had risen to over 20 percent in the early 1990s. Annual average growth in services exports was approximately 8 percent from 1980 to 1992, compared to some 5 percent for merchandise exports.

2.1 The General Agreement on Trade in Services (GATS)

Scope and Structure

Governments exercised caution when they negotiated the GATS, providing themselves with ample scope to condition their multilateral commitments. Two aspects of the GATS that need to be distinguished are the part that establishes a framework of rules governing trade in services, and the part that sets out the specific sectoral commitments undertaken by Members. The latter are inscribed in schedules appended to the Agreement. Only some of the provisions of the GATS framework agreement relate to the universe of trade in services, as defined under the agreement, while others are restricted to those service activities subject to scheduled sectoral commitments.

Several provisions clearly reflect the pervasiveness of regulations in many service sectors, and the intent to prevent the protectionist abuse of such regulations. The specific schedules indicate which service sectors each signatory has been willing to subject to non-general obligations under GATS. The schedules also provide for qualifications to the national treatment and market access commitments that otherwise apply to sectoral commitments. Finally, a series of annexes and decisions elaborate on commitments and exceptions with respect to different rules and sectors, and also establish a work program, including further sectoral negotiations.

The obligations and disciplines set out in the GATS framework include rules on MFN (most-favored nations treatment), transparency, increasing participation of developing countries, economic integration, domestic regulation, recognition, monopolies and exclusive service suppliers, business practices, emergency safeguards, payments and transfers, balance-of-payments restrictions, government procurement, general and security exceptions, and subsidies.

The scope of the agreement, the definition of trade in services, and sectoral coverage are laid out in Part I of GATS. The Agreement applies to all measures taken by Members that affect trade in services. Trade in services is defined in terms of four modes of supply. The first mode involves the cross-border (arms-length or long-distance) supply of a service from one jurisdiction to another. This mode of delivery is analogous to international trade in goods, in that a product crosses a frontier. Many different kinds of electronic information flow occur across national borders. The second mode of supply requires the movement of consumers to the jurisdiction of

suppliers.⁸ Tourism is a good example of this mode, involving the movement of (mobile) tourists to (immobile) tourist facilities in another country.

The third mode of supply is through the commercial presence of a supplier in the jurisdiction where the consumers are located (abstracting from export sales). This is the investment mode. An important point to note about the investment mode is that it involves two distinct components. The first relates to the authorization to invest, or in other words to the setting up of business in another Member's territory. The second deals with post-establishment operations, or in other words with actually doing business. Both these aspects are covered by GATS. The idea of including commercial presence in GATS was initially opposed by many developing countries. They argued that commitments on service transactions under this mode of supply were tantamount to a surrogate obligation on foreign direct investment, and they expressed unwillingness to tie in their investment regimes in this manner.

Finally, the fourth mode entails the movement of natural persons from one jurisdiction to another. This is the mode under which the sensitive issue of the movement of labor is addressed. The Agreement makes it clear that provisions on movement of natural persons do not address issues relating to access to the employment market, nor measures regarding citizenship, residence or employment on a permanent basis. The fourth mode relates both to independent service suppliers and to employees of juridical persons supplying services. Just as with the commercial presence mode, the GATS covered both the right to establish a presence and the right to do business under the fourth mode.

The conceptual approach underlying these modes was first developed in the academic literature as a heuristic device to explain the nature of international transactions in services. Differentiation by modes of supply later formed the basis on which governments defined market access commitments under GATS, permitting a choice to be made from among alternative modes. The use of modal distinctions is a reflection of the manner in which liberalization is defined under the Agreement, and the possibility of applying different policy regimes to different modes of supply is a potential source of economic distortion. It may also be argued that the absence of symmetry in the policy conditions affecting the different modes imposes limitations on the reach of liberalization. Despite early reservations about commercial presence, a tendency is discernible for scheduled commitments to be concentrated in the commercial presence mode. In some cases, this may be because countries have attempted to use the GATS as an instrument for encouraging foreign direct investment. In others, it reflects the desire to avoid "regulatory competition" between different jurisdictions. Furthermore, where regulatory control is considered important, as in prudential controls in banking, for example, governments find it easier to impose and enforce regulations in their own territories.

A second feature of the definition of services covered by GATS is the exclusion of services supplied in the exercise of governmental authority. The definition of a service supplied in the exercise of governmental authority is "any service which is supplied neither on a commercial basis, nor in competition with one or more service suppliers" (Article 1:3(c)). The intention of this provision is to permit governments to exclude basic infrastructural and social services which they supply their populations on an exclusive basis from the purview of the Agreement.

⁸ Both a service supplier and a service consumer could, of course, move to a third jurisdiction. Under GATS, this would be treated as two separate transactions from the point of view of the host country.

The most important general obligations in GATS are the MFN principle articulated in Article II and the publication and supply of information aspects of the transparency provisions in Article III. The MFN clause states that: "With respect to any measure covered by this Agreement, each Member shall accord immediately and unconditionally to services and service suppliers of any other Member treatment no less favorable than that it accords to like services and service suppliers of any other country."

Note that the MFN principle refers to both services and service suppliers, reflecting the fact that the GATS is both an investment and a trade agreement. Article II of GATS also provides the possibility that Members may maintain MFN-inconsistent measures as long as they are scheduled in the Annex on Article II Exemptions. Exemptions from MFN could only be registered prior to the entry into force of the Agreement, and cannot be supplemented. Moreover, they are subject to periodic review and are in principle meant to be maintained for no longer than ten years.

The MFN exemption provisions reflected the concern of some larger countries that by granting MFN access to their markets, they would be losing the opportunity to exchange their relatively open access for further liberalization in other markets. In other words, these countries were arguing that "free riding" would occur in the absence of an effective instrument to ensure reciprocity. The issue was raised most explicitly in the telecommunications and financial service negotiations. Some 60 countries took MFN exemptions, affecting most significantly the audiovisual, financial, basic telecommunications, and transport services sectors. The MFN exemption in the financial services sector was suspended pending the outcome of post-Uruguay Round negotiations. MFN provisions did not apply either to basic telecommunications and maritime services (except where specific scheduled commitments have been undertaken) pending completion of negotiations in these areas. Audio-visual MFN exemptions reflect European concerns about the cultural reach of US entertainment products, and are justified in terms of arguments about defending the national heritage. The European Union not only exercised its right to insist on an MFN exclusion, but also failed to make any specific commitments in this sector.

A fundamental feature of GATS is the principle of progressive liberalization (Part IV). It reflects the reality that governments were neither willing nor able simply to open up their services markets to international competition from one day to the next. Progressive liberalization implies a gradual approach, and the structure of the GATS accommodates such gradualism. Members have already committed themselves to enter into successive rounds of negotiations aimed at achieving higher levels of liberalization. The first such negotiation is to take place in the year 2000, and in all likelihood in the context of a more comprehensive round of negotiations.

A question to consider, however, is whether the GATS does indeed offer a vehicle for achieving trade liberalization, or whether its structure is such as to allow governments to support a putatively market-opening instrument while in practice holding off liberalization into the indefinite future. In other words, has a proper balance been struck between gradualism and the gradual attainment of ever higher levels of liberalization?

In considering this question, it is useful to examine certain structural features of GATS which, it could be argued, are important in determining the pace of liberalization. Two of them relate to the discussion so far, and others are dealt with later in relation to scheduled commitments. First, there is the question of the scope of application of the provisions of GATS. Under the existing structure, few obligations in GATS apply unless a sector and the associated modes of delivery

have been made subject to specific commitments in the schedule of a Member. As noted above, the MFN principle in Article II and the transparency commitments in Article III are the main general obligations of the agreement. In addition, certain provisions dealing with recognition of qualifications (Article VII), monopolies and exclusive suppliers (Article VIII), and business practices (Article IX) are of general application. The most important gaps in general application, which have the effect of reducing the reach of GATS, are those relating to domestic regulation, market access and national treatment.

The intensity of regulation in services, as well as the fact that the GATS deals with both investment and trade, makes the GATS provisions on domestic regulation a crucial element of the Agreement. To the extent that the disciplines on regulations laid out in Article VI do not apply to unscheduled activities and sectors, the disciplinary impact of GATS is correspondingly limited. Moreover, only the bare bones of rules on regulations have so far been established. These are based primarily on the notion of necessity, such that any regulatory interventions relating to qualification requirements and procedures, technical standards and licensing requirements should not constitute unnecessary barriers to trade in services. Regulatory interventions must also be non-discriminatory and based on objective and transparent criteria. Licensing procedures must not in themselves create a restriction on the supply of a service.

In light of the acknowledged inadequacy of these provisions in terms of their generality, paragraph 4 of Article VI calls for a work program to develop further the GATS provisions on domestic regulation. In addition, the Decision on Professional Services calls for recommendations for the elaboration of multilateral disciplines in the accountancy sector. Governments might consider whether regulatory disciplines should cover all sectors, and the work program could provide an opportunity for extending regulatory disciplines beyond specific commitments in schedules, to all services covered by GATS.

A second structural issue relates to the difference between a "positive" and a "negative" list approach to scheduling specific commitments under GATS. A positive list approach to sectoral coverage requires that Members list the sectors in which they are willing to undertake commitments, and any sector or activity not so listed in a Member's schedule is not subject to specific commitments. The GATS has adopted a positive list approach to scheduling sectors. A negative list approach, by contrast, requires that Members list those sectors or activities in respect of which they are unwilling to assume commitments, leaving all other sectors covered by implication.

Three arguments are advanced as to why a negative list approach may foster greater liberalization than a positive list approach. First, it is argued that with a negative list greater transparency is assured, since the true coverage of the Agreement would be readily revealed. On the other hand, given that all governments know what services are included in the established sectoral nomenclature under GATS, the validity of the transparency argument would seem to depend on whether adequate transparency provisions *per se* are in place, rather than upon the choice of means to indicate sectoral coverage.

The second argument is that by forcing governments to list sectors in which they are unwilling to accept commitments, a greater pro-liberalization dynamic will be created, as long lists might cause embarrassment. It is not altogether clear, however, why governments should be more embarrassed by long negative lists than by short positive ones. The third argument is probably the most powerful in favor of a negative list approach. It is that with a negative list, new sectors would automatically be covered by GATS disciplines, unless explicit action were taken to

exclude them. As technology moves fast in many service sectors, this is a significant consideration, and may help explain the reluctance of governments to adopt a negative list approach.

Schedules of Specific Commitments

Articles XVI, XVII and XVIII are the core of the Agreement as far as specific commitments are concerned. Article XVI deals with market access, which is defined in a very specific manner. Having established that signatories will accord services and service suppliers treatment at least as favorable as that provided for in the schedules, the Article goes on to define six types of market access restrictions that will not be adopted in respect of sectors where market access commitments are undertaken unless there is a specification to the contrary in the schedule of specific commitments. In other words, disciplines on market access impediments will apply to scheduled commitments unless a reservation is registered to the contrary. This is a negative list approach nested in the overall positive list approach of the GATS schedules. The six impediments or limitations on access are defined as: a) limitations on the number of suppliers; b) limitations on the total value of service transactions or assets; c) limitations on the total number of service operations or on the total quantity of service output; d) limitations on the total number of natural persons that may be employed; e) measures which restrict or require specific types of legal entity or joint venture; and f) limitations on the participation of foreign capital. Article XVI limitations are exhaustive, in the sense that these are the only limitations on market access that Members are permitted to inscribe in their schedules.

It should be noted that items (a) to (d) of Article XVI are expressed in terms of quantitative market access limitations -- the number of suppliers, the value of transactions or assets, the number of operations or quantity of output, or the number of natural persons that may be employed. In considering the overall GATS objective of progressive liberalization, a question is whether it would be more appropriate to express these limitations in terms of price measures rather than quantitative limitations. Access limitations could be imposed on foreign suppliers through fiscal measures, and perhaps even subjected to periodic negotiations aimed at reducing such limitations. If this approach were adopted, governments may then want to consider whether the framework agreement contained enough provisions for applying quantitative restraints on services trade under particular circumstances. A structural change of this nature would almost certainly imply a greater degree of liberalization than the existing arrangements. It is questionable, however, whether governments would be willing, in the foreseeable future, to move in this direction.

Article XVII contains the national treatment provision of the agreement. The approach here is very similar to that of market access, with national treatment applicable only to scheduled commitments, and only then if reservations are not made to the contrary. National treatment is defined in the traditional GATT manner, as treatment no less favorable than that accorded to domestic homologues, in this case services and service suppliers. Article XVII recognizes, however, that the attainment of national treatment may involve treatment that is not formally equivalent, and that formally equivalent treatment may not yield a non-discriminatory outcome either. A significant difference between national treatment in GATT and in GATS is that in the former case, national treatment is established as a principle to be applied across the board,

whereas in the latter case, national treatment has been given negotiating currency -- it is something to be granted, denied or qualified, depending on the sector and signatory concerned. 9

One reason why governments may have been unwilling to see national treatment play the same role in GATS as in GATT, or the role that MFN plays in GATS as a general principle, is that under the commercial presence and movement of natural persons modes in GATS (Modes 3 and 4), full national treatment is equivalent to free trade -- it would guarantee unlimited investment rights for foreign service suppliers. While governments were willing to guarantee this treatment in some sectors where they made scheduled commitments unencumbered by national treatment limitations, this was clearly not true across the board. In these circumstances, if national treatment had been an inviolate principle not subject to conditioning, it is probable that even less would have been incorporated in the schedules than what is there at present.

An intermediate approach to using the national treatment rule as a more effective instrument of liberalization would be to impose limitations on the nature of permissible departures from national treatment. At present, any kind of departure is permitted, provided the limitation is entered in the schedule against the relevant sectoral commitment. The nature of departures from national treatment could be defined, with an emphasis on price-based measures, and these measures could also be subject to progressive reductions in the context of negotiations aimed at greater liberalization. Once again, it is an open question whether governments would be willing to embark on a structural change of this nature.

Article XVIII offers the possibility for signatories to negotiate additional commitments not dealt with under the market access and national treatment provisions of Article XVI and Article XVII. These commitments could apply to such matters as qualifications, standards and licensing, and would be inscribed in Members' schedules. Limited use was made of this option in the Uruguay Round negotiations. The most important aspect of Article XVIII measures is that they must express commitments favoring more open access, and not additional market barriers.

In the national schedules commitments are split into two sections. "Horizontal" commitments stipulate limitations that apply to all of the sectors included in the schedule. Any evaluation of sector specific commitments must take the horizontal entries into account. Commitments which apply to trade in services in a particular sector or sub sector are listed in the second section of the national schedules. Here the entry reads "none" in cases where there are no limitations on market access or national treatment specific to the sector under consideration. All commitments in a schedule are bound unless otherwise specified. In cases where a Member wishes to remain free in a given sector to introduce or maintain measures inconsistent with market access or national treatment the Member enters the term "unbound".

Table 3 shows the status of commitments made by MENA countries that are WTO Members. A close examination of the data reported in the table reveals the following aspects:

• Only 9 MENA countries are Members of the WTO (Bahrain, Egypt, Kuwait, Mauritania, Morocco, Qatar, Tunisia, Turkey and UAE, all of which made commitments under the GATS).

Exceptions to national treatment under GATT exist in respect of subsidies and government procurement.

- Services are divided into twelve aggregate sectors: business, communication, construction and engineering, distribution, education, environment, financial, health, tourism and travel, recreation and cultural, transport and other. In absolute terms, the largest number of commitments in these sectors were made by Turkey, followed by Kuwait, Morocco and Qatar. Turkey has made commitments in 9, Kuwait in 8, Morocco in 7, Qatar in 6, Egypt in 4 and Tunisia in 2 sectors out of the twelve service sectors. Most of the commitments by MENA countries were made in the "tourism and travel services" and "financial services" sectors.
- The sector "Business Services" has six sub-sectors. No commitments were made by MENA countries in the cases of "real estate services" and "rental/leasing services without operators". In the case of "professional services," commitments were made by the UAE in six, Qatar undertook five, Kuwait and Turkey four, and Morocco made commitments in one out of the twelve lines in the sub-sector. In the case of "computer and related services," commitments were undertaken by Kuwait and UAE in four, by Turkey in three and by Morocco in one out of the five lines in the sub-sector. In the case of "research & development services," Kuwait and UAE have commitments in three out of five lines in the sub-sector. Finally in the case of "other business services" Kuwait has commitments in fifteen, Turkey in six, UAE in five and Morocco in 2 lines out of the twenty lines in the sub-sector.
- "Communication services" has five sub-sectors. No commitments were made by MENA countries in the cases of "audiovisual services" and "other services". Turkey undertook commitments in the cases of postal and courier services. In the case of "telecommunications services," Turkey made commitments in eight and Morocco in five out of the fifteen lines in the sub-sector.
- "Construction and Related Engineering Services" sector has five sub-sectors. Turkey and UAE have commitments in all of them, Kuwait, Morocco and Qatar in four and Egypt in three.
- In the "distribution services" sector, Kuwait is the only MENA country that undertook commitments, in three of the five sub-sectors.
- In the case of "educational services" Turkey is the only MENA country that listed commitments in four of the five possible sub-sectors.
- In the case of "environmental services" Qatar, Turkey and the UAE have listed commitments in four, Kuwait and Morocco in three of the five sub-sectors.
- The "financial services" sector has two sub-sectors. In the case of "insurance services" sub-sector, Bahrain, Egypt, Qatar, Tunisia and Turkey have commitments in all of the four possible entries, and Morocco in three. On the other hand, in the case of "banking and other financial services" Bahrain and Qatar have commitments in 18, Turkey and UAE in 17, Egypt and Kuwait in 15, and Morocco in 8 out of the 18 lines in the sub-sector.
- "Health Related and Social Services" sector has four sub-sectors. Kuwait has commitments in three and Turkey in one out of the four lines in the sub-sector.
- "Tourism and Travel Services" sector has four sub-sectors. Morocco has commitments in all of the sub-sectors, Egypt, Kuwait and Mauritania in three, Tunisia, Turkey and UAE in two and Oatar in one out of the four sub-sectors in the sector.

- In the case of "recreational, cultural and sporting services" sector Kuwait is the only MENA country having commitments. Kuwait has commitments in two out of the five sub-sectors in the sector.
- "Transport Services" sector has nine sub-sectors. MENA countries have no commitments in the cases of "internal waterways transport services", "space transport services", "pipeline transport services" and "other transport services" sub-sectors. In the case of "maritime transport services" Turkey has commitments in four and Egypt in three lines out of the six lines in the sub-sector. In the case of "air-transport services" Morocco has commitments in two out of the five lines in the sub-sector. In the case of "rail transport" Turkey has commitments in one out of the five lines in the sub-sector. In the case of "road transport" Morocco and Turkey have commitments in two out of the five lines in the sub-sector. Finally in the case of "services auxiliary to all modes of transport" Turkey has commitments in all of the four lines in this sub-sector.

Article XIX of GATS requires WTO members to progressively liberalize services through successive rounds of negotiations. The deadline for starting the first such round is January 1, 2000. The Article foresees that the focus of future rounds should be the enlargement of market access. In addition the GATS calls for two specific issues to be taken up not later than the year 2000: a review of Article II exemptions and an examination of whether the present narrow coverage of air transport could be extended. Further issues concern safeguards, government procurement and subsidies.

In the following attention will focus on a closer examination of liberalization of "financial services" and of "telecommunications services".

2.2 Financial Services

Financial services were one of the sectoral negotiations that were left over from the Uruguay Round (other "unfinished business" from Uruguay Round were movement of natural persons, basic telecommunications and maritime transport). An interim agreement on financial services, securing further market access and national treatment commitments in the areas of banking, securities trading and insurance, was accepted by some 30 countries in mid-1995. This excluded the United States which declined to sign the agreement as it considered commitments by Asian and Latin American countries inadequate. The fact that the United States was not part of the agreement is the reason why negotiations were resumed in 1997 in the hope of securing further liberalization, fuller geographical participation and a longer-lasting arrangement. In mid-December 1997, more than 100 WTO Members agreed to a global accord that will lower barriers to services trade in banking, insurance, securities and portfolio management. The agreement builds upon new and revised offers going beyond the liberalization commitments made in the 1995 round of talks. The new agreement entered into force in March 1999. According to the WTO, the accord covers \$10 trillion worth of global assets, \$40 trillion of world banking assets, and \$2 trillion of world insurance premiums.

Financial services in the GATS are covered by (i) rules and obligations specified in the Articles of the GATS, (ii) an annex on financial services, and (iii) national schedules of market access and national treatment commitments and lists of MFN exemptions. Specific commitments in financial services were made by some countries in accordance with the Understanding on Commitments in Financial Services, an optional text containing a "formula" approach to the scheduling of commitments.

Table 3 reveals that Bahrain, Egypt, Kuwait, Morocco, Qatar, Tunisia, Turkey and UAE are the MENA countries that have made commitments in financial services. Kuwait and UAE are the two MENA countries that have commitments in banking only. The other MENA countries have commitments in both the insurance and banking services.

Among the MENA countries that made commitments in insurance services all had commitments in life insurance, non-life insurance and re-insurance. All of those countries except Morocco have commitments in services auxiliary to insurance. On the other hand among the MENA countries which made commitments in banking services all of the countries made commitments in acceptance of deposit, lending of all types, financial leasing, payment and money transmission, and guarantees and commitments. While Egypt, Morocco, Tunisia and UAE made no commitments in the cases of money market instruments, foreign exchange, derivative products, and exchange rate and interest rate instruments the remaining MENA countries have commitments in those cases.

The GATS Schedules of Commitments contain commitments on market access, national treatment and additional commitments for each of the sub-sectors of financial services with respect to each of the four modes of supply. Following the approach of Mattoo (1998) we concentrate within insurance on direct insurance and within banking and other financial services on acceptance of deposits and lending of all types, as these services constitute the core of financial services sector in developing countries, and also abstract from consideration of the fourth mode, the presence of natural persons.

Table 4 shows the market access commitments in direct insurance. The table shows that there are significant differences between MENA countries regarding the extend of bindings of scheduled limitations. Full liberalization across all three modes is offered by Bahrain only. On the other hand relatively less binding commitments on market access were made by Morocco and Tunisia. In the MENA countries Members seem to prefer commercial presence as the mode to restrict access to domestic markets. Egypt applies economic needs test in allowing entry, but has committed itself to relaxing the test in the future. Egypt imposes equity restrictions. It limits foreign equity to 49 percent but intends to raise the limit to 51 percent in the year 2000 for life and 2003 for non-life insurance. Turkey does not have significant restrictions on the establishment of foreign commercial presence, but Qatar imposes limitations on entry.

Table 5 shows market access commitments in Banking and other Financial Services. Full liberalization across all three modes is not granted by any of the MENA countries. On the other hand the number of liberal commitments on the first two modes is higher than those in insurance. Bahrain, Qatar, Tunisia and UAE are committed to liberal cross border trade and consumption abroad. Egypt imposes no restrictions on joint venture banks, but it does impose an economic needs test on the branches of foreign banks. While Tunisia applies discretionary procedures in allowing new entry, Morocco applies a reciprocity condition to commercial presence as well as discretionary limits on foreign equity participation and UAE imposes limitations on entry.

The above considerations reveal that with the financial services agreement the MENA countries have succeeded in agreeing to a legal framework for market access in financial services. Yet there is a significant agenda of market opening measures still to be taken by the MENA countries. The ultimate aim of financial sector liberalization within a multilateral framework, according to Dobson and Jacquet (1998), is to meet MFN, the right of companies to establish and operate freely, identical treatment for foreign and domestic companies, free cross border trade in

services and free movement of personnel, limited and transparent exemptions and a grandfather clause protecting existing investments from any new exemptions to the principles stated.

Before proceeding further with the discussion of financial services liberalization we turn to consideration of domestic factors by concentrating on Turkey. The major characteristics of the Turkish financial market are as follows. Interest rates are market determined and the foreign exchange regime is of managed floating type. In 1998 there were 75 banks in Turkey. Bank Assets/GNP ratio was about 69 percent. 4 of these banks were state owned and their share in total assets of the banks was 34.4 percent. Commercial banks in Turkey are universal banks. However most of the banks established their own subsidiaries to handle capital market operations. Private commercial banks are in the process of updating their technological infrastructure as well as undertaking organizational changes to adopt themselves to the changing conditions of the banking industry. On the other hand the insurance market is underdeveloped, and its contribution to financial markets is rather negligible. Securities markets are developing. Most of the securities market activity is on government debt instruments. Non governmental bonds market is almost non existent. Equity market is thin. However the turnover rate in Istanbul stock exchange is one of the highest in the world. Regarding the regulatory framework we note that the Undersecretariat of the Treasury was responsible from the prudential supervision of the banks. However since this state body is closely related to the minister of economy, the system has been criticized to be incapable of implementing the actions required. The new banking law accepted lately by the Parliament establishes an autonomous supervisory body for banks and also strengthens the prudential controls. Since 1989 Bank of International Settlements capital adequacy ratios are required. External audit and public disclosure of statements are required. Securities markets are supervised by an autonomous governmental body, the Capital Market Board.

{more to come}

2.3 Telecommunications Services

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3. Foreign Direct Investment

If rules on investment had already existed in GATT, it is possible that investment in both goods and services would have been treated together, and so would trade in goods and services. This was the pattern that emerged in NAFTA (North American Free Trade Agreement), for example, an agreement that was negotiated from a clean slate. The differential treatment of goods and services within the WTO (the World Trade Organization) framework raises questions of coherence that will have to be addressed in due time, not least because of the asymmetries between rules on goods and services that this model has produced.

The issue of investment was taken up in the GATT context in the Uruguay Round, eventually leading to the Agreement on Trade-Related Investment Measures (TRIMS). But the TRIMS Agreement is very limited in scope. Some industrial countries, most notably the United States, had pressed for a far-reaching mandate to negotiate about investment in the broad sense. Many developing countries were unwilling to engage in such an exercise at that time. They believed that it would challenge a basic tenet of their development policy, which saw the careful management of investment flows as indispensable to appropriate, balanced growth.

Investment policy, involving a mix of controls and incentives, has traditionally been used by many countries as a tool for promoting specific objectives, such as technology transfer, industrialization, regional development and export expansion. Some of these objectives, like regional development, have also been pursued through investment incentives in industrial countries. The emphasis of the Uruguay Round TRIMS exercise, however, was mostly on trade-related investment conditionality. The subsidy aspect of investment policy was addressed in the Agreement on Subsidies and Countervailing Measures, where regional subsidies are defined as non-actionable, provided they are granted in the context of an overall regional development program, are non-specific to an enterprise or industry, and do not result in serious adverse effects to the industry of another party.

Moreover, the ability to condition and control investment flows has traditionally been considered necessary to avoid monopolistic abuses by transnational corporations. Seen from this perspective, multilateral efforts to liberalize investment threatened to weaken the ability of countries to pursue active development policies. Opposition to a broad-based negotiation on investment in the Uruguay Round was strong enough, given the disposition of interests and priorities in other areas (especially intellectual property rights and trade in services), for agreement to be reached on a narrow negotiating mandate for TRIMS. The negotiating mandate simply called for an examination of the operation of GATT articles related to the trade restrictive and distorting effects of investment measures, following which "negotiations should elaborate, as appropriate, further provisions that may be necessary to avoid such adverse effects on trade." The use of the phrase "as appropriate," along with the conditional tense, left open the possibility that governments might agree to nothing at all.

In the event, the Uruguay Round TRIMS agreement only reaffirmed existing GATT rules on national treatment (Article III) and on the prohibition of quantitative restrictions (Article XI). An illustrative list of TRIMS identified two measures as being inconsistent with GATT's national treatment provisions and three as constituting illegal quantitative restrictions. The first category included local content requirements and trade balancing requirements. The TRIMS identified as quantitative restrictions included trade balancing requirements (also Article III-inconsistent), foreign exchange balancing requirements, and domestic sales requirements. The agreement requires that WTO-inconsistent TRIMS must be phased out, and that no new WTO-inconsistent TRIMS are to be introduced during the phase-out period. Industrial countries must complete the phase-out within two years, developing countries within five years, and least-developed countries within seven years. These transition periods may be extended for developing and least-developed countries under certain circumstances. All TRIMS subject to the phase-out requirement had to be notified to the WTO.

Other TRIMS identified in the Uruguay Round discussions, but not mentioned in the illustrative list annexed to the TRIMS agreement, include manufacturing requirements, export performance requirements, product mandating requirements, manufacturing limitations, technology transfer requirements, licensing requirements, remittance restrictions, and local equity requirements. The TRIMS agreement would have needed to go further than reiterating the established interpretations of GATT Article III and Article XI in order to cover most of these measures. A notable omission of the TRIMS agreement, however, was its silence on export performance requirements (EPRs). EPRs are analogous to local requirements on the import side, and strongly resemble export subsidies, which are prohibited on manufactured goods under the WTO.

¹¹ It is provided, however, that existing TRIMS may be imposed on new enterprises during the phase-out period it this is considered necessary in order not to place existing enterprises subject to the same measures at a disadvantage.

Countries in their efforts to facilitate investment by providing stronger assurances have increasingly concluded bilateral investment treaties (BIT) and regional integration agreements. A web of more than 1600 bilateral treaties has been formed to date, covering all parts of the industrial and developing world. These treaties make binding provisions on expropriation, compensation for losses due to armed conflict or internal disorder, and for the transfer of payments. The definition of investment covers in general both foreign direct investment and portfolio investment. The treaties also provide for the resolution of disputes in private institutions and in the International Centre for the Settlement of Investment Disputes (ICSID) of the World Bank. On the other hand the EC's Treaty of Rome, EU Association Agreements with eastern European countries and NAFTA treaty attempt to coordinate investment policies between larger group of countries. These treaties include commitments on non-discriminatory treatment and investment restrictions. NAFTA treaty provides for national treatment and also bans a comprehensive list of performance requirements. In NAFTA private investors and not just states have the right to bring cases for arbitration under ICSID and United Nations Commission on International Trade Law (UNCITRAL), the two international bodies for the settlement of investment disputes, creating the prospects of international investor-state claims.

Recently discussions on international investment frameworks have intensified. In 1995 OECD initiated talks to create a Multilateral Agreement on Investment (MAI). The OECD talks broke down in late 1998, following a decision by France to cease participation in the negotiations. With the demise of the efforts to negotiate the MAI at OECD, investment is proposed as a subject for future WTO negotiations.

The MAI is built upon a broad, asset-based definition of investment, which includes not only FDI as such, but also the direct and indirect ownership or control of any other asset such as portfolio investment. It provides that contracting parties shall accord to investments protected under the agreement, treatment no less favourable than that accorded to its own nationals' investments (NT) or to investments from any other country, whether or not a party to MAI (MFN), and in any case shall accord to them the more favourable of NT and MFN. It requires each contracting party to publish or make publicly available all its laws, regulations, procedures, rulings and decisions pertinent to foreign investment. The MAI prohibits the imposition or enforcement upon a foreign investor any one of the following performance requirements: trade related, transfer of technology, location of headquarters, research and development, employment of locals, minimum or maximum level of equity participation. Regarding privatization MAI states that all kinds of privatization must be compatible with NT and MFN, and confirms that NT, MFN and transparency clauses will apply to granting of investment incentives. MAI requires that each contracting party shall accord to foreign investment fair and equitable treatment and constant protection and security. Finally, MAI requires that in cases of disputes the parties should attempt to resolve the dispute through consultations, mediation or conciliation. If the parties fail to resolve the dispute through these proceedings, the issue may be submitted to an arbitral tribunal, which will in general consist of three members appointed by the Secretary General of the ICSID.

The MAI negotiations are now effectively dead. The contracting parties could not agree on various issues including the definition of investments, rules on performance requirements, investment incentives, compensations in cases of regulatory takings, and dispute settlement. Furthermore the French demands for cultural exception and issues related with the inclusion of labor and environmental standards have also prevented the agreement on the MAI.

On the other hand the Working Group on the Relationship between Trade and Investment formed under WTO continued the educational work that it began to undertake in 1997 on the basis of the mandate contained in paragraph 20 of the Singapore Ministerial Declaration. Various meetings were held during 1998. The substantive work of the Working Group continued to follow the Chair's Checklist of Issues Suggested for Study elaborated in June 1997. In particular the Working Group has agreed to discuss various issues grouped under three headings: the implications of the relationship between trade and investment for development and economic growth; the economic relationship between trade and investment; and a stocktaking and analysis of relevant existing international instruments and activities. Drawing on this work it compares existing international instruments and activities regarding trade and investment; identifying possible conflicts and gaps between them; consider common features and overlaps in existing international agreements, the advantages and disadvantages of entering into bilateral, regional and multilateral rules on investment, the rights and obligations of home and host countries and of investors and home countries, and the relationship between possible future international cooperation on investment policy and possible future cooperation on competition policy.

On 8 December 1998, the Working Group issued a report on its work to the General Council and recommended that the General Council continue the educational work of the Working Group. On 9 December 1998, the General Council took notice of the report and accepted the recommendation. The WTO Working Group on Trade and Investment met on 3 June 1999. It discussed once again various issues relating to international investment rules (investment incentives and competition, compulsory transfer of technology, development aspects of an investment agreement) without coming to any conclusion. With the Seattle Ministerial Conference only a couple of months away, delegations were not in a mood to move things much further. The Group will hold a last meeting before the WTO Ministerial at the end of September.

Regarding the need for multilateral framework it is stressed by various circles that a number of WTO agreements already embody or imply as stressed above disciplines on investment related policies. According to WTO (1996) the General Agreement on Trade in Services (GATS), the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the Agreement on Trade Related Investment measures (TRIMS), the Agreement on Subsidies and Countervailing Measures (ASCM), the plurilateral Agreement on Government Procurement and the Understanding on Rules and Procedures for the Settlement of Disputes provide certain disciplines on investment. Countries could approach the FDI issue as they have until now, that is bilaterally, regionally and plurilaterally, and on an ad hoc basis in the above WTO agreements. According to Hoekman and Saggi (1999) there is at this stage no need to integrate all these arrangements into a comprehensive and multilateral framework on investment (MFI). The countries should focus on eliminating entry restrictions, which are binding in particular in the service industries. Countries besides continuing the process of multilateral liberalization of trade, could expand the specific commitments for services markets under the GATS.

The possibility of having investment as a subject in the future WTO negotiations raises challenging issues for the MENA countries. These countries have to study the question whether there is in fact a need for a multilateral framework on investment. This issue will be decided at the Ministerial Meeting to be held in Seattle at the end of 1999. In case decision is taken to include investment in the Millenium Round, the MENA countries have to make up their views on the specific problems to be negotiated at the Round. In particular they have to consider among others problems related with the definition of investments, rules on performance requirements, investment incentives, compensations in cases of regulatory takings, and dispute settlement.

We now turn to a discussion of some of these issues within the context of Turkey, which is a middle income developing country with a fairly well developed infrastructure including communication, transportation, finance and banking. Geographically she is well placed to service a number of countries in the region. Yet, the volume of inward FDI is low compared with the amount harbored by several other developing countries at a similar stage of development. Outward FDI is also relatively low, but is increasing. The volume of FDI outflow from Turkey to Central Asian economies, countries in Caucasus and Balkan has been increasing and is expected to increase further in the future. Thus Turkey is interested in not only increasing inward FDI but also in the protection of FDI and stability of FDI regimes in the neighboring countries.

As the country exporting capital Turkey is interested in increased levels of access to foreign markets through FDI. Turkey intends to improve its competitiveness through better access to relatively cheaper inputs in foreign markets and to strengthen the Turkish companies by forming strategic alliances with foreign partners. On the other hand Turkey is keenly interested in increasing FDI inflow, as through FDI the country expects the following benefits: improved access to technology, marketing channels, organizational and managerial skills, and the contributions to domestic savings and investment.

Studies reveal that the main determinants of FDI inflow are political stability, geography, natural endowments, efficient infrastructure, good human capital and liberal trade policies. In addition foreign investors need transparent and predictable rules on which they can operate. The first set of issues have to be dealt with by Turkey. An investment treaty will do little to improve these issues. But such a treaty will certainly help to increase the transparency, predictability and legal security in Turkey, and thus could be helpful in increasing the FDI inflow into Turkey. On the other hand regarding FDI outflows, Turkey realizes that unclear, ambiguous, biased and controversial rules are deterrent to Turkish investors in Central Asia, Caucasus and the Balkans. Furthermore Turkey realizes that national legislation in those countries is not sufficient to provide adequate security to Turkish investors and that laws and their enforcement may differ between countries. The investor protection mechanism of a multilateral investment agreement will increase the credibility of government commitments for Turkish investors. A need for a fair mechanism for dispute settlement is recognized. Finally, Turkey realizes that the issues cannot be solved by bilateral agreements as the agreements may have different coverage and may even apply different rules. Turkey realizes that an investment treaty will be helpful in all these cases.

The arguments against a multilateral agreement on investment in Turkey have been voiced by various circles. The trade unions emphasize that Turkey by signing an investment treaty will loose its sovereignty. The fear of loosing control seems to be a major concern of the trade unions. Other concerns are related with compensations for regulatory takings, inclusion of labor and environmental standards in the multilateral agreement, and issues raised by regional agreements. It seems that Turkey will actively participate in the negotiations of a multilateral agreement on investment and try to protect its interest in relevant international forums.

4. Conclusion

{more to come}

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Table 1: Post-UR bound tariff lines by HS section, in per cent

Chapter	Product Group	EU-15	US	Tunisia	Turkey
01	Live Animals & Products	100.0	100.0	56.4	62.3
02	Vegetable Products	100.0	100.0	100.0	100.0
02	Fats and Oils	100.0	100.0	92.7	99.6
	•	100.0	100.0	93.4	100.0
04	Prepared Food		98.9	3.1	8.0
05	Mineral Products	100.0			
06	Chemicals & Products	100.0	100.0	34.9	62.5
07	Plastics & Rubber	100.0	99.7	73.8	44.8
08	Hides and Skins	100.0	100.0	47.3	22.8
09	Wood and Articles	100.0	100.0	46.7	41.3
10	Pulp, Paper, etc.	100.0	100.0	39.0	33.9
11	Textile & Articles	100.0	100.0	96.6	15.9
12	Footwear, Headgear	100.0	100.0	19.7	2.9
13	Articles of Stone	100.0	100.0	16.9	35.4°
14	Precious Stones	100.0	100.0	•	19.2
15	Base Metals & Products	100.0	100.0	25,3	17.5
16	Machinery	100.0	100.0	47.6	53.1
17	Transport Equipment	100.0	100.0	47.7	61.2
18	Precision Instruments	100.0	100.0	61.7	59.1
19	Arms and Ammunition	100.0	100.0		0.0
20	Misc. Manufactures	100.0	100.0	22.6	24.2
21	Works of Art	100.0	100.0	•	0.0
	Agriculture	100.0	100.0	97.1	100.0
	Industry	100.0	99.9	46.3	35.0
	All Lines	100.0	100.0	52.8	46.0

Table 2: Post-UR Simple Bound Mean Tariff Rates and Differences in Mean MFN Tariffs in 1996 and Post-Uruguay Round Bound Tariff Rates

		Post-UR Simple Bound Mean Tariff Rates				Differences in Mean MFN Tariffs in 1996 and Post-Uruguay Round Bound Tariff Rates					
Chapter	Product Group	Tunisia	Turkey	EU	US	Tunisia	Turkey	EU	US		
01	Live Animals & Products	116.7	78.0	24,7	3.2	-81.2	-66.5	7.6	3.3		
02	Vegetable Products	128.1	41.7	13.2	3.8	-94.6	-22.4	4.6	2.3		
03	Fats and Oils	120.5	30.6	11.7	3.9	-88.5	-11.0	3,5	1.0		
04	Prepared Food	113.4	68.6	19.3	5.5	-76.2	-30.6	6.0	8.6		
05	Mineral Products	25.5	23.0	1.0	0.5	-7.9	-20.2	0.3	0.5		
06	Chemicals & Products	38.3	24.5	4.7	3.2	-14.5	-17.7	1.0	1.6		
07	Plastics & Rubber	36.0	50.1	5.0	3.5	- 9.5	-41.1	1.6	0.5		
08	Hides and Skins	68.5	99.6	2.7	4.6	-35.8	-86.7	0.5	0.9		
09	Wood and Articles	36,5	33,3	1.9	1.9	- 5.9	-22.8	1.1	1.4		
10	Pulp, Paper, etc.	34.2	39.5	0.0	0.0	-1.2	-32.1	5.1	1.7		
11	Textile & Articles	57.7	75.7	7.9	8.2	-21.0	-64.8	1.6	2.8		
12	Footwear, Headgear	41.6	94.1	8.0	14.5	-3.3	-72.5	0.8	0.6		
13	Articles of Stone	35.6	57.6	3.9	4.5	-4 .6	-48.8	1.0	1.8		
14	Precious Stones		20.0	0.7	2.6		-15.6	0.6	1.7		
15	Base Metals & Products	29.1	31.3	1.7	1.6	-6.2	-22.8	2.2	2.4		
16	Machinery	27.4	26.5	2.6	1.6	-1.9	-19.4	0.9	1.4		
17	Transport Equipment	28.6	25.3	4.6	2.6	-4.4	-16.6	0.9	0.8		
18	Precision Instruments	33.3	29.2	2.6	4.4	-6.2	-22.6	1.1	0.8		
19	Arms and Ammunition		65.9	2,5	1.4		-57.7	1.0	1.8		
20	Misc. Manufactures	41.0	71.3	2.4	2.9	-5.8	-60.0	1.9	1.7		
21	Works of Art		42.7	0.0	0.0	•	-39.7	0.0	0.0		
	Agriculture	116.7	63.8	15,4	3.2						
	Industry	41.2	40.6	4.0	3.3						
	All Lines	59.0	44.7	7.2	3.8						
	Absolute Difference					-30.2	-34.4	2.4	2.4		
	Percentage Change					-104.9	-334.4	24.8	38.7		

Table 3: Specific Commitments of MENA Countries by Sectors

		Bahrain	Egypt	Kuwait	Mauritania	Morocco	Qatar	Tunisia	Turkey	UAE
CPC Code	BUSINESS SERVICES			YES		YES	YES		YES	YES
	Professional Services			yes		yes	yes		yes	yes
861	Legal			· · · · · · · · · · · · · · · · · · ·					X	
862	Accounting, Auditing and bookkeeping					X	X		X	X
863	Taxation						Х			Х
8671	Architectual			X	, , ,		Х		Х	Х
8672	Engineering			X					Х	Х
8673	Integrated Engineering			X						
8674	Urban Planning and Landscape architectual			х						Х
9312	Medical and Dental						X			
932	Vetarinary						X			X
93191	Services provided by midwives, nurses									
	Other									
	Computer and Related Services			yes		yes			yes	yes
841	Consultancy services related to installation			X		x			Х	Х
842	Software Implementation			X					х	Х
843	Data Processing		-	X					х	X
844	Data Base			x						X
845+849	Other								_	
	Research and Development Services			yes						yes
851	R&D services on natural sciences			X						Х
852	R&D services on social sciences			х						Х
853	Interdisciplinary R&D Services			X						Х
	Real Estate Services									
821	Involving own or Leased Property					i				
822	On a free or contract basis								_	
	Rental/Leasing Services without Operators									
83103	Relating to Ships				·					
83104	Relating to Aircraft		-							
83101+8310				 	<u> </u>					
2+83105	Relating to other Transport Equipment	į		l	l	į		ļ	ļ	ł
83106-	Relating to other Machinery and Equipment					1				
832	Other				1					
	Other Business Services			yes		yes			yes	yes
871	Advertising Services			x					Х	Х
864	Market Research and public Opinion Polling Services	<u> </u>		X	1				Х	Х
865	Management Consulting Service	1	·	X	1	X		1	Х	Х
866	Services related to Man. Consulting			X	T					
8676	Technical Testing and Analysis serv.		-	X						Х
881	Services incidental to agriculture, hunting and forestry			X	1				Х	
882	Services incidental to fishing			X	 	·		<u> </u>		

	r		Bahrain	Egypt	Kuwait	Mauritania	Morocco	Oatar	Tunisia	Turkey	UAE
883+5115		Services incidental to mining	Dunium	<u> </u>				<u> </u>	1 44.4	X	
884+885-		Det vives including to mining	- 			<u> </u>			·		
88442		Services incidental to Manufacturing			x						
887		Services incidental to Energy Distribution									
872		Placement and supply of Personnel			 		Х	· 			
873		Investigation and Security				 			<u> </u>		· · ·
8675		Related Scientific and technical Consulting			X	 			†		
633+8861-									 		
8866		Maintanance and Repair of Equipment			х						
874		Building-Cleaning Services			Х	 			(
875		Photographic services			Х			· - ·· <u></u>			· .
876		Packaging Services			Х	-				x	
88442		Printing, Publishing			X						<u> </u>
87909		Convention Services			X	— —					Х
8790		Other									
	COMM	UNICATION SERVICES	1				YES	YES		YES	YES
7511	Pos	tal Services				†				yes	-
7512		rier Services				 		yes		yes	yes
	Tele	ecommunication Services					yes		 	yes	
7521	<u> </u>	Voice Telephone Services								x	
7523		Packet-Switched data Transmission								х	
7523		Circuit-Switched data transmission Services								х	
7523		Telex Services								Х	
7522		Telegraph Services				1				Х	
7521+7529		Fascimile Services								X	
7522+7523		Private Leased Circuit Services								X _	
7523		Electronic Mail			1		Х				
7523		Voice Mail					Х				-
7523		On-line Information and data base Retrievel					X				
7523	,	Electronic Data Interchange					X				
7523		Enhanced Value-added fascimile services					Х				
n.a.		Code and Protocol Conversion							J <u>-</u>		
843		On-line Information and/or data Processing									
		Other					Ì			X	
	Audiovisual Services										
9611		Motion Picture and Video Tape Production									
9612		Motion Picture Projection Service									
9613		Radio and Television Services								ļ !	
7524		Radio and Television transmission Services				<u> </u>		L			
n.a.		Sound Recording									
		Other				ļ	ļ		<u> </u>	ļ	
	Oth	er			<u> </u>					Ll	

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			Bahrain	Egypt	Kuwait	Mauritania	Morocco	Qatar	Tunisia	Turkey	UAE
	CONSTRUCT	ION AND REL. ENG. SERVICES		YES	YES		YES	YES		YES	YES
512		General Construction Work for Buildings			yes		yes	yes		yes	yes
513		General Construction Work for Civil Engineering		yes	yes	<u> </u>	yes	yes		yes	yes
514+516		Installation and Assembly Work		yes	yes	<u> </u>	yes	yes		yes	yes
517		uilding Completion and Finishing Work		yes	yes	<u> </u>	yes	yes		yes	yes
511+515+51		T	1		1	<u> </u>			-		
8	Other									yes	yes
	DISTRIBUTION	ON SERVICES			YES						
621		agents' services	-		yes						
622		Trade Services			yes						
631+632+61					1 /	 					
11+6113+61											
21	Retailing Se	rvices			yes						
8929	Franchising					1			i		
	Other		1						i		
	EDUCATION	AL SERVICES								YES	
921		ucation services				 			 	yes	
922		Education Services			 	1				yes	
923		cation Services			 					yes	
924	Adult Educ				 	 				- 	
929		Other Education Services							1	yes	
	ENVIRONME	NTAL SERVICES			YES		YES	YES		YES	YES
9401	Sewage Ser	vices	1		yes	ļ	yes	yes	† · ·	yes	yes
9402		osal Services			yes		yes	yes		yes	yes
9403		nd similar Services			yes		yes	yes		yes	yes
	Other						i i	yes		yes	yes
	FINANCIAL S	SERVICES	YES	YES	YES		YES	YES	YES	YES	YES
812	Insurance a	nd Insurance Related Services	yes	yes	· · · · · · · · · · · · · · · · ·		yes	yes	yes	yes	
	Direct	Insurance	x	X		1	x	X	X	X	
		Life	Х	Х	1		Х	Х	Х	Х	
		Non-Life	Х	X			х	X	Х	X	
81299	Reins	urance and Retrocession	Х	X	1		Х	X	Х	Х	
8140	Service	es auxiliary to insurance	Х	X				Х	Х	Х	
	Banking an	d other Financial Services	yes	yes			yes	yes	yes	yes	yes
81115-81119		tance of Depositis and other repayable funds	X	X	X		Х	X	X	X	Х
8113		ng of all types	Х	X	Х		Х	Х	Х	Х	Х
8112	Finan	cial leasing	Х	Х	Х		Х	X	X	Х	X
81339		yment and money Transmission Services	Х	Х	X		Х	Х	Х	Х	X
81199	Guara	ntees and Commitments	Х	X	X		Х	Х	Х	Х	X
	Tradia	ng for own Account or for account of Customer	Х	X	Х		Х	X	Х	Х	Х
81339		Money Market Instruments	Х		Х			X		Х	
81333		Foreign Exchange	Х		X			Х		X	

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	,		Bahrain	Egypt	Kuwait	Mauritania	Morocco		Tunisia	Turkey	UAE
81339		Derivative Products	X	~ <u>60 p-</u>	X			X	1-1-1-1	X	
81339		Exchange Rate and Interest Rate Instruments	X		X			<u> </u>		X	
81321		Transferable Securities	X	X		 	X	X	X	X	
81339		Other Negotiatable Instruments	X				X	X		X	
8132		Participation in Issues of all kinds of Securities	Х	Х	Х	†		X	X	X	Х
81339		Money Broking	X	Х	Х	<u> </u>		Х		X	X
8119+81323		Asset Management	X	X	X		-	X	х	X	X
81339		Settlement and Clearing Services for financial assets	x	X	Х			X		X	
8131		Provision and transfer of Financial Information	Х		X		Х	X		Х	X
8131 or 8133		Advisory and intermediation Services	Х	X	Х			X	X	Х	Х
	HEALTE	RELATED AND SOCIAL SERVICES			YES					YES	
9311		tal Services			yes		-			yes	
9319	Other	Human Health Services			yes						
933	Socia	Services			yes						
	Other				'				_		-
	TOURIS	M AND TRAVEL SERVICES		YES	YES	YES	YES	YES	YES	YES	YES
641-643	Hotel	s and Restaurants		yes	yes	yes	yes	yes	yes	yes	yes
7471	Trave	Agencies and Tour Operator Services	1	yes	yes	yes	yes		yes	yes	, ,,,,
7472		st Guide Services	1	· · · · · · · · · · · · · · · · · · ·	yes	yes	yes			7.2	yes
	Other			yes			yes				
	RECREA	TIONAL, CULT. AND SP. SERVICES			YES			- 	\		
9619		tainment Services			yes				···		
962	News	Agency Services							<u> </u>		
963		ries, Archives and Museums									
964		ing and other Recreational Services			yes			-			
	Other										
	TRANSP	ORT SERVICES		YES			YES			YES	·
		ime Transport Services	 	yes						yes	
7211		Passenger Transportation		X						X	
7212		Freight Transportation		Х						х	
7213		Rentals of Vessals with Crew		-				_		Х	
8868		Maintanence and Repair of Vessels				1				х	
7214		Pushing and Towing Services									
745		Supporting Services for Maritime Transport		X							
		nal Waterways Transport						- <u> </u>		[· · · · · · · · · · · · · · · · · · ·	
7221		Passenger Transportation							Ī		
7222		Freight Transportation									
7223		Rental of Vessels with Crew									
8868		Maintanence and Repair of Vessels									
7224		Pushing and Towing Services									
745		Supporting Services for Internal Waterways									
	Air T	ransport Services					yes				

		Bahrain	Egypt	Kuwait	Mauritania	Morocco	Qatar	Tunisia	Turkey	UAE
731	Passenger Transportation									
732	Freight Transportation									
734	Rental of Aircraft with Crew									
8868	Maintenance and Repair of Aircraft					Х				
746	Supporting Services			L		X				_
733	Space Transport									
	Rail Transport Services								yes _	
7111	Passenger Transportation									
7112	Freight Transportation									
7113	Pushing and Towing Services	}						1		
8868	Maintenance and Repair of Transport Equipment							1		
743	Supporting Services for Rail Transport									
	Road Transport Services					yes			yes	
7121+7122	Passenger Transportation					Х			Х	
7123	Freight Transportation					Х			Х	
7124	Rental of Commercial Vehicles with Operator									
6112+8867	Maintenence and Repair of Road Transport			}						
744	Supporting Services for Road Transport									
	Pipeline Transport									L
7131	Transportation of Fuels									
7139	Transportation of other Goods									
	Services Auxiliary to all Modes of Transport								yes	L
741	Cargo Handling Services			"-"						1
742	Storage and Warehouse Services								X	
748	Freight Transport Agency Services								X	
749	Other								X	
	Other Transport Services									
5+97+98+9 O	THER SERVICES NOT INCLUDED ELSEWI	TERE		Ī				ļ		

Note: See the classification given in "Services Sectoral Classification List" (MTN.GNS/W/120 of 10 July 1991) and the Annex on Financial Services

Table 4: Market Access Commitments under GATS on Life and Non-Life Insurance

	Limitations	Limitations on	Limitations on Commercial Pr		resence		
	on Cross	Consumption	Legal	Number of			
	Border	Abroad	Form	Suppliers	Equity	Other	
	<u> </u>						
Bahrain (o)	none	none	none	none	none	none	
	life: none;		B not				
Egypt	non-life; U	none	allowed	DL	49%		
Morocco (o)	U	U	local regn	R			
	i			frozen at			
	,			5: 1995			
Qatar (o)	none	попе		levels			
	no commitments on life insurance						
	none except						
<u> </u>	local risks,	:	S as a pic				
	residents		or mutual				
<u> </u>	and imports		society; B				
	only		can only				
	through	none for non-	ins non-				
Tunisia	mode 3	residents	residents	1		1	
				-			
			joint stock,				
		none for Itd	mutual co.]			
Turkey	life: U	class	or B				
1	non-life for		'	1	'		
	ltd class						

Source: Mattoo (1998) and Member's commitments Note: The abbreviations used are the following

o: commitments from before the most recent round of negotiations

B: branches S: subsidieries

h: restrictions in horizontal commitments

I: local incorporation required

R: reciprocity condition or MFN exemption

U: unbound

DL: discretionary licencing or economic needs test (D)LSO: (discretionary) limits on single ownership

G: grandfathering provision

Table 5: Market Access Commitments under GATS on Acceptance of Deposit and Lending

Limitations on Commercial Presence Limitations Limitations on Number of Value of operns transactions on Cross Consumption Legal Number of Suppliers Border Abroad Form Equity (branches) or Assets Other 49% None None S or B Bahrain none for Egypt joint stock joint G for dealing ventures; co., partnership DLSO through B U U DL for B 40% T Kuwait Kuwaiti gov. or financial institutions sharedeposits: U lending: DL holding none only syn. loans through K banks or invt cos. deposits: U DL Ū R Могоссо lending: U except for invt and commi transns, with M Qatar frozen at 1995 levels (8 B) none none Tunisia foreign acquisition of shares in Tunisian companies allowed up DL to 50 % none none Turkey joint stock U U DL on B co. or B UAE new and expn of existing: U

Source: Mattoo (1998) and Members' commitments Note: The abbreviations used are the following

o: commitments from before the most recent round of negotiations

none

none

B: branches S: subsidieries

h: restrictions in horizontal commitments

I: local incorporation required

R: reciprocity condition or MFN exemption

U: unbound

DL: discretionary licencing or economic needs test (D)LSO: (discretionary) limits on single ownership

G: grandfathering provision

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n° Inv. 19914 23 LUG. 1999 BIE LIOTECA







Preparing for the WTO 2000 Negotiations: Mediterranean Interests and Perspectives Cairo, Egypt, 14-15 July, 1999

Deep Integration, Euro-Med Free Trade and the WTO 2000 Negotiations

Franco Zallio

Sponsored by the Economic Research Forum, Istituto Affari Internazionali and the World Bank

Contribution of the World Bank and IAI made possible by financial support from the Government of Italy and the Netherlands

DEEP INTEGRATION, EURO-MED FREE TRADE AND THE WTO 2000 NEGOTIATIONS

Franco Zallio

1. Introduction

In a few month's time Mediterranean countries will be involved in several negotiating processes, at multilateral and regional levels: on the one hand, the negotiations called for by the Uruguay Round Agreement on agriculture and by the General Agreement on Services plus the other issues, old and new, which will fill the agenda of the WTO 2000 negotiations; on the other, the negotiations on additional agricultural concessions foreseen by the Euro-Mediterranean Association Agreements (EMAAs) and the re-examination of a number of issues mentioned in the EMAAs without detailed commitments. The interaction between Euro-Med and the WTO 2000 negotiations is therefore an issue of some importance.

This paper will not dwell upon individual negotiation subjects; the issue will be tackled from the point of view of the possible "deepening" of the Euro-Med agenda. The plan of the paper is as follows. After a short description of EMAA economic provisions, section 2 describes the results of some *ex ante* assessments of its impact on partner countries. Section 3 summarises—recent developments in the implementation of the Euro-Mediterranean Partnership (EMP) while current moves towards deep regional integration are covered in section 4; section 5 concludes on the potentialities for a positive interaction between regional and multilateral negotiations.

2. In quest of welfare gains

Initially proposed in 1992 to the three Maghreb countries, the partnership concept was extended in 1995 to all countries to the South and East of the Mediterranean Basin (1).

For the European Union, the EMP implied the upgrading of its relations with Mediterranean countries from the narrow Co-operation Agreements to the much more complex Association Agreements, which until then were applied only to Cyprus, Malta and Turkey. A political partnership and a social partnership were added to the traditional economic issues; the economic partnership covered many new issues (such as cross-border supply of services and policy harmonisation) not covered by the previous Co-operation agreement.

Given this structure, the development of the three partnerships is bound to be unbalanced, and the same holds true for the different issues included in each partnership. At the same time this structure offers a welcome flexibility, that allows the partner countries that so wish to speed up the implementation or widen the scope of the agreements. We shall take up this subject again later.

Notwithstanding the broad EMP agenda, the economic provisions of the already

⁽¹⁾ The 12 partners are: Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, the Palestinian Authority, Syria, Tunisia and Turkey. After the suspension of the UN Security Council sanctions, Libya participated as guest of the Presidency to the Third Euro-Mediterranean Conference of Foreign Ministers held last April. The Ministers agreed that Libya will become a full member as soon

signed EMAAs include only a few detailed commitments, mainly related to trade liberalisation (2). The key commitment concerns the establishment of a free trade area in industrial goods over a 12-year period; liberalisation will mostly occur on the partner country side given that Mediterranean countries already benefit from nearly duty-free access to EU markets for industrial goods. On agricultural and fishery trade the EMAAs call for a gradual and reciprocal liberalisation while offering very limited improvements in the access to the European market (3). Talks to improve on existing agricultural concessions will start five years after the signature of the EMAA (talks with Morocco and Tunisia will start in the year 2000; talks with Jordan are planned for 2002, etc.); new concessions will be implemented the following year.

The only commitment on policy harmonisation concerns competition policy: in relation to reciprocal trade, the EMAAs require that partner countries adopt the basic competition rules of the EU (explicit references are made to some provisions of the Treaty of

as the UN Security Council sanctions have been lifted and Libya has accepted the whole acquis of the Euro-Med process.

⁽²⁾ A thorough analysis of the EMAA with Tunisia may be found in Hoekman (1996); Ghesquiere (1998) compares the EMAA signed with Tunisia to the EMAAs signed with Morocco and Jordan and to the draft agreements under negotiations with Egypt and Lebanon.

⁽³⁾ Modest improvements were offered to Tunisia. Greater, but still limited, improvements were included in the EMAAs with Morocco, whose agricultural sector is particularly relevant. In 1998, Morocco's agricultural exports accounted for 30% of total exports; however this percentage falls to 19 if the estimates of outward processing trade are included; cp. Office des changes (1999). Significant reciprocal concessions are included in the forthcoming EMAA with Egypt.

Rome); the Association Council is required to adopt the implementation rules within five years of the entry into force of the EMAA (in the EMAA with Israel, as in the Association Agreements with Central and East European countries, the target date is three years after the entry into force).

Within five years the Association Council will also make recommendations for widening the EMAA to cover the right of establishment and the liberalisation of cross-border supply of services (4); for the time being the EMAA simply refers to the commitments made under the General Agreement on Trade in Services (5). The EMAAs mention, but without detailed commitments or target dates other issues such as the liberalisation of government procurement (6) and the adoption by partner countries of EU technical rules, standards and certification procedures. Therefore the EMAAs have the potentiality to achieve a deep regional integration, but their limited commitments may reduce the EMP to a shallow (and incomplete) free trade agreement.

⁽⁴⁾ There is no explicit reference to movement of labour in the Economic partnership; the equal treatment accorded to nationals of the partner country residing or working legally in the EU is included in the Social partnership.

⁽⁵⁾ Limited commitments are included in the EMAA signed with Jordan, pending its accession to WTO. Lebanon too is still in the accession process. However, given the great role of the service sector in its economy, the EMAA under negotiations with Lebanon includes more detailed commitments on liberalisation of services and right of establishment; Ghesquiere (1998).

⁽⁶⁾ The EMAA with Israel differs from the others because both the EU and Israel are members of the Government Procurement Agreement, which is attached to the WTO but binds only its members.

The first ex ante assessments of its long run impact have therefore circumscribed the analysis to the free trade area (whether inclusive of agricultural goods or not), comparing it to an unilateral tariff elimination vis-à-vis all trading partners. These assessments are based upon computable general equilibrium models and compare the initial situation (base year usually ranges from 1990 to 1994) with the equilibrium after full implementation of the relevant policy changes. Their results are not very encouraging (Table 1): static welfare effects of a free trade area in industrial goods are small in size and even negative in one case (it must be taken into account that partner countries already had nearly duty-free access to EU markets for industrial goods). Modest improvements derive from the extension of free trade to agricultural goods (the increased access to European markets is partially compensated by growing costs of food imports); much greater gains derive from unilateral trade liberalisation vis-à-vis the rest of the world.

Other assessments reach less depressing results introducing dynamic effects (Table 1). A number of explanations have been provided for the related increase in welfare gains. In a North-South regional agreement the most important ones are the increased inflow of foreign direct investment (due to enhanced policy credibility and larger market size) and the

relocation of industries among member countries in a way that increases growth potential (7).

A further stream of literature on regionalism claims that much larger welfare gains are achievable through the so-called deep integration (Lawrence, 1996 and 1997). Deep integration requires "explicit actions by government to reduce the market segmenting effect of domestic (non-border) regulatory policies" (Hoekman and Konan, 1999) through coordination, harmonisation or mutual recognition of rules, regulation, enforcement measures. Typical areas to be involved are: competition rules, licensing and certification regimes, product standards, safety regulations, accounting and prudential standards, administrative procedures related to trade. The rationale for the benefits of policy integration lies in the increased market contestability.

If the "deep integration" is really deep and brings about a strong reduction in "red tape" and other regulatory barriers, its effects will be remarkable: according to the estimations (Hoekman and Konan, 1999) summarised in Table 2, a "shallow" EU-Egypt free trade agreement has a negligible impact while a deep integration with the EU produces significant welfare effects; if liberalisation of cross-border supply of services is added, welfare effects will become very impressive. Another simulation of the Egyptian economy

(7) Schiff and Winters (1998a).

(Dessus and Suwa-Eisenmann, 1998) reaches similar results: a deep integration with the EU produces welfare gains higher than in the case of unilateral trade liberalisation vis-à-vis all countries.

These estimations raise the question whether EMP members would be able and willing to achieve policy integration. Therefore the two following sections are devoted respectively to recent developments in EMP implementation and to current moves towards deep regional integration.

3. The EMP: a very preliminary assessment

Three and half years after its launching in Barcelona, the EMP displays a remarkable resilience, having managed to survive during a difficult political phase in the Middle East which only now seems to come to an end. The EMP is however facing serious delays and difficulties.

First of all, delays emerge in the conclusion and implementation of EMAAs. After a quick start (three Association Agreements were signed in 1995, with respectively Tunisia, Israel and Morocco), the process slowly came to a halt: one Agreement in 1996 (with the PLO for the benefit of the Palestinian Authority: it is an interim agreement awaiting the outcome of final status negotiations); another one in 1997 (with Jordan); no Agreement at all in 1998. Initialling of the EMAA with Egypt is however at hand (negotiations have been going on since 1995) while negotiations with Lebanon, Algeria and Syria, launched respectively in 1996, 1997 and 1998, are still under way (8).

These delays risk to widen the already large economic differences among partner countries. Three partner countries are, at various stages, involved in the process of accession to the EU (Cyprus, Malta and Turkey). The others are split into three groups: the countries

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⁽⁸⁾ Relations with the other three Mediterranean partners are governed by previous Association agreements. A customs union with Turkey entered into force in 1996; the final phase for the completion

which launched economic liberalisation programmes in the Eighties (Israel, Jordan, Morocco and Tunisia), the countries whose economic reforms began only this decade (Algeria and Egypt) and the countries which are currently launching economic reforms after a post-war reconstruction period (Lebanon) or whose reforms are at a very early stage (Syria). Speeding up economic reforms in the late-comers, the EMP may narrow these differences. However, the delays in the conclusion of EMAA may waste this chance; a deepening of economic reforms in the most advanced countries may even widen the gap.

Delays in ratification and, therefore, implementation are also worrisome. Apart from the interim Association agreement with the PLO and an interim agreement on trade and trade-related matters with Israel (pending the entry into force of the EMAA), only the EMAA with Tunisia is already in force (March 1998, 32 months after its signature). Delays in ratification raise the issue of the role played by European special interests, mainly the agricultural ones, in slowing the implementation of the EMP (9). Future negotiations on additional agricultural concessions should be viewed against this background.

The South-South component of the EMP also shows mixed results. A number of

of the customs union with Cyprus entered into force in 1998; the Association agreement with Malta provides for the progressive establishment of a customs union, but this target is still far away.

⁽⁹⁾ The ratification of the EMAA with Morocco (signed in 1995) is currently blocked by the Italian Parliament. After a 2-year delay, mainly related to controversies about the impact on Italian citrus fruit

bilateral free trade agreements (FTAs) have been reached, supported by economic and political reasons. For instance, Tunisia signed bilateral FTAs with a number of Arab countries (Egypt, Jordan, Libya and Morocco), a bilateral FTA was reached by Israel and Turkey, another one by Lebanon and Syria. Furthermore, in 1997 the Arab League members agreed on a FTA to be implemented over a ten-year period starting in 1998. On the whole, however, we are still far away from that web of FTAs which is supposed to eventually cover the Euro-Mediterranean area. South-South integration, necessary to avoid the well known "hub-and-spoke effect," would be supported by cumulation of origin; the utilisation in the EMAAs of identical rules of origin began in 1996 (10) but it is only a preliminary step.

Moving from the implementation of the Partnership to its early economic impact, it must be stressed that very little can be inferred from recent macroeconomic developments in the region. Only the EMAA with Tunisia is in force; moreover, given its import liberalisation schedule, the negative fiscal impact has been very limited during the first years (the backloaded liberalisation of consumer goods will start next year). It is therefore not surprising that for the time being the EMAA impact on Tunisian trade and fiscal balances has been modest.

sector, the Italian Senate approved the relevant bill last February; the bill is now before the Lower House.

Between 1995 and 1998, trade and fiscal deficits were stable (at about \$2,000 million and 3-4 percent of GDP, respectively). During the same period total imports increased (in local currency) by 27 percent, while imports of capital goods (whose liberalisation under the EMAA is front-loaded) expanded by a much greater 49 percent; in spite of that, public revenue from tariff and dues declined (by 4 percent in 1996 and by a further 5 percent in 1997) but the loss was easily offset by VAT proceeds, which increased by 12 percent in 1996 and by a further 16 percent in 1997; preliminary budget results for 1998 do not show major changes in this trend.

An increase in the inflow of foreign direct investment (FDI) is among the expected benefits of regional trade agreements; not being strictly linked to their provisions, it may materialise even before the entry into force. Therefore, it is worthwhile to monitor recent trends of FDI flows into Tunisia and Morocco (although not yet in force, the EMAA with Morocco was signed only four months after the Tunisian one). Actually, in both countries FDI inflows significantly increased in recent years: Morocco's peak year was 1997 (+162 percent with respect to the 1991-96 average, in dollar terms) while FDI flows into Tunisia

⁽¹⁰⁾ The EMAAs signed with the PLO and Jordan already include the rules of origin designed by the EU and also applied to its agreements with EFTA and Central and East European countries.

registered a sharp increase in 1998 (+73 percent with respect to the 1991-1997 average). However this exploit is largely due to a one-time increase in privatisation proceeds. In 1997 Morocco privatised two refineries and a power plant; the following year the privatisation process was halted and FDI inflows sharply declined (-73 percent on previous year). In 1998 Tunisia privatised two large cement plants: their proceeds make up no less than 46 percent of the total amount raised by the privatisation process, which was launched in 1987.

Actually, in countries as Morocco and Tunisia, which have been implementing economic reform programmes since the Eighties, credibility gains from the EMAAs are difficult to identify. Their assessment might be easier in countries neither involved in IMF programmes nor members of WTO (11). Unfortunately the three partner countries which fit this definition are the very same countries whose EMAAs are still under negotiations (12).

An increased bargaining power with respect to third countries is also mentioned among the benefits of regional trade arrangements. Recent initiatives such as the US-North Africa Economic Partnership (the so-called Eizenstat Initiative) and the Trade and Investment

⁽¹¹⁾ Five of the 12 partners are not member of the WTO; however Working Parties for the accession to the WTO of Algeria, Jordan and, since few months, Lebanon have been established; the other two not members are the Palestinian Authority and Syria.

Framework Agreement just signed by the United States and Egypt (which may lead in due course to a free trade agreement) point out the increased international attention to the countries involved in the EMP. This seems mainly due to the economic reform programmes implemented in recent years by North African countries; however the EMP does play a role, stimulating third countries to develop their relations with Mediterranean countries in order to reduce discrimination (an especially significant factor when the EMAA is bound to create strong trade diversion, as in the case of Egypt; Hoekman, Konan and Maskus, 1998). From this trend, Mediterranean partner countries may derive improved access to third markets while economic liberalisation in the area may increase; it must be noted however that recent initiatives fall short of free trade.

All told, the current status of the EMP is not very satisfactory; it is therefore not surprising that the European Commission decided last year to submit new proposals designed to facilitate the creation of the Euro-Mediterranean Free Trade Area.

⁽¹²⁾ Lebanon's planned fiscal reform, which entails the introduction of VAT in 2001, may be linked to the EMAA under negotiations: the reform makes room for future tariff reductions and increases tax harmonisation in the region.

4. Towards deep regional integration

Last year, facing these delays and difficulties, the European Commission proposed some new measures aimed at strengthening regional co-operation, building upon the experience gained with the European Union's Single Market (European Commission, 1998).

These measures include technical assistance, training, advice and co-operation; they could be financed by the MEDA programme.

The broad agenda proposed by the European Commission aims at activating many co-operation areas that the EMAAs left without any detailed commitment; a few issues not mentioned in the EMAAs are also included. The proposed fields of action are as follows:

- customs and taxation (implementation of the rules governing cumulation of origin; approximation of laws and standards; modernisation and some harmonisation of customs and tax administrations; mutual assistance in customs matters);
- free movement of goods (a bilateral and multilateral co-ordination framework aimed at removing technical barriers to trade trough administrative co-operation and mutual assistance);
- government procurement (approximation of laws and alignment of practices;
 gradual liberalisation of cross-border trade which, during a transitional period to be defined,

may be asymmetrical, as in the Association agreements with some Central and East European countries);

- intellectual property rights (improved levels of protection, exceeding the standards set by the TRIPS agreement; introduction of effective provisions and of measures to ensure their enforcement);
- financial services (setting-up of an adequate regulatory framework for prudential supervision; strengthening co-operation between supervisory authorities; given the large differences among partners, liberalisation measures may be agreed on a bilateral basis or inside small groups of partners whose financial markets show a similar level of development);
- data protection (this issue is not directly mentioned in the EMAAs; no legislation
 exists in partner countries: data protection rules have to be agreed and special measures
 should be adopted in sensitive areas);
- accounting and auditing (upon request, financial assistance and training would be granted to partner countries in order to support the establishment of new rules);
- competition rules (with respect to the approximation already foreseen in the EMAAs, the Commission calls for the adoption of necessary measures, the establishment or

strengthening of administrations responsible for competition rules and a regular dialogue between competition authorities of European and partner countries).

The fields of action suggested by the European Commission were endorsed in principle by the partner countries and approved, with minor exceptions, by the Euro-Mediterranean Conference on Regional Co-operation held in Valencia on 28-29 January 1999. The Conference "welcomed the proposal by the Commission for accompanying measures at regional level to permit greater harmonisation and greater compatibility" and identified the following areas for a strengthened co-operation: "customs co-operation, free movement of goods, public procurement, harmonisation and certification of standards, intellectual property rights, taxation, data protection, competition rules, accounting and auditing" (13). This list is strictly similar to that proposed by the Commission, with few exceptions: the reference to financial services was dropped while harmonisation and certification of standards were added.

The agenda was further approved by the Third Euro-Mediterranean Conference of Foreign Ministers held in Stuttgart on 15-16 April 1999, which endorsed the list adopted by

⁽¹³⁾ Euro-Mediterranean Conference on Regional Co-operation, <u>Concluding Statement by the Chairman</u>, Brussels, Press Release 5460/99.

the Regional Co-operation Conference (14). Moreover, with reference to another subject raised by the European Commission, the Conference mentioned the "central role that cumulation of origin has to play in enhancing effective economic integration in the region.

[Ministers] called for all necessary measure to be taken to ensure that a system with identical rules of origin opens the way to full cumulation throughout the Euro-Mediterranean area as soon as possible" (15).

Therefore deep integration is now high on the EMP agenda. According to the estimations summarised in Section 2, deep integration would strongly increase the growth potential of EMP. However, whether deep integration is an objective consistent with the circumstances described in Section 3 remains very much an open question. In its turn, this question will lead us to the possible interaction between a "deep" Euro-Mediterranean free trade area and the WTO 2000 negotiations.

(14) Third Euro-Mediterranean Conference of Foreign Ministers, Chairman's Formal Conclusions, §

⁽¹⁵⁾ Ibid., § 22.

5. Conclusions

It is often maintained that the EMP has the potential to pursue a deep integration agenda but this potential is left unexploited. However from previous pages an already well-defined deep integration agenda, inclusive of action plans ranging from technical and financial assistance to training and administrative co-operation, emerges. The "deepening" of the EMP agenda will have some effects on future multilateral trade negotiations.

First of all there is clear parallelism between the "deepening" of the EMP agenda and the possible inclusion in future multilateral trade negotiations of issues as competition policy and trade facilitation. This should increase partner country attention to the so-called new trade agenda, with a positive impact on multilateral negotiations. At the same time, partner countries which are not yet members should become more interested in acceding to WTO.

Moves towards deep regional integration do not require changes in the signed EMAAs (which already mention many deep integration issues): it is up to partner countries decide whether and when commit themselves to further liberalisation or harmonisation is specific fields. The European Commission aims at a general consensus in the region but, as a matter of fact, this will be reached only in a very long run. In the meantime actions may be taken bilaterally (i.e. between the EU and one partner country) or with a subset of the 12

partners (16).

The definition of a domestic reform agenda will therefore become a priority for partner countries. Unilaterally or bilaterally (i.e. through a "deepening" of their EMAA), a number of partner countries will reform their domestic regulatory policies. This will strengthen their negotiating stand, giving them more bargaining power in multilateral negotiations when it comes to the defence of their interests. The "deepening" of the EMP agenda may therefore have positive effects on the WTO 2000 negotiations.

At the same time, future multilateral negotiations may be helpful in reducing the negative impact of the "deepening" of the EMP agenda. Given the circumstances described in Section 3, moves towards deep regional integration may further widen the differences in economic liberalisation among partner countries. To the extent that these differences have an influence upon the inflows of FDI into partner countries, differences in growth potential may also widen. In this context, new or strengthened multilateral agreements on deep integration issues, even of limited scope, may be helpful in curbing this trend.

The EMP emphasis on deep integration issues may also distract from issues of

⁽¹⁶⁾ The Third Euro-Mediterranean Conference of Foreign Ministers maintained that regional cooperation activities "are open to all partners, while consisting in many cases of several inter-linked projects, each involving a group of partners". Facing the risk of widening economic differences among partner countries, the Ministers asked the Commission to contribute a reflection paper on the methodology for regional co-operation" (*Ibid.* § 3).

greater concern to partner countries, such as agricultural trade. The EMAAs foresee the reexamination of current situation with a view to grant new reciprocal concession on
agricultural trade. However, taking into account the role that European agricultural interests
are playing in slowing down EMP implementation, the future WTO negotiations on
agriculture may be a more appropriate forum to achieve a significant increase in market
access. While in this case multilateral negotiations seem more useful to partner countries,
regional agreements would still play a role supporting domestic regulatory policy reforms,
which will give Mediterranean countries more bargaining power in agricultural negotiations
(cp. Hoekman and Anderson, 1999).

Therefore a positive interaction between regional and multilateral negotiations may emerge; to achieve it, a generally acceptable balance between "old" and "new" negotiating subjects must be found.

Table 1 Welfare effects of the Euro-Med FTA (in percent of GDP)

	Euro-Med	+ Agricultural	+ Liberalisation	Euro-Med		
	Static gains	Liberalisation	vis-à-vis	Dynamic		
			Rest of World	gains		
Egypt	0,2-1,8	**	2,6	••		
Morocco	1,3	1,6	2,5	••		
Tunisia	-0,9-1,6	1,7	5,3	4,6		

Source: Havrylyshyn (1997), based on Galal and Hoekman (1997), Rutherford, Rutström and Tarr (1993 and 1995), Brown, Deardoff and Stern (1997).

Table 2 Welfare effects of Egyptian-EU Trade Agreement (in percent of GDP)

Shallow integration	Egypt-EU FTA -0,14	+Arab League FTA 0,78
Deep integration (service costs fixed)	4,15-5,63	5,30-7,15
Deep integration (service costs removed)	13,46-20,64	16,70-21,13

Source: Hoekman and Konan (1999).

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Preparing for the WTO 2000 Negotiations: Mediterranean Interests and Perspectives Cairo, Egypt, 14-15 July, 1999

Impact of the WTO Agreement on MENA Agriculture

Nabil Chaherli and Moataz El-Said

Sponsored by the Economic Research Forum, Istituto Affari Internazionali and the World Bank

Contribution of the World Bank and IAI made possible by financial support from the Government of Italy and the Netherlands

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The World Bank

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July 1999

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Impact of the WTO Agreement on MENA Agriculture

Nabil Chaherli and Moataz El-Said

I. Introduction

A major challenge facing MENA countries in the twenty-first century is to achieve sustainable economic growth by means, which alleviate poverty without jeopardizing the quality of the environment. While this is a task of regional and global significance it presents particular problems to the agricultural sector because of the direct links between production and the natural resource base, especially in some of the countries where dependence on agriculture for income and employment is still high.

Attempts by governments to achieve food self-sufficiency have created perverse incentives to agricultural mismanagement, resulting in resource depletion. Producer and consumer subsidies on red meat and cereals and on fuel and agricultural machinery, have encouraged mechanized cereal cultivation of marginal lands, while subsidized animal feed has raised animal numbers in the same areas, generating conflicts, degrading the environment and increasing vulnerability to drought. These measures also create dependencies, with social repercussions if they are withdrawn—as has happened under structural adjustment. As they are generally untargeted, they favor larger farmers. At the same time, insecure property rights have prevented farmers and communities from investing in productive land improvements and adopting sustainable cropping and grazing practices. Archaic legislation, state appropriation of traditional common pasture in Mashreq, and the incapacity of local institutions to address adequately the new resource demands of a growing population are major contributory factors. This has opened the way to land grabbing, degradation of common property resources, and exacerbated conflicts over rangeland resources (Chaherli et al., 1999).

Like most developing countries, several MENA countries face serious environmental and natural resource problems. Rapid population growth and transitional paths in terms of economic development have increased the pressure on the region's natural resource base. Increased demand of food and feeds has significantly increased the land and water degradation both quantitatively and qualitatively. Further, due to the limited potential for tapping on new resources, future economic and population growth will put even higher pressure on the environment. Some environmental indicators have already reached critical levels. It is in this context that MENA countries will be negotiating the status of domestic agricultural policy in a multilateral reform framework. There have been some important developments with relevance to the region since the completion of the UR negotiations. The US and the EU, the principal trade partners of the region, have reformed their agricultural policy and have taken steps that have affected their positions within specific regional trade arrangements. In particular, the EU has initiated concrete steps for its enlargement to the East and negotiated some

bilateral Association Agreements with a number of MENA countries. Yet, a lot of uncertainties remain on the horizon for MENA. How should the region position itself with respect to future negotiations on the status of agriculture in world trade? Some issues have to be addressed for a better understanding of some of the major challenges and opportunities for MENA's agriculture arising from any further implementation of bolder moves in multilateral trade reforms. The remainder of the paper is organized into four sections:

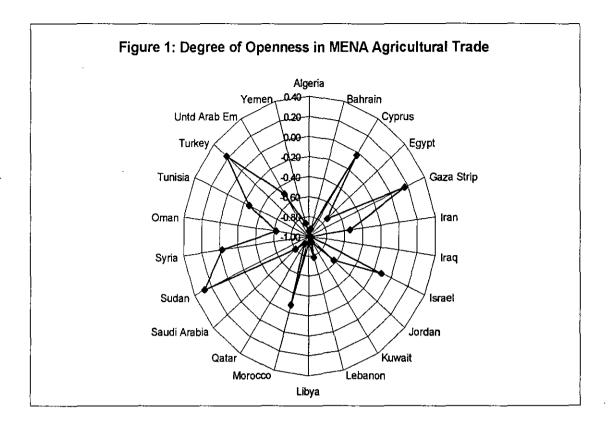
- Section II analyses the broad pattern of MENA agricultural trade. It identifies the most tradeoriented states and the commodities that feature most prominently in their trade. This section tries also to outline the most important barriers restricting expansion of MENA exports.
- Section III provides country-specific estimates of the impact of reduced protection and policy distortions in agriculture. It quantifies the likely effects of further trade liberalization and required policy adjustments in specific commodity markets (e.g. meats, grains).
- Section IV provides some recommendations in designing appropriate domestic policies to meet
 food security objectives in the context of the new trading system and increased globalization. It
 also seeks to analyze policy options that would contribute most to expansion of developing country
 exports; and provide analyses on how the WTO process can be used to improve domestic policies
 affecting the rural sector in developing countries.
- Section V provides concluding remarks.

II. Overview of key imports and exports in MENA¹

Agricultural trade in MENA states tends to fully reflect the agro-ecological characteristics of agriculture as well as socio-economic features of the overall development strategy followed by these countries. As shown in Table 1, an indicator of agricultural trade openness as computed by the ratio (X-M)/(X+M) clusters MENA countries into: oil exporting countries and commodity exporting countries with positive and negative agricultural balance of trade (See Figure 1 for a graphical representation of that ranking).

<< Table 1 >>

¹ Because of data availability or too much disparity in the MENA region, our analysis will cover either the entire MENA region or a smaller subset of countries from the Southern Mediterranean Region (SMR). A reference to the group composition will always be made. When the SMR is not mentioned per se, the reader should assume that the discussion covers the broader MENA region.



Imports

MENA is considered a net food-importing region. The largest share of imported products consists of food products (cereals, livestock, dairy products, and fruits and vegetables to a lesser extent). For example, the Arab countries have imported in 1996 6600 M\$ in cereals and flour, 1450 M\$ in sugar, 1630 M\$ in vegetable oils, 1635 M\$ in fruits and vegetables and 2470 M\$ in milk products (AOAD, 1997). Tables 2-3 show some basic indicators on the nature of agricultural trade in the MENA Region.

Exports

Exports of agricultural products constitute an important source of foreign currency for several MENA countries. Their first client is the EU to which an important share of agricultural commodities is exported. The most important commodities exported fall within the following chapters (Stevens, 1994): Fish and crustaceans: (Chapter 03); Vegetables (Chapter 07); Fruits and nuts (Chapter 08); Preparations of vegetables, fruits, or nuts (Chapter 20).

Of the 22 MENA countries, six countries stand out in terms of the total value of their agricultural exports. These are Turkey, Israel, Iran, UAE and Morocco (own computations based on

FAO Online Stats.) However, MENA exports tend to be confined to specific product categories. This concentration makes WTO outcomes very critical.

Barriers restricting exports

Bias against agriculture

Most MENA countries have adopted policies that affect agricultural prices either directly or indirectly through economy-wide policies (macroeconomic and trade). These policies have distorted production incentives by making export oriented agriculture a less attractive activity, within the agricultural sector and compared to the other sectors of the economy. Agricultural production in MENA countries (in particular SMR countries) is heavily protected through tariff and non-tariff barriers. Table 4 shows the weighted average tariff rate for selected MENA countries.

<< Table 4 >>

· Trade with EU has to be handled within FTA agreements

There are currently several Association Agreements between the EU and MENA states (see Table 5 for the status of selected countries). Those agreements seek to promote accelerated economic growth though the establishment of a free trade area for industrial products over a 12-year period. However, an important limitation of the benefits from these regional agreements is the special status of agriculture trade. Exports to the European market are handled through preferential access clauses in the Agreement.

<< Table 5 >>

Further liberalization aimed at improving market access and broadening the agreements to Agriculture will very much depend on changes made in the context of the EU Common Agricultural Policy. Resistance to changes in CAP come mainly from the agricultural interests competing with MENA exports (principally in fruits, vegetables and oils). Depending on the importance of agricultural exports to EU, continuing restrictions on MENA's access to the EU agricultural market are the most important barriers restricting expansion of the region's exports. This issue is of particular importance not only to current EU-Med. partners (e.g. Egypt, Israel, Morocco, Turkey and Tunisia) but also to the other MENA potential exporters (Lebanon, Jordan and Syria). Currently, substantive negotiations of liberalization of trade in agriculture products has been deferred until the year 2000 in the case of Morocco and Tunisia and 2002 for Lebanon and Jordan (Ghesquiere, 1998).

Potentially improving access, for the signing country, in specific commodities will reduce access for other MENA states. Considering the fact that MENA countries tend to have comparative

advantages in the same categories of products, mainly fruits and vegetables when it comes to international trade, there seems to be more room for further trade expansion from multilateral agreements than from bilateral agreements (principally within the EU-Med. Partnership). DeRosa (1996) reports indicators of revealed comparative advantage (RCA) for MENA products (Table 6). RCA relates the importance of each country as a supplier of products to the world market. When the indicator is greater (smaller) than 1, it indicates comparative advantage (disadvantage).

<< Table 6 >>

Within the MENA region, Non EU-Med. partner countries such as Jordan, Lebanon, Syria, Iran, and Sudan will have reduced access to the European market compared to countries with current association agreements.

Norms and Standards

For one of the major group of commodities exported by MENA countries, fruits and vegetables, the issue of standardization has been a delicate issue to handle. Standards and norms are usually set to harmonize existing national commercial quality standards to: (i) facilitate fair international trade and prevent technical barriers to trade, (ii) improve producer's profitability and encourage production of high quality produce, and (iii) protect consumers' interest (Heilandt, 1999). Those standards are intended for application at the point of export/dispatching control. While most of the perishable produces grown in the region adhere to internationally used standard lists, MENA exporters do not adequately use standards and specifications. Norms adopted by the region's principal client in terms of commercial quality trades, tolerances for defects, presentation, packaging and marking, minimum requirements for chemical content (e.g. pesticide residues, heavy metals and mycotoxins) do often discourage producers to expand their production opportunities. A better handling of this issue by MENA producers on one hand and more relaxed norms based on science by the EU would probably lead to an expansion of fruits and vegetables exports from MENA.

III. Simulation with Multi-market Models and CGE Models

Multi-market models

This section looks at the possible implications of genuine reductions in protection levels in terms of production, consumption and income in different regions of 4 MENA countries based on an agroecological distinction in their agricultural regions. Reductions in tariffs are also combined with the remaining liberalization measures in the domestic market in terms of further reductions in input subsidies and consumer support. In order to simulate the effects of market liberalization on selected strategic commodities, we use a simple multi-market model with different supply regions of the type developed by

Braverman, Hammer (1987) and others. Its major advantage is that it can be used to capture some important substitution relationships on the supply and demand side.

The model incorporates four classes of agents. Producers, distinguished by region and commodity, consumers, distinguished by region and social group (urban vs. rural), suppliers of factors (intermediate demand factor or inputs supplied by the rest of the economy) and the government. On the production side, the model assumes that producers are profit maximizers. Their supply response function has output and input prices as arguments. The model simulates the impact of trade liberalization on the selected tradable commodities by calculating the impact of replacing the domestic prices with lower border price equivalents. Trade liberalization is simulated as a decrease in domestic prices for all tradable commodities (soft and durum wheat, barley, lamb, beef and milk) via reduction in tariffs to make them more in line with international reference levels. Then evaluated with respect to a baseline scenario representing the government strategy for a base year. Table 7 shows the impact of trade liberalization on some aggregate measures of welfare in Tunisia, Morocco, Iraq and Jordan. Differences in the direction and the magnitude of the impact reflect country differences in supply-demand response behavior and the different tpes of inter-linkages between input and output commodity markets.

<< Table 7 >>

CGE Models

In this section two Computable General Equilibrium (CGE) models, one for Morocco and the other for Egypt, are used to quantitatively examine the economywide effects of agricultural trade liberalization in each country. Two simulations are considered for each country. The first simulates the impact of trade liberalization by reducing the applied tariff rates on all agricultural commodities by 25%. The second combines agricultural trade liberalization (from the first set) with "green box" type of domestic support measures that has minimal direct impact on agricultural trade. These measures can include government services such as research, disease control and improvement in infrastructure. Technically, they are modeled as TFP improvement in the agricultural sector. Table 8 shows the results for the two simulations as percentage deviations from the benchmark base model for some selected aggregate variables for the case of Egypt. 4

² It should be kept in mind that the outcomes from these simulations are to be evaluated with caution. As pointed by Sharma and Purcell (1996), the objective of multi-market modeling is not to give precise predictions but rather to indicate the broad magnitude of changes that would occur in response to changes in policy instruments.

³ The CGE models that we use in this study are adapted from models developed earlier in L fgren et al. (1999), and L fgren and El-Said (1999). They Follow the standard neoclassical trade-focused CGE models of developing countries described in Dervis, de Melo, and Robinson (1982).

⁴ Note that real per capita household consumption is used as a measure of welfare.

<< Table 8 >>

The first simulation implies lower import prices for agricultural products, which in turn lowers demand, prices and factor incomes for domestically produced agricultural products. Rural households, who rely on agriculture as a main source of income, experience a welfare loss whilst urban households, who benefit from lower agricultural prices, typically gain. Trade volumes, imports and exports, expand as a result of lower tariffs. However, the expansion in imports slightly outweighs that in exports and the end result is a slight real exchange rate depreciation to maintain the current account deficit fixed. At the same time, the agricultural trade deficit increases.

When trade liberalization is accompanied by domestic measures that improve agriculture productivity, the results change in favor of rural households, and the gains to urban households are reenforced. In the second simulation, agriculture productivity improvement has a price effect and income effect for households who rely on agriculture as a main source of their income. The price effect works through a fall in the agriculture terms of trade required to absorb the increase in agricultural output, while the income effect accrues as a result of the increase in productivity. The gains for both households indicate that the income effect negates the price effect, a reflection of low household income elasticity. With Lower prices, agricultural exports significantly expand, and crowds out non-agricultural exports. Imports in general fall, and agricultural imports, in particular, falls significantly. The overall effect is a slight appreciation of the real exchange rate to maintain the current account deficit fixed, where as the overall agricultural trade deficit falls for Egypt.

In a similar fashion, table 9 shows the simulation results for the case of Morocco. For the first simulation, all trade barriers, tariffs and non-tariff barriers, are reduced for all agricultural commodities by 25%. The implication is lower import prices for agricultural commodities, lower rural household incomes, expansion of trade, and a significant deterioration in the agricultural trade deficit. For the second simulation, agriculture productivity gains are unfavorable for rural households, but are favorable for the urban ones. Falling agricultural prices, lowers rural household incomes drastically, and benefits urban household incomes as the gains from agriculture productivity are spread across the economy. With respect to trade, both exports and imports expand, and the agricultural trade deficit deteriorates, but by far less relative to the first simulation, as agricultural exports further expand, and agricultural imports decline.

<< Table 9 >>

⁵ In the model, non-tariff barriers are treated as ad-valorem mark-ups on the prices of a number of agricultural imports. They account for differences between international and domestic prices that are not the result of tariffs or other taxes (L fgren, 1999).

IV. A Platform for Agricultural Policy in the WTO context

In the next round of negotiations, MENA states have to be concerned about the following issues: (i) the scope for increased agricultural exports; (ii) Impact on world prices and potential implications on food imports; (iii) the overall effect on agricultural development in the context of limited land and water availability. In addition to the standard market access, domestic support and export subsidies issues, MENA countries have to bring a number of additional items on the agenda for WTO negotiations (See Table 10 for the current status of membership in the region). Some of these items are briefly discussed below.

<< Table 10 >>

Food security

The special status of net-food importing countries and the least-developed countries⁶ as was recognized in the URAA (Part II, Article 16). The preservation of adequate levels of food aid, the provision of technical assistance and financial support to develop the agricultural sector as well as food import financing have been included as priority areas for trade negotiation (Diaz-Bonilla and Robinson, 1999). Given the expanding food gaps for most MENA countries (Nordblom and Shomo, 1996) and the limited technology adoption rates in the agriculture sector for the strategic commodities, it is very unlikely that a dramatic reversal of these trends could be achieved in the first two decades of the new millenium.

Research Capacity

MENA region has a very limited capacity to address the impact of WTO on national agriculture. With the exception of few notable units with adequate training and research capacity (Morocco, Tunisia, Egypt and Turkey), MENA lacks adequately trained personnel and resources to assess various options with respect to WTO negotiations. Rather than relying on politically motivated analyses or outsourcing research work, MENA officials ought to explore the establishment of a formal and permanent research unit that could evaluate not only the impact of specific WTO commitments but also monitor future developments associated with agreed commitments. *An "International Trade Evaluation and Monitoring Unit"* with representation from different ministries and agencies should be set up with the following objectives:

⁶ With exception of Turkey, all other countries in MENA fall in one of these categories.

- Evaluate the legal, economic and financial implications of trade policy related rights and responsibilities in the context of bilateral and multilateral arrangements;
- Act as an observatory for food security by providing updated information on seasonal and structural food and feed gaps and policy recommendations compatible with WTO membership;
- Coordinating efforts made by domestic and international partners involved in trade for agricultural and food commodities.

Research has also to be carried outside the available government channels. A closer link with Universities and Research Centers has to be established in order to strengthen agricultural and food policy analysis in the National Agricultural Research Systems (NARS). Research priorities should include issues related to socio-economics and policy research. While research on crop enhancement and production management systems should be kept as a priority, agricultural research in MENA should open itself to more strategic issues of national concern to the country or the region as a whole.

Environment Sustainability

The impact of the URAA on MENA agriculture should not assessed only in terms of welfare effects. Attempts should be made to evaluate environmental effects from WTO membership because of the strong linkages between agriculture and the environment. The MENA region has not only one of the highest proportions of net-food importing countries but also some of the most threatened ecosystems on the planet (desertification, soil erosion, loss of biodiversity, water shortages, etc...).

Emerging issues not fully addressed by URAA of relevance to MENA countries

Genetically modified products. Those products will represent an important issue for MENA countries. This is not only because the MENA countries are the largest cereal importing region and an important importer of dairy products but also because of the implications on one of their principal exports (fruits and vegetables). MENA countries have to contribute with some serious analysis of the risks to human health and biodiversity associated with genetically altered food. The region is known as the center of origin of crops and livestock of dry areas. Countries should continue playing an important role in the conservation of plant and animal genetic resources with the help of international and regional organizations. Conservation of biodiversity has important implications for the WTO framework on intellectual property rights (TRIPs) and the agreement on technical barriers to trade.

While the discussion has focused primarily on agricultural issues, it should be kept in mind that the potential for increasing exports and improving food security is also related to reforms and policies targeted at other sectors in the economy, and the broad economic performance of the country as a whole. Liberalization of trade policy should be seen as a necessary but not sufficient condition for expanding MENA exports. As indicated by the results from the CGE models, an efficient operation of

commodity markets at the national level, and adequate economy-wide policies are as important as WTO negotiations on removing trade distortions and barriers.

V. Concluding Remarks

In addition to the negotiations of radical reductions in border measures through international agreements and the unilateral elimination of distorting domestic subsidies, reaping the benefits from joining the world system requires from MENA countries to:

- 1. harmonizing norms and standards for export agricultural commodities;
- 2. Improving their marketing systems through campaigns (fresh fruits and vegetables, olive oil, nuts, etc...);
- 3. Improving the efficiency of their agricultural system via increases in productivity rather than protective measures (yields are still low when compared with "best-practice" or experiment stations);
- 4. Diversify their client base and expand exports of commodities where they enjoy a comparative advantage to non-EU countries.

Despite the resource constraints faced by MENA countries, the region still enjoys a great potential for agricultural production and abundant skills acquired over many generations in the field of agriculture (water harvesting techniques, soil conservation, etc...). Its geographical diversity makes it possible to produce commodities that do not necessarily make it a direct or unfair competitor to its main trading partners (especially the EU). If the countries of the region are to meet the globalization challenges and resource constraints, they must coordinate their efforts in getting ready for the millenium round of trade negotiations. The negotiations will make it easier for them to take advantage of the opportunities offered by a free and fair trading system without necessarily jeopardizing their food security goals.

Tables

Table 1: Degree of agricultural trade openness for MENA countries

	Indicator (x-m) / (x+m)	Countries
Group 1	>0	Turkey, Sudan, Gaza Strip
Group 2	[40, 0]	Cyprus, Israel, Morocco, Tunisia, Syria
Group 3	[60,4]	Jordan, Lebanon, Egypt, Iran, UAE, Oman
Group 4	[-1,6]	Iraq, Saudi-Arabia, Bahrain, Qatar, Kuwait, Algeria, Libya, Yemen

Source: author's computations based on data from FAO Online Statistics. x= agricultural exports, m= agricultural imports.

Countries in bold are the main agricultural commodity producing States in the region.

Table 2: imports and exports of agricultural commodities for MENA countries.

	Impo	rts	Export	S
MENA Countries	1990-97 average (US\$ '000)	Out of MENA Imports (%)	1990-97 average (US\$ '000)	Out of MENA exports (%)
Algeria	2,731,191	9.1	75,199	0.7
Bahrain	318,641	1.1	12,760	0.1
Cyprus	556,669	1.9	490,945	4.3
Egypt	2,983,745	9.9	453,961	4.0
Gaza Strip	55,938	0.2	76,089	0.7
Iran	2,752,906	9.2	816,688	7.2
Iraq	1,140,292	<i>3</i> .8	17,376	0.2
Israel	1,561,955	5.2	1,216,536	10.8
Jordan	762,983	2.5	173,473	1.5
Kuwait	988,881	<i>3.3</i>	35,687	0.3
Lebanon	1,056,356	3.5	126,569	1.1
Libya	1,218,716	4.1	42,918	0.4
Morocco	1,268,700	4.2	688,943	6.1
Qatar	298,021	1.0	13,655	0.1
Saudi Arabia	4,085,548	13.6	434,969	3.9
Sudan	272,441	0.9	480,804	4.3
Syria	804,749	2.7	765,318	6.8
Oman	736,920	2.5	179,332	1.6
Tunisia	722,544	2.4	410,852	3.6
Turkey	2,674,650	8.9	4,020,209	35.6
Untd Arab Em	2,060,735	6.9	696,298	6.2
Yemen	942,216	3.1	65,731	0.6
Total	29,994,797	100	11,294,312	100

Source: Own computations based on 1990-97 yearly data from FAO Online Statistics

Table 3: Composition, destination and origin of SMR* trade: top three groups for 1997

World	SMR	EU
Grains 44%	Fruits and Vegetables 39%	Grains 30%
Sugar 10%	Grains 20%	Dairy 15%
Dairy 8%	Diverse 16%	Sugar 14%
Fruits and Vegetables 58%	Grains 39%	Fruits and Vegetables 80%
Grains 12%	Fruits and Vegetables 30%	Fish 12%
Fish 11%	Fish 13%	
	Grains 44% Sugar 10% Dairy 8% Fruits and Vegetables 58% Grains 12%	Grains 44% Sugar 10% Grains 20% Dairy 8% Diverse 16% Fruits and Vegetables 58% Grains 39% Grains 12% Fruits and Vegetables 30%

Source: The Euro-Med Partnership, Analysis and Proposals of the FEMISE, February 1999.

Table 4: Weighted average tariff rate in selected MENA countries and other Regions

	Weighted avgerage tariff
Algeria	21.6
Egypt	28.0
Israel	7.2
Jordan	19.8
Lebanon	24.2
Morocco	20.3
Syria	17.2
Tunisia	31.7
High Income Countries	5.8
Developing countries	21.4
World	8.2

Source: Havrylyshyn (1996) as reported in Alonso-Gamo, Fennell and Sakr (1997). Tariff as of March 1996 except for Algeria (1992).

^{*}SMR includes a subset of MENA only (Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia and Turkey).

Table 5: Progress made on negotiations of EU-Med Association Agreements

	Start of Negotiations	End of Negotiations	Signature	Entry into Force
Tunisia	3/94	6/95	7/95	3/98
Israel	2/94	9/95	11/95	İ
Morocco	2/94	11/95	2/96	
Palestinian territories	10/96	12/96	2/97	7/ 97
Jordan	7/95	4/97	11/97	
Egypt	1/95		07/99*	
Lebanon	11/95	Negotiations		
Algeria	3/97	Negotiations		
Syria	5/98	Negotiations		
Turkey				CU** since 1996

Source: Newsletter, EU Commission Delegation in Syria

Table 6: Revealed comparative advantage of MENA region in agricultural trade 1992-94

Categories of Products	International Trade	Intraregional Trade
Fruits and Vegetables	1,62	5.40
Livestock, Meats and Dairy	0.24	1.52
Food, Live Animals	0,63	1.55
Agricultural products	0.54	1.42

Source: DeRosa (1996).

^{*} Expected.
** Customs Union

Table 7: Impact of protection reduction on selected aggregates in the MENA region (multi-market simulations for cereals and livestock products)

	Tunisia	Morocco	Iraq	Jordan
Income of farmers in rainfed agriculture	Negative (-9.1%)	Positive (1.3%)	Positive (3.0%)	Negative (-8.8%)
Agricultural government Budget	Positive	Negative	Positive	Negative
Agricultural balance of trade	Positive	Positive	Negative	Positive
Environment	Positive	Negative	Negative	Positive

Source: Synthesis of various simulations conducted by researchers in the ICARDA-IFPRI Mashreq & Maghreb Project.

Table 8: Agricultural trade liberalization simulation results from a CGE model for Egypt (% change from a 1997 benchmark)

	Trade Liberalization*	Trade Liberalization + TFP increase**
Real per capita household consumption at 1996-97 prices		
Rural households	-0.21	0.57
Urban households	0.32	1.82
Real trade data		
Exports	0.21	-1.46
Agricultural exports	2.68	15.23
Imports	0.31	-0.71
Agricultural imports	3.95	-14.17
Agricultural trade deficit	4.06	-16.78

Source: L fgren and El-Said (1999). Computed simulation results using the CGE model.

^{*} Trade Liberalization = 25% reduction in tariffs for agricultural commodities (wheat, legumes, rice, maize, and fruits).

^{**}Trade Liberalization + TFP increase = Trade Liberalization + 5% TFP increase for all agricultural activities (wheat, legumes, long and short berseem, cotton, rice, maize, fruits, vegetables (winter and summer), sugar cane, and other crops (winter and summer).

Table 9: Agricultural trade liberalization simulation results from a CGE model for Morocco (% change from a 1994 benchmark)

	Trade Liberalization*	Trade Liberalization + TFP increase**
Real disposable household income		
Poor urban households	-0.23	-1.02
Non-poor urban households	2.3	4.17
Poor rural households	-4.15	-8.73
Non-poor rural households	-0.17	-2.53
Real trade data		
Exports	1.28	4.36
Agricultural exports	3.06	5.61
Imports	0.75	3.15
Agricultural imports	11.58	5.73
Agricultural trade deficit	8.52	0.12

Source: L fgren et al. (1999). Computed simulation results using the CGE model.

Table 10: Status of MENA membership into WTO

	MENA signatories	WTO membership requested
North Africa	Algeria, Egypt, Mauritania, Morocco, Tunisia	Algeria, Sudan
Middle East	Bahrain, Cyprus, Israel, Kuwait, Turkey	Jordan, Saudi Arabia

Note: Oman and Iran have requested observer status

^{*} Trade Liberalization = 25% reduction in tariffs for agricultural commodities (soft wheat, hard wheat, barley, maize, sunflower, other industrial crops, vegetables, citrus, olives, other fruit, livestock (including beef, sheep-goat meat and wool), forestry and fishing) + a 25% reduction in non-tariff barriers.

^{**}Trade Liberalization + TFP increase = Trade Liberalization + 5% TFP increase for all irrigated agricultural activities (soft wheat, hard wheat, barley, other cereals, fodder, sugar beat, sugarcane, sunflower, vegetables, citrus, olives, other fruit, livestock (including beef, sheep-goat meat and wool).

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n° Inv. 19914

23 LU6, 1999







Preparing for the WTO 2000 Negotiations: Mediterranean Interests and Perspectives Cairo, Egypt, 14-15 July, 1999

General Equilibrium Assessment of Trade
Liberalization Effects Under Cournot
Oligopoly Market Structures: The Case of Tunisia

Rim Chatti

Sponsored by the Economic Research Forum, Istituto Affari Internazionali and the World Bank

Contribution of the World Bank and IAI made possible by financial support from the Government of Italy and the Netherlands

General Equilibrium Assessment of Trade Liberalization Effects Under Cournot Oligopoly Market Structures: The Case of Tunisia

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Second Draft

Abstract. In this paper we simulate the impact of removing all tariffs on imports under both competitive and Cournot oligopoly market structures with and without barriers to entry and exit. We find that trade liberalization induces welfare gains equal to 1% with perfect competition and 0.9 percent with increasing returns to scale, oligopoly and barriers to entry and exit, but welfare losses equal to 0.4 % with free entry and exit. Sensitivity analysis show that welfare losses depend on elasticities of substitution between imported and domestic goods and cost disadvantage ratios.

Paper prepared for the WTO 2000 negotiations workshop, co-sponsored by ERF, IAI and the World-Bank, Cairo 1999.

I would like to thank Robert Stern for comments on an early draft. I am alone responsible for any error. Address Correspondence: Bloc B4 - Appt. 6, Cité El Khadra 9, 1003 Tunis-Tunisia. Phone: 216-1-772 958. Fax: 216-1-396 015. E-mail: rim.chatti@gnet.tn

1. Introduction

During the first half of the 1980s, Tunisia registered large current account deficits, induced by the deterioration of world oil prices, the decline of petroleum production and exports, poor agricultural harvest and a fall of tourism receipts. The balance of payments difficulties culminated in 1986 and obliged the country to introduce a far-reaching stabilization and structural adjustment program, under the auspices of the IMF and the World Bank.

The program aimed to initiate a wide range of reforms to reduce government intervention in the economy and strengthen market forces. The inward-oriented import substitution strategy has been replaced by an outward-oriented export-promotion strategy. Accordingly, trade liberalization has been a kingpin of the program. Since quantitative import restrictions no longer play significant role, tariffs, which have been lowered, represent the principal instrument of protection. The progress achieved towards trade liberalization allowed Tunisia to join the GATT in 1990, participate, and sign the Uruguay Round agreement in 1993, become a member of the WTO in 1994 and sign a FTA with the European Union in 1995. The latter arrangement provided the impulse to the elaboration of studies assessing the general equilibrium impact of the FTA with Europe on the whole economy [see Rutherford et al. (1995) and Brown et al. (1997)] and on agriculture [see Decaluwé et Souissi (1996) and Chemingui and Dessus (1999)].

In spite of the theoretical indeterminacy of the trade liberalization impact under increasing returns to scale, little emphasis has been given to the estimation of economies of scale and representation of market structures in Tunisian manufacturing sectors. Therefore, since there is no empirical evidence in Tunisia on the existence of such market distortions we must explore as many variants of market structures as possible. Our purpose in this paper is to assess the effects of complete trade liberalization under alternative oligopoly market structures. We have already investigated in Chatti (1999) the role of horizontal product differentiation and monopolistic competition in a single-country setting, as did Brown et al. (1997) in a multi-country setting.²

¹ The program also called other major reforms. See GATT (1994) and the World-Bank (1995) for details. But for our purposes we shall focus on trade liberlization.

² Our results are different from those of Brown et al. (1997). We always found welfare losses, while they found welfare gains except in the case of sector specific capital. This difference is mostly explained, in our

This paper is organized as follow. In the first section we describe the model of oligopolistic market structures. Then, we provide in the second section an overview of the Tunisian sectoral features in the reference year and list and analyze the simulation results of trade liberalization in the third section. We conclude in the fourth section.

2. The Model

The static applied general equilibrium model of oligopolistic market structures is closely related to Devarajan and Rodrik (1991) and de Melo and Tarr (1992).

We consider a representative household who receives income from wages, capital revenue, lump-sum government transfers from taxes collection, foreign capital inflow and pure profits. Given this income, the representative household decides how to allocate its budget between the different composite goods in order to maximize a Cobb-Douglas utility function.

Producers also demand composite goods for intermediate use, according to a Leontief input-output technology; that is, the coefficients of intermediate goods in production are fixed.

Following the Armington assumption, each composite good is a CES aggregation function of imported and domestically produced goods. Therefore, foreign and domestic goods are imperfect substitutes in use, and there is product differentiation at the sectoral level. Import supplies are, in addition, assumed to be infinitely elastic, so that the world prices of imported goods are exogenous.

Producers take a multiple-step supply decision. First, they decide on the optimal levels of primary factor services to hire and intermediate goods to purchase, so as to minimize production costs given the technology of production constraints. The technology of production is described by a Leontief aggregation function of two composites: a composite of primary factors of production and a composite of intermediate goods. The composite of intermediate goods is also a Leontief aggregation, whereas the primary

sense, by our specification of perceived elasticities of export and domestic demands. We assumed low elasticity of domestic demand and high elasticity of export demand, whereas they considered nearly equal elasticities of export and domestic demands. High elasticities of export demand mean in our models that a small increase of export demand requires an important decrease of export price and terms of trade deterioration.

factors of production composite is a CES function of variable capital and labor; the latter factors are also assumed mobile between sectors.

As in Harris (1984), further to variable costs, we distinguish in the case of increasing returns to scale (IRTS) a set-up fixed costs component, representing the amounts of fixed capital and labor necessary to start up the production process. The larger is the share of fixed costs in total costs, the higher are unrealized economies of scale and the gap between average and marginal costs. Also, we consider that the share of each fixed primary factor in total sectoral fixed costs is equal to the share of each total primary factor in sectoral value added.

In a second step, producers choose the optimal amount of output to produce. In the case of constant returns to scale (CRTS) and perfect competition, the optimal production level is determined by equating marginal costs to marginal revenue, where the marginal revenue is the dual to the constant-elasticity-of-transformation aggregation or equally the composite producer price. However, when we depart from the competitive setting and consider IRTS and oligopolistic market structures, the marginal costs pricing rule induces losses, since average costs exceed marginal costs. Thus producers enjoy market power and are price makers. We consider nevertheless that firms benefit from market power only on the domestic market, since the demand for locally produced goods is decreasing whereas the export demand is perfectly elastic. Denoting PD_i , PE_i , DD_i and EX_i respectively the prices and quantities of locally produced goods and exports, the firm profit π_i is equal to

$$\pi_i = (1 - tx_i) \times (PD_iDD_i + PE_iEX_i) - MC_iX_i - FC_i$$

where MC_i and FC_i represent respectively marginal and fixed costs, tx_i is the indirect tax rate on gross output and X_i is the composite production level. The first-order condition for profit maximization is the markup of price over marginal costs, i.e.,

$$(1-tx_i)PD_i\left[1-\frac{1}{N_i\varepsilon_{d_i}}\right]=MC_i$$

where N_i is the number of firms in the industry, which is equivalent to the inverse of the Herfindhal concentration index in the case of symmetric firms, and $\varepsilon_{d_i} \equiv -\frac{dDD_i}{dPD_i}\frac{PD_i}{DD_i}$ is the perceived elasticity of domestic demand, which equation is given in the appendix.

Following Dixit (1988) and Devarajan and Rodrik (1991), we consider here Cournot oligopoly behavior with a conjectural variation equal to zero, i.e., each firm believes that the other firms' choice is independent from its own, whereas de Melo and Tarr (1992) specify a conjectural variation different from zero.

The consideration of the conjectural variation approach, which is a dynamic concept, into a static framework is not theoretically satisfying. Also there is no available data about the extent of industry concentration in the different manufacturing sectors in Tunisia, as measured by the Herfindhal index. This is why we will calibrate this number. Then we endogenize it, in the case of free entry and exit, and fix simultaneously the pure profits π_i equal to zero. In the case of barriers to entry and exit, the number of firms in each sector is fixed to its intial calibrated level and pure profits are no longer exogenous and equal to zero.

In a final step, producers allocate their output between export and domestic sales according to a constant-elasticity-of-transformation function. The implementation of the latter specification allows us to incorporate product differentiation at the national level, since exported and locally produced goods are imperfect substitutes, while keeping the small country assumption for Tunisia on the world markets. Indeed, analogously with imports supplies, export demands are infinitely elastic and the world prices of exports are fixed; terms of trade are thus exogenous.

All demand and supply functions are homogenous of degree zero in prices. Hence, only relative prices matter and we should choose a numéraire to evaluate prices. We choose the weighted average of all domestic goods prices as numéraire.

In equilibrium, all prices adjust such that excess demands equal zero for all goods and factors, household income is equal to total expenditures and total imports net of total experts are equal to the exogenous value of net foreign capital inflow.

By Walras' law, all the equilibrium conditions are not independent. Thus we must omit one redundant condition to close the simultaneous equations system, which set of equations and variables is contained in the appendix.

The above model of oligopolistic market structures has been implemented to replicate the observed data for Tunisia in the base year 1990 and then analyze the impact of full tariff elimination on welfare and sectoral adjustments³.

3. The Structure of Tunisian Production and Trade

The benchmark year of experiments is 1990, the year Tunisia joined the GATT. The economy is disaggregated into sixteen tradable sectors, of which thirteen are in manufacturing. The sectoral features of the economy in 1990 are described in Table 1.

³ The Tunisian SAM has been constructed using the unpublished input-output table built by the Institut d'Economie Quantitative (IEQ). The CGE models have been written and run using the NLP solvers of GAMS software, which implementation is described in Brooke et al. (1992).

Table 1: Tunisian Sectoral Production and Trade Features in 1990 (percentage)

Sectors	$X_i / \sum X_i$	VA _i /GDP	VA_i/X_i	M_i/Q_i	EX _i /X _i	tmi	ERP;
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Agriculture, Forestry and Fishing	12.1	17.0	79.2	8.3	3.7	13.6	12.3
2. Food Processing	8.4	3.0	20.3	16.3	9.6	25.9	83.5
3. Beverages and Tobacco	0.8	0.6	39.3	23.6	14.8	24.5	-117.0
4. Textiles, Apparel and Leather	9.0	3.8	24.2	66.3	68.8	6.1	2.7
5. Chemical Products	5.4	2.1	21.6	53.4	42.7	18.4	11.5
6. Rubber and Plastics	0.7	0.3	22.3	52.4	15.7	10.3	165.1
7. Cement and Quarrying Products	1.9	1.1	33.4	11.5	17.6	27.6	37.9
8. Glass and Ceramic Products	0.7	0.5	41.6	34.9	17.8	53.7	128.8
9. Non Ferrous Metals	1.2	0.6	29.2	64.9	18.1	10.0	422.1
10. Wood, Paper and Metals Products	4.1	2.2	30.2	40.1	8.9	8.2	1.3
11. Non Electrical Machinery	1.0	0.5	25.1	90.2	43.4	38.0	-2.8
12. Electrical Machinery	0.9	0.5	32.7	81.0	71.3	53.1	101.0
13. Transport Equipment	0.9	0.3	18.8	84.5	37.0	31.7	72.7
14. Miscellaneous Manufacture	0.5	0.1	12.8	62.2	45.8	6.2	-168.6
15. Non Manufactured Products	15.1	12.8	47.8	18.0	19.2	30.0	39.3
16. Services	37.5	54.7	82.2	8.8	21.5	0.0	-6.3
			•				_

Note: Columns (1) and (2) give respectively the sector contribution to national production and national value added or GDP, while columns (3) and (4) indicate the share of imports in composite demand of each good and the share of exports in composite production of each good. Column (5) reports the contribution of primary factors to the production of each sector, and column (6) lists the nominal rate of protection for each sector. Finally, column (7) provides the effective rate of protection, where $ERP_i = (tm_i - \sum_j a_{ji} \ tm_j)/1 - \sum_j a_{ji}$.

Table 2: Parameters Used to Replicate Data

Sectors	σ_{i}	ϖ_{i}	η_i	CDR
	2.050	2.504	0.600	0.000
1. Agriculture, Forestry and Fishing	2.250	3.786	0.680	0.000
2. Food Processing	1.007	0.752	0.710	0.120
3. Beverages and Tobacco	1.008	0.784	0.710	0.184
4. Textiles, Apparel and Leather	1.066	1.164	0.900	0.105
5. Chemical Products	0.702	0.367	0.960	0.059
6. Rubber and Plastics	0.763	0.276	0.960	0.061
7. Cement and Quarrying Products	1.200	1.100	0.900	0.120
8. Glass and Ceramic Products	1.200	1.100	0.900	0.200
9. Non Ferrous Metals	0.663	0.499	0.740	0.140
10. Wood, Paper and Metals Products	0.594	0.541	0.811	0.090
11. Non Electrical Machinery	0.694	0.379	0.740	0.090
12. Electrical Machinery	0.705	0.311	0.740	0.280
13. Transport Equipment	0.679	1.010	0.867	0.104
14. Miscellaneous Manufacture	0.463	0.411	0.740	0.059
15. Non Manufactured Products	1.200	1.100	0.900	0.000
16. Services	1.200	1.100	0.800	0.000
		1		1

Note: σ_i is the elasticity of substitution between imported and domestic goods, ϖ_i is the elasticity of transformation between exported and domestic goods and η_i is the elasticity of substitution between variable primary factors of production. All elasticities are taken from Roland-Holst et al. (1994). CDR is the cost disadvantage ratio which represents the share of fixed costs in total costs or the extent of unrealized economies of scale. Its value for each sector is taken from Roland-Holst et al. (1994) and Cox (1994).

The first three columns of Table 1 indicate the production characteristics of each sector. As we can see, the sectoral share in total gross output [column (1)] and the share of sectoral value-added in GDP [column (2)] reveal that agriculture and services dominate the production side of the economy, providing 49.7 percent of gross domestic production and 71 percent of value-added, whereas manufacturing sectors contribute 35.3 percent to output and only by 16.2 percent to total value-added.

Within manufacturing, textiles, food processing, chemicals and wood products dominate, accounting respectively for 9 percent, 8.4 percent, 5.4 percent and 4.1 percent of total output and 3.8 percent, 3 percent, 2.1 percent and 2.2 percent of GDP.

The importance of primary factors vs. intermediate goods for each sector is indicated in column (3) by the share of value-added in gross output. Except for agriculture and services where the shares of primary factors in production are greater than 70 percent, all the remaining sectors show strong inter-industry linkages, with intermediate goods shares in total production exceeding 50 percent. We expect that resource reallocation in the latter sectors to play relatively a weak role in affecting output levels.

The next four columns in Table 1 provide information about the trade orientation and protection of each sector. We can see that the most important sectors in the economy, i.e., agriculture and services are not the most trade oriented in spite of low average nominal and effective rates of protection. Indeed, import shares in demand are less than 10 percent while the export share in output is equal to 3.7 percent for agriculture and 21.5 percent for services. Manufactures show, however, high trade shares. These shares increased over time starting in 1986 and following the trade liberalization measures that have been undertaken within the structural adjustment program.

The share of imports in aggregate composite expenditures is equal to 66.3 percent in textiles, 53.4 percent in chemicals, 52.4 percent in rubber and plastics, 64.9 percent in non-ferrous metals, 90.2 percent in non-electrical machinery, 81 percent in electrical machinery, 84.5 percent in transport equipment and 62.2 percent in miscellaneous manufactures. These eight sectors are the most import-oriented in the economy and represent 65.6 percent of total imports.

Six of the thirteen manufacturing sectors are the most export-oriented sectors in the economy. Indeed, the export share in sectoral output is equal to 68.8 percent in textiles, 42.7 percent in chemicals, 43.4 percent in non-electrical machinery, 37 percent in

transport equipment, 45.8 percent in miscellaneous manufacture. Together these sectors account for 42.8 percent of total exports.

Tunisia is most protectionist against imports of glass and ceramic products, electrical machinery, non-electrical machinery and transport equipment with nominal tariffs [column (6)] equal respectively to 53.7 percent, 53.1 percent, 38 percent and 31.7 percent.

When we take account of intermediate goods protection, our calculations of the effective rates of protection reveal in column (7) that non-ferrous metals and rubber and plastics sectors have the highest effective protection, which is respectively equal to 422.1 percent and 165.1 percent, in spite of low nominal tariff rates [10 percent and 10.3 percent]. The glass and ceramic sectors together with electrical machinery follow with effective rates of protection reaching respectively 128.8 percent and 101 percent.

It also appears from our calculations that beverages and tobacco, miscellaneous manufactures, services and non-electrical machinery have negative effective rates of protection and thus are the less protected sectors in the economy.

To run simulations, further to social accounting matrix, we need external estimates of the elasticities of substitution and transformation and cost disadvantage ratios in the IRTS sectors. The parameters chosen to calibrate the model so as to replicate 1990 Tunisian data are provided in Table 2. They rely upon Reinert et al. (1994) and Cox (1994). Given the lack of econometric estimates of elasticities of substitution and scale, we will explore the sensitivity of welfare results to different values of these parameters.

4. Trade Liberalization Simulations Results

In this section we provide results based on a counterfactual tariff elimination experiment undertaken under three alternative pricing rules. As a point of reference, we consider a framework of CRTS and perfect competition, where prices are equal to marginal costs. The only distortion in the economy is thus due to taxes that introduce a gap between supply and demand prices. Therefore, tariffs create a wedge between the world and domestic prices of imports. Since the import supply is perfectly elastic, the tariffs are completely borne by Tunisian demanders of imported goods, i.e., household and firms.

When we consider IRTS and oligopoly market structures, we have to take account of two additional distortions. One is due to the gap between average and marginal costs, while the other is explained by the existence of a positive markup over prices and market power.

Rodrik (1988) shows that trade liberalization will be welfare enhancing, if it allows each firm's output to expand in sectors with price exceeding marginal costs and barriers to entry and exit and also increases the number of firms in sectors with price exceeding average costs and positive pure profits, of course in the case of free entry and exit.

Denoting X_i , N_i and x_i , respectively, the industry output, the number of oligopolistic firms and the output per firm, we have:

$$x_i = \frac{X_i}{N_i}$$

Differentiating the above equation and multiplying by the level of output per firm, produces:

$$\frac{dx_i}{x_i} = \frac{dX_i}{X_i} - \frac{dN_i}{N_i}$$

In the case of barriers to entry and exit, $\frac{dN_i}{N_i} = 0$ and the firm's output expansion is equivalent to the industry output expansion. Therefore, trade liberalization will improve welfare, if it increases both imports and industry output. This will be possible, if goods are not strongly substitutable. In the case of free entry and exit, however, the output per firm will expand if the industry output growth is greater than the increase of the number of firms.

Our results show that Tunisia experiences welfare gains equal to 1 percent of 1990 GDP in the case of CRTS.⁴ These gains are the result of significant increase of imported goods (24.9 percent) whose prices decrease following tariff elimination, as we can see from column (1) of Table 3. Domestic goods became less attractive after the trade liberalization and producers reorient their sales toward exports, which expand by 28.9 percent.

Welfare gains are equal to only 0.9 percent of 1990 GDP in the case of oligopoly market structure and barriers to entry and exit. Imports increased by 9.4 percent and thus prevent Tunisian firms in IRTS sectors from realizing economies of scale. Indeed, import expansion takes place at the expense of domestically produced goods, since they are

⁴ The welfare change is measured by the equivalent variation as a share of 1990 GDP.

substitutable. There is little scope for realizing economies of scale, because the share of fixed costs in total costs is on average low and equal to 12.4 percent [see Table 2, column (4)]. The output per firm indeed increases only by 4.4 percent in the manufactures sectors.

Once we assume free entry and exit, trade liberalization induces welfare losses equal to 0.4 percent. Given that the ratio of fixed costs to total costs is assumed to be low (12.4 percent) in the reference year, fixed costs do not act as an obstacle to entry. Thus firms are attracted by the opportunity to realize pure profits in manufactures, and we observe a large inflow of new firms (27.9 percent) that prevent incumbent firms from moving down their unit cost curve. The average output per firm decreases by 10.9 percent in manufactures.

Table 3: Aggregate Results Under Alternative Market Structures (percentage)

	Perfect competition and CRTS ^(b)	Cournot Oligopoly with IRTS(b)			
	(1)	Barriers to entry and exit (2)	Free entry and exit		
	(1)	(2)	(5)		
Welfare change (a)	1.011	0.940	-0.376		
Import change	24.863	9.452	13.175		
Export change	28.883	9.996	14.718		
Output change	6.897	1.353	1.781		
- (manufactures)		(4.407)	(11.226)		
Number of firms	0.0	0.0	27.938		
Output per firm		4.407	-10.938		
Pure profits		256.506 ^(c)	0.0		

⁽a) The welfare change is measured by the equivalent variation as a share of 1990 GDP.

Looking at the sectoral level, we see from Table 4 that output produced with CRTS technology [column (4)] diminishes in agriculture by 5.7 percent, services by 5.5 percent, food processing by 4.5 percent, beverages and tobacco by 3.65, cement and quarrying by 7.5 percent, glass and ceramics by 14.1 percent, and non manufactured products by 3.7 percent. These are the most inward-oriented sectors in the economy [see column (4) of Table 1], and they release primary factors toward the other most import-oriented sectors.

Except for cement and quarrying, non-manufactures and services, where output increases respectively by 0.25 percent, 0.99 percent and 0.16 percent, we find for the other IRTS sectors and in the case of no entry and exit, the same result as for CRTS [see column (8) of Table 4]. Nevertheless, the intensity of change is not identical. Indeed,

⁽b) CRTS and IRTS indicate respectively Constant Returns to Scale and Increasing Returns to Scale.

⁽c) Since pure profits are assumed to be equal to zero in the benchmark year, they are expressed in millions of Tunisian Dinars.

output expands (decreases) less with imperfect competition, because import competition acts as a brake to substitutable output expansion.

Table 4: Sectoral Results Under Alternative Market Structures (percentage)

Sectors	CRT	CRTS and perfect competition IRTS, oligopoly and no			nd no en	ntry-exit IRTS, oligopoly and entry-exit							
	Import	Domestic	Export	Output	Import	Domestic	Export	Output	Import	Domestic	Export	Output	Output per firm
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)_	(13)
1. Agriculture, Forestry and Fishing	28.20	-5.61	-8.48	-5.71	13.13	-4.29	17.26	-3.47	15.68	-5.41	9.40	-4.86	
2. Food Processing	19.36	-4.60	-4.02	-4.54	13.52	-3.14	2.32	-2.60	14.07	-4.65	-0.82	-4.27	-1.34
3. Beverages and Tobacco	16.62	-3.95	-1.93	-3.65	12.12	-1.83	5.13	-0.76	12.14	-3.83	1.34	-3.04	-0.90
4. Textiles, Apparel and Leather	57.08	70.18	93.97	90.38	8.67	9.12	17.43	14.90	25.18	30.44	46.16	41.41	-16.49
5. Chemical Products	15.56	15.71	23.19	19.06	4.45	0.61	4.95	2.52	6.40	3.48	8.50	5.70	-33.83
6. Rubber and Plastics	11.03	11.69	14.99	12.23	1.47	2.18	5.24	2.68	3.19	3.98	7.12	4.50	-10.25
7. Cement and Quarrying Products	21.01	-7.80	-6.02	-7.48	17.15	-1.78	9.30	0.25	16.50	-5.61	1.80	-4.27	-2.51
8. Glass and Ceramic Products	36.23	-14.77	-11.00	-14.08	30.91	-10.80	0.72	-8.65	30.72	-14.29	-6.57	-12.87	-7.17
9. Non Ferrous Metals	9.36	7.22	10.97	7.88	2.43	2.90	8.29	3.91	2.12	2.15	7.16	3.09	-1.39
Wood, Paper and Metals Products	5.56	2.64	4.39	2.79	0.34	0.47	4.97	0.89	0.55	-0.31	3.22	0.02	0.04
 Non Electrical Machinery 	25.51	33.86	56.65	44.93	17.94	9.02	17.99	13.15	18.61	13.47	25.13	18.91	-40.57
12. Electrical Machinery	35.67	47.78	75.19	68.72	17.94	-3.28	1.17	-0.04	19.64	2.12	8.71	6.95	-21.21
13. Transport Equipment	23.83	17.66	44.03	28.03	16.35	6.83	24.27	13.58	17.45	9.79	31.19	18.15	-21.72
14. Miscellaneous Manufacture	17.18	20.29	26.19	23.08	0.51	1.61	5.14	3.27	5.18	6.95	11.24	8.97	-27.30
15. Non Manufacture Products	28.56	-4.11	-2.22	-3.74	19.18	-1.40	10.55	0.99	20.71	-3.91	4.01	-2.34	
16. Services	-1.31	-4.81	-7.92	-5.47	-9.55	-1.59	6.32	0.16	-7.91	-4.17	-0.61	-3.39	

A similar impact on output is observed in the case of free entry and exit, [see column (2) of Table 4]. Nevertheless, industrial output expansion in nine manufacture sectors, i.e., textiles, chemicals, rubber, non-ferrous metals, wood, non-electrical machinery, electrical machinery, transport equipment, miscellaneous manufacture, results from new entry and as we can see from column (13) output per firm decreases in the latter sectors.

Table 5: Sensitivity Analysis of Welfare Change to the Elasticity of Substitution Between Imported and Domestic Goods

n times σ_i	Welfare change under Cournot oligopoly and IRT			
	Barriers to entry and exit	Free entry and exit		
$1.1 \sigma_i$	0.938	- 0.338		
$1.2 \sigma_i$	0.936	- 0.297		
$1.3 \sigma_i$	0.936	- 0.252		
$1.4 \sigma_i$	0.937	- 0.204		
1.5 σ _i	0.938	- 0.152		
1.6 σ _i	0.940	- 0.097		
1.7 σ _i	0.944	- 0.038		
1.8 σ _i	0.947	0.024		
1.9 σ _i	0.952	0.090		
2.0 σ _i	0.957	0.159		
2.1 σ _i	0.963	0.232		
2.2 σ _i	0.970	0.309		
·	0.977	0.390		
2.3 σ _i	0.984	0.474		
2.4 σ _i	0.993	0.562		
2.5 σ _i	1.001	0.653		
2.6 σ _i	1.010	0.748		
2.7 σ _i	1.020	0.846		
2.8 σ _i	1.030	0.948		
2.9 σ _i	1.041	1.053		
3.0 σ _i				

Table 6: Sensitivity Analysis of Welfare Change to a Uniform Cost Disadvantage Ratio (CDR)

Uniform CDR	Welfare change under Cournot oligopoly and IRTS (%)				
	Barriers to entry and exit	Free entry and exit			
0.06	0.755	- 0.702			
0.07	0.795	- 0.634			
0.08	0.838	- 0.565			
0.09	0.882	- 0.493			
0.10	0.930	- 0.417			
0.11	0.977	- 0.337			
0.12	1.028	- 0.248			
0.13	1.083	- 0.150			
0.14	1.139	- 0.040			
0.15	1.198	0.084			
0.16	1.260	0.226			
0.17	1.325	0.391			

In order to determine the extent to which our results are sensitive to the elasticities of scale and substitution between imported and domestic goods, we conduct sensitivity analysis in which these elasticities are varied separately. The results are reported in Tables 5 and 6 and illustrated in Figures 1 and 2.

As we can see, the higher are the elasticities of substitution, the higher are welfare gains in the case of barriers to entry and exit. When the elasticities are greater than 1.8 times their benchmark levels, we even observe welfare gains in the case of free entry and exit. High levelS of elasticities mean an important change in the quantity of imports demanded, which is welfare improving.

Also, the higher is the share of fixed costs in total costs, the higher are welfare gains, because the scope for realizing economies of scales and reducing the gap between average and marginal costs is more important. When the cost disadvantage ratio is equal to 12 percent and there are obstacles to entry and exit welfare gains represent 1.03 percent of 1990 GDP and they are greater to those reached with constant returns to scale and perfect competition. And when the cost disadvantage ratio is equal to 15 percent, fixed costs impose a limit to entry, even when we allow for changes in the number of firms. Any industrial output expansion is thus more explained by incumbent firms' scale efficiency gains rather than by new entry.

In all cases, for an identical uniform cost disadvantage ratio, welfare gains are greater with barriers to entry and exit rather than with free entry and exit. Indeed, the scale efficiency gains are more important in the former case.

Figure 1. Sensitivity analysis of welfare change to elasticities of substitution between imported and domestic goods

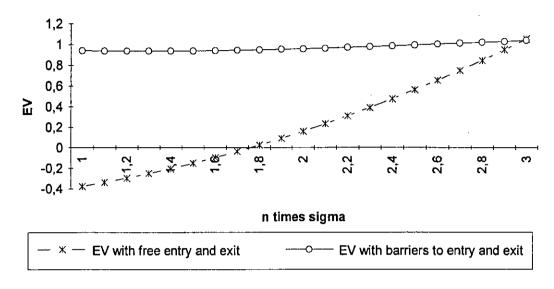
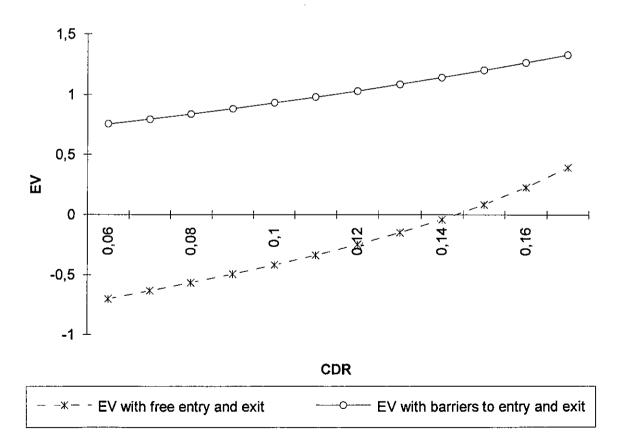


Figure 2. Sensitivity analysis of welfare change to the CDR



6. Summary and Conclusion

In this paper we present a static general equilibrium model of a small open economy with increasing returns to scale and oligopolistic manufacturing industries in order to simulate the impact of removing all tariffs on imports. We also derive results from a standard model with constant returns to scale and perfect competition in order to make comparisons.

We find that trade liberalization induces welfare gains equal to 1 percent of 1990 GDP in the case of constant returns to scale and perfect competition and 0.9 percent in the case of increasing returns to scale, oligopolistic market structures and barriers to entry and exit. Given the low share of fixed costs in total costs in the reference year, trade liberalization does not offer a strong opportunity to realize economies of scale.

When we allow firms to enter and exit, trade liberalization entails welfare losses equal to 0.4 percent of 1990 GDP. This is because fixed costs are low and do not represent a barrier for firms attracted by the opportunity to realize positive profits. New entrants prevent incumbent firms from reducing unit costs. Indeed, output per firm decreases on average by 10.9 percent and the number of firms expands on average by 27.9 percent.

Sensitivity analysis indicates that results depend on the levels of elasticities of substitution between imported and domestic goods and cost disadvantage ratios, especially in the case of free entry and exit. We indeed observe welfare gains, once the share of fixed costs in total costs is greater than 15 percent and elasticities of substitution greater 1.8 times their initial level.

Tunisia is a small country with a tiny domestic market constraining any potential scale efficiency gains. The enthusiasm for trade liberalization is indeed justified and inevitable to promote competition and efficiency, but this policy is most efficient in increasing returns sectors when it is pursued in combination with domestic industrial policy that enhances the realization of economies of scale by preventing excessive entry. Our study aims to shed light on the importance of studying market structures in Tunisia to design policies accompanying trade liberalization.

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Appendix: Model Equations, Variables and Parameters

List of Equations

There are i,j=1,.....,s sectors (and goods), of which p=1,.....,c are competitive and n=c+1,....,s are non competitive.

Leontief Input-Output Coefficients
$$a_{ij} = \frac{CI_{ij}}{X_{j}}$$
Labor Demand
$$LD_{i} = \left(\frac{1}{AX_{i}}\right)^{1-\eta_{i}} \left(\frac{\alpha_{i}MC_{i}}{W}\right)^{\eta_{i}}$$
Capital Demand
$$KD_{i} = \left(\frac{1}{AX_{i}}\right)^{1-\eta_{i}} \left(\frac{(1-\alpha_{i})MC_{i}}{R}\right)^{\eta_{i}}$$
Total Costs
$$TC_{i} = FC_{i} + MC_{i} X_{i}$$
Marginal Costs
$$MC_{i} = \frac{1}{AX_{i}} \left[\alpha_{i}^{\eta_{i}}W^{1-\eta_{i}} + (1-\alpha_{i})^{\eta_{i}}R^{1-\eta_{i}}\right]^{\frac{1}{1-\eta_{i}}} + \sum_{j} PQ_{j} \alpha_{ji}$$
Fixed Costs
$$FC_{i} = N_{i} \left(R \overline{kf_{i}} + W\overline{lf_{i}}\right)$$
Average Costs
$$AC_{i} = \frac{TC_{i}}{X_{i}}$$
Cost Disadvantage Ratio
$$CDR_{i} = \frac{FC_{i}}{TC_{i}}$$
Oligopoly Markup Pricing
$$\frac{PD_{n}(1-tx_{n}) - MC_{n}}{(1-tx_{n})PD_{n}} = \frac{1}{N_{n}\varepsilon_{d_{n}}}$$
Perceived Elasticity of Domestic Demand
$$\varepsilon_{d_{n}} = \sigma_{n} + \frac{PD_{n}DD_{n}}{PQ_{n}Q_{n}} \left(\frac{C_{n}}{Q_{n}} - \sigma_{n}\right)$$
Pure Profits
$$\pi_{n} = PX_{n}(1-tx_{n})X_{n} - TC_{n}$$
Marginal Cost Pricing in Competitive Industries
$$PX_{p}(1-tx_{p}) = MC_{p}$$
Government Income
$$YG = \sum_{i} tm_{i} \overline{PWM_{i}}M_{i}ER + \sum_{i} tx_{i}PX_{i}X_{i}$$
Household Income
$$YM = W\overline{LS} + R \overline{KS} + \sum_{n} \pi_{n} + ER \overline{B} + YG$$
Household Final Consumption
$$C_{i} = \beta_{i} \frac{YM}{PQ_{i}}$$

$$M_i = AQ_i^{\sigma_i - 1} \left(\frac{PQ_i \delta_i}{PM_i}\right)^{\sigma_i} Q_i$$

Demand of Domestically Produced Goods

$$DD_{i} = AQ_{i}^{\sigma_{i}-1} \left(\frac{PQ_{i}(1-\delta_{i})}{PD_{i}} \right)^{\sigma_{i}} Q_{i}$$

Domestic Sales of Locally Produced Goods

$$DS_{i} = AE_{i}^{-\omega_{i}-1} \left(\frac{PD_{i}}{PX_{i}(1-\gamma_{i})}\right)^{\omega_{i}} X_{i}$$

$$EX_{i} = AE_{i}^{-\omega_{i}-1} \left(\frac{PE_{i}}{PX_{i}\gamma_{i}}\right)^{\omega_{i}} X_{i}$$

Composite Consumption Price

$$PQ_{i} = \frac{1}{AQ_{i}} \left[\delta_{i}^{\sigma_{i}} PM_{i}^{1-\sigma_{i}} + \left(1 - \delta_{i}\right)^{\sigma_{i}} PD_{i}^{1-\sigma_{i}} \right]^{\frac{1}{1-\sigma_{i}}}$$

Composite Production Price

$$PX_{i} = \frac{1}{AE_{i}} \left[\gamma_{i}^{-\varpi_{i}} PE_{i}^{1+\varpi_{i}} + \left(1 - \gamma_{i}\right)^{-\varpi_{i}} PD_{i}^{1+\varpi_{i}} \right]^{\frac{1}{1+\varpi_{i}}}$$

Domestic Currency Price of Imports

$$PM_i = \overline{PWM_i} (1 + tm_i) ER$$

Domestic Currency Price of Exports

$$PE_i = \overline{PWE_i}ER$$

Labor Market Clearing Condition

$$\sum_{i} LD_{i} + \sum_{i} N_{i} \ \overline{lf_{i}} = \overline{LS}$$

Capital Market Clearing Condition

$$\sum_{i} KD_{i} + \sum_{i} N_{i} \overline{kf_{i}} = \overline{KS}$$

Composite Consumption Demand

$$Q_i = C_i + \sum_i CI_{ji}$$

Trade Balance Constraint

$$\sum_{i} \overline{PWM_{i}} M_{i} - \sum_{i} \overline{PWE_{i}} EX_{i} = \overline{B}$$

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$$\sum_{i} \phi_{i} PD_{i} = 1$$

where $\phi_i = \frac{DD_i}{\sum DD_i}$ are the weights for the price index and $\sum \phi_i = 1$.

List of Endogenous Variables

 X_i

Sectoral composite production

PX

Sectoral composite production price

 LD_i , KD_i

Sectoral labor and capital demands

 TC_i , FC_i , MC_i , AC_i Sectoral total costs, fixed costs, marginal and average costs

CDR.

Cost disadvantage ratio; equal and fixed to zero in case of CRTS

 \mathcal{E}_{dn}

Perceived elasticity of domestic demand in non-competitive industries

 π_n

Pure profits; become exogenous and fixed to zero in case of free entry

N_i Calibrated number of firms; held fixed in case of barriers to entry and

exit

 DD_i , DS_i Demand and supply of locally produced good

 M_i , EX_i Import and export volumes

 PD_i , PM_i , PE_i Prices of locally produced goods, imports and exports

 Q_i Composite consumption good

 PQ_i Composite consumption good price

C_i Household final consumption

 CI_{ii} Intermediate goods consumption by sector i for goods from sectors j

W, R Labor and capital unit prices

YM, YG Household and Government incomes

ER Exchange rate

List of Parameters and Exogenous Variables

 a_{ii} Leontief input-output coefficients

 \overline{LS} , \overline{KS} Total labor and capital supplies

 $\overline{kf_i}$, $\overline{lf_i}$ Fixed capital and labor per firm

 $\overline{PWM_i}$, $\overline{PWE_i}$ Exogenous world prices of imports and exports

 tm_i , tx_i tariff rate on imports and indirect production tax net of subsidies

 \overline{B} Net foreign capital inflow

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CDR_n Cost disadvantage ratio; equal and fixed to zero in case of CRTS

 σ_i Armington elasticity of substitution between imported and domestic goods

 ω_i Constant elasticity of transformation between exported and domestic goods

 η_i Elasticity of substitution between labor and capital

 β_i Constant expenditure share

 α_i , δ_i , γ_i Share parameters in the CES value added, Armington and constant elasticity of transformation aggregator

 AX_i , AQ_i , AE_i Shift parameters in the CES value added, Armington and constant elasticity of transformation aggregators

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n° Inv. 19914 23 LU6, 1999

DUDIECA









Preparing for the WTO 2000 Negotiations: Mediterranean Interests and Perspectives Cairo, Egypt, 14-15 July, 1999

Textiles and Clothing in the Mediterranean Region:
Opportunities and Challenges of Returning Textiles and
Clothing to GATT Disciplines

Hana Kheir-El-Din and M. Maamoun Abdel-Fattah

Sponsored by the Economic Research Forum, Istituto Affari Internazionali and the World Bank

Contribution of the World Bank and IAI made possible by financial support from the Government of Italy and the Netherlands

Textiles and Clothing in the Mediterranean Region: Opportunities and Challenges of Returning Textiles and Clothing to GATT Disciplines

Hanaa Kheir-El-Din

M. Maamoun Abdel-Fattah(*)

1- Introduction

Textiles and clothing play an important role in the economies of the mediterranean region. They significantly contribute to manufacturing production, employment and trade in several of these countries, particularly: Egypt, Morocco, Syria, Tunisia and Turkey and, to a lesser extent, Jordan and Lebanon.

Although total exports of textiles and clothing of these countries are relatively small compared to other developing countries' exports such as India or Pakistan, yet they represent a higher share of merchandise trade in these countries compared to the share of textiles in world merchandise trade. The shares of these countries in world textile and clothing exports are much higher than their shares in world manufacturing exports indicating that they enjoy a comparative advantage in the textiles and clothing sector. (1)

These sectors have traditionally been persistently protected in developing countries through tariffs and quantitative restrictions. This domestic protection has, until the Uruguay Round (UR), been somewhat justified by the protection to textiles and clothing industries in industrial countries. Through a set of bilaterally negotiated agreements under the Multifiber Arrangement (MFA), industrial countries, principally the European Union (EU) and the United States (USA)⁽²⁾, in violation of the fundamental GATT principle of nondiscrimination, and of the injunction against the use of quantitative restrictions, apply widespread and restrictive quotas against imports from developing countries. Additionally, imports of textiles and clothing have been restricted by high tariffs and tariff escalations. These tariffs are, on average higher (15%), in industrial countries, than tariffs on industrial products (6%). They also tended to increase with the stage of processing. To give an example, the average tariff an fibers in industrial countries is about 1%, while it often exceeds 20%

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⁽¹⁾ ERF Indicators, 1998, Economic Research Forum for the Arab Countries, Iran and Turkey, p.98.

⁽²⁾ Canada and Norway are also among the main countries imposing MFA restrictions. However, Canada has very few quotas imposed on countries of the region and there are no quotas on mediterranean countries in Norway. Furthermore, Norway has eliminated all the quantitative restrictions except for three quotas on fishing nets from Indonesia, Malaysia and Thailand.

on clothing⁽¹⁾, thus enhancing the effective protection to higher value- added products in these countries.

Developing countries managed, at the UR of negotiations under GATT, to reach an agreement to integrate and liberalize trade in textiles and clothing over a transition period of 10- years, starting the implementation of the UR agreement on January 1st, 1995. The Agreement on Textile and Clothing (ATC) is the transitional agreement that regulates trade in textiles over this 10 year period of phasing out of the MFA. It is to be noted that importing industrial countries as well as a large number of developing exporting countries were in favour of this transition period to prepare their domestic industries to face the expected enhanced competition resulting from freeing trade in textiles.

Now that almost half of the 10- year phase out period has elapsed, it is useful to assess the progress achieved towards elimination of restrictions. Thus the purpose of this study is twofold: assessing trade policy towards textiles in the main exporting mediterranean countries and in their major market (the EU and the USA) and analysing the likely impact of full implementation of ATC in light of regional developments, especially EU expansion to integrate Central and East European Countries (CEECs).

The paper is organized as follows: section 2 presents the current trends in the textile and clothing sector in the mediterranean region and the structure of external trade of this sector. Section 3 describes the restrictions imposed on external trade of the main textile exporters in the region and preferential treatment enjoyed. Section 4 reviews the progress achieved under ATC and the increase in access actually provided to textiles exporters in the region. Section 5 presents an assessment of potential impacts of regional integration in the mediterranean region and with the enlarged EU on the competitiveness of this industry domestically and in EU markets. A final section sums up the findings and concludes.

2-Current Trends in Textiles and Clothing Sector

This review will be restricted to south mediterranean countries which export textiles and clothing, namely: Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia and Turkey.

⁽¹⁾ Kirmani, N.et al.: "The Uruguay Round and International Trade in Textiles and Clothing" in The Uruguay Round and the Arab Countries, edited by Said El-Naggar, IMF, 1996, p. 134.

Table (1)
Relative Importance of Textiles and Clothing in Exporting South Mediterranean Countries

Country	Value of	% of Man	_	Employment share of		Exports of Fibers, Textiles			
	Output 1995	Out	put		Textiles and Clothing in				
	(mn \$)			total manuf	factring (%)	merchandise exports (%)			
		1980	1995	1985	1995	1980	1990	1995	
Egypt		30	13	30	29	24	35	30	
Jordan		7	6	7	11	5	5	4	
Lebanon		n.a	12	n.a	21 (*)	8	n.a	n.a	
Morocco	1	n.a	16	27	38	10	22	21	
Syria		n.a	26	35	33	13	25	18	
Tunisia		19	24	33	41	18	36	46	
Turkey		15	20	24	30	28	39	41	

Source: 1998 World Development Indicators, The World Bank and UNCTAD. Handbook of International Trade and Development Statistics, 1996/1997.

In terms of output, the textiles and clothing industry contributed on average around 18% of manufacturing output in these economies. The combined value of output of these countries exceeded \$ 33 billion in 1995 (as shown by Table (1)). Syria enjoyed the highest share of textiles and clothing in its total manufacturing output in the region (26%), followed by Tunisia (24%), Turkey (20%) and Morocco (16%). Turkey, however, is the largest producer (\$ 19 billion), contributing alone close to 58% of the combined output of textiles and clothing in the region. It is followed by Egypt (), Syria (), Tunisia () and Morocco (). Lebanon and Jordan are much smaller producers, contributing respectively \$ 427 million and \$ 136 million of output, in 1995. The shares of textiles in total manufacturing have declined in some countries (Egypt and Jordan), implying a tendency towards greater diversification in their economies, while it increased in others (Tunisia and Turkey).

This industry is the largest employer in the region. It provided around 30% of jobs in manufacturing in 1995, a slight increase from its 1985 level (27%). However, unlike in other countries of the region, the share of labour employed textiles has tended to decrease in both Egypt and Syria. This industry is particularly important, in terms of employment generated, in Morocco and Tunisia where its share of employment in manufacturing revolves around 40%. These figures may be underestimated in some countries where the informal sector provides important employment opportunities, especially in the manufacturing of clothing. (1)

Although the contribution of these countries- with the exception of Turkey- in world trade of textiles and clothing has been modest (see Table (A-1)) it grew over the decade 1985-1995 at an average rate of growth of around 15%. Exports of textiles and clothing dominate the structure of exports in most of these countries especially Tunisia and Turkey (with shares of textiles and clothing in merchandise exports of around 40%) followed by Morocco (25%) and Egypt (20%) as of 1995. These shares

⁽¹⁾ ERF Indicators, 1998, op.cit., pp 93-94

have significantly increased in the first three countries over the period 1980-1995, while they declining for Egypt and remained constant for Jordan and Syria⁽²⁾

Table (2)

Exports of Textiles and Clothing of

Mediterranean Countries to Industrial Countries (1995)

Country	Value o	f Exports (\$ mill	% Share in total			
Ĭ	Textiles	Clothing	Total	Textiles	Clothing	
Egypt	500	439	939	53.25	46.75	
Jordan	5	30	35	14.29	85.71	
Lebanon	3	23	26	11.54	88,46	
Morocco	131	2242	2372	5.52	94.48	
Syria	14	100	114	12.28	87.72	
Tunisia	132	2399	2531	5.22	94.78	
Turkey	1504	5135	6639	22.65	77.35	

Source: Comtrade Data Base, see also Table (A-2) in the Statistical Tables.

Exports of clothing to industrial countries dominated the region's exports of textiles and clothing, ranging, in 1995, between 46.8% in Egypt to around 95% in Tunisia, as reflected in Table (2). The largest exporter of clothing is Turkey (\$ 5.1 billion), followed by Tunisia (\$ 2.4 billion) and Morocco (around \$ 1.2 billion). As for textiles, the largest exporter is again Turkey (\$ 1.5 billion), followed by Egypt (\$ 500 million).

3- Restrictions and Preferential Treatment of Exports of Textiles and Clothing

With the exception of Egypt and Turkey, mediterranean countries do not participate in the MFA. However, some of them face restrictions on their exports in industrial countries imposed outside the MFA.

Under the MFA many industrial countries were restricting their textiles and clothing imports from developing countries. The main restricting countries are the USA, the EU, Canada, Austria, Sweden, Finland and Norway. Japan and Switzerland, although important industrial importers, have never imposed quotas on their imports from developing countries. As of 1995 which marked the change from MFA to the ATC, four parties are still using quotas to restrict their imports of textiles, and are required to phase out these quotas over a period of 10 years. They are the USA, the EU, Canada and Norway.

The EU and the USA are the two major markets for textile trade. Out of \$331 billion of total world trade in textiles and clothing in 1997 the USA imports amounted to \$67 billion and the EU \$65 billion. While Canada's imports were about \$6 billion and Norway's \$3 billion (see Table (A-3)).

The EU and the USA are also the two major users of the quota system and the two most important markets for the mediterranean region (see Table (A-5)).

⁽²⁾ It is worth noting that these shares overestimate the share of textile and clothing in both Egypt and Syria, as they include fiber exports, and Syria and particularly Egypt are significant exporters of cotton lint

The European Union is the main export market for mediterranean countries that are significant producers of textiles and clothing. The EU accounts for over 60% of Turkish exports of textiles and clothing for over half of Egyptian exports and for between 70% to 80% of Tunisian and Moroccan exports of these products. Jordan and Syria sell less than 15% of their textiles and clothing exports to EU markets. The United States account for around 10% of Egyptian and Turkish exports of these products and for even less in the cases of Morocco, Tunisia and the other Arab exporters in the region.

Textiles and clothing exports from all countries in the region currently enjoy duty-free access to the EU markets. Furthermore, most of them enjoy unrestricted access to these markets under the free trade agreements with the EU signed under the Euro-Mediteranean Partnership Initiative (MEDA). Morocco, Tunisia and Jordan have successively signed such agreements starting in 1995. Turkey has formed in 1996 a customs union with the EU. Egypt, Lebanon and Syria are still negotiating with the EU. Egyptian yarns and fabrics exports to the EU, although enjoying duty - free access are still constrained by non-tariff barriers in the form of negotiated quotas under the Cooperation Agreement. They are also subject to monitoring and antidumping measures. Syria has also been restrained for yarn exports under a Cooperation Agreement with the EU, while no restrictions have been imposed on Lebanon.

In the United States, Egypt and Turkey face tight restrictions on their textiles and clothing exports. For Egypt, cotton yarns and fabrics have been restrained by quotas. Some made- up textiles and clothing items have also be constrained by binding quotas⁽²⁾. Turkey also faces quota restrictions on its yarns and fabrics exports to the USA, additionally nineteen of its exports categories of clothing have been subjected to quotas⁽³⁾.

Neither Egypt nor Turkey enjoy preferential duty treatment under the Generalized System of Preferences (GSP), they both face high most - favoured nation (MFN) tariffs in the USA. Before the implementation of the ATC in 1995, these tariffs

⁽¹⁾ It should be mentioned here that Turkey imposed a quota on Egyptian exports of yarns and fabrics starting 1996 as a prerequisite to forming a customs union with the EU. This violates one of the ATC requirements that no new quantitative restrictions will be added. Nevertheless, this quota has never been binding as the rate of its utilization has been 30%, 43% and 24% for yarn in the years 1996 to 1998 successively. As for fabrics, the respective rates of utilization for the same years were 12%, 13% and 17%. (Egyptian Textile Consolidation Fund)

⁽²⁾ For Egypt the restrained items are specifically: yarns (category 300/301), fabrics (categories from 218 to 227 and from 313 to 326), clothing include cotton knit shirts and blouses (categories 338/339), cotton and man-made fibers (m.m.f.) shirts (340/360), wool trousers (category 448) and shop towels (category 369S).

⁽³⁾ The quota restrained Turkish exports of clothing to the USA are: play suits (332), infant sets (239), cotton coats (335), cotton and m.m.f. dress (336/636), cotton and m.m.f. knit shirts (338/639), cotton shirts (340/640, 342/642), cotton trousers (347,348), cotton dressing gowns (350), cotton nightwean (351), wool trousers (448).

averaged 19%, their rates increased with the stage of processing from 3.5% on fibers, to 9% on yarns, 11.5% on fabrics and 22.5% on clothing. (4)

To illustrate the relative importance of constrained to unrestricted export markets for textiles, Table (3) shows the shares of Egyptian exports of yarns and fabrics exported to the EU and the USA under quota restraint.

Table (3)
Relative Importance of Quota Restricted Egyptian Exports of Textiles (1996-1998)

					(~ 0100111)	
Category		Yarn		Fabrics		
	1996	1997	1998	1996	1997	1998
Exports under Quota	62.5	76.7	82.9	71.5	75.1	68.7
EU	53.7	66.3	62.2	66.4	64.6	55.1
USA (under ATC)	8.8	10.4	20.7	5.1	10.5	13.6
Unrestricted Exports	37.5	23.3	17.1	28.5	24.9	31.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Calculated from information obtained from the Egyptian Cotton Textile Consolidation Fund.

Over the past three years, the share of Egyptian yarns exported under quota restrictions increased from 63% to 83%, while that of fabrics fluctuated between 69% and 79%. The European Union is by far the largest importer of Egyptian textiles, with shares varying between around 54% and 66% for both yarns and fabrics. The share of the USA in yarns exported under quota restraint has almost doubled in 1998. The value of yarn exports to the USA also increased by 56% in spite of the world recession and the significant decline of textiles exports, exceeding, in 1998, 21% for yarn and 50% for fabrics⁽¹⁾. This observation implies that quantitative restrictions under ATC are not always be the constraining factor to exports, as will be shown in the next section.

Quota Administration

Finally, in the case of Egypt, quotas are allocated among producers by the Cotton Textile Consolidation Fund according to their past export performance. New requests for quota allocations are submitted to the Commercial Committee of the Consolidation Fund for consideration. This committee includes government officials as well as representatives of producers and exporters in the public and private sectors. Resale of quotas is not officially permitted. Unused quotas should be given up and the Consolidation Fund would reallocate them. In practice, exporters who do not have the benefit of a quota share may export indirectly under the name of other producers holding export licences under the quota. The price of this service is not documented as direct transfer of quotas between firms is prohibited. Tight quotas have rarely been observed in Egypt, making such practices unnecessary. Quota transfers are only necessary in cases of binding quotas. When foreign demand (or orders) is in excess of supplies availability.

⁽⁴⁾ Kirmani, N., op.cit., p.139.

⁽¹⁾ Egyptian Cotton Textile Consolidation Fund figures.

Although there is no quota transfer in Egypt and generally quotas are not usually filled, there was a situation, in 1998, when exporters were queeing to acquire a share of USA quota on cotton knit shirts and blouses (categories 338/339). Even in this instance there is no indication that shares have been transferred. Thus there is no evidence if there has been an increase or a decrease in transfer price of quota under the ATC.

Elements of flexibility to exceed the quota limits- according to ATC- include: transferring 6% of the unfilled quota volume from the previous year to the current year (carry over), prior utilization of 6% of next year's quota (carry forward) or transferring the quota from one product to the other within the limit of 6% of the quota requested to be increased (swing). These flexibility advantages are usually transferred to quota beneficiaries in cases of tight quotas, which again have not been frequently observed.

(Quota allocation in Turkey is to be completed.)

2- Progress in ATC Implementation

The transition to trade liberalization in trade in textiles and clothing is to be achieved under ATC through:

- The gradual removal of existing quotas described by the agreement as "integration".
- Accelerated growth of remaining non-integrated quotas which is called "liberalization."

Integration is required from two group of countries: those who have maintained quotas under the MFA, principally the USA, the EU, Canada and Norway, and any other WTO member who chooses to retain the right to use the special safeguards provision of article of the ATC. Integration is to be carried out over three stages. For the first stage, which started on January 1st, 1995, WTO members have to integrate 16% of the total volume of their 1990 imports. In the second stage, which started on January 1st, 1998, 17% of the total volume of the 1990 imports have to be integrated and for the third stage, which is to start on January 1st, 2002, 18% have to be integrated. Finally, on January 1st 2005, the rest of the total volume of 1990 imports, totaling 49%, has to be integrated. Extension of ATC is explicitly excluded. Products to be integrated are left to the choice of the importing country, but they have to be spread to cover at least one item from each of four groups of products: yarns and tops, fabrics, made-ups and clothing.

Concurrently with the process of integration, products remaining under restriction should be allowed an additional increase in growth rates above those agreed upon under the MFA. Such products should have their quota increased by an additional 16% in the first stage, 25% in the second stage and 27% in the third. Small suppliers are to be accorded an even higher percentage additional growth rate of 25%, 27% and

27% over the three stages successively. This process of increasing the negotiated growth rates is sometimes called "growth-on- growth" provision. (1)

ATC also provides for major reviews before the end of each stage to assess the implementation of the integration and liberalization processes. Review of the first stage showed that developing countries were not satisfied with the progress achieved.

Actual revision of implementation showed that although 33% of trade has been integrated to fulfill the minimum legal requirements of the Agreement, the process has contributed little towards the realization of the main objectives of ATC, namely the progressive phase out of quotas or liberalization of trade. The list of items notified by the EU and the USA to the Textiles Monitoring Body (TMB) indicates that until the end of the year 2001, none of the quotas integrated affect the Mediterranean countries. In fact, the integrated products were either of little importance to the major importers or were not originally restrained by quotas. The same observation applies to the integration program declared by the USA for the third stage. Out of 750 quotas imposed by the USA only 2 have been removed in stages 1 and 2 and 11 have been removed by early elimination only with respect of Romania. For the EU, which has a total number of quotas of 219, 14 have been eliminated by integration in the stages (1) and (2)⁽¹⁾, no early elimination has been reported.

Quota increases, by virtue of the growth-on- growth provision has also been minimal.

Much criticism about the phase out programmes of the USA, the EU, and Canada has been voiced by the whole trading community and specially by the developing countries exporting textiles and clothing. There are reports that the USA did not liberalize more than 1.3% of its quotas during the first and second stages of ATC integration. The corresponding EU and Canada figures are 3.5% and 2.75%.

In fact none of the exports of Egypt and Turkey to the USA will be liberalized before the end of the 10 years transition period of integration under ATC. There are thus no new opportunities created by the phase out (integration) stages under the ATC.

It is noteworthy that quotas in EU markets and in the USA have not been fully utilized. To take again Egypt as an illustrative case, it appears that most quotas were underutilized during the period, 1990-1998, as shown in Table (4).

In EU markets, the quotas has been underutilized in almost all years during the period 1990-1998 with the exception of 1993-1994 when adverse climatic conditions led to a cotton crop failure in both India and China and resulted in sharp increases in international cotton prices. This induced European manufacturers to shift their demands to cotton yarn and grey fabrics, in the corresponding years.

⁽¹⁾ Abdel-Fattah, M.M.: Challenges and Opportunities of the Uruguay Round Agreement on Textiles and Clothing for ESCWA Countries, a study for ESCWA,1996.

⁽¹⁾ A report by ITCB: "Experience with the Implementation of the ATC: Main Areas of Concern, Articleby - Article", International Trade and Clothing Bureau, April 1999.

In the USA, the quotas on yarns and fabrics have persistently been underutilized. However, they have been constraining in some clothing items where Egypt appeared to have a cost and quality advantage. These products are specifically T-shirts, cotton and m.m.f. shirts and ladies woolen trousers. Negotiated increases in allowed quotas generally alleviated these constraints.

Practical experience has shown that safeguards and anti-dumping provisions have increasingly been used to restrict trade and exports to both the EU and the USA. Some believe that quotas are a better alternative. Similarly, Turkish experience with textile and clothing exports to the EU – prior to the formation of its customs union with the EU- supports the view that anti-dumping measures were overly applied to constrain Turkish exports to the EU. (1)

Table (4)

Degree of Egypt's Utilization of Textiles and Clothing Quotas in EU and USA Markets (1990-1998)

Category	1990	1991	1992	1993	1994	1995	1996	1997	1998
Percentage of actual Egyptis	an expor	ts to quo	tas in EU	J market	S				
Cotton Yarn	94	77	80	73	124	75	50	83	52
Fabrics	103	94	73	108	129	74	77	76	28
Percentage of actual Egyptia	an export	ts to quo	tas in US	A mark	ets				
Cotton Yarns	34	100	70	90	87	92	45	76	95
Fabrics	58	79	43	39	49	51	8	17	8
Cotton Knit Shirts and	60	91	84	74	69	80	90	118	97
Blouses									
Cotton and m.m.f.shirts	-	-	-	-	119	100	67	45	49
Wool Trousers	-	-	-	105	105	112	90	98	93
Shop Towels	-	102	102	70	72	63	97	96	94

Source: Egyptian Cotton Textile Consolidation Fund.

Additionally, changes in the USA rules of origin which substantially altered its rules for determining, the origin of textile and clothing products, starting July 1st, 1996, had adverse effects for exports to intermediary countries and created an incentive to importers to source their materials from countries free of the possibility of being restrained by quotas. (2)

5- Potential Impacts of ATC Implementation

Within the context of regional integration efforts in the Mediterranean region with the EU and in light of its likely enlargement to incorporate CEECs what are the expected impacts of such developments on exports and imports of the region?

The implications of the ATC for the countries of the region depend principally on the significance of the textiles and clothing sectors in their external trade and on future trends in competitiveness. As mentioned earlier, with the exception of Egypt and Turkey, countries of the region do not participate in the MFA and hence in the ATC.

⁽¹⁾ Ozdem, C. and O. Demirkol: "The Implications of the WTO Uruguay Round on Turkish Economy", Arab Exports Meeting on WTO Impacts Analysis on Arab Economies, League of Arab States, Cairo, July 1994

⁽²⁾ ITCB report, op.cit.

although some of them still face restrictions in industrial countries imposed outside the ATC (Syria in the EU). (3) Egypt's exports are still constrained in the EU, while Egyptian and Turkish exports are constrained under ATC in USA markets. Industrial countries members of the WTO, in addition to their commitment to phase out quantitative restrictions, have to reduce MFN tariffs on textiles and clothing under the WTO.

Countries in the region, in turn, keep tight quantitative restrictions on their imports of textiles and clothing, including bans, in addition to an escalating system of tariffs. These restrictions were not fully effective. To take again the case of as Egypt an example, tariffs were not applied in free zones and continuous smuggling from these zones made these products domestically available. Egypt has already "removed" the ban on fabrics in January 1998, replacing it with an increased import tariff, but she maintained the right to keep bans on imported clothing until January 1st, 2002. Egypt is further committed to reduce bound tariffs in 1995 by almost 45%. By January 2005, tariffs will be reduced to 15%, 30% and 40% for yarns, fabrics and clothing respectively. Turkey has made corresponding commitments (to be illustrated and documented).

Potential Direct Effects of ATC on Mediterranean Exports

Removal of yarn quotas in the USA under the ATC and the WTO or under the partnership agreements with the EU will expose mediterranean exports to increased competition from countries with efficient yarn industry and with large export capacities who have fully utilized their quotas. As an example, in the EU, India, Pakistan and Indonesia may challenge Egyptian, Syrian and Turkish yarn exports. Other potential competitors such as Argentina, Brazil and Korea are not likely to present a serious challenge in the EU, as they were far from filling their quotas as documented for 1994-1996. Keen competition in fabrics is also expected from Thailand and Malaysia, which have exceeded their quotas to the EU. Other competitors from Asia, South America, Russia and Central and Eastern Europe have not filled their respective quotas to the EU, and are not likely to threaten export performance of the region,

ceteris paribus⁽²⁾. However, elimination of quotas- which may be considered as a guaranteed access to small and to less efficient producers – will open the market to

⁽³⁾ As noted earlier, quantitative restrictions on Tunisia and Morocco have been phased out in the EU starting 1995 as a result of the partnership agreement. Free access for export textiles from Turkey have also been granted under the customs union agreement in 1996.

⁽¹⁾ India has filled 107% of its yarn quota to EU in 1994/96, while Pakistan and Indonesia filled 150% and 130% of their respective quotas during the same period. However, Argentina only covered 33% of its quota in 1994/95, and the perientage quota utilization reached 6% in Brazil, 51% in Peru, 56% in Thailand, 77% in South Korea (see Clement, 1996)

⁽²⁾ The rates of quota utilization for fabrics main exporters to EU for 1994/1996 were as follows: Argentina 34%, Brazil 28%, Bulgaria 94%, Czech Republic 90%, Egypt 74%, Hong Kong 16%, Hungary 37%, India 93%, Indonesia 80%, Malaysia 101%, Pakistan 98%, Peru 24%, Poland 28%, Romania 34%, Thailand 108%, Turkey 71%, Singapore 5%, Slovakia 44%, South Korea 46%, (see Clement (1996)).

those efficient, relatively large suppliers who have exceeded their quotas or are close to fulfilling them.

The EU will not provide any of the mediterranean countries additional preferential treatment beyond the extent to which European imports from other countries will remain subject to EU tariffs. The scheduled reduction of these MFN tariffs will lead to the erosion of preferences enjoyed by countries of the region.

This may explain Yeats ⁽¹⁾ conclusion that the region will suffer a net loss from its textiles and clothing liberalization under the WTO. Expected shift away from these countries towards other suppliers would be larger than any potential export increase most countries of the region (with the probable exception of Turkey) could achieve in the EU market, unless their textile industries achieve greater efficiency in production, by reducing costs and improving the quality of their products to benefit from possible enhancement of export opportunities.

An important opportunity for exports available to countries in the region which have already reached a partnership agreement with the EU, is the potential increase in **outward processing activities**. Clothing in these countries produced with EU fabrics will enjoy free access to the EU according to the rules of origin. European investors may increasingly engage in sub-contracting activities in the regional partner economies by creating new productive units and supplying the existing ones with fabrics, accessories, designs and know-how to produce high value added products to be exported to european markets.

Comparison with other countries reveals that after the conclusion of partnership agreements with the CEECs, total outward processing activities significantly increased to account for about 18% of their total exports to the EU in 1993, up from 10% in 1989. For garments alone, such activities account for around 74.5% of CEECs exports to the EU, compared to 12.2% in Morocco and 16.5% in Tunisia in the same year. (2) Although these activities may improve the efficiency of domestic textile industries and promote exports, they are subject to various criticisms. The Moroccan experience suggests they may result in a dualism of the economy as they install production units alien to the rest of the economy and their externalities benefit the world rather than the domestic economy.

Countries in the region which are important exporters of textiles (Egypt and Syria) and which are still negotiating partnership agreements with the EU may find new export opportunities emerging for their textile exports when the agreement is implemented. They may direct their exports to other countries in the region which

⁽¹⁾ Yeats, A.: Export Prospects of Middle Eastern Countries: A Post-Uruguay Round Analysis, the World Bank (1994).

⁽²⁾ World Bank: "ARE: Egypt into the Next Century", Report No. 14048 EGT, Washington, D.C., May 1995.

have already concluded free trade agreements will the EU that allow for cumulation of the rules of origin⁽³⁾.

It should be noted, however, that the asymmetric treatment mediterranean countries which have concluded free trade agreements or customs union with the EU receive compared to the countries which have not signed such partnership has negatively impacted exports of the latter group. To give a specific example, Egyptian exports of yarns and fabrics to the EU have drastically fallen in 1998 (as it may be observed from Table (4)) and continue to fall in 1999. One reason for such a decline is the sharp decrease in Turkish cotton yarn export price to the EU without fear of any dumping accusations. This deliberate price decrease is intended to divert cotton yarn exports to the EU to compensate the decline in Turkish exports to Russia and other CIS countries due to the deep recession these economies are facing.⁽¹⁾

Finally, the reduction in MFN tariffs on textiles and clothing under the WTO will benefit mediterranean countries in markets where they did not enjoy preferential treatment and where they were restrained by quotas. Egypt and Turkey are likely to gain in the U.S.A. market, where their textiles and clothing exports are subject to above average MFN tariffs. Export opportunities will also expand upon complete elimination of quantitative restrictions under ATC or more generally under WTO. The beneficial impact may be important for knit clothing items that face binding quotas in the U.S.A.⁽²⁾. This impact is likely to be minimal for exporters such as Syria, Tunisia and Morocco that did not participate in MFA and were not facing binding quotas in their export markets⁽³⁾.

The extent to which regional exporters of textiles and clothing can effectively benefit from opportunities created by the complete implementation of the ATC will depend on their ability to improve their relative competitiveness over the transition period. Factors such as labor costs, transport cost, the cost of capital, transition costs, real exchange rate will be significant determinants in this respect.

Potential Impact on Imports

Removal of quantitative restrictions and bans on imports of textile and clothing products will result in a surge of competing imports. If liberalization is only achieved according to WTO rules, no preferential treatment will be given to EU products. However, immediate removal of quantitative restrictions under the partnership agreements signed between the EU and several countries of the region and eventual complete elimination of tariffs after the negotiated transitional period elapses will give textile products from the EU additional preferential access in the region

⁽³⁾ Kheir -El-Din, H. and H. El-Sayed: "Potential Impact of a Free Trade Agreement with the EU on Egypt's Textile Industry" in Regional Partners in Global Markets: Limits and Possibilities of the Euro-Med Agreement, A. Galal and B. Hoekman (eds.), CEPR and ECES, 1997, pp. 220-221.

⁽¹⁾ Egyptian Cotton Textile Consolidation Fund.

⁽²⁾ Kirmani, N.: op. cit.

⁽³⁾ Remember that clothing and made-up textiles are not subject to any restriction in the EU.

compared to countries subject to MFN tariffs, as these tariffs, within the WTO framework, are to be reduced rather than completely eliminated.

As a result, yarn imports from the EU will not significantly increase, the main current suppliers to the region being India and Pakistan which export their yarn at a significantly lower price than the EU. Intermediate imports of fabrics may be diverted towards the EU as a result of the rules of origin. Imports of fabrics for final consumption and of ready-made garments from the EU may also increase, depending on the elasticity of these imports with respect to tariff reductions and on the pattern of tariff reduction (front - loaded, uniform or back- loaded as a result of the FTA signed with some countries of the region. The pattern and level of MFN tariff reductions within the WTO framework will also affect the extent of trade diversion. This increase in competing imports is likely to harm domestic producers which have been enjoying significant protection.

Imports of machinery and other intermediate inputs for the textile industry are not subject to quotas and usually face lower tariffs than textiles. They are essentially imported to the region from Western Europe, Japan and the USA. Trade diversion will occur in countries which have signed FTAs with the EU, to the extent trade liberalization with other countries is delayed and depending on the initial height of the MFN tariffs. Overall, this effect will be beneficial as it is likely to contribute to cost reduction in the textile industry. (1)

6- Concluding Remarks

⁽¹⁾ Kheir-El-Din H. and H. El-Sayed: op.cit.

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Statistical Tables

n° Inv. 19914 23 LUG. 1999







Preparing for the WTO 2000 Negotiations: Mediterranean Interests and Perspectives Cairo, Egypt, 14-15 July, 1999

Assessing Market Access Preferences for Mediterranean Countries on the EU Market for Industrial Goods

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Sponsored by the Economic Research Forum, Istituto Affari Internazionali and the World Bank

Contribution of the World Bank and IAI made possible by financial support from the Government of Italy and the Netherlands

Paper prepared for the ERF/IAI/World Bank workshop on Preparing for the WTO 2000 negotiations: Mediterranean interests and perspectives Cairo, 14-15 July 1999

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1. Introduction

Many MENA countries have concluded Association Agreements with the EU, others are doing so. A free trade agreement has also been negotiated among Arab league states. The value of such agreements depends critically on the following dimensions:

- the preference margin to which partner countries are entitled;
- the presence of NTM's and of any mechanisms provided for within the agreements to reduce their effect on partner countries;
- the extent to which rules of origin require local processing of goods and services.

Our analysis is a first attempt to assess the Euro-Mediterranean Agreements on the basis of these parameters as regards industrial products with specific reference to textile and clothing products.

The paper is organized as follows. The second paragraph presents a statistical estimate of the margin of preference granted to the Mediterranean Countries within the Euro-Mediterranean Agreements for industrial goods. The third paragraph focuses more specifically on textiles and clothing products and briefly presents various dimensions of the EU trade regime focussing in particular on tariffs, quantitative restrictions and surveillance as well as anti-dumping actions. In the fourth paragraph, we turn to the issues of rules of origin under the Euro-Mediterranean agreements and the current evolution of EU regulation in this field, and we evaluate it critically on the basis of the interests of the Mediterranean countries. In this regard, non-preferential rules of origin.

We conclude by presenting a detailed roadmap that Mediterranean Countries can pursue at the regional and multilateral level to ensure that rules of origin better reflect their industrial capacity and that the market access preferences provided for under the Euro-Mediterranean Agreements can be fully exploited.

2. Quantifying tariff preferences from the Euro-Mediterranean Agreements for industrial goods originating from Mediterranean Countries

During the seventies, the European Community signed a series of bilateral cooperation agreements - similar in wording and in substance - with a number of Southern Mediterranean countries, namely Algeria, Morocco, Syria, Jordan, Lebanon, Egypt and Tunisia. In particular, the trade concessions granted by the European Union in the context of the Agreements can be summarised as follows:

- Customs duties on industrial products were phased out one year after the signature of the Agreements;
- All quantitative restrictions were abolished at the same time except for agricultural products and some textiles and clothing products;
- Selected agricultural products were subject to tariff concessions according to a positive

In exchange for these concessions, not much was required of the Mediterranean countries,

except for granting the European Union MFN country status. Southern Mediterranean contracting parties were even entitled to introduce new customs duties and/or taxes having an equivalent effect to customs duties or quantitative restrictions where such measures are necessitated by development of local industries or development issues in general. Quantitative restrictions, however, could be applied by Mediterranean contracting parties only towards the whole of the European Union and not against single member States.

The substance of the Euro-Mediterranean Cooperation Agreements has been preserved until the mid-nineties, with no major changes, with the notable exception of a major revision of the agricultural preferences granted to the Southern Mediterranean Countries to preserve their respective margins of preference after the enlargement of the European Community to the South in 1987.

In November 1995, the Ministerial Conference of Barcelona of marked the official launching of a new policy of partnership with the Southern Mediterranean countries¹. This partnership may be summarized as developing along three main streams:

- Negotiations of bilateral free trade area agreements of reciprocal nature between the EU and the Southern Mediterranean countries providing for full liberalization of trade in industrial goods, progressive liberalization of trade in agricultural goods and additionally covering aspects beyond trade in goods²;
- The creation of a Euro-Mediterranean comprising all the countries bordering the Mediterranean Sea by the year 2010;
- Substantial financial assistance to flank the necessary adjustments.

Eight Association Agreements have been in the making since 1995: two have entered into force (Palestinian Authority, July 1997 and Tunisia, March 1998); two have been signed but are awaiting ratification (Morocco, February 1996 and Jordan, November 1997) and four (Algeria, Egypt, Lebanon and Syria) are still being negotiated.

As far as industrial products are concerned, as we have stressed above, Mediterranean Countries have enjoyed duty and quota free treatment on their industrial exports towards the EU since the late 70's. Thus, on industrial products the EU cannot offer much more than what is already provided under the old agreements. On the other hand, the Mediterranean Countries will have to progressively liberalise their own imports of industrial products from the European

Communication from the Commission to the Council and the European Parliament, "Strengthening the Mediterranean Policy of the European Policy of the European Union: Establishing a Euro-Mediterranean Partnership" Com (94) 427 Final of 19/10/1994 and Communication from the Commission to the Council and the European Parliament, "Strengthening the Mediterranean Policy of the European Union: Proposals for implementing a Euro-Mediterranean Partnership", Commission of the European Communities, COM(95) 72 final.

For more details on the Euro-Mediterranean Agreements see: Handbook for Exporters from Mediterraean Countries and Territories to the European Union markets Part A, UNCTAD/ITCD/TSB/Misc.3, and UNCTAD/ITCD/TSB/Misc.7, Geneva 1997.

Union, but this aspect is beyond the scope of the present paper.

Table 1 below attempts to quantify the market access preferences granted to the Mediterranean Countries as regards industrial products, and their evolution following the implementation of the Uruguay Round Agreements³.

Table 1: Preference erosion on the European Union market for industrial products originating in Mediterranean Countries as a result of the Uruguay Round Agreements

Product description 1.4					Preference
USCOTT PHOUGHT AND					• (%)
Energy and mineral products (25-27)	0.5	0.3		0.3	
Leather, leather products, travel goods (41-43)	3.5	2.5	3.4	2.4	27.9
Textiles (50-60,63)	8.8	7.8	8.1	7.2	10.5
Clothing (61-62)	13.1	12.3	11.6	11.0	5.4
Footwear (64)	12.9	11.5	11.4	10.3	9.7
Chemicals, plastic and rubber products (28-40)	7.1	4.7	6.6	4.5	32.3
Glass and ceramic products (69-70)	6.9	5.2	6.5	4.9	23.4
Consumer electronics (8516-8542)	6.3	3.5	5.9	3.4	42.9
Vehicles (87)	8.4	6.3	7.7	5.9	23.5
Watches and clocks (91)	5.5	2.6	5.2	2.5	51.4
Metal products, machinery etc., nes (72-90)	4.8	2.8	4.6	2.7	40.5
Furniture (9401-9403)	5.1	1.9	4.9	1.9	61.6
Wood, paper, other ind. prod.(44-49,65-68,71,92-93,95-96)	5.5	3.3	5.2	3.2	38.7
TOTAL (25-97)	6.4	4.5	6.0	4.3	28.4

As it can be seen from the table, the preference margin that Mediterranean Countries enjoy is of 4.3% on average as regards industrial products. The erosion of the preference margin resulting from the implementation of the commitments undertaken by the European Union within the Uruguay Round was especially significant for certain products like furniture, watches, consumer electronics, metal products & machinery as well as energy and mineral products. Also, for some products of particular export interest for the region such as clothing and footwear the preference margin fell by 11.0 and 10.3% respectively. Nevertheless, on average, the margin of preference enjoyed by Mediterranean Countries remains significant.

As for other countries that are in the process of implementing the Uruguay Round Agreements, the evolution in the EU MFN tariffs that the table presents results from two interacting trends: on the one hand, the tariffication of non-tariff barriers, and in particular tariffrate quotas, and on the other the reduction in bound rates. Whereas the first trend may bring about an increase in bound and applied rates - to compensate the contemporaneous reduction in non-

Clearly, since the Mediterranean Countries are enjoying duty-free market access, the most obvious quantification of the preference margin (PM) would be 100%. However, by adopting the alternative methodology whereby the preference margin is defined as: PM = [(MFN rate - preferential rate)/ (1+MFN rate)], we can better track how the PM changes based on changes in MFN rates.

tariff barriers - the latter obviously brings about a net reduction. For countries that enjoy preferential market access the net impact of these two trends is mixed, and can only be judged on a case by case basis, also with reference to the actual non-tariff measures that have been phased out - both as regards preferential imports and as regards MFN imports.

In the next paragraph we will discuss in more detail the evolution of the market access conditions regarding textiles and clothing, which as was mentioned earlier, were the only industrial products for which a few of the Mediterranean countries were still experiences some restrictions in market access.

3. Market access for textile products originating from Mediterranean Countries

We will start by presenting the MFN tariffs - and the resulting preference margins for Mediterranean Countries - that the European Union currently applies to Textiles an Clothing products (T&C) (see Table 2 below).

Table 2: Preference erosion on the European Union market for main T&C products originating in Mediterranean Countries as a result of the Uruguay Round Agreements

Products	Harmonized system	Ta		prefe	rence	Preferee erosion
description	positions_	1994	6) 1998	1994	6) 1998	(%) (1- 1) (-2) (1-1)
Silk fibres	5002	3.8	1.3	3.7		64.9
Silk yarn	5004	4.9	4.0	4.7	3.8	17.7
Silk fabrics	5007	5.6	5.6	5.3	5.3	0.0
Wool fibres	5101	0.0	0.0	0.0	0.0	0.0
Wool yarn	5106+5107+ 5108+5109	4.4	4.2	4.2	4.0	4.4
Wool fabrics	5111+5112	14.9	12.5	13.0	11.1	14.3
Cotton fibres	5201	0.0	0.0	0.0	0.0	0.0
Cotton yarn	5205+5206+ 5207	6.1	5.2	5.7	4.9	14.0
Cotton fabrics	5208+5209	10.0	9.2	9.1	8.4	7.3
Jute fibres	5303	0.0	0.0	0.0	0.0	0.0
Jute yarn	5307	0.0	0.0	0.0	0.0	0.0
Jute fabrics	5310	4.0	4.0	3.8	3.8	0.0
Synthetic fibres	5503+5506	7.7	6.2	7.1	5.8	18.3
Synthetic yarn	5512+5513+ 5514	11.0	9.8	9.9	8.9	9.9
Synthetic fabrics	5515	11.0	9.8	9.9	8.9	9.9
Artificial fibres	5504+5507	8.7	6.8	8.0	6.4	20.4
Artificial yarn	5510	9.0	7.0	8.3	6.5	20.8
Artificial fabrics	5516	11.0	9.8	9.9	8.9	9.9
Knitted or crocheted fabrics	60	11.7	10.3	10.5	9.3	10.8
Shirts, trousers, skirts, suits, ensembles	from 6101 to 6106	13.9	13.1	12.2	11.6	5.1
overcoats, etc. knitted or crocheted						
Underwear, knitted or crocheted	6107-6108	13.3	12.4	11.7	11.0	6.0
T-shirts& jerseys, knitted or crocheted	6109-6110	13.5	12.6	11.9	_11.2	5.9
Babywear, knitted or crocheted	6111	11.8	11.4	10.6	10.2	3.0
Sportswear, knitted or crocheted	6112	11.9	12.5	11.1	10.6	4.3

description	Harmonized system positions	Mirn Tariff (%)		Margin of preference (%)		Preferce erosion (%)
	and the second	1994	1998	1994	1998	
Misc. art. of clothing, knitted or croch.	from 6113 to 6117	12.1	11.5	10.8	10.3	4.4
Shirts, trousers, skirts, suits, ensembles overcoats, etc. not knitted or crocheted	from 6201 to 6206	13.9	13.1	12.2	11.6	5.1
Underwear, not knitted or crocheted	6207 - 6208	13.4	12.4	11.8	11.0	6.6
Babywear, not knitted or crocheted	6209	10.5	10.5	9.5	9.5	0.0
Sportswear	6211	14.0	13.2	12.3	11.7	5.0
Misc. art. of clothing	6210+from 6212 to 6217	9.3	9.0	8.5	8.3	3.0
Other made-up textile articles	from 6301 to 6308	11.7	11.1	10.5	10.0	4.6

It is interesting to note from Table 2 that MFN tariffs - and thus the preference margins for Mediterranean Countries - vary not only depending on the state of processing but also depending on which material is used in the production process. In particular, among fabrics, wool fabrics are the most highly protected, followed by artificial and synthetic fabrics. Among yarns, it is synthetic and artificial yarns that are the most protected. Cotton occupies a mid-range position, followed by other natural fibres. However, it is also interesting to observe that tariffs on clothing are instead mostly independent of the material used in the production process, and this is why this detail does not appear on the Table.

Table 2 also allows us to make a few comments regarding the evolution of the margin of preference for T&C products. Among the products of export interest for the region, the products for which the margin of preference has fallen most are artificial fibres and yarn as well as synthetic yarn and - importantly - cotton yarn (-14%). The preference margin on articles of clothing has instead evolved much less, falling by 6.1% over the period under consideration.

These observations reinforce the common knowledge intuition that - to make the best use of preferences - exporting countries need to engage in the production of highly processed or finished goods, on which the Mediterranean countries enjoy a margin of preference of 12.3% on the European Union markets. However, in the case of T&C products, it is certainly important to look at the provisions regarding quotas and other quantitative instruments before drawing a final conclusion as to the preferences that the Mediterranean countries enjoy.

Let us then introduce the general framework the of the "common rules for imports of textile products" of the European Communities and then look at the specific provisions regarding the Mediterranean Countries⁴.

Traditionally, imports of textile products into the EC have been subject to the Multi-Fibre Arrangement. The basic tenets of the new system which was subsequently introduced are

For more details on the import regime of textiles and clothing products of the European Union see: Stefano Inama and Edwin Vermulst, Customs and Trade Laws of the European Community, Kluwer Law International, London, 1999.

contained in Regulation 3030/93⁵ - designed to cover the transitional period from 1993 to 1995 pending the entry into force of the new WTO discipline - and Regulation 3289/94⁶, which implemented the commitments made under the Uruguay Round Agreement on Textile and Clothing.

By the terms of these regulations, a new system has been set up to administer the treatment of imports of textile products. Textile products have been classified into 8 groups subdivided into 161 categories, as set out in Annex I to the Regulation 3030/93, as last amended by Regulation 856/98. The categories are formed by getting together various Combined Nomenclature (CN) subheadings at the eight-digit level. For example, category 1 of Group IA includes the following CN subheadings:

Table 3: Excerpt of Regulation 3030/93 defining one Category of Textile Products

Category	Combined Nomenclature	Product description
	52041100 52041900 52042000 52051100 52051200	Cotton yarn, not put
	52051300 52051400 52051510 52051590 52052100	up for retail sale
1 1	52052200 52052300 52052400 52052600 52052700	
1	52052800 52053100 52053200 52053300 52053400	
	52053510 52053590 52054100 52054200 52054300	
	52054400 52054600 52054700 52054800 52061100	
	52061200 52061300 52061400 52061510 52061590	
	52062100 52062200 52062300 52062400 52062510	
	52062590 52063100 52063200 52063300 52063400	
	52063510 52063590 52064100 52064200 52064300	
	52064400 52064510 52064590	

Within this framework, the Commission has allocated to each of the countries with which it has entered into an Agreement a quantitative quota for products included in the various categories: Annex V to Regulation 3030/93, as last amended by Regulation 856/98, provides the details of the quotas allocated to each country for specific categories. An excerpt is given below:

Table 4: Community Quantitative Limits for Argentina in Group 1A

O.J. L 275 (1993). The countries covered by this Regulation are listed in Annex II (as last amended by Regulation 856/98, O.J. L 122 [1998]), as follows: Argentina, Armenia, Azerbaijan, Bangladesh, Belarus, Brazil, China, Egypt, Estonia, Former Yugoslav Republic of Macedonia, Georgia, Hong Kong, India, Indonesia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Macao, Malaysia, Moldova, Mongolia, Pakistan, Peru, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Tajikistan, Thailand, Turkmenistan, Ukraine, United Arab Emirates, Uzbekistan and Vietnam. Thus, among the countries of the MENA region, only Egypt is subject to this system.

⁶ O.J. L 349 (1994).

Group I A and B, Group II A and B, Group III A and B, Group IV and Group V: O.J. L45 (1998).

Third	Category	Unit	Commu	nity quantilati	tive limits		
- country			1998	1999	2000		
Argentina	Group IA						
	1	Tonnes	4 939	5 083	5 230		
	2	Tonnes	7 183	7 360	7 541		
	2 a)	Tonnes	6 397	6 555	6 716		

The allocation of quotas to specific countries for selected categories is accompanied by a complex system of administration, which as far as quotas are concerned is carried out through the establishment of a double-checking system. As a general rule, paragraph 1 of Article 12 of the 3030/93 Regulation provides that, when quantitative limits on imports of certain categories of textile products are applied, the competent authorities of the member States may issue import permits only after receiving a confirmation from the Commission that there are still quantities available for that specific category of products originating in a specific country. None of the countries of the MENA region is currently subject to this system.

According to Article 13, paragraph 1 of the 3030/93 Regulation, when a system of surveillance is introduced on certain categories of products which are not subject to quantitative limits, the procedures and formalities concerning single and double checking are also applied. Under the double-checking system, the competent authorities of the exporting countries - for Egypt the cotton textile consolidation fund - shall issue an export licence in respect of all textile products subject to surveillance procedures. At the time of importation, the authorities of the member States shall issue an import authorisation following the presentation by the importer of the corresponding export licence. Thus, in case of surveillance, the issuing of an import licence does not require the prior authorisation of the Commission, as in the case of quantitative limits. In the case of textile products coming from supplier countries listed in Table B of Annex III, a system of single prior surveillance is applied. In this latter case, the simple presentation of a surveillance document, issued at the request of the importer by the competent authorities of the member States, will be sufficient for these products to be released for free circulation. Tables C and D of Annex III contain the lists of products subject to a system of a posteriori statistical surveillance, according to which the authorities of the member States shall notify the Commission monthly of the total quantities imported during each month, in order to break down imports in accordance with the statistical procedures in force (Article 27).

Egypt is the only country in the MENA region which is currently subject to surveillance under the double checking system, for the following products: cotton yarn; woven fabrics of cotton; shirts, T-shirts, polo, jumpers and pullovers and bed linen. The aim of this system is mainly to monitor the flows of the textile exports of Egypt to the community. Moreover, while not officially reported in the official journal of the European Communities reference quantities have been established by the EC Commission and notified to the Textile Monitoring Body as required by the Uruguay Round Agreement on textile and clothing. It appears that in the past Egypt has been unable to utilize fully the reference quantity allocated. Should in the future be otherwise or Egyptian exports in the Community or in one member State cause disturbance, consultations would be held with the Government of Egypt prior to any quantitative measure by

the Commission⁸.

Another dimension that should be taken into account when evaluating market access for Mediterranean Countries on the European Union market are anti-dumping actions. Again, Egypt has been the only country among those of the Mediterranean to become subject to anti-dumping actions by the Community. In particular, the Commission has imposed a definitive anti-dumping duty on imports of certain unbleached cotton fabrics originating in Egypt, definitively collecting the provisional duty imposed. This was the third consecutive action of the Commission involving Egyptian exports of cotton fabrics: the first one ended undecided "after the EU Council of Ministers voted against the proposed definitive anti-dumping measures". The second action was closed in April 1997 again with the imposition of definitive anti-dumping duties.

As it is discussed in detail in the recent UNCTAD publication quoted above, both the Cooperation Agreements signed in the Seventies and the more recent generation of Association Agreements refer to the WTO rules as regards anti-dumping measures; however provisions are made for a conciliation procedure in the framework of the Cooperation (Association) Committee before any action is taken. In actual practice, this conciliation provision is barely used, most likely for three main reasons:

- first, anti-dumping proceedings require a high level of protection of confidential company data, so that Commission case handlers will be reluctant to discuss them with foreign missions in any detail;
- second, an anti-dumping proceeding typically involves many countries and disclosure of confidential information to some parties may have distorting effects on other economic operators;
- third, the WTO discipline on anti-dumping imposes very strict time limits for the Commission in handling a proceeding, so that time for consultations may actually be very limited.

The Euro-Mediterranean Agreements also provide that in trying to find a solution acceptable to both parties, "priority must be given to measures that least disturb the functioning of the Agreement" Antidumping duties normally take the form of ad valorem additional customs tariffs, however, occasionally, other forms are used, such as - in particular - agreements between the exporter concerned and the Commission in which the exporter agrees to maintain a certain minimum price level (the so-called undertakings). Normally, undertakings are less

Morocco and Tunisia have been subject in the past to quantitative limits for outward processing traffic, i.e. re-imports into the Community of products processed within the two countries. This provision has been discontinued as from 1994: Morocco and Tunisia are currently no longer subject to any quantitative limitations for Textiles & Clothing products.

⁹ UNCTAD, "Anti-dumping and safeguards in the Euro-Mediterranean Association Agreements", UNCTAD/ITCD/TSB/Misc.10, Geneva, April 1998, page 13.

Article 27 of the Euro-Mediterranean Association Agreement between the European Communities and Tunisia.

onerous for exporters, but the Agreement does not set a legal obligation for the Commission to choose this alternative. The reason for this is that it may often be unpractical to monitor undertakings or impossible to calculate a minimum price due to the variety of exported types of products, with a corresponding variety of normal values.

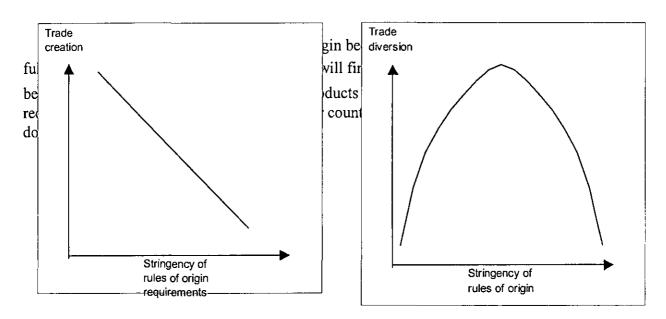
In view of the above, the actual value of the provisions regarding anti-dumping contained in the Euro-Mediterranean Agreements may well be very limited. To the current date, there is little history of anti-dumping duties against Mediterranean Countries. However, exports of Mediterranean Countries towards the EU have been traditionally oriented towards agricultural products, and the Commission has rarely taken anti-dumping action in this field. Should Mediterranean Countries become more aggressive in the utilization of the margins of preference they enjoy as regards industrial products, the number of anti-dumping actions could rapidly increase. Mediterranean Countries would then be in a position to insist on a more consistent application of the provisions contained in the Agreements.

By way of summarizing our findings in the current paragraph, we may conclude that Mediterranean countries enjoy interesting margins of preference in products of key export interest. Furthermore, Mediterranean countries are not currently subject to any quantitative measures and they have been relatively untouched by anti-dumping actions. The reasons behind the lack of dynamism of Mediterranean exports of industrial products towards the European markets is thus mainly to be attributed to supply-side factors - but the discussion of these aspects is clearly outside the scope of our analysis. In the next paragraph we turn - instead - to the discussion of the rules of origin requirements under the Euro-Mediterranean Agreements which clearly represent another important feature of market access for industrial products.

4. Market access for Mediterranean Countries and Rules of Origin

The reason why preferential rules of origin are an important dimension of market access can be visualized from Chart 1 below.

Chart 1: Effects of stringency of rules of origin on trade creation and trade diversion



Turning now to trade diversion¹², relaxed rules of origin which are easy to fulfill reduce the incentive to source from within the region. Suppose for the sake of the argument that under a particular regional agreement, the transformation of fabrics into ready made garments is origin-conferring. Producers of garments will then be encouraged to continue to source fabrics from outside the region from the most competitive supplier, transform them into ready-made clothing and then export them to partner countries. If, alternatively, production is only allowed to start from imported yarn, but not from imported fabrics, producers of garments will be encouraged to start sourcing fabrics from within the region. However, when rules of origin become very stringent a second effect starts to kick in, similar to the one discussed above for trade creation: the cost of compliance becomes higher and for more and more products it exceeds the margin of preference thus reducing the incentive to source from a partner country products that were previously sourced from outside the region.

Bearing these considerations in mind, we will now present the rules of origin requirements under the Euro-Mediterranean agreements and the current evolution of the relevant EU regulation, with a view to assess the interests of Mediterranean Countries in this domain.

4.1 The main features of the EC protocols on rules of origin

Invariably, all EC unilateral or contractual preferential agreements contain a detailed protocol on rules of origin. As a traditional feature of this agreement, the products were considered as originating if they were:

- a) wholly obtained
- b) sufficiently worked or processed

In general, wholly obtained were considered those products as minerals and fruits which do not contain any imported inputs. These products were enumerated in a list.

The matter was more complex in the case where imported inputs were utilized in the production of the finished product. In general, inputs had to undergo sufficient processing. A general rule specified what was considered to be sufficiently worked or processed. Non-originating materials are considered to be sufficiently worked or processed when the product obtained is classified in a tariff heading which is different from that in which all the non-originating materials used in its manufacture are classified.¹³

However, for a number of products there were exceptions to the general CTH rule. In fact, the harmonized system was conceived as a customs nomenclature and not for rules of origin purposes. Accordingly, in some instances even minimal working or processing could entail a CTH. Thus, a variety of products were covered by a so-called single list, which indicated the working or processing that should be carried out on the non-originating materials. The list contained a large number of particular products for which specific conditions should be fulfilled, instead of the CTH requirement.

The second important feature of all EC Protocols on Rules of Origin is the so-called cumulation. Normally, rules of origin in the context of autonomous or unilateral contractual

preferences are to be complied with within the customs territory of the partner country. However, it was considered that this requirement was not conducive to the trade and industrial policy objectives underlying FTA's or preferential agreements, for a number of reasons. First, stringent requirements to comply with rules of origin at the national level may require a "verticalization" of production which does not match the existing industrial capacity and which is quite often not economically viable in many developing countries. Second, such requirements did not take into account and might indeed frustrate the regional trade initiatives taking place among certain of the partner countries. Finally, and as was mentioned above when discussing the trade effects of rules of origin, a requirement to carry out multi-stage operations may even frustrate the very objective of an FTA or preferential agreement.

4.2 Cumulation

Three kinds of cumulation have therefore been used, as far as qualitative aspects are concerned, in autonomous or unilateral contractual trade preferences:

- 1. full cumulation
- 2. diagonal or partial cumulation
- 3. bilateral cumulation or donor country content.

As far as quantitative and geographical aspects are concerned, the concept of cumulation is linked to geographical extension of the cumulation.

The most delicate and complex differences relating to cumulation belong to the distinction between full and partial cumulation. This distinction may have decisive economic effects on the functioning and utilization of trade agreements, especially on the part of the EC partner countries.

Generally speaking, full cumulation of origin allows more scattered and divided labour operations among the beneficiary countries since, in order to fulfil the origin criteria, the distribution of manufacturing may be carried out according to business exigencies within the members of the regional grouping, i.e. working or processing may start in A, continue in B and finish in B according to a cost/benefit analysis. This perspective seems to match the globalization and interdependence of production, whereby developed countries may be attracted to farming out low-tech or labour-intensive production processes in low-cost countries. Diagonal cumulation does not particularly favour this approach since it requires higher value added or more complicated manufacturing processes. On the other hand, and in view of preference-giving countries, partial cumulation may be able to attract more capital-intensive investments accompanied by improved technical know-how and labour skills.

Deeper economic consideration of the impact of full or partial cumulation suggests that full cumulation allows the massive employment of low-wage, low-skill labour, which some may argue to be a potentially negative factor since these workers often receive less than the average wages and save less than the average workers. Reality suggests, however, in spite of the argument of some countries suggesting a long-term objective of industrial policy through the adoption of restrictive rules of origin, that labour-intensive lighter industries tend to compete most effectively with similar industry in developed countries. Thus, the argument for full cumulation is strengthened.

Through its different sets of rules of origin, the EC, like the other main trading partners, has traditionally utilized a variety of options in the cumulative rules of origin. Sometimes it has graduated them according to its trade policy objectives.

As regards the Mediterranean Countries, the Cooperation Agreements concluded in the Seventies with Algeria, Morocco and Tunisia granted full cumulation among the three Maghreb countries; while those concluded with other Mediterranean countries such as Egypt, Lebanon and Syria only provided for "bilateral cumulation" with the EC. Similarly, the original Protocol on Rules of Origin contained in the Europe Agreements provided only bilateral cumulation and diagonal cumulation among Poland, Hungary, the Czech Republic and the Slovak Republic.

4.3 The pan-European rules of origin

The unfolding of the EC trade policy and agreements with third countries meant a parallel expansion of rules of origin sets to accompany these initiatives. Invariably, all preferential trade agreements either contractual or unilateral contained a detailed protocol on rules of origin. However, the different timing, content, tariff concessions and trade policy objectives of these trade agreements resulted in about 16 overlapping rules of origin systems, which were similar but not totally compatible among them¹⁴.

The differences existing among the various rules of origin protocols created difficulties to customs administrations and industrialists in the importing and exporting countries. Most important the complexity and stringency of the rules were of such nature that the exporters were in some cases foregoing the tariff preference rather than complying with origin requirements. These difficulties first emerged in the framework of the web of bilateral agreements that the EC concluded with the EFTA countries and it reached its climax with the entry into force of the Europe Agreements and the establishment of the EEA. The much overdue need for reform was first acknowledged at the 1993 European Council in Copenhagen when the Council invited the Commission to study the process of harmonization and rationalization of the various rules of origin systems. This new policy was first launched in the context of a Commission communication prepared for the Council of Essen in December 1994 and was originally part of the preparation for accession of CEEC. The Mediterranean countries were not explicitly part of the initial plan.

The "pan-European" rule of origin does away with the general CTH requirement. All requirements to be fulfilled in order to acquire originating status are now contained in a list attached to the protocol on rules of origin. At a conceptual level the contents of this list are similar to those utilized under the previous arrangements, in fact the current list contains a mixture of CTH requirements, specific working or processing and ad valorem percentages; but additional features and differences are contained in these new protocols.

As regards cumulation, the EC has taken a decisive step in adopting an across-the-board approach towards a general adoption of the diagonal cumulation within the context of the Pan-European rules of origin. Diagonal cumulation is in fact the key policy aspect of the harmonization and simplification policy of the Commission. *Per se* the diagonal cumulation is not a new concept in the EC since it has been traditionally adopted in the context of the EC GSP

since 1985 for the regional cumulation among ASEAN countries. However, besides diagonal cumulation the more liberal form of full cumulation has existed in the acquis communautaire at least as long if not before the diagonal cumulation. In its communication, the Commission acknowledged that the full cumulation was not adopted because it could create problems to EC industries allowing a greater source of inputs from third countries.

In order to grant the possibility of diagonal cumulation across the board, all differences among the various sets of rules of origin had to be eliminated and all the protocols had to be aligned with the EEA model. Among these differences, the Commission singled out the ones below.

The alternative percentage rules

In the lists of working or processing required to be carried out on non-originating materials so that the product manufactured can obtain originating status, some agreements contained alternative percentage rules which simply specified that the total value of non-originating materials used should not exceed a certain percentage of the ex-works price of the product. These rules applied to certain products in the EC-EFTA/EEA agreements and in the EFTA-CEEC agreements, but did not appear in the original Protocols on Rules of Origin of the Europe Agreements.

General tolerance

To facilitate trade, a provision for derogation from the working or processing requirements of up to 10 per cent was introduced for certain materials into the EEA Agreement and the EC-EFTA agreements. It entered into force on 1 January 1994. However, such a provision was not contained in the original Protocols of the Europe Agreements (Article 6, paragraph 2, of the new Czech Protocol on rules of origin incorporates this feature).

Relaxation of the principle of territoriality

Rules of origin are based on a principle of territoriality which requires that the conditions for the acquisition of originating status be fulfilled without interruption in one or more of the territories of the contracting parties. As with the introduction of a general tolerance, a provision for limited derogation from the territorial principle of up to 10 per cent was introduced into the EC-EFTA/EEA agreements on 1 January 1994 in order to facilitate trade. This feature is not included, however, in any other EC preferential arrangement, except the EC-Israel Euro-Mediterranean Agreement, neither it has been included in the new protocols to the Central and Eastern European countries (see Article 12 of the Czech Protocol).

Administrative cooperation

Differences between the agreements with regard to the procedures concerning administrative cooperation reflect the extent of partners' trade development and can be seen in the different types of proofs of origin required. For example, EUR.1 movement certificates and in certain cases invoice declarations are acceptable evidence of origin under the EEA Agreement, whereas in the EC-CEEC agreements EUR.1 movement certificates or EUR.2 forms were still

required, under the original protocols.

No-drawback rule

The no-drawback rule refers to a provision included in the EEA Agreements, the bilateral EC-EFTA Agreement and the Stockholm Convention, but not in the Europe Agreements and the old generation of Mediterranean Agreements¹⁵. This procedure is a common customs procedure whereby imported inputs for further manufacturing and re-export are not charged any customs duty in the country of manufacturing. The no-drawback rule prohibits such customs procedure.

In practice, the consequences of the absence of the no-drawback rule in the Europe Agreements are best described by the example provided by the Commission:

Alternators destined for the EC market are manufactured in Poland from components originating in Taiwan. Without a no-drawback rule, no customs duty is paid on the components in Poland. Neither is any customs duty paid in the EC, for the alternators are considered to originate in Poland within the meaning of the Europe Agreement. If the alternators had been manufactured in the EC and put onto the EC market, the Taiwanese components would have been subject to 5.6 per cent customs duty. Similarly, Polish manufacturers would have to pay customs duties on components imported from Asia and used in the manufacture of a product destined for the Polish market, whereas an EC manufacturer would avoid paying duties for the same components when the manufactured product was exported to Poland ¹⁶.

The absence of a no-drawback rule may thus lead to undesired effects and is also an incentive to import third country materials rather than utilize the inputs originating in the free trade area - which is exactly the situation that the EC wished to avoid.

4.4 The Euro-Mediterranean Agreements and the progressive adoption of the Pan-European Rules of Origin

The recently signed Euro-Mediterranean Association Agreements with Morocco, Tunisia and Israel have also started to be the subject of the Commission's harmonization effort with mixed results¹⁷. Thus, the Protocols on Rules of Origin attached to these Agreements are partially modelled according to the new EEA Protocol and are substantially similar to the new Protocol adopted by the CEEC countries. However, at this stage of the harmonization process, the following main differences may be noted:

- (a) the maintenance of the CTH rule as central criterion (Article 7, paragraph 1, of the Tunisian Euro-Med);
- (b) the granting of full cumulation to countries of the Maghreb Union¹⁸ (Algeria, Morocco and Tunisia);
- (c) the non-inclusion of the no-drawback clause in the Tunisia and Morocco Agreements¹⁹;

- (d) the inclusion of the relaxation of the principle of territoriality and the no-drawback clause in the Israel Agreement²⁰;
- (e) other differences concerning the single list, simplified procedure for the issuance of form EUR.1 and the cumulation administrative procedures.

Surprisingly enough, the full regional cumulation granted to the Maghreb countries remained unchanged in the new Euro-Mediterranean Agreements. In fact, article 5 in the Protocol on Rules of Origin provides for full cumulation and further clarifies the difference between that form of cumulation and diagonal cumulation:

Article 5:

- 1. For the purpose of implementing Article 2(1)(b), working or processing carried out in Tunisia, or when the conditions required by Article 4, paragraphs 3 and 4 are fulfilled in Algeria or in Morocco shall be considered as carried out in the Community, when the products obtained undergo subsequent working or processing in the Community.
- 2. For the purpose of implementing Article 2(2)(b), working or processing carried out in the Community or when the conditions required by Article 4, paragraphs 3 and 4 are fulfilled in Algeria or in Morocco shall be considered as carried out in Tunisia, when the products obtained undergo subsequent working or processing in Tunisia.

The addition of this article to the Tunisian Agreement means that full cumulation is granted to Algeria, Morocco and Tunisia. Accordingly, not only the originating material may be counted as original materials but also all the working and processing carried out in one of the above-mentioned Member States may be added up, even if they have not acquired origin, to meet the origin criteria set out in the list for the specific product.

Thus, in partial contrast with the declared aim of harmonizing rules of origin in EC trade agreements with third countries, the above-mentioned full cumulation system among the Maghreb countries has been retained in the new Euro-Mediterranean Association Agreements even though the wording is substantially different from that of the former cooperation agreements. At the time of this writing, in spite of the harmonization efforts under the pan-European rules of origin, the full cumulation granted to Algeria, Morocco and Tunisia represents an exception.

Under the new Protocol to the Czech Agreement adopting the pan-European rules of origin, Article 4 spells out the conditions for diagonal cumulation:

1. Subject to the provisions of paragraphs 2 and 3, materials originating in Poland, Hungary, the Slovak Republic, Bulgaria, Romania, Latvia, Lithuania, Estonia, Slovenia, Iceland, Norway or Switzerland within the meaning of the Agreements between the Community and the Czech Republic and these countries shall be considered as originating in the Community or in the Czech Republic when incorporated into a product obtained there. It shall not be necessary that such materials have undergone sufficient working or processing.

- 2. Products which have acquired status by virtue of paragraph 1 shall only continue to be considered as products originating in the Community or in the Czech Republic when the value of the materials used originating in any one of the other countries referred to in paragraph 1. If this is not so, the products concerned shall be considered as originating in the country referred to in paragraph 1, which accounts for the highest value of originating materials used. In the allocation of origin, no account shall be taken of materials originating in the other countries referred to in paragraph 1 which have undergone sufficient working or processing in the Community or in the Czech Republic.
- 3. The cumulation provided for in this Article may only be applied where the materials used have acquired the status of originating products by an application of rules of origin identical to the rules of origin in this Protocol. The Community and the Czech Republic shall provide each other, through the European Commission, with details of agreements and their corresponding rules of origin which have been concluded with the other countries referred to in paragraph 1.

Obviously, this new article expands substantially the geographical coverage of the diagonal cumulation. However, there is no change in the "quality" of cumulation since only diagonal cumulation is provided for. Moreover, and most important for Mediterranean countries is the fact that the new formulation adopted in the Pan-European Rules of Origin makes conditional the application of this principle on the existence of a free trade area among them²¹. In fact, although stated repeatedly in the press and in official statements, the diagonal cumulation finds little place in the operational paragraphs of the Jordan Agreement where it is mentioned only in the "Joint Declaration on Article 29" attached to the Agreement:

"Joint Declaration on Article 29

In order to encourage the progressive establishment of a comprehensive Euro-Mediterranean free trade area, in line with the conclusions of the Cannes European Council and those of the Barcelona Conference, the Parties:

- agree to provide the Protocol 3 on the definition of "originating products", for the implementation of diagonal cumulation before the conclusion and entry into force of free trade agreements between Mediterranean countries;
- reaffirm their commitment to the harmonization of rules of origin across the Euro-Mediterranean free trade area. The Association Council shall take, where necessary, measures to revise the Protocol with a view to respecting this objective." ²²

Similarly, other draft agreements do not contain explicit references in the operational paragraphs but the mentioning of the diagonal cumulation applicable in the Euro-Med area is contained only in a joint declaration.

Be this as it may, the requirement to make applicable the diagonal cumulation on the existence of free trade areas is like some authors have defined "harnessing the carriage before the horses". The second requirement is related to the fact that as the Pan-European Rules of Origin will be progressively adopted, it will also be required to apply "identical rules of origin

between the Mediterranean countries who have entered into FTA's among themselves.

5. A Roadmap for Mediterranean Countries in the field of Rules of Origin

In order to ensure that rules of origin better reflect their industrial capacity and that market access preferences provided for under the Euro-Mediterranean Agreements can be fully exploited, Mediterranean Countries need to adopt a clear and common strategy.

At the multilateral level, it should be noted that preferential rules of origin have been extensively discussed in GATT within the context of Agrements under Artcle XXIV²³ as well as in UNCTAD in connection to the Generalized System of Preferences²⁴ in an effort to ensure that they do not become a hindrance to trade in and of themselves and more ambitiously to establish an harmonized set of preferential rules of origin. The results of this work have been meagre. In particular, the Agreement on Rules of Origin failed to regulate preferential rules of origin. In this area, Member Countries limited themselves to a Common Declaration²⁵, which contained little more than an agreeement to ensure that "the requirements to be fulfilled are clearly defined" and promptly notified to the WTO Secretariat. No provision for further work in this area was contained in the Agreement. This contrasts sharply with the achievements obtained in the field of non-preferential rules of origin, where the Agreement provides for the elaboration of a harmonized set, within the context of the WTO Committee on Rules of Origin and the Technical Committee on Rules of Origin established within the WTO. It is safe to conclude that - at the eve of a possible new round of negotiations - options that are open at the multilateral level to tackle the problems that the Mediterranean Countries experience with preferential rules of origin is very limited.

At the regional and bilateral level there are at least four factors that should be taken into account in the negotiation and implementation of the Euro-Mediterranean Agreements.

First, the application of a no drawback clause may create difficulties in attracting much needed FDI from non-EC firms since their inputs will have to pay duties when utilized to manufacture products for exporting to the EC.

Second, the full cumulation applicable in the Morocco and Tunisian Agreements should, to the extent possible, be maintained and not be substituted by diagonal cumulation. Quite on the contrary, it should be expanded to all remaining UMA countries and potentially to the whole Mediterranean area. This provision could be negotiated as a necessary asymmetry, taking into account the different levels of industrialization between the CEEC and the Mediterranean countries.

Third, if the principle of diagonal cumulation is applied in the context of Mediterranean countries as laid out in the new Czech protocols, some flexibility in the provisions should be adopted as far as the conditions of the establishment of an FTA are conceived. In fact, while CEFTA was established in 1992, it may be expected that it will still be some time before a full-fledged web of FTA is created within the Mediterranean region.

At the same time closer integration among Mediterranean Countries should become the

cornerstone of trade policy within the region. In fact - as the literature has repeatedly stressed ²⁶if no action is taken in this respect the EU will find itself at the centre of a web of bilateral FTAs becoming a "hub" from which investors benefit from preferential access to the markets of all Mediterranean and Eastern European partners, in addition to the internal EU market. Investors in the "spokes" Mediterranean countries will instead only have preferential market access to European markets.

The considerations introduced above regarding the rules of origin provisions reinforce and add new dimensions to the need for a fully integrated Euro-Mediterranean FTA. In fact, in the absence of trade liberalization efforts at the horizontal level - among the "spokes" countries-utilization of diagonal or full cumulation provisions will be frustrated by tariff protection and by the no-drawback clause. This holds particularly true when one considers that on average Mediterranean Countries are still retaining high tariffs even after the Uruguay Round. In this situation, the scope for specialization of production and optimization of resources to increase the combined exports of the region towards the European Union markets becomes limited or nil.

A fourth and key element of this integrated strategy regards the rules of origin that will be utilized in the FTA or FTA's that are being and will be negotiated among the Mediterranean Countries. It is clear that if these origin requirements are either similar in substance or more restrictive than those applying within the context of the countries' respective agreements with the EU, the expected trade effects will not materialize. In fact, considering the size of the market of the EU as compared to those of the Mediterranean countries, it is obvious that there would be little economic incentive in developing joint investments to comply with such bilateral or regional rules of origin.

Thus, only if the Mediterranean countries establish among themselves an FTA with rules of origin requirements that are more liberal than those applied between themselves and the EU do producers have an incentive to trade among themselves and redistribute manufacturing activities among themselves in order to utilize more fully the mutual trade preferences and their possibilities for exports to the EU.

If this strategy is pursued, it becomes crucial that the second requirement for the application of the diagonal cumulation as specified in the Czech protocol should not be interpreted as meaning that Mediterranean countries should utilize the same EC rules of origin when establishing an FTA among themselves. This assumption may be in fact as we have shown be highly detrimental, since the difficulties in meeting rules of origin product-specific requirements that are currently encountered when exporting towards the EU would then be replicated in intra-regional trade.

6. Conclusions

Despite ongoing liberalization at the multilateral level, the preferences that the Mediterranean Countries enjoy for industrial products exported on the European Union market under the terms of the Cooperation Agreements signed in the late Seventies remain significant. The market access provisions of these agreements - as regards industrial products - are currently still in operation regardless of the status of the negotiation or implementation of the more recent Partnership Agreements which are the core of the current Euro-Mediterranean Policy of the

European Union.

On the other hand, many of the difficulties encountered by Mediterranean Countries in the utilization of these unilateral trade preferences may also arise when these same countries enter into fully or less than fully reciprocal free trade area agreements with the European Union. In particular, rules of origin regulations in the context of these agreements have been frequently criticized by beneficiaries as being unnecessarily restrictive and thus as representing a hindrance to the development of exports to the European Union markets.

A regards in particular the issue of rules of origin, Mediterranean Countries need to adopt a clear and common strategy in order to ensure that rules of origin better reflect their industrial capacity and that market access preferences provided for under the Euro-Mediterranean Agreements can be fully exploited. In this regard, it should first of all be noted that - at the eve of a possible new round of negotiations - options that are open at the multilateral level to tackle problems with preferential rules of origin are very limited.

On the other hand, Mediterranean Countries may tackle the issue at the bilateral and regional level by renewing the emphasis on integration at the horizontal level and by ensuring that the rules of origin requirements undelying the FTA or FTA's that are being and will be negotiated among the Mediterranean Countries are not as restrictive as the ones contained in the Euro-Mediterranean Agreements.

Within the context of the negotiation and implementation of the Euro-Mediterranean Agreements it is essential to combine efforts among Mediterranean Countries to ensure that the full cumulation applicable in the Moroccan and Tunisian Agreements be maintained and - to the extent possible - expanded to all UMA countries and potentially to the whole Mediterranean area. Finally, it should be recognized that the no-drawback rule is potentially very damaging for the expansion of local and foreign investment in the Mediterranean Region: efforts to introduce this clause in the Agreements should be resisted.

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n° lov. 19914 23 LUG. 1999

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Preparing for the WTO 2000 Negotiations:

Mediterranean Interests and Perspectives

Cairo, Egypt, 14-15 July, 1999

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Sponsored by the Economic Research Forum, Istituto Affari Internazionali and the World Bank

Contribution of the World Bank and IAI made possible by financial support from the Government of Italy and the Netherlands

CASE STUDY OF EGYPT'S SERVICE LIBERALIZATION, SERVICE BARRIERS AND IMPLEMENTATION OF THE GATS AGREEMENT*

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Abstract

To be developed for the final draft

I. Introduction

Given the upcoming WTO negotiations, countries and groups of countries are assessing further liberalization of their services sectors and are preparing negotiation strategies to maximize their benefits from the next round of WTO negotiations. The decision to liberalize services, however, may be made independent of binding any policies with a WTO multi-lateral commitment. Many countries have decided to unilaterally liberalize and enhance competition in their economies, without locking-in these policies in a multilateral agreement. Others capitalized on what is known in the literature as 'anchoring' policies. This hypothesis basically states that, especially for developing countries, a commitment within the framework of a bilateral or multilateral legally binding agreement increases the expected impact of any change in policy.

This current study focuses on Egypt. It attempts to summarize recent developments in its services sectors, its service trade patterns, and Egypt's policy options regarding liberalization of services. The paper specifically addresses the following questions:

- 1. How important is the Egyptian service sector in terms of contribution to GDP, employment, exports and so forth?
- 2. What is the level of trade openness in Egypt's trade in services? How do we compare to other countries?
- 3. What are the main features of Egypt's GATS commitments?
- 4. What are the main service liberalization policies? Can they serve as a precondition to Egypt's next round of more extensive GATS commitments?

The paper is organized as follows: Section II discusses the contribution of services to the Egyptian economy. Section III assesses the openness of Egypt's service sector relative to other countries. Section IV provides a summary of Egypt's GATS commitments. Section V summarizes the main features of Egypt's recent liberalization and privatization policies. Section VI concludes the paper.

II. Contribution of Services to the Egyptian Economy

While there are many differences in employment and production patterns among countries reflecting development levels, geographic location or resource endowment, variance in the size of services to GDP appears limited. So for example, while the services sector's share in GDP amounts to 80 percent for a developed economy such as the United States, it only falls to 53 percent for a typical middle income country and to 37 for an average low income economy. Similarly, for employment, services employ as much as 29 percent of male workers and 32 percent of female of the economically active respective population for an average country in 1994. (World Bank (1998), p. 58) This share rises with income level, so for the group of high-income economies, services employ 66 percent and 75 percent of the economically active population of men and women, respectively.

Table 1: Contribution of Services to GDP in 1996, Selected Countries

Country	Agriculture VA % of GDP	Industrial VA % of GDP	Services VA % of GDP
	1996	1996	1996
Algeria	13	48	38
Egypt	17	32	51
Indonesia	16	43	41
Jordan	5	30	64
Kuwait	0	53	46
Malaysia	13	46	41
Morocco	20	31	49
Pakistan	26	25	50
Turkey	17	28	55
World			
Low Income	27	35	37
Middle Income	11	36	53
Low & Middle Income : High Income	15	34	51

Source: World Development Indicators, World Bank 1998

Egypt's share of services in GDP appears to be generally consistent with the share of services in the economy of a developing country.

^{*}world average data not available for 1996.

¹ World Bank, World Development Indicators (1998), Table 2.5 p. 58

Table 2: Structure of Employment by Country Income Groups, 1994

	agr	iculture	in	dustry	se	rvices
	male	female	male	female	male	female
Egypt	32	43	23	9	38	31
World	48	52	23	15	29	32
Low Income	66	76	15	12	19	12
Middle Income	32	29	32	21	35	49
Low & Middle Income	56	62	20	15	23	23
High Income	6	4	35	18	56	75

Source: World Development Indicators, World Bank, 1998

This means that irrespective of the level of development or income, services represent a large share in any economy, and what is even more important is that services share in economic activity grows with development. So any country pursuing economic development policies can count on a growing share of services in GDP, employment, its foreign earnings, and so forth.

In contrast to the significant role that services play relative to commodity sectors within countries' economic activity, the contribution of services in countries' international trade is a lot smaller. Services' share in foreign trade, while rising over the years, has been consistently smaller than the share of goods in international trade.² That share has stabilized over the last few years at around 20 percent of total trade in goods and commercial services.³ The limited contribution that services play in international trade compared to the role that services play in output and employment can be a function of the existing patterns of liberalization of trade in goods and the less attention that countries have paid to service liberalization.⁴

² Global exports of commercial services totalled \$1.29 trillion in 1998, according to the WTO, up from \$1.29 trillion in 1995.

³ Commercial services comprise transport, travel, communication services, insurance, financial services, computer and information, royalties and licenses, other business services and personal, cultural and recreational services.

⁴ Another reason for that pattern is the nature of service reporting, especially in developing countries is that production and trade of goods generally lends itself easier to statistical coverage, more than services. For further discussion of data problems in service statistics, refer to WTO S/C/W/27, 'A Review of Statistics on Trade Flows in Services: Note by the Secretariat', (1997)

Table 3: Balance of Payments 1990/91-1997/98

US\$ millions	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98*
			==== (=0505	0.400.4	10010	440000
Trade Balance	-7175	-6174	-7003.1	-7309.8	-7853.5	-9498.1	-10219	-11770.6
Exports**	4250	3880.1	3725.1	3337.3	4957	4608	5345.4	5128.4
Imports**	-11425	-10054	-10728	-10647	-12811	-14107	-15565	-16899
Services (net)	3575.9	4463.6	3561	3673.7	4041.8	5791.1	6192.8	4594.5
Receipts	7153	8189.1	8332.2	8677.3	9555.6	10636	11240.9	10443.8
Suez Canal	1662	1950.2	1941.1	1990.3	2058.4	1884.7	1848.9	1776.5
Tourism	1646	2529	2375	1779.3	2298.9	3009.1	3646.3	2940.5
Investment Income	1167	994.8	882.9	1197	1625.5	1829.4	2052.3	2080.4
Other	2678	2751.1	3133.2	3710.7	3572.8	3912.8	3693	3646.4
Current Account Balance	3819.9	2669.9	2295.1	409.9	385.9	-185.4	118.6	-2772.3
Capital & Financial Account	457.3	-1.6	1821.4	2510.9	429.7	1017.3	2040.7	3765.4
Net Errors & Omissions	480.7	1330.4	195	814.6	61.4	-261.3	-247	-1128.1
Overail Balance	3843.3	3998.7	4311.5	2106.2	754.2	570.6	1912.3	-135

^{*}Provisional

Source: Central Bank of Egypt & Ministry of Economy.

The contribution of services to Egypt's BOP shows a significant share of service receipts to Egypt's earnings of foreign currency. Similar to Egypt's pattern of concentration of exports in general, service exports are also concentrated in the traditional sources of service exports: tourism and Suez Canal. This patterns creates major fluctuations in exports, especially in combination with that same pattern of concentration in commodity exports such as petroleum and agriculture. Diversification becomes a must in both service and merchandise exports.

Table 4: Breakdown of GDP growth rate, 1994/95-1996/97

		1994/95			1995/96			1996/97		
Sector	Total	Public	Private	Total	Public	Private	Total	Public	Private	
GDP Growth	4.67%	2.19%	6.21%	4.94%	3.05%	6.07%	5.29%	-3.53%	10.41%	
Commodity Sectors	4.32%	2.26%	5.56%	4.31%	1.74%	5.81%	4.23%	-9.39%	11.86%	
Productive Services & Building Sectors	5.01%	0.50%	7.52%	5.84%	4.07%	6.76%	6.41%	-0.46%	9.89%	
Social Service Sectors	5.08%	4.58%	5.49%	5.05%	4.69%	5.34%	6.24%	5.63%	6.73%	

Source: Calculations based on CAPMAS Statistical Yearbooks, June 1997 & June 1998.

As part of the Economic Reform and Structural Adjustment Program ERSAP, the role of private sector in the economy, in new investment and employment is growing. Services, which are not still predominantly in the public sector lead in terms of private sector's contribution to employment growth, GDP growth and investment.

^{**}Including the exports and imports of Free Zones as from the quarter of 1996/97.

III. Assessment of Egypt's Service Trade Openness

As a rough indicator of a country's openness, the trade openness index measures a country's integration in the world trade. The most basic openness index equals the share of imports and exports combined, relative to a country's GDP. Thus, the higher the ratio, the more open the economy is. The indicator is not bound by a critical value of 1. Thus a country may have an openness index higher than one. Table 5 presents Egypt's merchandise and service trade openness indices. As typical of most countries under the present international trade environment, the goods openness index is always higher than the services trade index. The service openness index, however, ranges from 80 percent of the goods index for Egypt, to 8 percent of goods index for Algeria.

Table 5: Openness Index for Egypt and other groups of developed and developing countries.

Country	Year	Openness I	ndex
		Goods	Services
Egypt	1997	0.26	0.21
Indonesia	1997	0.48	0.11
Malaysia	1997	1.55	0.33
Morocco	1997	0.48	0.13
Pakistan	1997	0.31	0.07
Tunisia	1997	0.69	0.19
Turkey	1997	0.42	0.15
Bahrain	1995	1.36	0.40
Bangladesh	1997	0.36	0.06
Gambia	1994	0.00	0.00
Kuwait	1997	0.73	0.23
Uganda	1996	0.26	0.13
Algeria	1991	0.42	0.03
Jordan	1997	0.78	0.46
Saudi Arabia	1996	0.63	0.20

Source: International Financial Statistics, IMF, January 1999.

Note:

Openness Index for Goods = Exports +Imports/GDP
Openness Index for Services = Services Credit +Services Debit/GDP

Another indicator of openness is the size of Egypt's trade in world trade vs. the relative size of Egypt's GDP to world GDP. If its share in world trade is less than its share in world output, then this is another indication that Egypt's economy is less open than average.

Table 6: Egypt's Share in Output and World Trade,

1996

	GNP	Service Exports	Service Imports	Serv.X + Serv. M
as % of Middle income Economies	3%	16%	6%	10%
as % of world	0.22%	0.78%	0.47%	0.63%

Source: IFS, January 1999.

Using this indicator, Egypt appears to be more open than an average middle income economy. When compared to world economies the same conclusion is supported.

Table 7: % Share of selected countries in WTO's reported total trade in services, 1996.

	Total	Transpor	Trave	Communication	Constructio	Insuranc	Financial	Computer	Royaltie	Other	Person
Egypt	0.7	1.0	0.71	1.2	0.0	0.04	0.2	0.0	0.1	0.7	0.02
Indonesia	0.4		1.44	0.6							
Tunisia	0.2	0.2	0.40	0.1		0.05	0.0		0.0	0.0	0.02
Turkey	1.2	0.5	1.31		5.4	0.06	0.5			1.2	20.61
Malaysia	0.9	0.8	1.05			0.02				1.6	
Morocco	0.1	D.1	0.31	0.3		0.08			0.0	0.0	
Argentina	0.2	0.4	0.28	1.9		0.01	0.3	0.0	0.0	0.0	
Brazil	0.5	0.8	0.26	0.2	0.0	0.55	2.3	0.6	0.0	0.4	0.42
Chile	0.2	0.4	0.22	0.5		0.36			0.0	0.2	
India	0.5	0.6	0.68			0.50			0.0	0.7	
Israel	0.6	0.7	0.80	2.5		0.03			0.2	0.7	
Kore	2.1	3.6	1.36	1.1	1.6	1.58	0.3	0.0	0.6	2.6	
Mexico	0.7	0.4	1.63			2.08			0.2	0.2	
Philippines	8.0	00	0,30		0.0	0.18			0.0	2.7	
Saudi Arabi	0.3									1.2	
Thailand	1.2	0.8	2.12			0.29			0.0	1.4	

Source: WTO, S/CW/27

IV. Egypt's Present GATS Commitments

The number of sectors where Egypt has made commitments is a preliminary indicator of how Egypt is similar to, or different from, various groups of WTO countries. Notice, however, that these patterns only indicate that commitments have been made in a sector and they do not give a comprehensive evaluation on the extent of a country's liberalization of services.

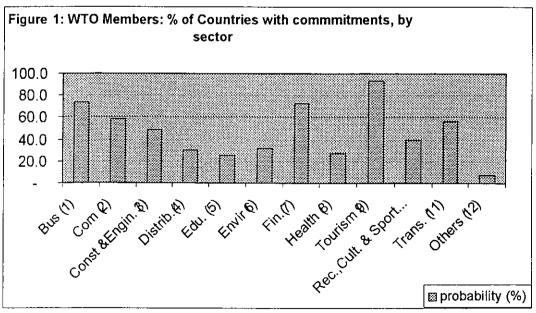
⁵ When oil represents a large share of the country's output and exports, this can create a bias against non-oil producing countries and their level of openness. Therefore, an openness index that excludes oil from production and/or merchandise exports may be a better comparison indicator. (working on that).

Table 8: Selected LDCs: Pattern of Sub-Sector Commitment

			Const &Engin.	Distrib.(Health	Tourism	Rec.,Cult.	Trans.	Others	
Sector	Bus (1)	Com (2)		4)		Envir (6)	Fin.(7)	(B)		Sport (10)		(12)	Total
Argentina	1	1	1	1			1		1				6
Bahrain			l		Į		1						1
Bolivia	1	ļ			Ì			1 -	1	1 1	İ		3
Brazil	1 1	1	1	[1			1		1		1 1	İ	7
Chile	1 1	1	•			1	1		1		1		5
Colombia	1 1	1	1			1 1	1	i	1			ŀ	6
Ecuador	1 1	1	1	1		1 1	1	1	1	1 1	1 1		10
Egypt	1		1 .		•		†		1		1		4
India	1 1 .	1	1		Ì		1	1	1				6
Indonesia	1 1	1	1				1		1 1	:	1		6
Kuwait	1	1	1	1		1	1	1	1 1	1			8
Malaysia	1 1	1	1				1	1	1	1	1	1	9
Mexico	1 1	1	1	1	1		1	1	1 1		1	1	10
Morocco	1	1	1			1	1		1 1		1		7
Pakistan	1 1	1 1	1 :				1	1	1 1				6
Paraguay	1 .		ľ				1		1				2
Peru	[1 j	1		1			1		1	1 1	1		7
Philippines	1 1	1					1		1		1		5
Qatar	1 1	1	1			1	1		1				6
Sri Lanka							:		1				1
Thailand	1 1	1	1	1	1	1	1		1	1	1		10
Tunisia				1 1			1		1				2
Turkey	1 1	1	1		1	1	1	1	1 1		1		9
United Arab Emirates	1	1	t			1	1		1	' I			6
Uruguay] 1	1	1				1		1	1	1		6
Venezuela	<u> </u>	1	1	1			1		1	1 1	1	1	8

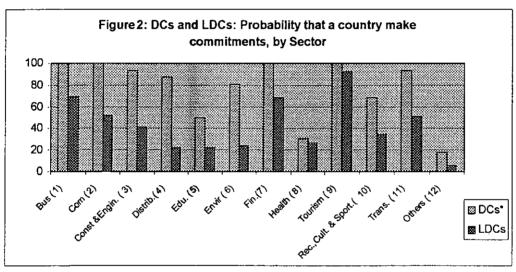
Source: http://www.wto.org

Figure 1 shows that countries are more likely to make commitments in sectors such as tourism, travel and other business services. The probability that a WTO country makes commitments in a sector such as tourism (9) and financial services (7) the probability that a country commit is 93 and 73 percent, respectively. While for sectors such as education (5) and health services (8) that probability falls to 25 and 27 percent, respectively.



Source: http://www.wto.org.

When we divide the list of countries into developed and developing we find that the probability that developing countries make commitments in a particular sector is consistently lower than the probability that a developed country make a commitment in its corresponding sector. (Figure 2) For sectors such as business (1) and commercial services (2), the probability that a developing country makes a commitment is significantly lower than that of a developed country. (51 percent and 69 percent vs. 100 percent for either sector for a developed country). The drop in probability of commitment is not as significant for tourism (100 percent for developed countries to 94 percent for developing).



Source: http://www.wto.org.

When testing the null hypothesis that the probability of making commitments in a particular sector for a developing country is equal to the probability that a developed country makes a commitment in the same sector, we find that the null hypothesis is rejected at the 95 percent confidence level. This statistical test supports the visual conclusion from Figure 2 and suggests that these differences are not the result of randomness in the data.

When looking at the total number of sectors where commitments are made, in a particular country, we find that the average the average number of sectors in which a developed country makes commitments is 9.25, while the average number in which a

developing country makes commitments is 5.06 out of the 12 sectors.⁶ This difference is statistically significant at the 95 percent confidence level. Therefore, while developed and developing countries are more likely to make commitments in particular sectors, developing countries are generally making commitments in a smaller number of sectors.

Why is all this relevant for the case of Egypt? To answer this question we look at the sectors where Egypt has made commitments in 1994. These are: construction services (4), financial and banking (7), tourism (9) and transport (11). Using the probability of having commitments for both developed and developing countries, we find that Egypt's choice of these four sectors is generally consistent with the willingness of countries to offer commitments. There are, however, two sectors where for both developed countries the probability of having commitments is over 50 percent. These are business (1) and commercial services (2). Egypt does not have any type of commitment in either of these two sectors. This issue needs further investigation, especially because these sectors are not usually the sectors where the need for regulatory and/or anti-trust pre-requisites is apparent. (explore further).

We should make two caveats before we reach the conclusion that Egypt may be less committed to liberalizing its services through GATS. First, whether or not a country makes commitments in a sector does not indicate how many commitments a country made in a specific sector. Therefore, a country with multiple commitments in a sector will not be distinguishable from a country with a single commitment in the corresponding sector. From Table 8, for example, we see that the average number of commitments per sector differs widely across countries. So, while for countries such as Turkey, Malaysia and Egypt the number of commitments/sector is 8, 7.7, and 7, respectively, the number of commitments/ sector for other countries such as Indonesia and Bangladesh is 1.2 and 1 respectively. To complicate this picture further, there are horizontal commitments concerning general market access, national treatment, and most favored nation treatment that cut across all sectors (with exceptions sometimes). These are more far reaching than a single commitment for a single sector. Second, the number of sectors where countries have made commitments does not indicate the extent of liberalization coverage that these commitments produce in a sector.

⁶ This average applies for the group of 16 developed and 101 developing countries listed in the WTO commitment tables. The above list of developed countries is based on the IMF's classification of

Both of the following tables indicate that, when compared to other developing countries, Egypt's number of commitments per sector, its sectoral coverage, etc., is not very different from an average developing country. Egypt is consistently, however, committing less than larger developing countries (Table 10). This is an important point to take into consideration in the next few years, especially given the literature that links trade openness and growth and development. (Investigate further whether there is any literature particularly focusing on openness in service trade and other goals of employment, foreign direct investment, growth etc.).

Table 9: Number of Service Commitments and Sectors Covered of Selected Organization for Islamic Countries

Countries	Number of	Number of sectors where	Av # of commit./se ctor
	Commitments	Commitments were made	
Turkey	72	9	8.00
Malaysia	69	9	7.67
Kuwait	44	8	5.50
Morocco	41	7	5.86
Pakistan	35	6	5.83
Egypt	28	4	7.00
Tunisia	11	2	5,50
Indonesia	7	6	1.17
Bahrain	4	1	4.00
Bangladesh	1	1	1.00

Sources: http://www.wto.org/services/websum.htm http://www.icdt.org/publications/uttyy.htm

Table 10: Sectoral Coverage of Specific Commitments in Trade in Services among Different Countries in Terms of Market Access and National Treatment

(%)		<u> </u>	<u>,</u>	5 . l !	5	12	
	High	Other	Large	Bahrain	⊾gypt	Kuwait	Morocco
	Income	Countries	Developing				
	Countries		Countries				
Market access							
Average coverage							
(sectors/modes listed as							
a share of total GATS							
classification, weighted							
by openness and	40.6	9.4	17.1	1.94	10.48	10.65	11.21
biding scale factors)							
"No restrictions" as a							
share of total offer made	56.4	47.3	36.7	75	47.1	25	28.5
"No restrictions" as a							
share of total GATS	30.5	6.7	10.9	1.9	7.9	7.1	6.6
classification							
National Treatment				-			
Average coverage		•					
(sectors/modes listed as							
a share of total GATS							
classification, weighted							
by openness and	42.4	10.2	18.8	1.94	11.69	11.61	15.65
binding scale factors)							
"No restrictions" as a	65.1	60.4	49.3	75	61.5	28.4	64.6
share of total offer made							
"No restrictions" as a		······································		•			
share of total GATS	35.3	8.5	14.6	1.9	10.3	8.1	15
classification							
Memorandum						•	
No restrictions on						<u> </u>	
market access and							
national treatment as a							
share of total GATS	28	6.4	10	1.9	7.9	7.1	6.5
classification							

Source: American Chamber of Commerce in Egypt, 1998. Egypt's Financial Liberalization and the General Agreement of Trade in Services (GATS).

V. Egypt's Recent Liberalization and Privatization Policies

This section will highlight the main developments of the liberalization and privatization policies in five main service sectors: Section 5.1 focuses on telecommunication, section 5.2 on banking and insurance, section 5.3 on tourism, section 5.4 on maritime services and section 5.5 on air transport. Finally section 5.6 will briefly discuss some implications of a general liberalization of services on the

whole economy with a brief discussion of actual and potential linkages between service liberalization and the rest of the economy.

5.1. Basic and Value-Added Telecommunication

In March 1998, Law 19/1998 was promulgated. This law transforms the National Telecommunications Authority, known as Egypt Telecom and formerly known as ARENTO, into a joint stock company. This law allows private-sector participation in Telecom Egypt. The state is expected initially to retain an 80 percent stake of the company. Also in 1998, the Government of Egypt, GOE, signed contracts and awarded licenses to two private sector consortiums that were awarded the right to provide mobile telephone services in Egypt. Increased competition, between the two private companies has resulted in significant reductions in the service price, wider coverage and better customer service. The experience with mobile phones has encouraged the government to offer two consortia franchise licenses to provide public phone service. 20,000 lines are allotted to each of the consortia.

Efforts to separate between regulation of telecommunication and operation of the privatized company have resulted in the establishment of regulatory body within the Ministry of Transportation and Telecommunication to assume that regulatory role. By Law 19/1998, this body is responsible for assigning frequencies, rates, interconnection rights and settlement of disputes. A presidential decree would set forth the guidelines for this body to define its authority and responsibilities.

Table 11: Telecom Egypt compared with a Sample of other Countries

			Telephone	e mainline	:s			Internatio	nal telecom.
		In largest					cost of	Outgoing	Cost of
	Per	city	Waiting	Waiting		Revenue	local call	traffic	call to U.S.
	1000	per 1000	list	time	Per	per line	\$ рег	minutes p	\$ per
	people	people	thousands	years	employee	\$	3 minutes	subscriber	3 minutes
	1996	1996	1996	1996	1996	1996	1996	1996	1996
Egypt	50	95	1310.2	5	58	256	0.01	37	6.19
Iran	95	222	1379	1.9	121	148	0.01	29	6.02
Jordan	60	160	129	9.9	81	702	0.03	226	••
Kuwait	232	••	2.6	0.2	52	572		364	5.51
Lebanon	149	•-	••		115	580	0.04	8 5	7.14
Morocco	45	121	48	0.3	85	556	0.09	104	6.88
Saudi Arabia	106	189	1262.5	9.7	104	1053	0.02	292	6.41
Syrian Arab Republic	82	176	2945.4	>10	68	1001	0.05	66	33.41
Tunisia	64	73	81.8	1.5	98	505	0.07	146	6.47
Turkey	224	438	752.7	0.7	194	180	0.06	33	4.37
Low Income	26	56	2383.2	4.9	104	333	0.1	195	10.86
Middle Income	105	305	25612.6	1.5	116	462	0.06	121	5.99
High Income	540	569	98	0	210	1002	0.16	199	3.27

Source: World Development Indicators, 1998. The World Bank.

As an example, when comparing Egypt's telecommunication services and how they fare compared to these services in countries that implemented a combination of privatization/liberalization policies we find that countries that implemented privatization and liberalization of telecommunication exhibit a superior telecommunication service, both for consumers and industries using these services. Furthermore, the efficiency of the telecommunication provider itself increased indicating a better allocation of resources. Several studies that evaluate countries' experiences of liberalization and deregulation of telecommunication services, provide even more powerful evidence of increased efficiency and better allocation of resources. As a result of deregulation of U.S. telecommunications during the period 1984-87, average profitability of carriers rose in 1984 relative to 1981 and then fell by 1987. The profitability decline reflected the increase in competition. Productivity of firms increased constantly throughout the period 1981 to 1987. Competitive pressures from new entrants into the industry induced incumbent firms to reduce their prices between 1984 and 1987. (Majumdar (1992))

⁷ Majumdar, Sumit K. (1992), "Performance in the US telecommunications services industry: an analysis of the impact of deregulation", *Telecommunications Policy*, No. 4.

Hiroyuki (1994) reports similar results for Japan's deregulation of international telecommunication. Deregulation brought about a rapid rise in total factor productivity and a corresponding 22.2% fall in Kokusai Denshin Denwa (KDD's) unit cost over the period from 1985 to 1992. The average call rate in the market declined proportionally to KDD's rate owing to the company's market dominance. Entry of two new carriers in 1989 whose combined share in the international telephone market reached 29% by 1992.

	Popu	ılation	[G	Ob	Main	tele	phone lines	Cellula	r mobile sub	scribers	Ī	As % of total	
	Total	Density	Total		per capita	Total		per 100			CAGR	Per 100	telephone	%
	(M)	per km	(B US\$)		(US\$)	(k)		Inhabitants	i	(k)	(%)	inhabitant	subscribers	Digital
	1998	1998	1997		1997	1998		1998	1997	1998	1997-98	1998	1998	1998
Algeria	30.08	13	41.2	95	1442	1600		5.32	15	19	26.7	0.06	1.2	
Egypt	65.98	66	75.5		1193	3971.5		6.02	65.4	90.8	38.9	0.14	2.2	92
Morocco	27.87	42	33,5		1218	1515		5.44	74.5	116.1	55.9	0.42	7.1	91.9(97)
Tunisia	9.34	57	19		2057	654.2	97	7.08	7.7	7.7{97}		0.08	1.2 (97)	
Argentina	36.12	13	232.5		9071	7323.1		20.27	2009.1	2821.9	40.5	7.81	27.8	
Brazil	165.85	19	804.1		5029	19987		12.05	4400	7760.6	76.4	4.68	28	
Chile	14.82	20	77.1		5271	2630	97	17.98	410	410 (97)		2.8	13.5 (97)	
Colombia	36.7	32	86.4	96	2424	6451.5		17.58	1264.8	1800.2	42.3	4.91	21.8	
Mexico	95.83	49	402.7		4219	9926.9		10,36	1740.8	330 2	89.7	3.45	25	
Venezuela	23.24	25	87.5		3807	2712.2		11.67	1071.9	2015	88	8.67	42.6	
Bahrain	0.64	971	6.1		9834	152.3	97	24.57	58.5	58.5 (97)		9.44	27.8 (97)	84.7 (97)
Indonesia	206.34	107	214.6		1066	5571.6		2.7	916.2	1065.8	16.3	0.52	16.1	85.1(97)
Israel	5.98	288	97.9		16584	2656	97	44.98	1672.4	1672.4 (97)		28.32	38.6 (97)	
Jordan	5.97	62	7.1		1221	402.6	97	6.97	42.1	70.5	67.5	1.18	14,9	100
Kuwait	1.81	75	30.4		17056	411.6	97	23.12	210	210 (97)		11.79	33.8 (97)	
Lebanon	3.19	307	13.2	96	4292	620		19.43	425	500	17.6	15.67	44.6	100
Malaysia	22.18	67	98.5		4544	4384		19.76	2460.8	1668	-32.2	7.52	27.6	
Saudi Arabia	20.18	8	136.5	96	7249	2878.1		14.26	332.1	627.3	88.9	3.11	17,9	
United Arab Emirates	2.35	31	48		20179	915.2		38.9	313.8	493.3	57.2	20.96	35	85.2 (97)
World	5924.52	44	29371.2		5166	821264		13.99	215246	294624	37	5.13	26.9	83.6

5.2. Insurance and Banking

While a number of macro economic monetary, fiscal and trade policies have started before 1995, Egypt's financial sector liberalization can be roughly concurrent with its GATS commitments. During the first half of 1997, the Central Bank of Egypt, CBE

issued a decision requiring banks to apply International Accounting Standards upon preparing their balance sheets, the CBE issued its first statistical report containing

On 8 June 1998 the People's Assembly passe banking law 155/1998 which allowed for private sector entry and privatization of the "Big Four" state-owned commercial banks: National Bank of Egypt (NBE), Banque Misr, Banque du Caire and Bank of

information various economic indicators to help realize a higher degree of transparency.

⁸ Imai, Hiroyuki (1994), "Assessing the gains from deregulation in Japan's international telecommunications industry", Journal Of Asian Economics, No.3.

Alexandria (BOA). The executive regulations for Law 155/1998 are almost complete. (check if they got passed) The legislation is to define the procedures for transferring a public sector bank to the private sector after the sale of any part of a state-owned commercial bank's capital.

Egypt's commitments for banking, while considered producing the lowest level of restrictions within the Arab world, remain sketchy and leave many areas unconstrained by either an immediate or a future commitment. Specifically for banking, restrictions are expected to produce a limited impact while they are expected to produce a large impact on insurance. For banking, the overall undertaken commitments account for less than 20 percent of the services sectors, and most of the commitments are restricted to binding the status quo.

Domestic deregulation along with liberalization of the Indonesian banking sector in the late 1960s was followed by more ambitious monetary and financial reforms in the early 1980s. In 1991, Bank Indonesia introduced prudential principles and improved bank supervision. As a result, the banking sector grew significantly in terms of number of banks and bank offices, diversity of financial services and business volume. Stiffening competition induced banks to enhance efficiency. The volume of deposits increased rapidly. Non-oil exports benefited from the removal of foreign exchange restrictions and the opening of foreign bank branch offices. Deregulation provided customers with a diverse array of banking schemes and services. The author argues strongly in favor of combining financial sector deregulation with prudential regulation and improved bank supervision. The study stresses the need to pursue financial deregulation in tandem with deregulation in other sectors of the economy. Echoing the same conclusion, Marshall (1994) argues that the 1983 deregulation package prompted a dramatic increase in the size of private banks, accounting for most of the growth in total bank assets during the period 1983 to 1988. Although the 1988 deregulation

⁹ No person or entity will be able to own more than a 10 percent stake in a Big Four bank without Central Bank of Egypt (CBE) approval.

¹⁰ Binhadi (1994), "Financial Deregulation and Bank Supervision: The Case of Indonesia", in S. Faruqi (ed.), Financial Sector Reforms, Economic Growth, and Stability: Experiences in Selected Asian and Latin American Countries, World Bank, Washington D.C.

¹¹ Marshall, Kathryn G. (1994), "Competition and growth: Changes in Indonesia are banking sector since 1988", *Journal of Asian Business*, Volume 10, No. 3.

allowed for a significant number of new entrants, the growth in assets after 1988 was attributable mainly to the expansion of previously established private banks. By 1992, these banks were typically about seven times larger than the new entrants were. Increased competition as a result of the 1988 deregulation induced a decline in bank profits, including those of larger incumbent banks.

In contrast to Egypt, countries such as Indonesia had their financial liberalization started and produced results before the conclusion of the GATS agreement in 1994. But what did Indonesia commit to in GATS regarding its financial sector? After over ten years of major liberalization in the banking sector, Indonesia was more willing to make detailed and specific commitments, which are not necessarily very liberal.

As for Egypt's insurance liberalization and privatization, the plan appears not to include the breaking up of the three public sector insurance companies into smaller, competitive private firms. Despite the prior transfer of ownership from public to private. the insurance sector remains overwhelmingly public with a non-competitive market share. Law 156/1998 that allows for privatization of the big three state-owned insurance companies: National Insurance Company, El Shark for Insurance, and Misr Insurance. Together they form an inefficient state oligopoly with a massive 90 percent market share The law also allows for the privatization of Egypt's sole reinsurance company. The Law 156/1998 has also removed all restrictions on majority private ownership (domestic or foreign) of insurance companies. Non Egyptians may now manage insurance companies based in Egypt, whereas under former laws, all insurance companies operating in Egypt had to have an Egyptian managing director. The new law eliminates that managing directors of state-owned insurance companies must be Egyptians. It also relieves insurance companies from the requirement that net profits, after deducting wages, reserves, provisions, and profit sharing for employees, be transferred to the State Treasury. It was reported in the third quarter 1997 that over the next two years the GOE plans to begin privatizing the public sector-dominated insurance industry. No developments have been announced yet to address privatization of insurance companies.

Similar to Egypt's challenge in telecommunication services, the largest challenge is to create a competitive banking and insurance sector. If the public-sector insurance oligopoly is simply privatized into a private oligopoly, little will have changed and efforts to have insurance contribute fully to raising the growth rate of GDP will be undermined. The continuing absence of an effective anti-trust law in Egypt legally permits noncompetitive business practices that can essentially block market entry and thus maintain inefficient oligopolies. While privatization is important, the key to a healthy insurance sector is de-monopolization or in other words promotion of competition. While moving to liberalize insurance and expand existing markets, the GOE also needs to develop a complementary regulatory framework for the privatized state-owned firms. Attracting prominent multinational insurers to Egypt and encouraging the domestic private-sector to be more active in insurance depends upon removing existing barriers to entry and competition. The GOE has pledged to restructure the insurance sector through legislative reforms and the introduction of foreign expertise to modernize the procedures and mechanism of the industry.

The interesting feature of Egypt's liberalization policies in both banking and insurance is the fact that Egypt is liberalizing to match its GATS commitments. Hence the politics of the liberalization at this stage uses the GATS as a binding constraint creating a limit on how much opposition and how much delay the country is willing to accept before it implements liberalization. Therefore to achieve these liberalization measures, the Egyptian insurance authorities have set an explicit adjustment plan. Some of the planned adjustments have already been carried out and others are still under study. Thus Egypt's credibility of policies will automatically benefit from its announced policies that liberalization of these sectors is intended to match Egypt's commitments.

Other countries' experiences with financial sector liberalization support the argument that caution must be exercised with the liberalization of banks especially in an environment where a few large (public sector) banks dominate the market. Bonitsis and Rivera-Solis (1995) analyze the Spanish experience of bank liberalization and argue that the entry of foreign banks has not contributed to lowering domestic bank concentration in the long run. ¹² Given that domestic bank concentration has not declined significantly after liberalization, the authors argue that long-run competitiveness of the sector has not improved.

¹² Bonitsis, Theologos H., and Rivera-Solis, Luis E. (1995), "External liberalization of banking and industrial concentration: the evidence from Spain", *The Journal of Applied Business Research*, Volume 11, No. 3.

The Australian experience shows mixed results of enhancing efficiency. ¹³ Financial deregulation in 1992 enabled foreign banks to engage in wholesale banking through local branch networks. Financial deregulation was expected to improve competition and efficiency in previously segmented domestic markets and help to integrate domestic and international capital markets. Foreign banks were allowed entry to further enhance competition. Although foreign banks were not very successful in terms of profitability, they gained a moderate market share for financial assets. Domestically owned banks increased their lending to firms of questionable credit rating for fear of losing market shares. The oligopoly of banks existing before deregulation attempted to deter entry by forgoing short-term profits; they significantly increased their lending in the period 1984-86. However, while gaining a share of the increasing market for financial assets, they were unable to restore their original position. New entrants managed to develop long-term positions.

Recently, and because of the Asian financial crisis, several studies are more cautious in their recommendation of financial deregulation and financial sector liberalization. These studies maintain that premature liberalization of capital flows, particularly during macroeconomic instability, may compound exchange volatility and engender capital flight. By contrast, in reasonably stable economies with effective financial supervision, deregulation proceeded smoothly in general.

5.3. Tourism

- Commitments represent the status quo.
- Sector more competitive, with a (potentially growing) share in international trade
- Less need to worry about domestic market power
- Already major contributor to BOP and foreign currency receipts.

¹³ Batten, Jonathan (1995), "Foreign banks and the Australian financial system decade after deregulation", Journal of Global Business, No.10.

5.4. Maritime Transport

In 1998, the GOE substantially reformed the regulatory environment surrounding the ports and maritime sector to allow private-sector entry. Greater efficiency is ultimately expected to help boost exports. The GOE expects improved and more varied port services due to increased private-sector competition. In January 1998, the new Maritime Law 1/1998 was issued, modifying Law 12/1964, which gave the state a monopoly in maritime transport. After law 1/1998 was issued, the Specialized Ports law 1/1996 was amended and new decrees regulating maritime transport works and licensing were issued to facilitate private-sector competition. The Specialized Ports Law 1/1996 was amended by Law 22/1998 on 25 March 1998 which allows concessions to be granted to local and foreign investors, at home or abroad, for the establishment of general or specified ports, or platforms in existing ports. This law also governs the management, exploitation and maintenance of these ports and regulates fees levied by the GOE for their use.

The need to de-monopolize, not just privatize, can be seen in the GOE monopolies at the ports and airports. These inefficient monopolies have long undermined Egyptian competitiveness in international markets. While there are deficiencies in the ports' infrastructure and equipment, the main problem is the institutional structure at the ports. In the past, Egypt's high port costs have been due largely to its public-sector shipping agencies and other government monopolies that control freight unloading, storage facilities and other services for traded commodities into and out of Egypt. Customs clearance is too slow and undertaken by unqualified workers.

Despite a favourable geographical location with regard to trade, Egypt's transport costs to European markets exceed those of Cyprus, Greece, Israel, and other nearby competitor countries. The government monopoly has led to import and export costs through Egyptian ports that are among the highest in the world. These costs and delays are particularly debilitating for exporters attempting to compete in global and regional markets. These high monopoly cost, particularly for perishables, lower Egyptian productivity, exports, technology transfers, employment and foreign exchange earnings.

¹⁴These issues have also been addressed in some depth by Kono, Masa et al. (1997), Opening Markets in Financial Services and the Role of the GATS, Geneva.

Removing the government monopolies, and introducing private-sector provision of services in a competitive setting would lower the costs of exporting and importing and greatly enhance marketing.

Many recent laws that aim at privatizing and de-monopolizing maritime port infrastructure and services have been advocated by private traders working in Alexandria who export Egyptian-made products. They have long pressed for legal change, such as occurred over first half 1998, to allow the private-sector to penetrate the GOE monopoly. Privatization by itself is not enough because a public monopoly could be replaced by a private monopoly, and the high prices of operating out of the port of Alexandria would remain. The Egyptian shippers have pointed out that the official and unofficial costs essentially represent a fee or tax. One businessman indicated the official government revenues, because of the elasticity of exports, would rise substantially as trade increased if the ports relied more on the private-sector.

According to importers and exporters, in the past the fees looked like services but were not. There are approximately 20 administrative steps and every step has a cost which cannot be justified for the services rendered. Such costs are substantial. According to shippers, at least 17 percent of the overall costs go to the shipping agents, which is very high compared to the ports of competitor countries. According to traders, the port of Alexandria needs substantial investment, but the real problem is the ad hoc pricing system that does not reflect services provided.

The new laws passed during first half 1998 are expected to de-monopolize through private-sector competition the GOE shipping agency and other GOE port services. This in turn is expected to substantially lower the costs of doing business in global and regional markets. Egyptian traders continue to worry that private monopolies or cartels will simply replace the public monopolies, since Egypt still has no anti-trust or procompetition laws.

The holding company for Maritime Transport had privatized 20 percent of its shares as of 30 June 1998 and the holding company for Inland Transport had privatized 17 percent of its shares. Freight rates are diminishing as a proportion of the value of the goods transported. They represented 6.64 per cent of value in 1980 and 5.27 per cent in 1997. These costs are however higher for developing countries (8.3 per cent in 1997)

than for developed countries (4.2 per cent), a difference that can be explained by several factors: a bigger volume with bigger and more efficient ships (carrying up to 6,600 containers), and stronger competition added to a higher average value of goods transported for the developed markets. What is even more important is the implicit added cost of the red-tape and lack of transparency. These costs do not even appear in the cost of freight.¹⁵

5.5. Air Transport

- Six Airport BOOT projects, no progress on a study to offer a BOOT project to build a Terminal 3 at Cairo Airport.
- Maintenance of public monopoly at main airports such as Cairo Airport.
- Maintenance of Egypt Air's monopoly on Air Transport, with minimal private sector charter activity that does not compete with Egypt Air.
- It does not appear that it is a sector that is perceived as a priority sector for liberalization. Whether this situation is a result of concerns about government revenues, protection of Egypt Air and its interests or just a lack of urgency to liberalize the industry is unclear.

¹⁵ See Fawzy (1998) and DEPRA report on constraints facing exporters and how they are estimated to add 15 percent tax on exporters.

Table 13: 'Transport Infrastructure

10010101	Transport minustracture		
		Air	
	Aircraft	assenger	Air freight
	departures	carried	millions
	thousands	thousands	ton-km
	1996	1996	1996
Egypt	41	4282	198
Iran	63	7610	110
Jordan	17	1299	297
Kuwait	19	2133	334
Lebanon	10	775	80
Morocco	32	2301	57
Saudi Ara	101	11706	863
Syrian Ara	9	599	16
Tunisia	14	1371	18
Turkey	85	8464	207
Low Inco	1040 S	87460 S	_
Middle Inc	3604	222117	
High Inco	14102	1079094	

Source: World Economic Indicators, 1998. T

Again similar to telecommunication and financial services, other countries' experiences suggest that there are major gains to be had from liberalization of air transport services. Baltagi, et al. (1995) show that the U.S. Airline Deregulation Act of 1978 ended four decades of Civil Aeronautics Board (CAB) control of the domestic air passenger industry has resulted in relaxation of price and entry regulations. ¹⁶ These led to lower airfares led to a significant increase in aggregate output. On the other hand, airlines were free after deregulation to increase the frequency of flights between city-pair markets. The resulting increase in traffic enabled firms to significantly reduce costs. Over the 1971-86 period, fuel-efficient aircraft were put into service. Output growth and more efficient route structures in the post-deregulation period allowed for the use of wide-bodied aircraft. The rate of pure technical change in the airline industry is estimated to have declined from 4.6% to 3.4% annually after deregulation. This has been attributed to slower introduction of more fuel-efficient aircraft and slower relative improvements in load factors. Airfares fell significantly after deregulation.

Bowen and Leinbach (1996) show that all ASEAN countries partially privatized their state-owned flag carriers. Although four major South-East Asian carriers (Thai Airways International, Singapore Airlines, Malaysian Airlines and Philippine Airlines) were privatized, the State retained a substantial equity share. Governments continued to

¹⁶ Baltagi, Badi H.; Griffin, James M. and Rich, Daniel P. (1995), "Airline Deregulation: The Cost Pieces of the Puzzle", *International Economic Review*, Vol. 36, No.1.

Bowen, John T. and Leinbach, Thomas R. (1996), "Development and liberalization: the airline industry in ASEAN", in G.C. Hufbauer and C. Findlay (eds.), Flying High: Liberalizing Civil Aviation in the Asia Pacific, Institute for International Economics, Washington, D.C.

control domestic fares. The increase in competition resulting from the entry of foreign carriers helped to enhance the efficiency of flag carriers and other domestic carriers. The author suggests that denser transport networks encouraged foreign investment in Asian countries. New aviation links promoted trade and commercial ties. Movement of goods and people became faster and cheaper. A larger number of flights became available to a wider range of destinations. Domestic reforms increased flexibility in allocating licenses and setting fares and, as in the UK, allowed for the privatization of state-owned companies. Liberalization of bilateral agreements, although not widespread, encouraged new entries and required incumbents to adjust.

Button (1993) shows that in order to deter new entrants in the industry, dominant airlines invested heavily in Computer Reservation Systems (CRS), which provided travel agents with information on fares and seat availability and enabled direct booking. Both the hub-and-spoke system and CRS conferred strategic advantages on larger firms and, thus, helped to increase the level of business concentration in the industry. The study argues that the post-deregulation increase in concentration in the U.S. aviation industry did not offer dominant airlines monopolistic pricing opportunities owing to their control over hubs. Competition between hubs effectively operated as a constraint.

5.6 General Liberalization of Services

Underlying the drive towards service liberalization is the fairly well accepted economic literature that competition and liberalization of markets (for goods and services) provides the best environment for the allocation of resources. Removing barriers on entry, enhancing transparency, and generally increasing competition in goods and services markets guarantees that economic resources will be utilized to produce the most-valued goods and services for the economy as a whole.

Bernard Hoekman's estimates that a 'WTO-Plus' FTA which eliminates non-tariff barriers (where services usually produce the lion's share of these barriers) increases the expected welfare gain over the expected gain from a shallow FTA which only

¹⁸ Button, Kenneth J. (1993), "International interdependencies between the deregulation of domestic service industries: a case study of aviation in North America", The Service Industries Journal, No. 3

eliminates tariffs from 1.26 percent of GDP to 1.8 percent of GDP. In other words, the 'WTO-plus' FTA adds to welfare one-and-a-half times the welfare that a 'shallow' FTA adds. (Hoekman, Bernard (1998), An Egypt- US. Free Trade Agreement: Economic Incentives and Effects, ECES working paper #22). Even in the context of enhancing benefits from a free trade agreement that targets mostly merchandise trade, service liberalization enhances the benefits from liberalizing merchandise trade.

These arguments may not be intuitively convincing for a policy-maker, or they may lack the power to convince political interests that may question or even oppose any policies to liberalize services. Developing countries have to quantify the extent of welfare gain from liberalizing services and how that gain is going to be distributed among different groups, and whether compensation, a gradual transition, or a big-bang change in policy is going to produce the best results. While economic models predicting the extent of benefit can be useful to provide a direction of change, and possibly its magnitude, our best evidence on the benefits of liberalization comes from country experiences. Hoekman and Sauve (1994) p. xi argue, however, that very much depends on the intentions and objectives of the countries that negotiate integration agreements for service sectors.

As an example of how failure to liberalize services may dampen or contradict other policies, Galal and Hoekman (1997) show that Egypt's EU partnership agreement, which is not likely to cover liberalization of services, will produce a reversal of the effective rates of protection picture that prevails prior to the agreement. Prior to the agreement, regulations and different barriers to entry represents a 15 percent protection for services while average nominal protection for manufacturing is much higher producing an average effective rate of protection of 51 percent for manufacturing and average ERP of –36 percent for services. Because the Egypt-EU agreement excludes services and part of agriculture from liberalization, when the agreement reaches its final stages after 12 years of signing the picture gets reversed. Manufacturing becomes generally negatively protected (taxed) because of its reliance on a protected service sector, while services becomes positively protected because of cheaper manufactured goods.

Preliminary results using Egypt's 1992 Input/Output tables suggest that demand, employment and income multipliers maybe significantly higher for some types of services, especially when compared to other sectors such oil and manufacturing. These

¹⁹ For details about the expected coverage of the Egypt-EU Partnership Agreement see Galal and Hoekman (1997), several chapters.

(preliminary) results suggest that service sectors with the potential to compete on international markets can have more far-reaching benefits within the economy when compared to other export-oriented sectors in the economy. (Based on preliminary results of Tohamy and Adrian (1999), The Economic Impact of Tourism on the Egyptian Economy, ECES. (forthcoming).

VI. Conclusion and Policy Recommendations

Countries where services are mostly government monopolies may face the necessary pre-requisite of setting up regulatory bodies to govern the newly- privatized sector, before privatizing and liberalizing to allow both domestic and international suppliers of the service. These conditions tend to slow down the progress of liberalization and they tend to produce legitimate concern that eliminating barriers and/or private sector participation. These countries, however, face political opposition, which may be weaker and more diffused than that of a politically powerful domestic private supplier.

In the case of Egypt, the government's philosophy appears to be using service liberalization to achieve other goals. These other goals range from providing lower prices of service to exporters of commodities, to raising saving and investment levels, etc. This is evident in the fact of even the emphasis that is put on specific service subsectors such as banking, telecommunication and maritime transport.

If the commitment to liberalize services is made and the issue is sequencing liberalization so as to minimize the danger of creating market power, then the obvious place to start is in sectors that are initially private and without dominant public or private players. The challenge of these sectors is that further liberalization means openness to foreign participation and that may be less acceptable to policy-makers and interest groups than allowing the domestic private participation through privatization.

Liberalizing trade in services and the growth in trade in sectors may be Egypt's means toward solving many of its problems such as Balance of Payments and unemployment, in addition to eliminating biases against commodity exports. Once that realization is made, and there is vision for developing Egypt as a service-exporting country, Egypt becomes faced with a choice to make. Either rely on unilateral liberalization measures to allow for reversal in policies that go beyond what can be

allowed for under an international commitment, or it can lock-in policies in such agreements to enhance their credibility and the risk of reversal. Again quantitative analysis and country experiences suggest that the latter option produces a stronger impact of any change in policy.

Evidence from country experience, such that gains from liberalizing services are unquestionable, given that liberalization enhances competition. Therefore, the decision to liberalize services should not be open for compromise; both by virtue of its role in enhancing the competitiveness of other sectors and by virtue of identifying services as an export-oriented activity. The issue of how to achieve this goal, however, should be allowed to vary from sector to sector and how the initial conditions of each sector dictate the choice between simultaneous liberalization and commitment under GATS or liberalization-cum-privatization and then GATS commitment.

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n° Inv. 19914 23 LUG. 1999

BELIOTECA







Preparing for the WTO 2000 Negotiations: Mediterranean Interests and Perspectives Cairo, Egypt, 14-15 July, 1999

Maritime and Air Transport: The Potential Gains from Liberalization

Riad Al Khouri

Sponsored by the Economic Research Forum, Istituto Affari Internazionali and the World Bank

Contribution of the World Bank and IAI made possible by financial support from the Government of Italy and the Netherlands

DRAFT 29 JUNE 1999

ERF/World Bank Workshop on "Preparing for the WTO 2000 Negotiations," Cairo, July 1999

Maritime and Air Transport: The Potential Gains From Liberalization

by Riad al Khouri, BLitt (Oxon)
Director MEBA Ltd

Targeting policy advisors and decision-makers in both developing and industrialized economies as well as the research community in developing countries in order to identify policy options and undertake analysis to prepare for the next set of WTO negotiations scheduled to begin by next year, this paper will document market and regulatory structures that apply to international air and maritime services in the MENA region, including port and support services. An attempt will be made to assess how existing structures affect the costs of shipping and the quality of service provided.

The paper will discuss how liberalization could improve the efficiency and quality of maritime shipping and air transport services, and the likely impact on downstream industries in terms of their ability to compete on world markets. (Estimates of the gains from liberalization can be generated with the help of input-output table data on the importance of air and maritime transport to the rest of the economy).

Based on this analysis the paper will ask whether negotiations in the WTO should begin from the proposals that were on the table in the aborted Maritime Services negotiations, or from a fresh start, and assess whether and how air transport services in the region should be liberalized. Particular issues to be addressed include the role for embedding liberalization commitments in the GATS, constraints on open skies/open seas policies, and the extent to which anti-competitive market structures are the result of foreign actions (or inaction), and therefore require international cooperation.

I. Introduction

A. The General Agreement on Trade in Services

The competitiveness of manufacturing as well as of primary production depend greatly on the availability of efficient services. Services exports are also rising in importance: in 1997 they were worth \$2,170 billion, accounting for over 30% of total world trade. (1)

The main aim of the General Agreement on Trade in Services (GATS) is to provide a framework for liberalizing trade in the services sector, such trade occurring in one of four modes:

- 1. Cross-border movement of service products
- 2. Movement of consumers
- 3. The establishment of commercial presence in the country where the service is to be provided
- 4. Temporary movement of natural persons to another country, in order to provide the service there.

The GATS has three basic principles: first it covers all services except those provided in the exercise of government authority; (2) second, it stipulates that there should be no discrimination in favor of national providers -- the national treatment principle; and third, there should be no discrimination between other Members of the Agreement -- the most-favored-nation (MFN) principle. However the agreement does provide important exceptions to all three. First, governments can choose the services in which they make market access and national treatment commitments; second, they can limit the degree of market access and national treatment extended; and third, they can take exceptions even from the MFN obligation, in principle only for ten years, in order to give more favorable treatment to some countries than to the whole. (The need for maintaining them is to be reviewed after five years.) From then on, the MFN rule will, in principle apply unconditionally to trade in services, as it does to trade in goods.

The national treatment principle entails the treatment by a country of foreign services and service providers not less favorably than their own service products and service providers. The framework however does not impose a binding obligation but it requires countries to indicate in their schedule of concessions the sectors in which and the conditions subject to which such national treatment is to be extended.

Because of the intangible nature of services and as many service transactions do not involve cross- border movements, protection to service industries cannot automatically be granted through measures applicable at the border (as in the case of goods, by the imposition of tariff and non-tariff restrictions).

The GATS consists of a framework that imposes obligations broadly divided into two categories:

- General obligations, which apply to all service sectors
- Conditional obligations applicable to sectors covered by commitments specified in the national schedules

Among the important general obligations imposed by the framework text are those relating to:

- The extension of MFN treatment
- Transparency of regulations (the agreement requires each member country to establish one or more inquiry points from which other members can obtain information on laws and regulations governing trade in services. To obtain information from inquiry points, service enterprises will have to channel their requests

through their national governments. Also, the agreement calls on developed country members to establish contact points by which requests can be made direct and provide service suppliers in developing countries information on; the availability of service technology, commercial and technical aspects of the supply of services, registering, recognizing and obtaining professional qualifications)

- Mutual recognition of the qualifications required for the supply of services (the Agreement urges its member countries to enter into bilateral or plurilateral arrangements for the mutual recognition of the qualifications required for obtaining authorization to supply services)
- Rules governing monopolies and exclusive service suppliers and other business practices restraining competition
- Measures to be taken to liberalize trade, including those securing the greater participation of developing countries. The Agreement calls on Members to give priority to the liberalization of access in the modes of supply and services sectors of export interest to developing countries, recognizes the need of developing countries to maintain higher levels of protection and thus the need for the flexibility to open fewer sectors and to liberalize fewer types of transactions, and finally provides for developing countries that want to impose conditions requiring foreign suppliers to set up joint ventures and to provide the local company access to their technology and/or access to their information and distribution channels.

The agreement visualizes that commitments to liberalize market access should primarily take the form of modifications to domestic regulations for the purpose of providing increased market access both to service products and to providers of services in the four modes in which the service trade takes place. Such commitments could relate to:

- Maximum foreign ownership limitations
- Restrictions on the establishment of some kind of local representation
- Limitations on the total number of service operations or on the total quantity of service output
- Limitations on the total number of service personnel that may be employed in a particular service sector
- Restrictions on the ability of service suppliers to choose the business form (company, partnership) in which they want to operate
- Limitations on the overall number of service suppliers allowed to operate in the market, because of a quota system or a monopoly situation.

Conditional obligations aim at ensuring fuller implementation of the commitments assumed by countries include the following:

- Ensuring that all domestic regulations of general application affecting trade in services are administered in a reasonable and objective way
- Issuing to foreign suppliers the authorization required for the provision of services within a reasonable period
- Not applying restrictions on international transfers and payments, except when the country is in serious balance of payments difficulties.

By including a service sector or a sub-sector in its national schedule, a country indicates that it will apply to trade in that sector the market access and national treatment obligations. It is however open to a country to indicate the limitations under

which it will grant market access or national treatment for each of the four modes of supplying a service. Such restrictions could be:

- Horizontal, covering the entire range of services (e.g. companies law)
- Specific to the sector or activity in question. While developed countries have covered all services sectors, developing countries have exercised a certain degree of flexibility and have covered a limited number of sectors. The type of limitation specified in the sectoral schedules relates to the characteristics of the service activity and the modes in which service transactions primarily take place. If limitations have been indicated against a particular mode of supply, a country is obliged not to impose any other limitations that would further restrict the entry of foreign suppliers.

With the assumption of the commitments described above, countries have taken the first preliminary steps towards liberalizing international trade in services. Unlike trade in goods, it is however difficult to quantify the potential trade effects of liberalization in the service sector for two reasons:

- First, there is no equivalent of customs duties in the services sector. As protection is granted through domestic regulations which discriminate against foreign suppliers, the effect of such measures or their removal cannot easily be quantified.
- Second, at least at present, the comprehensive data needed to estimate the trade effects of liberalizing particular services under different modes of supply or even in aggregate terms is rare.

Nevertheless, as emphasized by Warren and Findlay (3), the attainment of more information on the detail of policy and its impact helps mobilize the key countervailing interests against protectionist forces in domestic economies, facilitates the construction of coalitions for reform by political leaderships, and adds to policymaker confidence as strategies are designed and implemented. Due to the nature of services trade it may be difficult to impose tariffs directly upon the service consumer or service supplier as they interact across borders. This requires the use of other types of barriers that are hard to identify and measure. There have been very few systematic attempts to collect information on barriers to entry in the services sector beyond the periodic trade reviews conducted by national trade negotiators. This raises concerns on a policy developmental level (where the lack of information on the extent and impact of impediments to trade in services undermines the liberalization process), and on a negotiating level.

The information issue is also raised by Djankov and Hoekman (4) who note that he collection of simple measures of industrial structure and import penetration would be useful in characterizing the conditions of competition prevailing in an economy. These measures include industry concentration ratios; annual entry and exit (turnover) of firms; the size distribution of firms; import penetration by industry (the ratio of imports to apparent consumption); the share of total output exported; and average price-cost margins by sector. Although these types of data are not policy-specific, they can be useful in monitoring trends in the conditions of competition in WTO members. Therefore, taken together and evaluated over a number of years these measures can provide useful information on the overall competition policy stance of a government and its evolution. These types of data could then be used for monitoring, reporting and multilateral surveillance purposes and further allow for cross—country comparisons

and the establishment of benchmarks against which changes in a given country over time could be measured.

Nevertheless, as noted by Hufbauer and Warren in their discussion of the globalization of services (5), there has been an increase in cross-border trade, foreign direct investment, cross-country mergers and international joint ventures which have all contributed to the augmentation of the number of multinational services enterprises.

A major contributor to the globalization of services has been the reduction in obstacles to services trade and investment -- even though the absolute level of policy barriers remains comparatively high. This accomplishment comes as a result of the multilateral and bilateral negotiations taken on the part of many countries, particularly in the context of the Uruguay Round. High hopes are now being pinned on its followup.

In the First Ministerial Conference of the WTO, the built-in agenda of the Uruguay Round Agreements was reconfirmed. It included the provisions of the agreements which call for future negotiations on services. Ministers agreed to a process of analysis and exchange of information on the agenda topics to allow members to better understand the issues involved and identify their interests before undertaking the agreed negotiations and reviews.

Article XIX of the GATS requires WTO members to "enter into successive rounds of negotiations, beginning not later than five years from the entry into force of the WTO Agreement and periodically thereafter, with a view to achieving a progressively higher level of liberalization". The deadline to start the first round is 1 January 2000.

The focus of future rounds of services negotiations should be the enlargement of market access. All present access commitments are recorded on the basis of positive lists (they state what access is permitted, rather than what is not allowed) and this is an indication of their comparatively limited coverage, and of the scope for further liberalization.

The negotiations are to be directed to "the reduction or elimination of the adverse effects on trade in services of measures as a means of providing effective market access." However, developing countries are to have flexibility for opening fewer sectors, liberalizing fewer types of transactions, and progressively extending market access in line with their development situation. Two specific points of particular interest to developing countries and that are to be covered by negotiating guidelines and are the treatment of autonomous liberalization undertaken by members since previous negotiations, and the special treatment to be given to least-developed countries.

It goes without saying though that, even before the formal talks begin, the negotiations have started. Negotiating priorities have also begun to be articulated at the political level. Thus US Trade Representative Charlene Barshefsky recently pointed to the following "minimum" for the United States on services: "Services, in which we hope to see specific commitments for broad liberalization and market access in a range of sectors, including but not limited to audiovisual services, construction, express

delivery, financial services, professional services, telecommunications, travel and tourism, and others" (testimony of USTR Barshefsky to a US House of Representatives Appropriations subcommittee, 17 March 1999). The EU position articulated by Trade Commissioner Sir Leon Brittan, is that "GATS negotiations should take place on all services sectors with no prior exclusions. As a starting point, improvements should be made in the existing offers: market access restrictions should be further removed; and full national treatment ensured. We also need to consider the so-called new services or those which received less attention during the Uruguay round, for example business and courier services, environment services, and education and health services;" see "Europe's Prescriptions for the Global Trade Agenda," address by the Vice President of the European Commission Sir Leon Brittan, Washington DC, 24 September 1998. Despite these indications from the world's two most important service powers, the structure and format of the next negotiating round remain unclear, with many trading partners not likely to reveal their proposals until late 1999. (6)

B. Maritime and Air Transport Services

The lowering of transport costs has largely contributed to the growth in services trade and foreign investment by increasingly allowing countries and firms to leverage their competitive positions and sell into foreign markets. This is applicable to both services that are remotely located and those that can be supplied nearby. At the same time there is dislocation from increased competition as inefficient economies and laggard firms lose market share and their employees are laid off. The barriers to progress in services is great and powerful domestic interests limit the extent to which policymakers can expose domestic industries to international competition. However, as noted by Hufbauer and Warren (7), it is conceivable that globalization of services markets could boost potential world GDP by 4-6 percentage points.

The WTO secretariat has divided services into twelve sectors including Transport. Since it was not possible to complete the negotiations on trade liberalization in a number of sectors when the Uruguay Round was being concluded, it was therefore decided to complement the framework text with annexes, which lay down some additional rules on sectoral specifications and provide guidelines for the continuation of negotiations for further liberalization. Two of the annexes cover Maritime Transport and Air Transport respectively.

Among separate negotiations on issues of concern regarding market access for services have taken place since the Uruguay Round ended, the first occurred in 1995-6 and dealt with the liberalization of Maritime Transport services. The maritime negotiations sought to remove restrictions on international shipping, auxiliary services, and access to and use of port facilities. These negotiations failed to produce any substantial package and were suspended with the agreement to return to the subject in the broader talks. Most countries have made no market access or national treatment commitments in this sector.

In the new round of negotiations, a number of other services-related matters will be covered, including the examination of whether the present narrow coverage of air

transport services could be extended. The Annex on Air Transport Services applies to measures affecting trade in air transport services and ancillary services. It excludes from the GATS coverage traffic rights and directly related activities that might affect the negotiation such rights. However, the GATS applies to aircraft repair and maintenance services, the marketing of air transport services and computer reservation system services. The Council for Trade in Services is required to undertake a periodic review, at least every five years, of the developments in the air transport sector and operation of this annex with a view to considering the possible further application of the GATS in this sector.

It goes without saying that negotiations on these and other issues have proven to be and will remain complex and politicized. That however is the nature of the WTO process, insofar as concessions made in one sector need not necessarily be a response to another country's offer in the same area, or indeed developments in the whole field of international trade. Thus, non-trade disputes, as well a trade issues in widely diverging sectors, may be and are reflected in negotiations in particular fields. The irony of course is that as with any diplomatic interchange, the process is highly nontransparent, however much the eventual aim may be the promotion of transparency. It is in this context that the following recent position on maritime transport taken by Acting US Trade Representative Charlene Barshefsky should be seen. In a statement on 14 June 1999 she announced that offers made by countries negotiating to liberalize global shipping services "merely lock in place restrictive, anti-competitive measures." Barshefsky said that in light of the poor quality of foreign offers the US would not be submitting its own offer in the negotiations. (8) The statement was not unexpected. US officials earlier in the month had said that most of the offers submitted were inadequate to conclude a deal. The problem here is that such positions may not always be the direct result of issues purely concerning maritime transport; however, in the end reform of the world's maritime services is slowed down, with attendant obstacles to economic growth and development. The rest of this paper will abstract from such non-transport and indeed non-economic issues, but they should always be kept firmly in mind.

Footnotes

- 1. Hufbauer, G and Warren, T "The Globalization of Services: What has happened? What are the implications?" updated version of a paper presented at the International Conference of Private Business Organizations, "The Service Economy: an Engine for Growth and Development," hosted by the Istitut der Deutschen Wirtschaft Koln, in Dresden, 3-4 June 1999, kindly supplied by Mr Hufbauer June 1999.
- 2. Services obtained by government departments and agencies for their own use are excluded from the GATS, being included instead in the provisions of the WTO Agreement on Government Procurement.
- 3. Warren, T and Findlay, C "How Significant are the Barriers? Measuring Impediments to Trade in Services," paper presented at the "Services 2000: New Directions in Services Trade Liberalization" Conference at the University Club in Washington DC, 1-2 June 1999.

- 4. Djankov, S and Hoekman, B "Conditions of Competition and Multilateral Surveillance," updated version of a paper presented at the conference "Competition Policy and International Trade," European Institute for Advanced Studies in Management, Antwerp 29-30 May 1998, kindly supplied by Mr Hoekman May 1999.
- 5. Hufbauer and Warren op cit
- 6. Sauvé, P and Wilkie, C "Exploring Approaches to Investment Liberalization in the GATS," paper presented at the "Services 2000: New Directions in Services Trade Liberalization" Conference at the University Club in Washington DC, 1-2 June 1999, First draft, 11 May 1999, Footnote 34.
- 7. Hufbauer and Warren, op cit
- 8. USIA, US-WTO Home Page, "Barshefsky Says WTO Maritime Talks Provide Little," 15 June 1999

II. The GATS and Air Transport

A. An Overview of World Air Transport

1. Profitability

Following a decline in net profitability in 1996, International Air Transport Association (IATA) member carriers achieved a near record net profit of \$5 billion in 1997. A total of 412 million passengers were carried on the international scheduled services of IATA airlines in 1997 and more than 861 million on domestic services-for a grand total of 1,273 million.

2. Liberalization

Air transport activities of all kinds performed by airline companies take place in a common regulatory framework based on the Chicago Convention (1). Bilateral agreements (at least until the early 1980s) have been based on detailed negotiations of three issues: routes, capacity, and tariffs, as well as others of lesser importance. In terms of form, States are continuing to rely primarily on bilateral air service agreements; nearly 300 such agreements, amendments thereto and memoranda of understanding were reportedly concluded in the period 1995-1997.

In any case, the international aviation industry is still very much bedeviled by restrictive practices, monopoly provision of services, state aids, bilateral agreements between national governments and protectionist attitudes. Within the US there has been considerable liberalization but this has not extended to international, foreign carriers who must negotiate (or to be accurate their governments must negotiate) agreements with the US Administration to gain access to US airspace and airports. In Europe, the European commission has established a program of moves to liberalize its own aviation industry, which for internal flights has proved very successful, with new carriers taking advantage of the deregulated environment. However, attempts by the Commission to take responsibility for negotiating air space rights for all EU carriers with other countries has been persistently blocked by member states wishing to safeguard their own rights to negotiate and protect their national carriers. Such attitudes prevent the liberalizing program from bearing further fruits.

3. Privatization

Air transport has historically been a sector in which prices are fixed and managed administratively, particularly but by no means exclusively in the context of state airline ownership. There is a trend nowadays towards privatization of airline companies, and the subsequent formation of international alliances. The latter mitigate the effects of foreign equity restrictions and of the limitations inherent in bilateral agreements.

Recent privatizations have often induced foreign investment in airline companies, subject to any limits imposed by the law on foreign equity participation. Such limits are very common, but in some countries, such as New Zealand, these requirements have been relaxed. It is also significant that governments no longer invariably come to

the rescue of distressed national airlines, and that some bankruptcies and closures have been allowed to take place, notably in developing countries. In developed countries there has been a clear tightening of competition policies in relation to State aid.

The trend of partial foreign ownership of airlines has continued. Several governments have adopted new policies or amended existing rules to relax restrictions o foreign investment in national airlines. Furthermore, many airlines continued to make equity investment in foreign carriers, often as part of the strategy to forge or strengthen alliances and expand market access. By the end of 1997, some 50 carriers had stakes in foreign airlines while about 65 airlines have equity owned by foreign investors.

Growing investment needs have caused public authorities to consider privatizing the building and management of airports. This movement started in the UK but can also be observed in other developed countries and in developing countries with World Bank participation. Privatization takes many different forms. Under the perpetual franchise system the ownership financing and operation of the airport devolve upon the firm developing it while the government regulates safety and the quality of services and sometimes prices or profits. Under the Buy-Build Operate system a private firm buys an existing airport and expands or improves it as a private facility. The most common form is known as "Build Operate Transfer" under which the private company receives a franchise to finance, build and operate the airport over a long period of up to 50 years after which it is returned to the government. There are several other variants. The US is unique in having a sophisticated market in airport revenues bonds which allows local authorities to retain ownership while financing investments through private sector money. However, the FAA is planning to privatize five airports including one major hub in the next five years.

4. Alliances

Since 1994 airlines throughout the world continued to form alliances through various cooperative arrangements (such as codesharing, blocked space, cooperation in frequent flyer programs, joint marketing, service and purchasing, etc.) to redefine, strengthen or expand their market presence and to position themselves in an increasingly competitive environment. While numerous agreements concern cooperation on a limited scale (e.g. codesharing on certain routes), the number of wide ranging strategic alliances has been on the rise in recent years. Most notable was the emergence of the so-called "mega alliances which involved some major or a group of major airlines with a combined route network extending to most parts of the world.

B. Origins of the GATS Air Transport Annex

Air transport issues are now distributed among GATS and the WTO on the one hand, reflecting the economics of air transport, and on the other hand the Chicago Agreement and the International Civil Aviation Organization (ICAO), reflecting the facilitation of air transport. Nevertheless, as the United Nations specialized agency for civil aviation matters, there has been an active role for ICAO in service discussions in GATS.

Air transport services are covered only in a limited manner by the GATS. (2) The negotiators in the Uruguay Round recognized that international air transport was governed by an intricate system of over 3,500 bilateral agreements. Furthermore, these accords were based on a balanced and reciprocal exchange of rights between states on the basis of fair and equal opportunity. Also, the International Civil Aviation Organization (ICAO) and IATA provided a well-understood and comprehensive multilateral environment. This framework was sufficiently flexible to allow for increasing competition and at the same time for the co-operation needed to run a universal system covering almost 190 countries and hundreds of airlines, big and small. Therefore, the airline industry sent a strong message that it did not wish to see a dual regulatory regime created with some states applying GATS obligations and others holding to existing arrangements . It was recognized that if new trade concepts were to be applied to air transport, the most qualified body to carry that would be (ICAO) .

Therefore, it was clear during the negotiations that the inclusion of air transport in the agreement was premature. The result was a separate Annex on air transport services that included only three ancillary services :aircraft repair and maintenance, selling and marketing of air transport services, and CRS services. Anything that had to do with traffic rights and any directly related services(defined in the widest sense to include routes, traffic rights, capacity, pricing and the criteria for the designation of airlines, that is ownership and control requirements) was excluded.

Some European airlines are exploring the possibility of whether the GATS could be used to remove specific trade obstacles not directly covered by bilateral agreements, such as airport services, ground handling restrictions, and airport charges. a key question that needs more study is how confidential MFN could be developed to apply specifically to air transport and so overcome the practical objections to full MFN being applied in this sector.

The present coverage of air transport by the GATS results from paragraphs 2 and 3 of the Annex on Air Transport Services as follows:

- "2. The Agreement, including its dispute settlement procedures shall not apply to measures affecting traffic rights, however granted or services directly related to the exercise of traffic rights, except as provided in paragraph 3 of this Annex.
- 3. The Agreement shall apply to measures affecting:
- a. Aircraft repair and maintenance services (3)
- b. The selling and marketing of air transport services (4)
- c. Computer Reservation Systems (CRS) services (5)."

"Traffic rights" are defined in paragraph 6 (d) of the Annex. Each of these covered services is defined, in paragraph 6 (a), (b) and (c) respectively. In the air transport sector questions of definition and classification are particularly interesting and important for two reasons. First, there is in this sector alone a "positive list" of services covered by the Agreement - those services directly related to the exercise of traffic rights listed in paragraph 3 of the Annex - and it is therefore important to be sure that the definitions of these three services are operationally watertight. Moreover, the absence of a definition of services which are not "directly related to the exercise of traffic rights" and which are covered by the GATS, creates uncertainty

about the coverage of the Agreement and the scope of the Annex. Second, the Council is required by paragraph 5 of the Annex to "review periodically, and at least every five years, developments in the air transport sector and the operation of this Annex with a view to considering the possible further application of the agreement in this sector". The first such review is imminent. It is thus particularly important to have a common understanding of what is already covered by the Agreement, and the review provides a motive and an opportunity to ensure this.

1. Aircraft Repair and Maintenance Services

Aircraft repair and maintenance activities are defined in the Annex correspond with the airline industry term "maintenance, repair and overhaul" (MRO). The world MRO market was valued at \$23-29 billion in 1996. Forecasts suggest a market of \$33 billion in 2005; the figure was only \$16 billion in 1987. Nonetheless, notwithstanding this growth, the relative weight of maintenance in the operational costs of airline companies is stable and may even be declining slightly. This can be explained partly by improved productivity, achieved both within airline companies and through outsourcing of maintenance. Indeed, maintenance was traditionally undertaken by companies for their own account, often without the creation of subsidiaries or even internal billing. In the past 25 years, under the influence of deregulation, the proportion of maintenance activities undertaken externally has risen from 10 to 30 %. The MRO market is undergoing major concentration, especially the engine sector, as a result of technological progress and the high cost of entry.

MRO security regulations are initially defined multilaterally by the International Civil Aviation Organization (ICAO). Second, national civil aviation authorities occasionally enact additional standards and ensure that service providers respect these standards, both on national territory and abroad, through certification programs. Finally, in order to avoid conflicts of jurisdiction which might result from this certification of foreign suppliers, a series of bilateral agreements on air safety is being developed, alongside the start of harmonization and mutual recognition of certifications

Between 1995 and 1998 there was a general increase in the number of new MRO facilities established worldwide. This is more likely to result from market growth than from the effects of the GATS, but it may be noted that six of the 13 cases of newly created facilities have been in countries with GATS commitments in this sector.

2. Selling and Marketing of Air Transport Services

The coverage of the term "air transport services" as used in the definition may also merit discussion. It certainly includes the sale of passenger tickets and also the sale of air freight by means of bills of lading, since no distinction is made between passengers and freight. But whether it should be understood to cover ticket sales for such services as business aviation and carrying skiers to mountain tops is not so clear. From the economic point of view the direct sale of tickets on regular flights by airline companies accounts for 20-30 % of all tickets sold, with significant differences between different companies. A first approximation to the size of the market would

be the value of operational expenses for "ticketing, sales and promotion," as reported by the airline companies. In 1994, this was about \$38 billion and in 1995 \$40 billion (6) about twice the size of the market for MRO and ten times that for CRS. Depending on the year in question, ticketing, sales and promotion account for between 15.5 and 16.5 % of operational expenses.

There are several reasons why Members may think it necessary to undertake further work on the classification of air transport services, and perhaps on aviation services more generally. The first and most important is the lack of a definition in the Annex of "services directly related to the exercise of traffic rights," from which it follows that we also lack a definition and a clear understanding of what is included in services not directly related to traffic rights. However, there are commitments in a number of schedules on aviation services other than repair and maintenance, CRS and selling and marketing; in the view of the Members concerned, these are presumably services not directly related to traffic rights. Comparisons are made more difficult by the lack of a concordance between the definitions in the Annex and those in W/120 and the CPC. There are many services ancillary to all forms of transport which can be offered either in conjunction with air transport services or in multimodal combinations, and it may be desirable to reach an understanding on the treatment of such services for scheduling purposes. Attention should also be paid to a number of services (for example air catering services and refueling services) which are rendered to passenger flights but whose relationship with the Annex is not clear. It would also be valuable to reach a clear understanding on the coverage by the GATS of aviation activities other than air transport (for example recreational flight, crop-spraying by air, flight surveys, geological or archeological, aerial photography and publicity, etc. There are also important auxiliary services (essentially airport services) which provide service to other forms of aviation than air transport and which to this extent cannot be regarded as directly related to the exercise of traffic rights.

If for these or other reasons, Members decided to pursue classification issues further, there are a number of activities which would seem to merit study. These include services auxiliary to all forms of transport, such as cargo handling and storage and warehousing services, freight transport agency services and "other supporting and auxiliary transport services. Should these be considered as directly related to the exercise of traffic rights?

The same question, as to their relationship with the exercise of traffic rights and therefore their coverage by the GATS, arises in connection with the rental and leasing of aircraft with and without crews. A number of commitments (19 and 4 respectively) have been made on these services. The definition of traffic rights in paragraph 6 (d) of the Annex includes the right to operate services "for hire," but it is not clear from the text or from the negotiating history whether this includes both charter services (including the block-booking of seats by travel agents) and leasing of aircraft. The economic importance of this sector is considerable: in 1996 34 major leasing companies owned 1760 jets worth \$41 billion that is 13.5 % of the world fleet. Aircraft leased by airlines from other airlines and manufacturers accounted for another 4.6 % of the world fleet.

Catering services are economically important; the size of the market is estimated at \$10-13 billion annually. Whether these services are "directly related to the exercise of traffic rights" is not clear; the Annex definition provides no guidance.

Fuelling services, which are a typical airport service, also give rise to classification questions. They are necessary for all types of aviation activity, not just the transport of passengers and freight, and it would seem odd in principle (and inoperable in practice) to maintain that they are covered by the GATS when the fuel is supplied to a crop-spraying aircraft but not when it is supplied to an airliner. These are services involving the use of aircraft which are not "air transport" in the sense of carriage of passengers and freight. There is no standard universal detailed definition of general aviation services except a very rough statistical breakdown by ICAO (instructional flying; business and pleasure flying; aerial work; and other flying).

The only data available on general aviation are expressed in physical terms and not in value. However they show clearly the economic importance of the sector. It involves 336,000 aircraft (87% of the world fleet) and 38 million hours flown (9 million for instructional flying, 20 million for business and pleasure flying and 9 million for aerial work and other flying) that is almost 49% of the total hours flown in the world. By comparison, scheduled air services account for 28.1 million hours (36%) non-scheduled for 2.6 million (3%) and other commercial air transport operations for 10 million (13%). The utilization of aircraft is much lower in the general aviation sector (113 hours per aircraft per year as compared to 798 hours per aircraft per year in the commercial aviation sector) but the number of pilots concerned is much higher about -237,000 compared with 150,000 commercial aircraft pilots. (7)

3. Computer Reservation Systems Services

For CRS there seems to be no correlation between the development of the number of suppliers and the existence of commitments: of the Members which have MFN obligations 30 (seven having commitments) show a fall in the number of suppliers, 27 (four with commitments) show an increase and 45 (six with commitments) show no change. There also appears to be no correlation for those Members who have MFN exemptions on CRS services: nine Members (six with commitments) show a fall, five (three with commitments) show an increase and 13 (eleven with commitments) show no change. This does not imply that commitments make no difference: other factors help to explain both reductions in the number of suppliers (concentration among operators) and their increase (growth in the market). It will be necessary to await completion of the concentration process before the long-term effects of commitments on the investment strategies of CRS suppliers can be assessed.

ICAO completed its review of its Code of Conduct for the Regulation and Operation of CRS and adopted a revised code effective 1 November 1996. The revised code has been drafted so that it can be followed by ICAO member States which are also parties to the GATS, which included computer reservations systems. Against a background of consolidation and ownership changes (in two cases involving public ownership) leading to increasing concentration with respect to major multinational CRS, reviews are currently underway of the CRS codes of conduct of the European Civil Aviation Conferency and of the EU and of the national CRS regulations of the United States.

The general term of "ground services" means all services provided within or around an airport. This covers a range of very different services - from air traffic control, which is normally a service provided by government on a non-commercial basis, to such services as franchising of shops and car rentals. The economic importance of these services which are not directly linked to the main business of the airport is very great: the Airport Council International (ACI), the professional organization of the industry, estimates that 46 % of airport revenues derive from these non-aviation activities. The figure is higher in some cases, such as the British Airports Authority, which was the pioneer in privatization and the development of commercial activities. ACI estimates for employment and turnover are also impressive: 200,000 directly employed by the airports themselves, 1.6 million other employees in airports and 4 million indirectly employed on business arising from the airports. Turnover is estimated at \$25 billion of which only half derives from aviation business in the strict sense. The indirect economic impact is estimated at \$122 billion.

The number and complexity of ground services is such that it is not possible to treat them in detail in this paper. However, one major issue which arises in describing and considering the ground services sector is to what extent it is covered by the GATS. This relates to the definition of services directly related to the exercise of traffic rights which is discussed above. A number of members have made commitments on the service.

For all services between the landing of the aircraft and the passengers leaving the airport, however, different systems of classification exist. Two of these have some regulatory and commercial impact. The first is the ICAO "Guide to facilities and services to be taken into account in determining airports' costs," which serves as a basis for the pricing of services. The second is the list contained in IATA's "Standard ground handling agreement" which is the universal reference for airline companies negotiating contracts with ground services suppliers.

C. The "WTO 2000" GATS Air Transport Negotiations

The GATS has affirmed the aviation community's recognition of the need for regulatory reform with a long term objective of liberalization. Within the context of GATS, progressive liberalization is achieved through successive rounds of negotiations aimed at increasing the level of commitment and eliminating exemptions. Other general provisions in GATS cover; consultations on restrictive business practices, abuse of monopoly position, economic integration and participation of developing countries through increasing their access to technology and liberalizing market access in sectors of interest to them.

The air transport sector is in transition, evolving rapidly in accordance with market disciplines. While in some respects its evolution is determined by its own circumstances and arrangements, air transport's changing nature matches that of other global economic activities.

In accordance with Paragraph 5 of the Annex three tasks await the negotiators: first, to review developments in the Air Transport sector, second, to review the operation of the Annex and third, to consider the possible further application of the GATS to air transport.

On the regulatory side, there are two significant developments since the GATS began. The first concerns the changing content of bilateral agreements that are being used to open up market access and liberalize in a manner barely contemplated a decade ago. The other significant development in the last 5 years on the regulatory side has been the mushrooming of regionalism as a liberalizing mechanism. Prior to 1995, there were two regional air transport arrangements (EU, Andean Pact); since then, seven other regional initiatives have emerged.

In the marketplace, there has been a wholesale shift towards innovation and restructuring. In the airline industry itself, the most evident development has been innovative forms of cooperation. From simple links such as sales and marketing representation, through the growing practice of franchising, joint products and services, often associated with codesharing, to emerging global alliances of enormous potential market power and strength, airline co-operation has moved since the 1980s into increasingly sophisticated, customized, targeted tie ups.

Reviewing the operation of the Annex to determine whether it has been an effective mechanism for liberalization and opening up market access in the three sectors covered will be a serious concern. The three air transport areas chosen for initial coverage by the annex were not based on any known or even perceived need to liberalize these particular matters.

Footnotes

- 1. The Chicago Convention entered into force in 1947 and has 185 members, almost all belonging to the WTO.
- 2. The background to this unique sectoral exclusion is summarized in WTO document S/CSC/W/11 of 9 October 1997 (paragraphs 3 to 7).
- 3. Aircraft repair and maintenance activities are defined in the annex as "such activities when undertaken on an aircraft or a part thereof while it is withdrawn from service and do not include so-called line maintenance." Counting individually the then-12 member states of the EU, 45 members have made commitments on aircraft repair and maintenance. This figure (34% of all members) is unusually high for a GATS transport activity.
- 4. The selling and marketing of air transport services is defined in the annex as "opportunities for the air carrier concerned to sell and market freely its air transport services including all aspects of marketing such as market research, advertising and distribution. These activities do not include the pricing of air transport services nor the applicable conditions" Thirty-four members, again counting 12 EU member states individually, have made commitments in this sector.

- 5. CRS are defined in the annex as "services provided by computerized systems that contain information about carriers' schedules, availability, fares and fare rules, for which reservations can be made or tickets may be issued." The definition does not specify by or to whom the service is delivered. Thirty-nine members (again counting the twelve EU member states individually) undertook commitments on CRS. This figure, about three in ten of WTO members, is relatively high for a transport activity.
- 6. However this figure includes commission paid to travel agents, which would not be covered by the GATS definition.
- 7. In general, statistics relating to air transport are better than those for other modes of transport, in terms of universality, homogeneity, degree of detail provided, reliability and timeliness. Major sources include the ICAO Statistical Yearbook and IATA's World Air Transport Statistics.

III. The GATS and Maritime Transport

A. An Overview of World Sea Shipping

Shipping remains by far the main mode of international transport of goods, although the rate of growth of cargo transport by air is much higher: 5 % over the last ten years as compared to 2 % for shipping. Maritime transport is also still an expanding activity; it registered in 1997 its twelfth consecutive year of growth.

There are more than 2,000 ports around the world, from single berth locations, to multipurpose facilities handling up to 300 million tons a year. More than 80% of trade with origins or/and destinations in developing countries, in tonnage, is waterborne. Total world port traffic reached 4.9 billion tons in 1997, having grown at an average yearly rate of more than 3% since 1990's 4 billion tons total. World port traffic is made for 45% of liquid bulks (mainly oil, petroleum products, and chemicals), for 23% of dry bulks (coal, iron ore, grain, and phosphate), and for 32% of general cargo. Containerization of general cargo traffic has progressed steadily over the last 20 years, including a doubling of world port container traffic between 1990 and 1998 to reach 175 million TEUs (Twenty Feet Equivalent Unit); moves of empty containers are estimated to make about 20% of the total. Container traffic is distributed unevenly between the Far East (45%), Europe (23%), North America (16%), Near and Middle East (6%), Central and South America (4%), and Africa (3%). Maritime freight costs, as a percentage of import values, have decreased from 6.6% on average for the whole world in 1980 to 5.3% in 1995; however, for the developing world, the corresponding figures were 10.4% in 1980 and still 8.3% in 1995, and up to 11.4% for Africa. Total logistics costs (packaging, storage, transport, inventories, administration and management) are estimated to reach up to 20% of total production costs in OECD countries, while freight costs alone (transport and insurance) can make up to 40% of values of exports for several African landlocked countries. Transport usually accounts for a quarter of total logistics costs in OECD countries, storage for a fifth, and inventories for a sixth.

Total world maritime traffic is expected to grow by 4 or 5% annually between 1998 and 2010. Total port container throughput is forecast to reach 270 million TEUs by 2005, i.e. a 55% increase over 1998; as a result, even accounting for productivity improvements, the need for additional facilities to come on stream over the next seven years reaches between 200 and 300 new full-fledged container terminals.

Private sector involvement in operations and investment in infrastructure has been growing significantly since 1990. It is estimated there are at end-1998 around 100 port concessions contracts signed worldwide (most in containers terminals, with grain, coal and liquid bulk facilities accounting for the rest), for a total estimated private investment amount of \$ 6.3 billions.

Traffic concentration on large intermodal platforms and shipping alliances translate into fewer ports handling a more important share of world traffic: the first 10 containers ports handled 31% of the world traffic in 1980, and close to 40% today.

Simultaneously, the growth of transshipment activities complements the development of hub ports: container trans-shipment is believed to make 20% of total maritime container traffic today, and is growing.

As a consequence of both liberalization of maritime transport and corporate restructuring in the shipping industry, international freight rates have significantly decreased in real terms over the last 10 years, often by more than 40%.

Port and logistics operations are more and more carried out by a limited number of international operators, specializing in dedicated market segments, and by a few large shipping lines expanding their maritime networks into inland operations to offer integrated transport services.

Seaports, from the simple physical sea/land interface they once used to be, have successively turned into commerce and industrial centers, then into logistics and distribution platforms, and are now becoming intermodal nodes in international supply chains networks, the efficiency of which now drives trade competitiveness.

Sea freight rates are diminishing as a proportion of the value of the goods transported. They represented about 7% of value in 1980, and just over 5% in 1997. These costs are however higher for developing countries (around 8% in 1997) than for developed states (about 4%), a difference that can be explained by several factors: a bigger volume with bigger and more efficient ships (carrying up to 6,600 containers), and stronger competition added to a higher average value of goods transported for the developed markets.

In spite of technical progress (the average container load of a ship has more than doubled in the last 15 years) recent productivity indicators show a certain decline due to overcapacity. This is estimated at 10% of the fleet for tankers and almost 7% for the dry bulk sector. Tanker traffic (i.e. the transport of both crude oil and refined products) accounts for 45% of shipping volume, dry bulk traffic (i.e. essentially the transport of iron ore, grain, coal, bauxite and phosphates) about 23 % and liner traffic (i.e. the relatively high-value traffic essentially carried by container ships, roll-on-roll-off vessels and the remaining classic twin-decker cargo ships) less than 33%. In terms of the value of goods transported the figures are higher for liner trade, due to the higher unit value of the goods transported. Detailed statistics on value are however lacking. The proportion of liner trade which is containerized is growing quickly (by nearly 10 % per annum in the 1990s) and now represents 55 % of liner trade. More than half of this traffic is now handled in developing countries' harbors.

The world fleet amounted in 1996 to 758 million dead weight tons (DWT). The vast majority of this, 543 million DWT, is owned by developed economies and major open registry countries.

During the Uruguay Round a special Working Group was set up for transport services. (1) The results of the Uruguay Round, while incorporating in the services schedules the maritime transport commitments made, also contain an annex to the GATS on negotiations in Maritime Transport services and a ministerial decision on Maritime Transport services whose effect was to prolong maritime transport negotiations until

30 June 1996 and create to that effect a Negotiating Group on Maritime Transport Services (NGMTS). This group held 17 meetings between May 1994 and June 1996. As a result of its work, the Council for Trade in Services adopted on 28 June 1996 a Decision on Maritime Transport Services (2), which again incorporates the maritime commitments and the MFN exemptions related to those commitments in the schedules, suspends the negotiations until the commencement of the next comprehensive negotiations on services, and suspends the MFN obligation until the end of the negotiations. Numerous formal and informal documents relating to maritime transport were produced in the context of the NGMTS.

Of particular interest among these are the answers to the questionnaire on maritime transport services (3). This questionnaire was answered by 37 Members - counting the EU as one - representing close to 47 % of the tonnage of the world fleet in terms of registration (237,250 million Gross Registered Tons out of a total of 509,466 million) and more than 80 % in terms of ownership. (The developed countries all responded except for Israel and South Africa.)

The overall picture resulting from the answers to the questionnaire is of a liberalized sector as compared to many other services sectors and in particular to other transport sectors.

The whole of bulk traffic (i.e. transport of oil, crude and refined, iron ore, grain, coal, bauxite) which accounts for 68% of the volume of traffic faces no restrictions except in one or two countries. It is organized as a spot basis (there is a also a futures market), and contracts are allocated extremely competitively; business is won on the basis of freight rates a few cents per ton lower than the competition.

On the liner side (i.e. the transport of containerized and general cargo by regular lines publishing in advance their calls in the various harbors) operators are organized in two ways: in "conferences" that are more or less integrated cartels fixing prices and frequencies and as "outsiders" that are very big or very small independent operators. Two types of conferences exist in the word: open conferences on the US routes, closed conferences in the rest of the world. Conferences enjoy antitrust immunity and benefit from block exemption from the competition authorities as they are thought to constitute a factor of stability and a source of technical progress and better services to customers.

In practice over the last 30 years the share of the traffic held by the conferences has been eroded as new state trading and Southeast Asian operators have emerged and become powerful enough to offer on their own services equivalent to those of the conferences.

The attempt of the UN Code of Conduct for Liner Conferences, which entered into force in 1983, to open the restricted "club" of the conferences to third world shipping lines through a cargo sharing arrangement (the 40-40-20 formula) has largely failed. The Code was only implemented, in spite of its wide membership (more than 70 contracting parties) on a marginal part of the world traffic, that between Western Europe and West Africa, which accounts for less than 3% of world liner trade.

Finally the competition directorate of the EU dissolved the conferences concerned on the grounds of abuse of dominant position towards outsiders.

In the rest of the world the conference system has co-existed with a framework of bilateral intergovernmental cargo-sharing agreements that were either the result of historical and colonial links, or were developed to deal with state trading economies. Other bilateral agreements were inspired by similar import-substitution economics.

Under such regimes the external trade of a country had to be transported by ships flagged in the country manned with nationals and where colonial traffic was reserves to the flag of the country. However, during the 1960s and 1970s this model largely disappeared as a result of the deflagging of bulk fleets, which has effectively severed the link between flag and ownership, and of the development of "third traffics" meaning trade between two countries carried in ships belonging to neither.

A distinction must be made between maritime transport in the strict sense and harbor activities; on the harbor side the answers to the questionnaire show that many countries have adopted the principle of the "landlord harbor" where part of the operations is left in the hands of private operators, which are sometimes foreignowned.

B. Maritime Transport

The process of "deflagging," that is the transfer of ships registered in developed countries to open registries in order for the shipowners to enjoy the benefits of the low labor costs allowed by these registries, has continued to spread. The whole developed world bulk fleet is now under such flags as well as an increasing part of the liner fleet. To try to slow this movement, at least for the liner fleet, developed countries have had recourse since the beginning of the 1980s to a series of fiscal measures and to the creation of "second registries," retaining the national flag while allowing more flexible conditions of manning (the crew except for some officers does not have to be composed of nationals paid at national rates).

This tendency has now become general and has expanded. One may note however the relative absence of direct subsidies in recent packages of measures. In that respect the US Maritime Security Act dated October 1996, which creates a ten year, \$1 billion program providing payments to owners and operators of US vessels in return for a commitment to provide sealift support in time of war or national emergency, constitutes an exception.

In parallel one may note a movement toward privatization of the last remaining stateowned shipping companies. This movement can also be observed in developing countries, notably under the impulsion of the World Bank, and has sometimes led, as in Western Africa, to the closure of shipping companies. Transnational take-overs have recently increased considerably. The liner sector, which ten years ago had dozens of actors, has seen a great concentration. In 1988 the 20 leading carriers controlled 35 % of world-wide capacity, in 1996 49 %. Alliances that were previously dedicated to specific routes have become global and imply world-wide cooperation between the shipowners concerned.

However in spite of the emergence of megacarriers and mega-alliances the picture remains fluid. The alliances (whether be it consortia or conferences) are unstable, their membership varies constantly and the competition authorities monitor their activities closely. For instance the US Federal Maritime Commission has extended the geographic scope of the investigation started in 1994 for illegal rebating and considers it has indications of increasing malpractices in a number of trades.

The multiplication of decisions by competition authorities, such as the grant of antitrust immunity to tolerated outsider agreements, the individual exemptions given to consortia and the authorization of mergers creates a risk of conflict of law. To try to prevent this conflict the OECD maritime transport committee published in November 1997 a report titled "Maritime Transport Committee Conclusions on Work on Promotion of Compatibility of Competition Policy Applied to International Shipping Including Multimodal Transport with a Maritime Leg". Multimodal Transport (MMT) is a relatively new concept initiated by the development of the container in the industrial countries. Some of the main objectives of multimodal transport development is improving the efficiency of the transport system at the country level as well as reducing the negative effects created by the segregation of transport modes on the efficiency of international transport and trade. MMT is a multifaceted concept involving legal issues, traffic facilitation, interface terminals, administrative arrangements and modernized operation methods. Information technology has become the main factor in the development of worldwide multimodal transport and its vast coverage around the world.

In terms of cargo reserved unilaterally to the national flag numerous liberalization processes can be observed. For example New Zealand liberalized its cabotage trade in 1994 and Australia is envisaging doing so.

In spite of a general tendency towards liberalization shipowners still consider that they are facing serious obstacles. For instance the European Communities Shipowners Association identifies in its 1997-1998 Report the following "negative factors": restricted/regulated access to port and port services, preferential cargo allocation, restrictions on establishment of owned branch offices, discriminatory measures favoring the use of national carriers, cumbersome procedures and/or personal harassment during port calls, abusive tariffs for services (often not rendered), unrealistic and unjustifiable liability claims by customs.

Another important regulatory development is the extension outside Europe, and notably to the Pacific region, of the "port state control" principle, that is the right recognized to the state of the harbor where the ship calls to arrest and detain substandard ships for safety reasons. In the same area the International Maritime Organization has continue to elaborate international conventions on safety and has widened the membership of existing conventions.

C. Harbor Services

The same logic of restructuring and reform through privatization and liberalization is at work for harbor services. This is true both in the developed and the developing world (it is worth noting that among the top 30 harbors in the world, 12 are located in developing countries). The aims of these reforms are to improve efficiency and to diversify sources of capital inflows.

The World Bank, which has spent \$8 billion between 1950 and 1996 in harbor projects, has developed a doctrine and practice going beyond the expansion and modernization of facilities to development of the political autonomy and economic viability of port authorities and more recently to promotion of the participation of the private sector in port investment and operation. The World Bank notes a beginning of an evolution of the structures from "statutory companies" to shareholding ones Between the two types of ports, the "landlord ports" (where port authorities limit their role to the building and owning of infrastructure, leaving superstructure, pilotage, cargo operations and towage to be conducted by private operators) and the "service ports" (where all operations are integrated and conducted by the port authority itself), the World Bank tries to favor the first model. It notes that in some instances it has been possible to convince the private sector to finance port infrastructure, as has been the case in China, Mexico and Panama. In exchange the private sector has obtained long term monopoly rights on cargo handling and storage. The World Bank considers that the private sector should be encouraged to invest in port facilities and heavy port equipment such as container cranes and to share the risks and rewards of financing these lumpy and massive investments through BOT schemes and concessions. In this context lease of public facilities and management contracts may be used as initial steps towards fuller privatization.

This institutional development takes place in a context where the competition between harbors is fiercer than in the past because of technological evolution: the increasing size of containerships implies only a few calls in three or four harbors at each end of the trade, the rest of the traffic being served by smaller feederships. It is therefore essential for big harbors to be selected as one of these calls by the main shipowners, consortia and alliances to avoid marginalization. Hence the development of "hub and spoke" strategies similar to those existing in air transport. In developing such strategies shipowners sometimes create their own private hubs, often at the crossroads of several routes: for instance the Algeciras terminal of Maersk at the crossroads of the East-West (through the Mediterranean sea) and North -South routes in the Atlantic or the Gioia Tauro terminal in southern Italy developed by Contship at the crossroads of the Mediterranean routes and of the railroad routes towards north sea harbors.

D. Multimodal Transport

In many instances shipowners are interested in providing and complete multimodal door to door service where they would master the whole logistic chain. That explains why one of the main requests of European shipowners in the context of negotiations with China, be it in a bilateral EU-China context or in the perspective of China's accession to WTO, is "the right to establish wholly owned branch offices for serving

their customers and to arrange and control all operations necessary for modern door to door shipping service."

WTO Members may be willing to offer such possibilities without implying a complete liberalization of road transport services. The classical request of shipowners is limited to mode 3 and therefore does not imply liberalization of mode 1, which is politically more sensitive notably because of its non-MFN traditional regime. However, Members may want to limit the liberalization of mode 3 to shipowners only, excluding trucking companies for instance.

Technically speaking it is already possible to schedule commitments in the road transport section of the schedule while limiting the benefits of the mode 3 liberalization to the holder of a shipowner license. However no such commitment has been taken because road transport commitments have been negotiated separately from shipping commitments and in a wider perspective. They all date back to the Uruguay round or to accession negotiations and were not included in the ambit of the NGMTS. Even there it would have been possible to take such commitments through a unilateral improvement of road transport schedules but no Member did so.

A practical solution could be to create in a revision of the draft schedule an item "road transport as an element of multimodal transport" in the sectoral column, which would be defined by a footnote in order to avoid circumvention as being a transport having a common transport document with the sea-leg, the through way bill of lading. Internal waterways transport

Leasing of containers is an important transport activity: according to UNCTAD 47 % of the containers used worldwide for maritime transport are the property of lessors. However, it is not adequately dealt with in any of the classification systems, which seem to perpetuate the classification of containers as land transport equipment which is technically and economically an error. (4)

E. Analysis of Commitments under the GATS

There are currently 29 WTO Members who have commitments in international shipping services. Of these Members, 21 include both freight and passenger transportation services, five only freight services and three only passenger services. The most important limitations include foreign equity ceilings, nationality requirements for ownership and registration of vessels under the national flag, requirement to appoint a local agent, limitations on government owned cargoes, discriminatory taxation and discriminatory port charges. Twenty-six Members have scheduled commitments in services auxiliary to maritime transport, including cargo handling, storage and warehousing, freight agency and freight forwarding, preshipment inspection, custom clearance, container station and depot. Six Members have undertaken commitments on port services, such as towing, pushing, tug assistance, port dredging, and port captain's services, while 11 Members have scheduled additional commitments relating to access for consumers of port services on a non-discriminatory and reasonable terms. Finally ten Members have scheduled

commitments on maintenance and repair of vessels and six Members on rental of vessels with crew.

As far as MFN exemptions are concerned, 26 Members have exemption lists in maritime transport services. However, according to paragraph 4 of the Decision on Maritime Transport Services of 3 July 1996 (S/L/24), Article II of the GATS and the Annex on Article II Exemptions are suspended for international shipping, auxiliary services and access to and use of port facilities until the conclusion of the next round of services negotiations. Paragraph 4 of the Decision, however, does not apply to any specific commitment on maritime transport services which is inscribed in a Member's schedule. The only MFN exemption lists which are not suspended are those taken by Members who have maintained specific commitments in the sector. There are therefore only 14 Members who have MFN exemption lists actually in force.

Four MFN exemptions among those whose effects are not suspended cover measures taken by Members under the UN Convention on a Code of Conduct on Liner Conferences. These exemptions are of a preferential nature in so far as they favor countries who are signatories to the Code. However, treatment under the Code is partially based on reciprocity and has a partial exclusionary effect on third parties (which are limited to 20 % of the cargoes carried by the conference). Four other exemptions are specific to cabotage, three to tax treatment and four are of a broad and generic nature covering a bundle of existing and future measures in the maritime sector. The great majority of exemptions do not specify the intended duration and have entries such as "indefinite, unlimited or indeterminate;" three exemptions link the duration of the exemptions to the expiry date or termination of existing bilateral agreements. Finally six exemptions are both of a preferential and reciprocal nature, nine are only reciprocal and four are only preferential.

Maritime transport was one of the major service sectors were an agreement could not be reached at the conclusion of the Uruguay Round. Difficulties rose in the negotiations particularly between the so-called "blue water" shipping services as opposed to the auxiliary services, such as port, agency, freight forwarding and similar activities and access to port services. Failure to reach agreement was also due to the general reluctance of the shipping profession regarding the GATS system, and to the specific position of the US on sea shipping.

The Negotiating Group on Maritime Transport Services (NGMTS) was established to conclude negotiations (negotiations on maritime transport services were to be continued on a voluntary basis after their failure in the Uruguay Round, aiming at arriving at a schedule of commitments in international shipping, auxiliary services and access to and use of port facilities leading to the elimination of restrictions within a fixed time scale)and make a final report no later than June 1996. It was decided that until the conclusion of such negotiations, participating countries would refrain from taking any measures affecting trade in maritime transport services except measures designed to maintain or improve the freedom of provision of maritime transport services

To facilitate negotiations, the sector was split into the "three pillars" of the maritime transport sector; blue water services (shipping services in the strict sense), auxiliary

services and additional commitments (those relating to access on a non-discriminatory basis to services generally available in the port, such as pilotage, lighterage, repair, bunker, etc. The NGMTS was not able to reach its objective:

The major sea shipping powers did not offer commitments which resulted in the failure to reach what was termed the critical mass of key maritime transport countries that could have enabled the conclusion of an agreement on maritime services along with GATS

The situation today is largely liberalized de facto there remain some cargo reservations, some harbor restrictions, some closed trades and some measures favoring national shipowners. However, these have greatly diminished over the last thirty years.

Footnotes

- 1. Notes on the Group's two meetings concerned with maritime transport are reproduced in GATT documents MTN.GNS/TRANS/2 of 6 August 1990 and MTN.GNS/TRANS/6 of 30 November 1990.
- 2. WTO Document S/L/24 dated 3 July 1996
- 3. WTO Document S/NGMTS/W/2 dated 21 October 1994
- 4. Of the world's top 100 container ports, 88 conform to the Landlord Port model, in which the Port Authority retains ultimate property rights over port land, and fulfils all regulatory functions, while commercial operations are carried out by private operators.

IV. Transport in the Context of Some Major Economic Issues in MENA

A. Regional Integration

MENA remains relatively unintegrated in terms of the extent of economic interactions within the region and the absence of an effective framework for formulating and implementing rules and policies to influence, regulate, and supervise economic relations. During 1994-1996, intra-MENA trade amounted to \$19.4 billion, which is about 10% of foreign trade by MENA countries with the world and less than 1% of world trade. The top five exporters in intra-MENA trade are Saudi Arabia, Turkey, the United Arab Emirates (UAE), Iran and Egypt. Together, they account for 62% of total intra-MENA trade. The top five importers are Turkey, UAE, Saudi Arabia, Oman and Kuwait, accounting for 54% of all such trade. (1)

There are three main subregional integration arrangements in MENA: the Arab Maghreb Union, the Arab Common Market, and the Gulf Co-operation Council (GCC). (2) There has also been little in the way of regional economic policy co-ordination, except among the six GCC states. The scale of intra-regional merchandise trade is limited. With the exception of mineral fuels, there is no category of commodities for which intra-MENA trade is very important. Tourism and other nonfactor service flow patterns with direct implications for transport have also been quite segmented. (Some countries -- primarily Egypt, Jordan and Lebanon -- have received substantial tourist flows from within MENA.) Nonetheless this means that there is potential for far greater intra-MENA region economic interaction. For example, high initial trade barriers suggest a scope for trade-creating gains from regional integration.

While countries of MENA will continue to trade mostly with non-regional partners, the current levels of trade within the region are below those that would be attained if economic relations intra-regionally were freer. In addition, most other types of economic interaction within MENA -- with the exception of labor flows -- remain limited. The rationale and means for attaining the potential gains from greater regional interaction are substantial. The region requires economic policy changes, most of which are also needed to benefit from the globalization and integration of the international economic system. Pursuit of MENA regional integration within the overall context of multilateral externally-oriented policies would further growth. Political factors, however, may continue to constrain the pace of integration over the next few years, and most counties in the MENA region will continue to trade mainly with the EU, the US, and East and South Asia. However, the volume and the share of regional trade can rise significantly. Beyond its effects on merchandise trade, regional integration would boost service flows and intra-regional investments. Over time, and as more countries in the MENA region progress in deregulating and liberalizing their economies, linkages among them would strengthen regional economic ties.

Major developments such as the Arab-Israeli peace process, and adherence to the EU-Mediterranean agreements are part of the region's opening up economically. Meanwhile, the short-term outlook for the development of transport in MENA is still poor. A combination of low oil prices and regional tension will mean generally weak

economies. This will have a negative impact on any large-scale attempts to develop transport infrastructure projects.

Most MENA states have enjoyed various trade preferences from their major industrial country trading partners (the exceptions are members of the GCC) but this has not resulted in faster and more sustained trade-led economic growth. Several MENA economies' potential in this regard is constrained by a key factor: the lack of dynamism of the external sector at the individual country level. Looking at the circumstances of the individual economies in the region, two aspects stand out: first the lack of product diversification at the individual economy level; and second, the nature of trade openness. The export performance of several countries in the region is dependent on one or two sectors. This is particularly the case for most of the oil exporting states. Indeed, diversification centered on the manufacturing sector is significant in only a few countries. These present, narrow export sectors have less need of greater and more sophisticated transport facilities.

Even though domestic reforms and multilateral liberalization will be the main engines of greater MENA transport integration, there is also a clear need for measures aimed directly at regional interaction. These include reducing divergences in regulatory frameworks (including customs nomenclatures), improving the ability to move goods between countries, and developing facilities for regional export financing. To the extent possible, these measures should be harmonized with best international standards and practices.

Significant opportunities for regional projects with high payoffs exist in such fields as tourism. Such direct regional co-operation efforts would be enhanced by the creation of an appropriate transport framework. Improving the capacity and efficiency of the MENA region's transport system is also critical in order to facilitate economic interaction and lower the costs of trade in the region and with the outside world. The problems, however, are not solely those of upgrading the physical infrastructure. For example, the harmonization of regulations in the region and traffic difficulties at respective borders also represent major shortfalls in the efficiency of a regional transport system. Successful liberalization will promote regional interaction. Therefore it is critical to continue structural reforms aimed at deregulating and liberalizing MENA member economies. To be sustainable and effective, the liberalization of external trade will need to be accompanied by concurrent progress on domestic structural reforms.

In any case, regional integration must proceed in well-formulated stages within the globalization process triggered by the WTO. However, at present, integration among the countries of the Levant is limited. In fact, the conclusion of bilateral agreements between the EU and individual Mediterranean countries may constitute a challenge inasmuch as it may lead to the emergence of a "hub and spokes" system in the Mediterranean Region, in which the EU would be the hub and the individual Mediterranean Countries would represent spokes. Thus, the EU-Mediterranean agreements may be insufficient per se to bring about the desired revitalization of imports from the Middle East and may paradoxically draw investments towards the EU. At the same time, the engagements taken at the multilateral and regional level may represent an opportunity, inasmuch as they lead the countries and territories of

the region -- albeit indirectly -- into the adoption of a common framework of shared rules in a number of areas, in particular to the extent that provisions contained in Euro-Mediterranean agreements regarding the enhancement of regional co-operation and the approximation of laws and standards are fully implemented. Within this broad setting, preliminary attention should be given to customs co-operation. The EU-Mediterranean Agreements provide a possible basis for regional customs co-operation because they each contain a Protocol on this topic. However, efforts should be made to extend it to regional partners.

Presently segregated transport networks cannot stand in a competitive market against giant international transport consortia. The plan for an efficient system envisages the creation of a link consisting of an interrelated and completely joined network made up of several cross-border networks. For the MENA region this is still far in the future, and proposals made for co-operation in this field have not materialized into a plan of action for implementation.

Improved transport between the countries of the region is a prerequisite to taking advantage of their geographic location. A co-ordinated transportation network will prove more efficient and will obviate such redundancies as several airports currently operational in the Levant and Gulf areas. Containerization is a main requirement in multimodal transport in particular. However, integrating container transport into the regional network does not involve easy choices: the establishment of an inland container depot is a costly investment and cannot be justified under conditions of present low density traffic. This and other developments in the region's transport infrastructure will have to await a new and more promising economic situation resulting from peace.

B. The EU Mediterranean Initiative

Guided by the fear that poor economic development in the Mediterranean region (including several countries in MENA) would cause instability on Europe's flank, the European Union has proposed a free trade area with the countries of the Mediterranean. The basic objective is to conclude agreements with the individual Mediterranean countries, with the ultimate goal of creating a free trade zone in the region by 2010. These objectives are to be achieved gradually, and the EU has committed to assist in financing the adjustment cost associated with free trade. The budget for such assistance amounts to about ECU 9.4 billion (\$12 billion) for 1995-99, divided about evenly between funds from the EU and loans from the European Investment Bank. About half the funds are earmarked to prepare for free trade through developing the private sector and the trading infrastructure, including transport. By the end of the century this Mediterranean Initiative could increase official resource flows to the region by more than half. On the other hand, in the context of MENA countries the problem of investment diversion has been frequently cited in connection with the Euro-Med partnership agreements. Insofar as investment tends to be created in the EU and diverted in the MENA countries as a result of these accords, there may be that much less finance available for investment in transport infrastructure. (3)

The Mediterranean Initiative is strategically important for both the EU and For the latter, the Mediterranean Initiative implies a major shift in the development paradigm and a commitment to realign policies, institutions, and companies in the direction of Europe. Joining the EU bloc gives these MENA countries preferences relative to Asia and levels the playing field relating to Eastern Europe and Turkey. Moreover, deeper links with the EU imply financial support for economic adjustment, greater credibility of policy commitments, and the possibility of attracting more investment as part of a larger market. Wages in Mediterranean MENA countries are a fraction of those in most European states, implying substantial potential for competitiveness. Improved market access is a main benefit of the EU agreement over the long run. However, the key to this initiative is that the agreements provide MENA countries the opportunity to lock in policy commitments and begin to harmonize domestic laws and standards with international norms, making it easier for domestic producers to penetrate foreign markets. The export payoff of such harmonization can be large. Using the next decade to improve productivity and move to higher value-added activities in the European market is a way to ensure that the Mediterranean MENA countries participate in the prosperity brought by the growth in world trade. Moreover, because the EU agreements will create strong incentives for Mediterranean economies to open up to each other, greater intra-regional trade among all MENA countries is a likely byproduct of the process. This will have important implications for transport infrastructure within the region and extra-regionally. The EU's Mediterranean Initiative contains incentives not only for closer economic ties between EU countries and those in the southern and eastern Mediterranean, but also for closer ties among the latter group of countries. While the liberalization schedule under these agreements is spread over twelve years, and while full liberalization does not apply to agriculture, their encouragement of regional integration may be very important.

As a tangible example of the direction in which this process is heading, the Declaration of the Mediterranean Transport Conference of January 1997 was in effect part of the articulation of the EU's Euro-Med policy. The Conference's Declaration welcomed the development of a Euro-Med Partnership, a first manifestation of which took place at the Euro-Med Conference in Barcelona (November 1995) as a way to promote regional integration between the Euro-Med partners, as well as its accompanying financial and technical measures for reform of economic and social structures. The Conference stressed the importance of an efficient transport system for the success of the Euro-Med Partnership as well as for the balanced economic and social development of the region, and taking note of the Barcelona Declaration, which emphasizes the importance of developing and improving infrastructure. The conferees expressed a desire to take concrete steps for the implementation of the Work Program of the Barcelona Declaration, which stresses the need to co-operate in the development of multimodal transport networks for the region, integrated with the Trans-European Network, as well as the need to improve transport services. In conclusion, they agreed to begin co-operation on a number of transport themes, and in particular on the promotion of integrated, multimodal transport networks as well as of efficient transport services. This co-operation should support especially the development of those countries whose transport systems have the greatest deficiencies.

The Conference felt that co-operation in the development of integrated, multimodal transport networks should aim to promote the interconnection of national network of transport infrastructures of the countries of the region in order to create multimodal and interoperable networks. The participants should thus co-operate to plan a multimodal trans-Mediterranean transport network which reflects real and anticipated flows of goods and passengers, taking into account an evaluation of the environmental impact of the balance between transport modes in the Mediterranean Partner Countries. This planning exercise should involve all the countries in the region to ensure that the realization of transport networks takes place in a coherent and coordinated fashion, and promote connections between Mediterranean infrastructure networks and the Trans-European transport networks (including the trans-Maghreb transport corridors as defined by the Western Mediterranean Transport Group), as well as with the transport networks in the Black Sea region. Once transport networks have been defined, the participants should concentrate on the identification of bottlenecks and impediments to smooth traffic flows on the networks as well as missing links in the networks. It will then be possible to focus attention on the definition of projects to remove these bottlenecks and to fill in the missing links. A network of multimodal port and airport platforms, and their connection to present or planned land transport networks is a key factor in inter-Mediterranean relations and for peripheral countries in future context of an enlarged EU. Planning efforts should be concentrated on projects of international importance, taking into account transport flows and links between the community and its Mediterranean partners, as well as regional integration and co-operation between the Mediterranean Partner Countries themselves and their links with neighboring regions.

The participants agreed that they should give careful consideration to the balance between different transport modes in the Mediterranean Partner countries, and therefore promote projects which are the most efficient, from both an economic and an environmental point of views. In particular, projects connected with the improvement of short-sea shipping services should be given a priority, as well as those which promote Mediterranean east-west maritime traffic, as an alternative to land traffic moving in the same directions further north. The participants agreed that to facilitate private participation and public-private partnerships in transport systems. attention should be paid to the establishment of consistent, permanent and transparent legal, judicial, fiscal and regulatory frameworks to reduce the risks likely to be perceived by potential investors and operators. Software solutions to bottlenecks (such as improvement and rationalization of logistical and administrative procedures) should be given priority over new infrastructure construction. Priority should also be given to the rehabilitation and reconstruction of existing infrastructure, the removal of bottlenecks, or filling in missing links rather than the construction of new infrastructure. An emphasis should be given to the means to improve the efficiency and competitiveness of maritime transport in the region, in light of the high proportion of goods transported by sea. A weak link in multimodal transport chains is often the link between ports and their hinterland, the improvement of such links should be given a priority. The modernization of the air transport system, including aviation and airport infrastructures and ancillary systems (air traffic control), should be encouraged in order to increase its overall capacity while enhancing the level of safety. Harmonization and integration between systems should be an objective. Satellite-based positioning and navigation system may contribute to improving the

efficiency of the transport system, safety conditions and, in particular, Search and Rescue. A positioning and navigation network is now under development for the European region which will make available a single navigation signal to the whole Mediterranean area. The Participants agreed to develop this and to co-operate to elaborate jointly an implementation master plan.

The Conference recommended that co-operation to improve transport services should take place according to the following principles:

- Obstacles to the unfettered provision of transport services need to be removed in discussions with all the Euro-Mediterranean partner countries, taking account of the legal obligations of most of the partners to WTO rules where appropriate; transport facilitation is therefore an integral component of trade facilitation and hence of economic development
- A harmonious enforcement of safety, environmental and social standards as defined by international conventions or accepted norms and including those developed by the UN Economic Commission for Europe should be promoted, since the unequal application of such standards can often be a technical barrier to transport flows.
- As far as the transport of goods is concerned, the means to improve services in maritime transport within a multimodal transport chain should be given a priority, especially including short-sea shipping services where applicable.
- An efficient and competitive system for air services must be a target for the Euro-Mediterranean region as a whole. In order to attain this, close co-operation between aviation authorities should be promoted. In this sector, intermodality should take into account key concepts such as freedom of choice for the customer and freedom of competition on a fair and equitable basis. Airport capacity should be considered a major issue and the provision of any additional capacity must be matched by improvements in electronic systems and surface access capacity, so that growth in demand can be met within accepted standards of safety, security and environmental compatibility. The use of airspace should be improved by extending to all Mediterranean countries common procedures and adequate system support.
- Regional data transmission system, combining communications networks (including satellite navigation) and vessel traffic management systems will help promoting regional trade and traffic. Promoting activities in this domain (linked to trade facilitation), which will also improve the efficiency of transport and trade.

C. The Peace Process

Arab-Israeli peace which is just, lasting and comprehensive could provide major economic benefits to much of the MENA region, particularly to Israel and her neighbors. Peace will increase the returns to investment by reducing country risk and by opening up regional projects in such areas as transport.

There is still very limited trade between Israel and the rest of MENA. (The only exception to this has been the extensive export of Israeli products to captive Palestinian markets, hardly an example of the benefits of trade.) Peace will act as a stimulus to foreign trade, which will especially increase with respect to GDP in the Levant (Egypt, Syria, Lebanon, Jordan, Israel, and Palestine). In other words, the

medium-term rate of growth of imports and exports combined will outstrip the rate of growth of GDP as the regional economy opens up under the impact of peace.

Serious movement towards just, comprehensive, and lasting peace between Israel and the Arab countries will in turn push the implementation of transport infrastructure projects. If such a scenario is realized, the longer-run period could be one of major economic progress and concomitant expansion in the intra- and interregional transport infrastructure. Under a situation of just, lasting and comprehensive regional peace, various new transport infrastructure projects should become feasible. This will lead to major changes including:

- 1. The redirection of the existing import, export and transit flows towards more economical routes that are at present barred. The geographical location of the Levant region is central to three land masses: Africa, Asia and Europe. This location can provide an international traffic access point for the three areas to link with the MENA region and through it with each other. Potential transit route changes will be particularly important as new routes develop through the Middle East and North Africa. Major potential international trade route changes will occur from Egypt to all MENA countries to the east, as land transport replaces sea and/or air where appropriate. Jordan and the PNA will be in a similar position vis-a-vis Africa. In addition, Jordan will benefit from shorter sea and air transport routes to North Africa, Europe, and the Western Hemisphere. However, it should be noted that the new routes simply offer a potential which did not previously exists. To make this a reality will involve much more. The other point to note is that some regional routes will suffer, including for example the ferry line from Egypt to Jordan. However, these losses will be minor compared to the major gains offered by more economical new routes.
- 2. The generation of additional local and international freight and passenger traffic due to new trade opportunities, reduced transport cost, and other positive effects on the economic development in the region. The Levant area has well established trade links and relatively accessible intraregional trading routes. These will quickly begin to handle considerably larger volumes of goods and passengers, reaching double present figures after the consolidation of regional peace. Future movements of labor among the countries involved in the peace process are also estimated to be substantial, particularly in the context of PNA-Jordan-Israel relations. This will promote demand for more and better transport infrastructure and services.
- 3. The attraction of tourism to the region. With the achievement of just, comprehensive and lasting peace and a new atmosphere of security, the tourism industry is posed for a future of strong growth. This could see tourist arrivals almost double within a year of peace being concluded, and could rise again by the same level after another few years as peace is consolidated. Such an inflow will in particular involve tourists coming from the EU states. The ensuing boom will improve the overall economy, creating opportunities for many other industries and lifting income levels. However, this will only be possible in the context of regional tourism. Among the MENA countries, an atmosphere of collaboration rather than competition will be required, particularly concerning the planned Year 2000 tourism initiatives. Intergovernmental co-operation is especially important for developing infrastructure such as ports of entry. Policies of open borders and deregulation are necessary for

building an environment suitable for long-term investment. The question is how to achieve this among the MENA states themselves, particularly through the development of regional airlines and ancillary facilities.

A "normal" future situation is thus one with border crossing restrictions eased. For passengers and freight, it will be possible to cross all borders by road, rail, sea or air with relatively little delay and presumably at lower cost. As a partial cause and consequence of this and other factors, trade liberalization will follow. This will open new market opportunities within the Levant which will foster economic growth through enhanced domestic and foreign investments. The perceived reductions in both border crossing restrictions and transport costs are projected in turn to lead to a redistribution of transport demands along "natural" lines. However, for this to happen, conditions must be met which are not directly related to either the peace process or the transport sector as such. Import substitution in the MENA economies must be quickly discarded in favor of outward oriented trade policies. Only with such an export oriented strategy will development and the necessary intensification of transport proceed.

Resolving the Arab-Israeli conflict by peaceful means is only one, albeit the most important, of the challenges facing MENA countries. However, for all scenarios barring the very worst, transport infrastructure will have to be upgraded in terms of quantity and quality to serve the economies of the MENA countries, whether or not a just, lasting, and comprehensive peace is achieved.

D. Conclusion

The peace process will redraw the transport map of the Middle East. The opening up of trade, increased tourism and the generation of further local and international traffic will place additional strains on the transport system. However, the peace process is simply part of the overall trend of integration within the region and internationally. On a broader level, the EU's Euro-Med Partnership process has started operating to help regional integration as well as integration with Europe; and on a worldwide scale, adherence by more countries in MENA to the WTO will lead to further integration inter- and intraregionally. A just, comprehensive and lasting Middle East peace will have a major impact on the MENA region. This will be especially true as such a peace is accompanied by adherence of more MENA members to the WTO and by the signing of EU-Mediterranean Partnership accords between the EU and individual MENA states. A particularly important development which could also go along with all of the above would be the liberalization of the individual economies and attendant intraregional integration. In any case, these major themes (4) should be kept in mind in the following chapters.

Footnotes

1. DeRosa, D and Saber, M, "Regional Integration Arrangements in the Middle East and North Africa," background paper prepared for the study *Egypt: Strategy for Regional Economic Integration*, revised draft 5 November 1998, kindly supplied by

Mr DeRosa.

- 2. Transit agreements among the GCC states are an example of their efforts to organize transport flows subregionally and between them and other countries.
- 3. DeRosa and Saber op cit
- 4. For a discussion of these and related issues, see ESCWA "Assessment of Intra-and Interregional Transport and Infrastructures," E/ESCWA/TRANS/1997/3, 8 September 1997, pp 62-4

V. MENA Air Transport and GATS

A. Recent Trends and Issues in MENA Air Transport

The world has witnessed important changes in civil aviation over the past few years. Among the more significant of these have been the increase in open skies agreements, burgeoning of transnational alliances and cross-ownership between companies, a single European aviation market and similar attempts in Latin America, liberalization of airport services in the EU, concentration of the industry, growing intervention of competition authorities, the bankruptcy of certain national carriers, development of the activities of air cargo integrators, growing environmental sensitivity, and privatization of airlines and airport services.

However, most of MENA has tended to lag behind in this sector. In addition, familiarity with the WTO is weak, and, with some exceptions, bringing air transport completely into the GATS has been viewed by government and others with apprehension.

Along with these attitudes has come a certain lack of dynamism and innovation. Partly as a result, the region's airlines have tended to remain small. For example, just two airlines in MENA were included in 1996 among the top thirty scheduled air carriers in the world in terms of freight and mail ton-kilometers performed annually. These were El Al (ranked 25) and Saudia (27), and only the latter in the region ranked among the top thirty in terms of passenger-kilometers (placing last, down from 23 in 1987). (1) Like most of their counterparts in MENA, such national airlines are still government owned, though privatization aims have been made known for them as well as over ten other carriers in the region.

Belief in privatization, commercialization and deregulation is slowly making inroads in the region as a way out of economic stagnation and underdevelopment. In this context, an important phenomenon in several parts MENA is the move towards abolition of state-owned carriers' monopolies. Replacing them is mixed public-private control of existing airlines, the springing up of private carriers, or both. Though not all the new entities may succeed, they are already forcing established ones to take notice and improve service standards. Several privatization initiatives are thus in hand but the region's carriers remain cautious about making code-sharing agreements or alliances with companies outside MENA, (2) and there are no such agreements between airlines within the region.

The region still has a long way to go with respect to privatization and other liberalizing steps however, and state control of the aviation industry remains the norm. Among other public sector Arab airlines operating today are Bahrain's national carrier Gulf Air, jointly owned by the governments of Bahrain, Oman, Qatar and the UAE; Royal Jordanian, Egypt Air, Iraqi Airways, Kuwait Airways, Saudi Arabian Airlines, and Syrian Arab Airlines, all 100% owned by their respective governments; the Yemeni national airline, 51% owned by the state of Yemen, and 49% by the government of Saudia Arabia; and Lebanon's national carrier, Middle East Airlines, which is almost completely state owned.

On the other hand some examples of private ownership in Arab aviation include the Tunisian national airline, which is now only 80% state-controlled after a recent 20% divestiture; Oman Air, 35% government-owned, with the rest held 40% by private Omani companies and 25% by individuals; and the Qatar national carrier Qatar Airways, 100% owned by private investors.

The trend towards private ownership in MENA should accelerate over the next few years, allowing it to catch up with much of the rest of the globe. Worldwide, trends towards privatization of airline companies have strengthened and become more general. Over seventy percent of airline companies now have a majority of private capital, with state-owned flag carriers becoming rarer. A few dozen operations involving partial or full transfer of ownership of government-owned airlines have been taking place annually around the globe since the mid-1990s, when moves towards air carrier privatization became popular, even in the Middle East. In MENA, targeted for privatization up to 1996 were Air Algérie, El Al, Kuwait Airways, Royal Air Maroc, Sudan Airways, and Saudi Arabian Airlines, with a greater or lesser amount of progress having been made in each case. The last year or so has also seen moves towards selling parts of the airlines of Lebanon, Tunisia and Jordan to private business.

It is also significant that governments no longer invariably come to the rescue of distressed national airlines, and that some bankruptcies and closures have been allowed to take place, notably in MENA countries. This has been true in many developed economies, where there has been a clear tightening of competition policies in relation to various forms of state support to airlines (among other businesses). However, it is still not the norm in MENA.

Groupings and concentration can also be observed on the national level: thus in the US a complex series of alliances, if approved, could reduce the number of operators to three. Also noteworthy is the emergence of increasing numbers of low-cost new entrants and the creation of budget-travel subsidiaries by major operators. In another strategy a major carrier may buy regional companies or franchise them to carry its customers to hub airports. (In this connection, Middle East Airlines is being wooed by Air France.)

However, air transport infrastructure is also crucial, particularly airports. In MENA these are ample, thanks to the oil boom of the 1970s, which resulted in more people wanting to travel or ship in the region, as well as in extensive financing to build big infrastructural facilities. Airports of the region could play a more active role in the chain of multimodal transport, as Dubai has been doing successfully from the Far East to Europe. Dubai has been an innovator in the regional transport industry, and utilizes air transport to ship cargo, which arrives by sea from the Far East, to its final destination in Europe. (3) It is thus not a co-incidence that the only MENA airport ranking among the World's top 50 in 1997 in terms of total cargo was Dubai -- at 425,000 tons - with its growth in that year - at 15% -- impressively outstripping most others on the list

On the demand side, the following have had an impact on air transport during the past few years: growth of international and domestic tourism, globalization and the growing integration and inter-penetration of economies, the continuing trend towards lower air fares, the growth of the share of high-value/low-bulk products in the manufacturing and trade of industrialized countries, the rise in the share of services in total output, increases in the international movement of labor, the trend towards several shorter periods of travel in the course of a year, the increased consumption of fresh perishable foodstuffs originating in distant countries, and air traffic liberalization. All of these factors have operated in MENA to a greater or lesser extent in spurring demand for air transport services. Supply inelasticities have however resulted in only modest growth in the region's airlines, though ICAO forecasts some improvement in scheduled passenger traffic for 2000. (4)

Air transport problems that face MENA countries include having to find marketoriented ways to bypass traditional barriers to greater participation in international traffic or else risk being fully excluded from the market; looking for new routes, traffic rights, and capacity; devising cost-cutting strategies and alliances; dealing with new subsidy and competition policies, and ownership rules.

Franchising is of growing importance in air transport because it complements the development of regional companies and of "hub" strategies. It also reduces the risks of operating in areas where direct operations might not necessarily be profitable. A typical example are the franchised partners of British Airways, British Mediterranean Airways in the Levant and Central Asia and GB Airways in the Iberian Peninsula, Malta and the Middle East.

The shape and size of air transport systems are affected by governmental decisions, notably those determining the type and extent of economic regulation of airlines. The following regions have undergone open skies agreements: the EU, Mercosur, the Caribbean Community, the Andean Pact countries and the Yamoussoukro Declaration states. No regional agreements currently exist in MENA but the Arab Civil Aviation Organization has studied the effects of the Agreement on Arab transport services and has adopted a strategy to liberalize traffic rights between Arab countries gradually. (5)

Place a structural adjustment program for air transport.

Reconsider operating mechanism of local airline companies through reducing costs with also maintaining service quality.

Create a common policy for improvement between airline in MENA countries. Facilitate the task of banks in extending credit for the purchase or lease of aircraft Training of technical personal in airline companies in MENA countries. establishing a multi-national airline.

B. WTO 2000 GATS Air Transport Negotiations

Further liberalization of the airline industry can be achieved within the existing parameters of the Annex on Air Transport Services. The WTO Secretariat has drawn attention to definitional problems that leave the coverage of services directly related to the exercise of traffic rights unclear. The Secretariat also points to a number of

elements contained in the Annex and the GATS itself that could be revised. An example cited is the one concerning whether the aircraft leasing sector is covered under GATS.

The aspect of the GATS that has preoccupied air transport negotiators from the beginning has been the general obligation to grant MFN treatment. This would imply that the terms of an open skies agreement between two large countries would have to be extended unconditionally to all WTO members, including those that are not necessarily prepared to enter into such an agreement.

The weak position of MENA countries in the negotiation of bilateral air traffic agreements is seen as a major impediment to increasing their penetration of world markets for air transport services. Incorporating of air transport into the GATS WTO framework may enable these countries to strengthen their negotiating position via tradeoffs between air transport and other sectors. MENA countries that attach priority to expanding their air transport exports (e.g. the UAE, Jordan and Lebanon) could offer concessions in other areas. On the other hand, MENA countries that do not attach priority to maintaining a strong national airline could offer access in the air transport sector in return for other concessions. It may be in the interest of the latter group of MENA countries to see that air transport is incorporated fully in the agreement so that they can take maximum advantage to using air transport services for bargaining purposes in other sectors. (Depending on the situation of the country, it could be argued that the Annex should for example cover all cargo operations to encourage exports as well as charter transport to boost tourism.)

Options available for what to do with the Air Transport Annex in the WTO 2000 negotiations could include the following:

- 1. Maintain the status quo of the three topics covered by the Annex but ask for increased commitments and removal of existing exemptions
- 2. Use the review to clarify the Annex and to expand coverage through greater specificity to include traffic rights and services directly related to their exercise. The Annex must also take account of emerging obstacles to trade in air transport in MENA such as airport and airspace congestion, safety oversight, environmental measures, taxation, competition law and consumer protection requirements.
- 3. Add to the existing list of three services
- 4. Consider full coverage of the air transport sector through a modified MFN system in order to accommodate the particular features of the sector (bilateral reciprocity) that currently governs market access.
- 5. Use the GATS as a liberalization mechanism for unilateral or non-negotiated commitments.
- 6. Maintain the GATS via the Annex as a multilateral framework of objectives and disciplines for international air transport with respect to the general disciplines on subsidies, consultation on restrictive business practices and other topics.

What is clear is that a lot remains to be done to educate the MENA aviation community about the GATS and MENA trade negotiators about air transport. It is necessary to clarify for them exactly what is covered by the GATS especially under

marketing, selling, and leasing. An attractive option for MENA airlines, particularly the Arab susbset, would be to adopt co-ordinated negotiating position on air transport.

There is a strong preference within the industry in MENA for air transport services to continue to be dealt with on a sectoral basis, as opposed to comprehensive inclusion with other services. The position of members of IATA is that the GATS is not the vehicle at present for overall liberalization, but that the WTO 2000 round does offer the opportunity to examine what obstacles exist and to see if GATS can help. (6)

On the other hand, the multilateral approach of the GATS is not the only way to liberalize air transport. The US deregulated its domestic market and since then considerable progress has been made in liberalizing international air transport through bilateral means.

Footnotes

- 1. WTO Council for Trade in Services," Air transport services: Background Note by the Secretariat," S/C/W/59 (98-4346), 5 November 1998, p. 29
- 2. Royal Jordanian's codesharing arrangement with TWA is a notable exception. That there are no such agreements between airlines within MENA speaks volumes about the issue of co-ordination among the economies and airlines of the region.
- 3. WTO op cit p 34
- 4. ICAO, "The World of Civil Aviation, 1997-2000" (Circular 273-AT/113), p112
- 5. See for example the statements by Arab Civil Aviation Organization Abdeljawad Dawudi in his note on "GATS and Air Transport: Elements of the Arab Position," (Arabic), E/ESCWA/TRANS/1999/WG1/11, 8 June 1999
- 6. An official IATA view is set out in the note by the organization's Regional Director for the Middle East Khalid Mahdi on "Preliminary Thoughts on The Liberalization of Air Transport and the GATS," E/ESCWA/TRANS/1999/WG.1/21 10 June 1999

VI. MENA Maritime Transport and GATS

A. Recent Trends and Issues in MENA Maritime Transport

1. Ports

When the oil boom began in MENA in 1973, many states in the region found themselves under continuous pressure to build new ports or expand existing ones. This involved huge sums from the public budget of those states in the form of grants or interest-free loans with no specific reimbursement discipline. Thus, from the early 1980s, most countries in the region have modern ports with high capacity and appropriate equipment that can more than meet the volume of maritime transport needs. Meanwhile, a decrease in traffic in most ports has occurred.

To a great extent, the ports of the region (1) need to be more responsive to trends in international maritime industry and trade. Some facilities do not operate at full capacity while others require major investments. Ports in MENA should become more integrated in the overall transport chain, and not act as separate entities.

MENA region commercial ports are run by semi-autonomous public enterprises; they have separate budgets, and most of them are subject to supervision by various ministries. Net annual surplus goes to the public treasury. However, this approach changed as numerous ports began to be more self-financing. Nevertheless ports in the region generally suffer from state control, though some, such as in the UAE, have managed to reduce government intervention, while at the same time taking into consideration the need to comply with national policies. Most MENA ports are intended to and actually serve as a source of government revenue and employment. (2). Few port enterprises in the region pay much attention to trade facilitation through flexibility of tariffs and fees and diversification of services, ports in the UAE being notable exceptions.

Port development and expansion projects need increasing attention from most states in the region as numerous benefits could come from greater efficiency in handling goods and ship turnaround, among other factors. Monopoly by some domestic stevedoring companies also leads to inefficiency and higher costs

Ports dues and charges applicable in most ports for which information is available show:

- Multiplicity of tariff items, details, and tables
- Vagueness of tariff items, with some charges lacking corresponding services, and with certain titles, such as loading/unloading, not covering labor, equipment, or any service charges
- The presence of a few charge categories the collection of which entails efforts and expenses that exceed their value, which requires either their consolidation into other similar categories or else cancellation;
- Multiplicity of cargo-handling categories inside the port area, including various operations, transport, labor and equipment fees, equipment wait-time charges, labor wait-time charges, and other unnecessary details, rather than combining such charges into one universal charge for handling per ton by category of cargo, beginning from

receipt of cargo from the port cranes or the hooks and delivery to cargo owners, warehouses, temporary storage spaces, or vice versa

- The setting of one universal fee for loading/unloading, pilotage, towage, wharfage, mooring and unmooring of ships, which makes it difficult to determine the cost of a given service using the system of cost centers and revenue centers, as well as to make comparisons with other ports
- Multiplicity of container fees, dividing them into numerous sections, rather than applying one cargo-handling fee (full cycle) to be charged to shipowners and another fee to cargo owners

The basis for calculating tariff items varies among the ports of the region. However, for most ports:

- Port dues charges are calculated per ton of the gross registered tonnage of a ship
- Container handling charges are calculated per container (full cycle) including labor and equipment fees
- Container cargo charges are calculated per weight ton and charged to the owner of the cargo
- Transit and trans-shipment cargo, including containers, are granted different deductions on charges and fees

Interference by governments in administration, operation, investment and pricing, combined with public sector control over port activities, causes confusion in port planning and function, thus raising the cost of services and rendering them uncompetitive with other ports in neighboring regions. Differences exist among charge and fee structures, in terms of item numbers, types and calculation basis, which makes it difficult to make meaningful comparisons among ports of the region in terms of ship/cargo traffic. Tariff items are vague and difficult to understand, with numerous categories, causing confusion to port users and complicating cost evaluations.

In particular, ports must respond more positively to changes such as the use of highly automated container vessels. Development of container terminals has witnessed acceptable progress in a few ports of the region. However, most others are still in need of upgrading their container terminal equipment, and the development of inland container depots must also be considered. (3)

To serve international trade more efficiently and reduce the total cost of transport, MENA states must consider the development of hub ports trans-shipping to other ports. In order for ports to operate trans-shipment activities, more free-trade zones may be required. There is also potential for some of the region's ports to operate in tandem with export processing zones. A successful example of this is the large facility at Jabal Ali. Instead of using special procedures for containers, most administrative and financial procedures regarding general cargo are simply applied to containers as well, adding to the obstacles encountered by this system of transport at ports in the region.

Container terminals are available in almost all of the region ports. Although there have been enormous computer advances and there are capabilities currently available along with the advances in electronic data interchange, Information Technology is

not yet utilized by most transport networks and electronic data processing use is limited in the region. Border-crossing formalities such as customs and administrative arrangements are not meeting the requirements of regional and international trade.

In trying to compete with neighboring ports, and in order to attain hub or transshipment status, some MENA ports have initiated plans to develop and upgrade their container terminals. Ports such as Dubai (UAE) have a good container record (4), as do Jeddah (Saudi Arabia) and Damietta (Egypt) (5) to a lesser extent. These and a few others in MENA have attained a good performance level in containers and are capable of generating a high volume of traffic.

Nevertheless, the participation of MENA member states in international MMT remains limited. For the efficient operation of MMT, the following elements are needed: the development of international standards for containers and the provision of interface facilities for their operation, the conclusion of a number of conventions and agreements to regulate traffic across international borders, the development in telecommunication and computerization and their link into integrated systems of information and the standardization of codes and messages among transport partners. All of these are more or less lacking in MENA. The segmented nature of MENA transport networks lead to high costs. This nature necessitates the duplication of several handling operations.

MENA transport infrastructure differs widely among countries. However, irrespective of the range of development, these countries have isolated modal networks. A co-ordinated transport chain requires investments in infrastructure for two reasons. The first is the requirement to extend the networks to cover the areas to served by the transport chain; the second is the requirement to attain compatibility with the adjoining systems and provide technical interchange conditions.

Arrangements for ship to shore cargo handling are inadequate in almost all of the MENA ports. Trans-shipment between the port and land transport is not carried out with the efficiency. The handling equipment away from the ports is not up to the level established at the ports because the infrastructure for that is not available. Saudi Arabia is the only country in the MENA region which has a developed inland container terminal. Otherwise such facilities are not part of the transport system in the region. In all other MENA members, the cargo arriving in high capacity ships at the port is offloaded and then loaded onto trucks.

Most of the ports in the MENA region are characterized by many of the problems of the poorer ports of the Third World. These problems include delays in loading, offloading and ship turnaround, exacerbated by lack of trained national workers. The most serious drawback in port performance and organization is the weakness in freight transfer to points inland, with all the associated problems. The immediate consequences of the poor interface facilities are increasing transport cost, delays in deliver of goods, poor security of consignments and above all additional requirements for large storage facilities at the ports which add to investment requirements and cost of transport.

No serious consideration has been given by the private sector to involvement in MENA transport infrastructure. This area of investment is not traditional for the private sector in MENA. Development of subregional co-operation projects in infrastructure and transport services is an area that deserves serious consideration by MENA countries. For instance long term-leases, joint ventures and build-operate-transfer (BOT) options have been agreed in Aden (Yemen) and Salala (Oman), the latter planned as the region's first privately owned port.

2. Fleets

Since the 1970s, MENA country merchant fleets have grown more than those in other regions. The share of the MENA region in carrying its own seagoing traffic is still small. Fleets from other regions still control the MENA maritime transport market. Investment requirements in fleet development are large, and the resources of most MENA countries cannot provide the financial backing needed on a commercial basis to meet the tough competition in ocean transport.

In terms of deadweight tonnage only the following MENA states were included among the 35 most important maritime countries and territories as at end-1996 and 97: Saudi Arabia (1.6% of world tonnage, unchanged on 1996), Turkey (1.3%, unchanged), Iran (0.9%, unchanged), and Kuwait (0.4%, down from 0.5% in 1996). Except for Turkey, most of this capacity is for transporting oil and its products. (6)

Better utilization of containers in the region requires appropriate co-ordination of the various modes involved in the exchange of cargo. The types of containers usually in operation in the MENA region are ISO standard containers of 20 and 40 feet known as series standard containers. Very few larger containers are arriving at MENA ports: they are not normally allowed on roads in the MENA region because of length and height limitations. An increase in container traffic can be achieved through appropriate infrastructural coordination and interface facilities. In developed countries the infrastructure and facilities for container handling between modes are available at the required standards. In the MENA region this is only true in the wellestablished ports and for ship to shore operations. Some ports in MENA operate high quality handling equipment. Container traffic through MENA ports has been increasing over the last decade. With regard to the export/import container traffic in the MENA region, the imbalance of traffic is a long-standing phenomenon. In the US, containers larger than ISO standard containers are in use on highways and their number has been increasing due to the economies realized in transporting bulky and low density goods. the future will see more of the large containers.

Private sector participation in the transport sector continues to be limited to some fleet ownership and a few services in maritime transport. Arrangements for developing joint ventures would be one way of providing the fleets of MENA countries with a larger share of business and a stronger position in the international competitive market.

B. WTO 2000 Maritime Transport Negotiations

Aside from a general spur to liberalizing shipping, the resumed maritime negotiations of year 2000 are seen as significant for MENA. Countries that are not members of the WTO and have not so far requested to become so will remain unaffected; their shipowners will not enjoy the benefits of liberalization and will not be required to liberalize except through local or World Bank or similar pressure. Those that are in the process of acceding to the WTO will be requested to make offers on services. For such countries the problem is to evaluate their national interests. Countries already in the WTO the question is also to evaluate their national interest in the negotiations to come. These latter two groups of countries are by far the most maritime players in the region.

The inadequacies of classical divisions have led to the elaboration by WTO staff of a model schedule based on four "pillars" (7)

- 1. international maritime transport
- 2. maritime auxiliary services
- 3. access to/use of port services, and
- 4. MMT.

For Pillar 1 it was suggested to be defined without cabotage (including or not multimodal), distinguishing liner from bulk in mode 1, distinguishing the establishment of a registered company operating the national flag from other forms of commercial presence (mode 3), and distinguishing the situation of the ship's crew from the one of onshore key personnel (mode 4).

Pillar 2 includes six services with proper definitions; cargo handling(excluding dockers), storage and warehousing, customs clearance services, container station and depot services, maritime agency, and freight forwarding services.

For Pillar 3, the aim is not necessarily to liberalize the port services concerned, but to ensure that are available on reasonable and non- discriminatory terms and conditions. Nine services were covered; pilotage, towing and tug assistance, provisioning fuelling and watering, garbage collecting and ballast waste disposal, port captain services, navigation aids, shore based operational services essential to ship operations including communications water and electrical supplies, emergency repair facilities, and anchorage berth and berthing services.

For Pillar 4 there are two options: maximal, liberalizing the activity through specific definitions of maritime international freight transport, MMT services and MMT operator or supplier of international maritime transport services; and minimal, liberalizing the access to and use of MMT.

MENA countries may find that negotiations of specific commitments on Maritime Services will be particularly tough as far as the port industry is concerned. Different MENA countries nevertheless mostly espouse a "public-sector" approach to this issue.

Pressure exists from various parties in MENA for no agreement or commitments to be made in the context of ports. Among MENA states, specific commitments in maritime transport services have only been made by Egypt (8) and Turkey (9).

In any case, work has to continue within each country to educating the concerned personnel about the agreement, explain its consequences, a produce a national consensus on the issue of maritime services. This would ideally be done at a subregional level, taking particular account of the interests of the Arab countries.

Footnotes

- 1. MENA has a large number of ports and every country is served by one or more. Only the Palestinian National Authority currently has no major port, though one is planned in Gaza.
- 2. In many cases state employment policies make MENA ports bear the burden of keeping large and unnecessary numbers of low-productivity, high-cost public-sector staff.
- 3. There is currently only one such depot in the region, in the Saudi capital Riyadh; it receives cargo from Dammam, the country's major port on the Gulf.
- 4. UAE ports as a whole ranked sixth in the developing world in 1996 in terms of container traffic, at 3.8 million TEU. Saudi Arabia was somewhat behind at 1.1 million, Egypt at 0.8 million, Kuwait and Morocco (0.2 million each), and Jordan, Syria, Lebanon, Tunisia, Bahrain, and Oman (0.1 million each).
- 5. Damietta in particular has seen its cargo volumes rise sharply as ocean carriers have selected to use it as a regional gateway. Relay cargo to/from the eastern Mediterranean, Turkey and the Black Sea will continue to account for the lion's share of Damietta's business. The port, also pursuing an expansion program that would add to the existing berthing line and raise Damietta's storage capacity, projected a total throughput of 650,000 TEU in 2000.
- 6. Lloyds Maritime Information Services (London)
- 7. This terminology is based on the work of Pierre Latrille, legal officer in charge of transport at the WTO. I am also indebted to M Latrille for supplying me with other information and statistics.
- 8. WTO Council for Trade in Services "Maritime Transport Services: Background Note by the Secretariat" S/C/W/62 (98-4578)16 November 1998, p 13
- 9. ibid p 18

VII. Conclusions

A. The Need for Change in the MENA Transport Sector

After the expansion of the oil boom days of the 1970s and 80s, the MENA region has become a laggard in international transport. Whether in terms of traffic, equipment, infrastructure, institutions, or the legal framework, MENA transport services are mostly not up to the standards of those in countries with similar levels of GNP per capita or other measures of economic standing.

Efficiency in transport services management worldwide has been considerably facilitated where these services are provided by means of organizational structures assuring financial and operational autonomy. The trend towards such a model has been a principal factor in the improvement over recent years in the financial situation of transport services in developed countries as well as in a growing number of developing ones. MENA economies have no choice but to catch up in this respect.

The trend of partial or full privatization of government-owned transport firms and facilities, applied by many states in the broader context of their privatization strategies, has also strengthened internationally. However, the privatization of some MENA carriers had to be deferred or postponed because of the complexities encountered in the process, the economic condition of the firms concerned, or local circumstances.

The world transport market is turning global through the integration of transport networks. This process has already been initiated in the OECD states and in many parts of the developing world. For the MENA region, this seems to be still far in the future, and most of the proposals made for co-operation in this field have not materialized into a plan of action for implementation.

In this context, liberalization commitments and the discipline that the GATS imposes will provide transport industries with new opportunities for trade, both as importers and as exporters. Commitments will give the transport sector in MENA countries a chance to collaborate with foreign service industries and to benefit from their technology. In negotiating collaborative arrangements, the MENA transport industry can use as bargaining leverage the limitations imposed by their governments in their schedules of commitments. These, inter alia, specify that approval will be granted only if foreign service suppliers agree to bring in up-to-date technologies and to train local employees in their use.

On the other hand, ownership issues within the framework of contractual public/private partnerships for development of transport facilities (BOT, BOO etc.) will need to be carefully addressed to provide potential investors with the security they need, without jeopardizing long-term public interests such as maintaining ultimate public ownership of strategic shore and airport land. In this and other cases, the proper management of privatization and foreign direct investment will have important implications for competition policy.

As emphasized in a recent paper by Hoekman and Holmes (1), active domestic competition policy can and should be pursued independently of the WTO, the reason being that the WTO will be less likely to be a powerful instrument to encourage adoption of welfare-enhancing competition rules than it is as a forum for the abolition of border measures. The WTO would have to therefore focus on its traditional role of facilitating market access negotiations and thus the agenda will focus less on international antitrust. The interest of major producers in export markets will dominate that of those advocating the adoption of competition law that is in the interests of the whole economy.

Liberal trade regimes are cheap and effective competition policy instruments available to a government. However, given the ability of freer trade to reduce the scope for anti-competitive practices does not imply the disappearance of the need of competition laws. Virtually all MENA countries do not even have competition rules and those that do often have limited implementation ability. MENA countries should thus pursue a broad based competition policy-defined to encompass all actions governments may take to promote competition, including trade liberalization, measures to facilitate domestic entry into services, de-monopolization of sectors, and imposition of hard budget constraints on public enterprises.

The WTO process is driven by export interests concerned with market access not national welfare considerations, and there is no assurance that any new GATS rules that will be proposed and agreed on are welfare enhancing. Therefore, doubts can be expressed regarding the ability of a WTO-based process to play as constructive a role in the area of competition law as it does in trade policy, particularly in view of disparity in the competitive situations between the carriers of many MENA states and the carriers of most developed countries. Thus transport policy reform programs of MENA countries have to be complemented by supporting measures ensuring a minimum degree of competition to assure the functioning of market mechanisms. Another factor underlining the importance of competition policy will be that as market access restrictions are lifted in MENA states, the incentive for foreign operators to cooperate with MENA country service suppliers will tend to diminish, causing the transport companies in such countries to be relegated to mere marginal participants in the markets

An advantage of GATS liberalization will be more investment in the transport sector, secured through guaranteed conditions of access for investors. One of the problems with transport sector investment in the past in MENA was state ownership, which promoted inefficiencies of various kinds. (2)

The GATS could also help in acquiring state of the art technologies and management, promoting more competition hence better services, and leading to lower prices for the consumer.

Finally, the GATS will promote transparency. An important area that deals with services liberalization is the liberalization of domestic regulations. The GATS dictates that the disciplines that deal with domestic regulation must be based on objective and transparent criteria.

B. The GATS Transport Negotiations

The impact of the GATS depends very much on the specific commitments made by member countries. One study shows that "the MENA region made greater commitments than Africa or Southeast Asia, but relative to Eastern Europe and Central Asia, MENA commitments were almost three times lower. The offers of Algeria, Bahrain and Tunisia were more limited than the average offer of developing countries as a group. Egypt, Kuwait and Morocco made commitments that can be characterized as somewhat more comprehensive than the average developing country." (3)

A point of great importance of GATS for international transport is that it is promoted by a powerful new multilateral institution, the WTO, and thus offers a multilateral alternative to unilateral or bilateral regulation. Transport services have successfully developed within a particular regulatory system, with their own approaches, mindsets, objectives and procedures. GATS represents a different philosophical foundation, principles, rules and mechanism for liberalization. While bilateral agreements and their impact on issues of concern to the contracting parties are important, the multilateral agreements are of even greater significance owing to their wider geographical coverage and the larger number of contracting states. Among others, UNCTAD notes that GATS could strengthen the weak bilateral negotiating position of developing countries in air transport, previously a bastion of bilateralism. (4) It remains to be seen how well MENA countries in general and government negotiators in particular can function within such a framework.

GATS negotiations on all forms of transport may make more progress if they are reorganized in terms of the different user communities. The current approach, which is to conduct negotiations on the basis of sea, air and land transport respectively strengthens the hand of suppliers and regulators who would like to leave these sectors protected by restrictive national regulations. (5)

On the other hand, a user-oriented approach to negotiations on trade in transport services would focus the negotiations around each of the following four user communities:

- global corporations who need to ship parts, components and assembled goods among their various facilities
- tour operators who provide organized leisure travel
- business users of express parcel and courier services, and
- users of scheduled public transport services.

An organization of the negotiations along these four categories would make it easier to identify the needs of users and to come up with provisions that will meet user requirements. Such organization also would force transport companies to face up to the needs of their customers. It would change the politics of the negotiations by making it easier for the different user communities to identify their common interests and to organize themselves politically with the objective of breaking down national regulatory barriers to international competition.

Another argument for the shift away from the classical division of land/sea/air is that The concept of MMT in general and sea-air cargo has resulted in considerable savings, shorter delivery periods and efficiency in the distribution system. The MMT issue remained unresolved; it therefore will certainly be subject of future negotiations and should be included in the liberalization process. Countries that did make conditional commitments on MMT in their draft schedules chose to schedule it as an additional commitment since it is doubtful that the option of liberalization in MMT as an auxiliary service could find supporters, from a political point of view, because of the widespread concern that this may open up the land transport sector to GATS coverage.

The co-ordination of MENA transport networks badly needs interface facilities at points of traffic trans-shipment. Developed counties are providing such facilities and services at airports, harbors and inland transfer points between various modes. In MENA countries there is a pressing need to establish arrangements for cargo transfer between modes, and inmost of the region the transfer of cargo between two networks of the same mode is time-consuming and costly. In such situations the cargo has to be offloaded from the network and then loaded onto the other network; the cost can be reduced if containers and container facilities are used. The availability of interface facilities varies among different MENA countries, but arrangements for interface cargo handling are inadequate in almost all of the MENA harbors and airports. The trans-shipment among the airports, harbor and land transport is not carried out with the efficiency. The handling equipment away from the airports and harbors is not up to the standards established there because the infrastructure for that is not available. This problem does not involve easy choices: the establishment of an inland container depot is a costly investment. Therefore, inland container terminals are practically not part of the transport system in the MENA region. (6)

However, this need could be an immense attraction for international investors. On the other hand, the special situation of some MENA countries in political transition may dictate the extent and pace of foreign ownership of transport infrastructure and of liberalization in general. The issue of foreign ownership restrictions for airports, harbors, and transport lines in the scope of the GATS may be a political problem due to national considerations about which many MENA states seem to be strongly concerned.

C. Regionalism and MENA

It is possible that MENA will attain a higher level of intraregional economic interaction simply by implementing policies needed to benefit from the changes in the world economy, such as adherence to the WTO regime. A majority of MENA states are currently WTO members or at various stages of negotiating accession. Article V of the GATS, entitled "Economic Integration," allows members to claim over for existing or new regional integration agreements for trade in services depending on the level of integration or liberalization in services among partner countries (7) There is a set of conditions that have to be fulfilled by regional agreements. Such agreements, together with those that provide for the full integration of labor markets, will be exempt from the MFN obligations under this article. Transparency of such agreements

is a must. This is in addition to the list of exemptions appended to GATS or indicated at the moment of accession. It is noteworthy that Article V provides flexibility regarding agreements that involve developing countries. However, the practice of agreements and arrangements stipulated under Article V of GATS is still limited, especially regarding agreements among developing states.

MENA states are still small fry in the world transport and trade systems. No MENA economy ranks among the World's top fifteen in terms of imports or exports of transport services, while only two MENA countries could be found among the top thirty major trading states in the world at end-1997: Saudi Arabia, and Turkey, each with 0.8% of world trade in terms of value. (8) Regional integration thus imposes itself, and with it co-ordination of negotiating positions.

Particularly for the Arab countries, such an approach would be advantageous in the coming talks. The Arab subset of MENA countries has its own concerns and development agenda (9); it is also able to promote regional co-operation more easily. Efforts have also been made by regional and subregional Arab organizations to develop regional transport regimes. The League of Arab states, the Council of Arab Economic Unity and the GCC are among the most active organizations in this regard and have developed a number of agreements for application within their respective regions. Regional transport service agreements have as their underlying purpose a transition to a more efficient, competitive transport regime within a regional or subregional group of states. The GATS should also open up new opportunities for the expansion of intra-regional transport services in general through the establishment of joint ventures and other collaborative arrangements.

The liberalization of trade in transport services is in many ways fundamental to the smooth functioning of a regional integration agreement. Thus, instead of postponing the integration of the transport services sectors to the late phases of regional integration in MENA, it may be more advisable to give this issue a higher priority from the beginning of negotiations on an agreement. The GATS transport arrangements could be a major incentive in this direction.

Footnotes

- 1. Hoekman B and Holmes P "Competition Policy, Developing Countries and the WTO," April 1999
- 2. For an example of the lack of productivity of public sector transport infrastructure investment, see Feltenstein A and Jiming H "The Role of Infrastructure in Mexican Economic Reform," The World Bank Economic Review, Vol 9 No 2, May 1995, p 301. In the Mexican case, it was shown that such investment spending served to promote the position of the state as an employer of last resort and thus increases the cost of transport sector production.
- 3. ERF, Economic Trends in the MENA Region, 1998, p 69

- 4. UNCTAD, Air Transport Services: The Positive Agenda for Developing Countries," 15 April 1999 TD/B/COM.1/EM.9/2
- 5. Feketekuty G "Setting The Agenda For Services 2000 The Next Round Of Negotiations On Trade In Services" (no date or other details; copy kindly supplied by Bernard Hoekman)
- 6. Except that, as mentioned above, Saudi Arabia is the only country in the MENA region that has a developed inland container terminal
- 7. See WTO Regionalism and the World Trading System, Geneva, 1995, for an exposition of this issue.
- 8. WTO Press Release PRESS/98, 19 March 1998, Table 16
- 9. For a balanced assessment of this issue see for example Helal, M "Arab Country Concerns in Services Trade in the Context of the WTO," 14 January 1999, E/ESCWA/TCD/1999/3 (Arabic)

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Preparing for the WTO 2000 Negotiations: Mediterranean Interests and Perspectives Cairo, Egypt, 14-15 July, 1999

Competition Laws in MENA
An Assessment of the Status Quo
and the Relevance of A WTO Agreement

Mohamed El Hedi Lahouel

Sponsored by the Economic Research Forum, Istituto Affari Internazionali and the World Bank

Contribution of the World Bank and IAI made possible by financial support from the Government of Italy and the Netherlands

Competition Laws in MENA An Assessment of the Status Quo and the Relevance of A WTO Agreement

(Lahouel Mohamed El Hédi)

Paper prepared for ERF/World Bank Workshop on "Preparing for the WTO 2000 Negotiations: Mediterranean Interests and Perspectives", Cairo, July 14-15 1999

Introduction:

Given the limited size of the domestic MENA economies the number of firms tends to be very small in the industrial sector and in modern services. Competition is therefore limited unless imports are liberalized. Import liberalization is thus a crucial factor to competition that can never be overemphasized. Quantitative restrictions on imports need to be removed and duties reduced to reasonable levels. Other NTBs such as excessive and non justifiable technical or other types of control have to be removed. Trade liberalization is not, however, enough to foster competition for the following reasons: non-tradables cannot not regulated through trade policy. Foreign investment liberalization is in that regard an important measure to reduce anticompetitive behavior by incumbent domestic firms.

The objective of efficiency and development cannot be attained through trade and investment policy alone. In spite of major liberalization reforms implemented, further efforts are needed in different areas: state divestiture from productive activities, liberalization of domestic trade, deregulation, anti-trust policy and further liberalization of foreign investment and external trade. Competition law is part of a much more comprehensive competition policy. Of course the first question to be resolved is that to have competition legislation in the first place. As it will be shown, very few of these countries indeed have enacted competition laws.

The objective of the paper is to assess the state of competition legislation and enforcement in some of the MENA countries and the relevance of some ideas being discussed concerning eventual international negotiations on competition within the WTO. The paper is divided in three sections. The first addresses the state of competition in some of the MENA countries. The second section analyzes competition legislation and enforcement in countries having enacted competition laws. The third section deals with the effects and relevance of various proposals of international agreements.

I). The extent of competition in MENA economies:

The focus of the analysis is on domestic markets, using the market concentration approach.

This approach has of course its limitations because in the final analysis the most meaningful criterion is that of market contestability rather than of market share. Because of the limited size of all MENA markets, the issue of further trade liberalization takes on even more importance. Market contestability will be greatly enhanced through deeper trade liberalization.

Market concentration has been traditionally considered as a potential source of market power and anti-competitive behavior. A high degree of concentration facilitates collusive behavior and the abuse of a dominant position. More recently, this view has been challenged. What matters, according to some analysts, is not the degree of concentration prevailing on the market but the contestability of the latter, that is the absence of significant barriers to entry and the threat that potential entrants pose to incumbents. A low level of contestability is not necessarily correlated with a high degree of concentration. Nevertheless, concentration continues to be used as an indicator of market power and of potential restrictive business practices.

Information on market concentration in countries of the region is not readily available. However, we can get some idea based on results of business surveys conducted in some of these countries on a yearly basis. These surveys are not exhaustive and may give different results for various years, depending on the rate of firm's participation and whether major firms respond or not. However, generally relatively large firms tend to respond. The results given in the table in annex give some indication on the degree of concentration across Tunisian industries for the year 1993. Concentration is measured by the shares of the four largest and the two largest firms in total employment and value added for the industry (columns (2) and (3)). Although the total for each industry is calculated over responding firms, the estimated shares are highly correlated with the degree of concentration, particularly for industries where the total number of firms is very limited, due to economies of scale and the small size of the Tunisian market¹. Almost all of the firms of those industries respond to the survey. Column (4) of the table shows the number of responding firms in each industry.

¹ Obviously, for some industries such as bakeries or textiles the total number of firms is far larger than what is provided in the survey. The concentration ratios are therefore highly overestimated for such industries although they still give some useful information on the degree of market power.

As expected and as the table in annex shows, most Tunisian industries are highly concentrated due to the reduced size of the domestic market and to the legacy of investment licensing which was discontinued only as late as 1987. The most concentrated industries are Chemicals, The Mechanical and Electrical industries and the least concentrated is the Textiles, Clothing and leather industry which is the most export-oriented sector. The Construction Materials industry is heterogeneous, with tile making being the least concentrated and cement manufacturing the most concentrated activity (87% for the four largest firms which until recently were all state –owned).

A study on industrial competition and competitiveness in Morocco has found similar results, i.e. high degrees of concentration in Moroccan industrial activities (Belghazi, 1997). Industries are analyzed at the four-digit level and ventilated over four market-structure categories based on the Herfindahl concentration index (H): H less than 15%: the market is competitive, H:15-43%: the market is concentrated; 43-90%: the market is oligopolistic and, finally, for a value of H greater than 90%, the market is dominated by a monopoly. The study finds that only 26% of the four-digit activities are characterized by competitive market structure. One third are concentrated and another one-third are oligopolistic.

II. Competition Laws in the Region:

II.1. Competition laws in the Region:

Three MENA countries (four with Turkey) have so far enacted competition laws, Tunisia in 1991, Algeria in 1995 (which is not a member of WTO), Turkey in 1994 and Kuwait in 1996.

Competition is regulated in Tunisia by a law enacted in 1991 which was amended in 1995 and more recently in 1999. The Tunisian law is very much influenced by the French competition ordinance of 1986.

Objectives of competition law:

Several objectives can be found in competition laws throughout the world. The main ultimate objective is to ensure an efficiency allocation of resources. Other objectives are fairness, high

profits being considered unfair to the extent they redistribute wealth from consumers and small firms to large firms, the limitation of economic power, the protection and development of small and medium sized firms, regional market integration, etc. (UNCTAD, 1997).

The Tunisian law of 1991 states its purpose as preventing any anticompetitive behavior, ensuring price transparency, preventing restrictive practices and illicit price increases. The general objective is thus to prevent anticompetitive behavior. No underlying objectives are mentioned, such as fostering efficiency, equity.

In Algeria the competition law of 1996 state the objectives more explicitly. They are to foster economic efficiency, to improve consumers' welfare and to organize transparency and the loyalty of commercial practices. It is also stated that the provisions of the law apply both to private and to public entities or persons.

Anticompetitive practices:

The law states that prices shall be freely determined through the market. However, there are important exceptions: basic commodities or services, activities where competition is lacking because of a monopoly position, supply difficulties or because of the effect of legal or regulatory provisions. Furthermore, prices may be administratively controlled for a maximum period of six months in the following cases: a situation of crisis, exceptional circumstances and abnormal market behavior in a given sector. Thus, although price setting is free, the law has reserved to the government the right to intervene and set prices in some situations (these provisions are taken from the French law of 1996). This provision has in fact been made use of seasonally, particularly for food products.

The Tunisian law prohibits all concerted actions and agreements aiming at impeding, or restricting competition, in particular those that impede market price formation, restrict market access for other firms, restrict or control production, market outlets, investment or technical progress, share markets or sources of supplies. These provisions concern essentially horizontal agreements (similar to article 85 of the Treaty of Rome). The abuse of a dominant position is also prohibited if it concerns the domestic market. The abuse of such position consists of the refusal to sell, tie-in clauses, the imposition of minimal prices or discriminatory sale conditions (similar to article 86 of the Treaty of Rome?). It is worth

noticing that the abuse of a dominant position on foreign markets is not prohibited. The French law has also taken the same approach.

Similarly to the EU and French legislation, the Tunisian law establishes exemptions. Agreements or dominant positions motivated by the objectives of economic or technical progress while allowing equitable sharing of the benefits with users are not considered anti-competitive². However, the Tunisian law does not tie the exemptions to two conditions provided for in the EU and French legislation: the agreements should not impose restrictions that are not indispensable to the attainment of the beneficial objectives and they should not offer the firms involved the possibility to eliminate competition for a substantial part of the products in question.

The law was amended by new provisions brought by law 41-95 of may 1995. The new provisions concern vertical agreements, ...Art.5 prohibits explicitly selective and exclusive agreements. The new amendment brought by law 99-41 of May 1999 allows exceptions to this prohibition after consultation of the Competition Council by the Minister of commerce and authorization of the latter.

The Algerian law is not explicit concerning vertical integration. It prohibits collusive behavior preventing market entry by "another producer or distributor", which may be imply the interdiction of exclusive agreements.

It is worth mentioning that initially the Tunisian law, which was enacted in 1991, did not make any reference to concentration and mergers. This omission was remedied in the 1995 amendment which set the concentration floor requiring a prior approval at 30% of total sales on the domestic market and exceeding a certain amount to be decided by decree. The French law allows the Minister of the Economy to take to the competition Council any concentration or merger case that entails the direct control of more than 25% of sales or purchases on the domestic market or total sales exceeding seven billion French Francs (approximately 1.4 billion \$). Foreign markets are not taken into account.

² The Treaty of Rome exempts from anti competition rules agreements between firms if they « contribute to improving production or distribution of goods or to the promoting technical or economic progress » (Art. 85 of the Treaty of Rome), but not dominant positions contributing to the same objectives. In that respect the French Ordinance of 1986 and articles 85 and 86 of the Treaty of Rome differ somewhat.

Turkey enacted the "law on the protection of competition in 1994 and established a competition board to enforce it. Similarly to Art. 85 and 86 of the Treaty of Rome, the law provides prohibition of competition-restricting agreements and the abuse of a dominant position.

Kuwait amended its 1980 commercial law in 1996 by introducing a section dealing with ant-competitive conduct (law 68 of 1996). The law prohibits business practices that restrict competition and consisting of price collusion, preventing market entry or creating any market perturbation with the aim of hurting another operator or operators. The law also prohibits abusive use of a dominant position consisting of restricting competition, the withholding of existing quantities of goods from the market or excessive prices. Thus the Kuwaiti law prohibits horizontal agreements and the abuse of dominant position. Unlike the Tunisian and the Algerian laws, it does not allow for any exemptions conditioned on the fulfillment of objectives considered welfare enhancing for society at large. Vertical agreements seem to be tolerated. Another difference is that the Kuwaiti law does not provide for the creation of specialized enforcement body such as the Algerian or the Tunisian competition Councils.

To our knowledge the other countries of the region have not enacted competition laws yet. Egypt, Jordan and Morocco have prepared drafts that have been under discussion for several years. The Moroccan draft is not very different from the Algerian and the Tunisian laws which both have borrowed extensively from the French and the EU legislation. Like in the other two Maghreb countries, The Moroccan draft prohibits anti-competitive agreements and the abuse of a dominant position. It also provides for the surveillance of concentrations (UNCTAD Trade Policy Review of Morocco, 1996).

Competition authorities: organization, composition and prerogatives:

Anti-competitive cases may be brought before the Competition Council. The Minister of commerce may also consult the Council on any draft legislation pertaining to competition. The Council is of a hybrid composition. Headed by a judge or an expert in the area of competition, it comprises seven judges and legal advisers (including the president if he is a

judge), four representatives of the business community and two experts³. Cases can be taken before it by the Minister of commerce, by firms, professional organizations, unions, consumers associations or chambers of agriculture or commerce.

The Council's prerogatives have been enlarged by the amendment introduced in 1995. Exemptions from anti-competition law are submitted by the Minister of commerce to the Council's opinion before taking any decision. The Council may only be consulted (like in the French case) on concentration and merger issues that may impede competition by creating or strengthening a dominant position. The recent amendment (1999) also allows professional organizations, unions, chambers of consumers and consumer associations to consult the Council on competition issues via the Minister of commerce.

The prerogatives of the competition Council in Algeria are wider than in Tunisia: undertake studies and make suggestions concerning the promotion of competition. The government has the obligation to consult it on any draft legislation related to competition. It may take the initiative to undertake surveys and studies on the conditions of enforcement of laws related to competition and act on its own initiative to combat anti-competitive behavior by taking corrective decisions. In addition to taking up cases or complaints brought before it by the Minister of commerce or private operators, it holds the right to act on its own initiative, which is not the case of the Tunisian Council.

One important feature, which is shared with the Algerian law of 1995, is the Council's obligation to present an annual report that will be published.

Like in other countries, the Tunisian Council may address injunctions to the violating firm to cease its anti-competitive practice, close its business for a maximum period of three months during which the firm has the obligation to cease the condemned practice or delegate the case to court.

³ It is worth noticing that in spite of the heavy economic content of competition issues, the Council does not comprise any economist.

Abuse of a dominant position: two cases have to be distinguished: activities with natural monopolies which should be dealt with as stipulated in articles 86 and 90 of the Treaty of Rome (The granting of a monopoly position should be justified by the public service nature of the activity). The second category of activities (other than natural monopolies) should be dealt with through anti-concentration provisions.

II.2. Implementation of competition laws (Tunisia):

The striking feature of the Council is its low level of activity. Very small number of cases presented by the private sector or by the Ministry. Over a six-year period, from its creation in mid-1991 to mid-1997, it issued three decisions, two of which were rejections of the complaints and only one a condemnation of abusive conduct of a dominant position (involving a domestic chicken company). It also issued its opinion on five occasions on draft legislation submitted for consultation by the Ministry of commerce⁴. Eleven cases were pending as of mid-1997. This is indeed a very low level of activity for an institution that was assigned the task of protecting competition in a country that has been undergoing profound economic restructuring⁵.

This raises some questions: To what extent is this due to the fact that it is a national law and there is no discipline resulting from international commitments? Are markets free from collusive behavior and abuse of dominant positions. This cannot be the case since in a small economy, such as the Tunisian economy, we should expect as shown above a high degree of concentration. Why is it then that only very few cases have been brought before the Competition Council? Is it an issue of competition culture as it has been argued by many analysts? Competition law should have been enacted earlier because trade policy was highly protectionist. Domestic competition should have been promoted in order to foster efficiency. Has the lack of competition discipline been related to the important role and the monopoly position the public sector has often found itself in? These questions are important to address (which is not done in this paper).

⁴ See Charrier, G (1997)

⁵ For Algeria no information has been made available on the level of activity of the competition Council.

III. National Competition Laws, Multilateral Negotiations and the Euro-Med Agreements:

III.1. Commitments made within the Euro-Med Agreements and National Competition Laws:

Regional trade agreements contain, generally, limited harmonization of competition laws or cooperation provisions in this area. There are two exceptions, the European Common Market where the European Commission acts as a supranational competition authority and the Australian New Zealand Free Trade Area which also provides for regulation of unfair trade by use of competition law.

From the beginning all provisions of the Treaty of Rome, including those related to competition, were motivated by the objective of facilitating integration of the common market. The harmonization of national competition laws and the creation of a European Competition commission with the judicial power to prevent and sanction business anti-competitive practice have been considered essential to the implementation of the free trade policy within the Common Market.

Neither the European Agreements signed by the EU with the CEEEs nor the Euro-Med Agreements include close cooperation provisions (such as those of the agreement between the EU and the US), let alone a common law and a common enforcement body that would deal with anti-competition business practices originating in one member country and resulting in adverse effects on the welfare of another member country.

The Euro-Med Agreements (EMAs) signed by Tunisia and Morocco respectively in 1995 and 1996 contain he same provisions related to competition. Article 6 of the Agreement with Tunisia is based on the criterion of the trade-effect and not on efficiency considerations either in Tunisia or in one of the EC countries. It is thus the market access objective that lies behind the inclusion of competition provisions in the EMAs. It is worth noticing that whereas Art. 85 and 86 prohibit anti-competitive agreements and abuse of a dominant position within the EC, Art. 6 of the EMA states only that such conduct is inconsistent with the good working of the

Agreement. Art. 92 of the Treaty of Rome on state aids is also included under Art. 6 of the EMA. Is considered inconsistent with the Agreement any state aid which distorts or threaten to distort competition by favoring certain enterprises or the production of certain goods. The same exemptions of Art. 92 of the Treaty apply to the EMA. Five years are given to all parties to enforce the competition provisions of the Agreement. In the meantime Art. VI antidumping), XVI and XXIII of the GATT are applicable. Finally, exchange of information on anti-competitive practices does not cover confidential information provided by business to the competition authorities of its country of domicile.

One other distinctive feature of competition policy in the EU is that a dominant position is not illegal if it leads to improvements in technology with the sharing of benefits with consumers (a dynamic approach).

The European Agreements signed by the EU with the Central and Eastern European Countries (CEECs) are more explicit on the limits imposed on the exchange of information. It is stated that the Commission and the competent authority undertake to notify one another of the cases they are handling and which concern the other authority but are not obliged to communicate information if its law does not allow it or it is incompatible with the interests of its country. It is worth noticing that these limitations are in contradiction with the minimum cooperation in competition practice which is called for in the 1995 van Miert EC Report.

This provision is very different from those the Cooperation Agreement signed by the EU and the US in 1991. Article II of this agreement states that each Party is required to notify the other whenever the enforcement activities of one of the Parties may affect the "important interests of the other Party. More importantly, there are provisions of negative and positive comity. However, the issue of exchanging confidential information has created a major obstacle to close cooperation even between the US and the EU.

III.2. Effects and Relevance of proposals for Multilateral Agreements:

The discussion may be usefully organized along the lines indicated by Hoekman (1997). One key issue is in why multilateral disciplines on private anti-competitive practices are desirable? The rationales for launching negotiations are different: enhance WTO market access

commitments, constrain the use of anti-dumping, set up a global competition code in order to prevent global multinationals from using their market power, unify competition provisions in order to prevent member countries from circumventing their WTO obligations.

The reasons may be stated differently (The van Miert Report). The globalization of the economy has increased the importance of issues that transcend national borders: international cartels, export cartels, mergers on a world scale, abuse of a dominant position, etc. Divergent competition laws and practice increase push up costs and increase uncertainty. Furthermore, some countries do not even have competition legislation. Some countries have extended the application of their laws to outside their territories, leading to conflicts. Developing countries are more exposed to restrictive business practices following the liberalization commitments they have taken. Furthermore, in the absence of appropriate domestic rules, they may risk to be subjected to the extraterritorial application of other countries' laws.

As Holmes (1998) states, competition is even more important for economies in transition and developing countries because of their ongoing vast privatization programs. A question arises as whether competition authorities should be involved in the process of privatization. An illustrative is that of cement firms in Tunisia. If the two multinational companies, which recently acquired two previously state-owned cement enterprises, succeed there will be the temptation to sell them the remaining factories that are to be privatized. This would result in an oligopolistic behavior on the Tunisian market of an important input. Trade liberalization may be the right policy to prevent this from happening but it would not be a sufficient deterrent. It may be important to support it through the implication of competition policy in the privatization process

Options may be evaluated using three criteria, enhanced access to foreign markets (the trade negotiator's criterion), economic efficiency and welfare (the economist's criteria) and strengthening of the WTO-based trade system.

Following Hoekman (1997) and Hoekman and Holmes (1999) we may consider six major reforms (Options).

Option 1: Minimum anti-trust standards:

Various proposals have been put forward based on the objective of harmonizing competition laws among members of the WTO. Projects of deep harmonization call for the creation of an international anti-trust authority which would have the task of enforcing a set of common anti-trust rules in all contracting parties through the offices of national competition authorities. In a project put suggested by Scherer, the minimum standards to be agreed on are related to import and export cartels, serious abuses of dominant positions in the world market, and merger approval procedures.

The EU is in favor of a multilateral framework without going as far as the setting up of a supranational competition authority. The van Miert Report (1995) emphasizes that progress be made on two fronts. First, existing bilateral agreements should be deepened through the integration of comity agreements similar to those concluded between the EU and the US, and the strengthening of some provisions such as the sharing of information protected by confidentiality rules). Secondly, a plurilateral framework should be developed using some of the elements of the bilateral agreements and adding a mechanism for settling disputes between competition authorities, based on a minimum set of competition rules. The plurilateral agreement will first be signed by major trade partners under Annex 4 of the WTO Agreement and extended gradually to other WTO members. The Expert Report (van Miert Report) as well as the EC communications with the WTO Working Group on Trade and Competition point to a EU position according to which agreement should be sought on specific business practices that impede trade without creating an international institution. The EU would be in favor of a prohibition on horizontal restraints and export cartels complemented by a rule of reason approach to other practices. In addition, the proposal calls for notification requirements as well as for positive and negative comity obligations).

A consensus on minimum standards on horizontal restraints is feasible since most laws deal with the latter adequately. However, there are exemptions from competition law that vary across countries. As the EC proposal shows, negotiations on vertical restrictions to competition would be very difficult to gather much support from developed countries which are not willing to give up the rule of reason approach. In fact the most important differences among OECD countries concern vertical restrictions (exclusive or selective agreements between firms). A ban on export cartels has been also difficult to draw the consensus among OECD countries.

OECD stance on a multilateral agreement is of course going to be a determining factor in the next round of negotiations. From the standpoint of developing countries interests in general and those of MENA countries in particular, such an agreement would increase market access and reduce oligopolistic behavior in their own markets, provided they deal with vertical restraints. Most of the industrial firms of the MENA region are small or medium-sized and cannot establish their own distribution channels in developed countries. Exclusive arrangements may prevent them from entering those markets or increasing their sales. Exclusive arrangements may also weaken competition on their own home markets. The argument that these arrangements may increase efficiency and welfare in so far as they are needed to set up and develop distribution networks, needs to be qualified. They may result in excessive distribution margins, even if there exists some variety for the products involved.

The issue of vertical restrictions is related to that of dealing with parallel imports. A ban on the latter may be justified on the ground of protecting the development of efficient distribution networks. However, constraints on imports may result in wide price differences and in excessive distribution margins. One should not forget that parallel imports need also to be commercialized using similar networks. Allowing parallel imports is only one form of arbitrage between markets. The EU position is contradictory: parallel imports are allowed across its member countries but not with respect to other countries.

The TRIPs Agreement also involves competition. This Agreement commits countries to protect patents and copyrights. Some argue that this will serve the interests of developing countries as MNCs would be more willing to transfer technology and even to undertake more R&D in those countries. However, there will be important income transfers to the developed countries. A strict adherence to TRIPs will, if the international exhaustion principle is not adopted, lead to international market segmentation. TRIPs explicitly authorizes the use of competition policy against the abuse of IPRs. In that respect developing countries should insist on applying the international exhaustion rule lest patent and copyright holders will segment markets, which may entail heavy costs to them. The national exhaustion rule and practice is a market segmentation device which EU members do not apply among themselves.

Of course if only horizontal restraints are covered (with on ban on export cartels), then, as Hoekman argued (1997), an agreement on minimum anti-trust standards is unlikely to

improve market access either in developing countries (where more important trade and investment impediments are pervasive) nor in the industrialized countries markets where the minimum standards on horizontal restrictions are already in place.

A multilateral agreement may also deal with merger rules. There are many merger cases that do not have much of an effect on market shares in the countries where firms are domiciled but which result in significant concentration in LDCs markets (UNCTAD, 1997). A developing country could insist on divestiture of assets located in its own territory (Brazil did it in cases involving tooth paste and vacuum cleaners) but such action may have negative effects on FDI).

Developing countries are generally not consulted when cross-border mergers issues arise. Consultation takes place only between major developed countries. Only powerful countries or groups of countries can deal directly with large MNCs. The Boeing-Mac Donald Douglas merger was challenged by the EU on the ground that Boeing had long term-sole-sourcing contractual arrangements with airlines that risked to exclude Airbus. Boeing accepted in the end not to enforce the sole-sourcing contracts. There is a need to address the problem of mutually exclusive demands made by different national authorities on a merger entity, including sometimes demands made by developing countries.

Option 2: Introduce anti-trust law criteria in anti-dumping:

Anti-dumping is increasingly used by many countries as an instrument of restricting imports in order to protect local firms producing certain products. Contrary to competition law which protects competition, anti-dumping protects competitors. Several countries of the region have introduced in recent years anti-dumping laws that are consistent with the GATT (Tunisia and Egypt in 1998,...). Egypt has in fact enacted an anti-dumping law while a competition law is yet to be enacted. There are concerns among trade economists and experts in international organizations that anti-dumping practices become widespread, thus restricting internatio, nal trade and weakening the world trading system.

Developing countries stand to lose more from anti-dumping practice than developed countries as many of them, including MENA countries, seek to enter or expand their shares on markets of developed countries. Being emerging exporters, developing countries are more likely to be

the targets of anti-dumping. Another argument is related to the bias against the variable cost content of anti-dumping practice (Krueger, 1999). In that respect, developing countries tend to more vulnerable because they produce goods the marginal cost of which is a much larger share of total cost than in developed countries. However, it is worth noticing that many anti-dumping actions originate in the developing countries themselves and against each other (in Latin America for instance between members of the MERCOSUR).

For some countries, anti-dumping should be integrated into competition law and taken out of trade agreements (East Asian countries: Japan, Hong-Kong, Singapore). Others argue that it is provided for in GATT in order to protect local industries against distortions in international trade. The EU position is that anti-dumping rules should be looked at more like countervailing duty measures than predatory pricing rules (subsidies, privileged access to credit, distorted input prices, etc.).

There is a strong opposition in most developed countries to linking anti-dumping to anti-trust rules. Most regional trade agreements have in fact kept anti-dumping rights untouched with no concessions made by signatories. Anti-dumping is not practiced between members of the EU but it is enforced towards countries with which it has signed free trade agreements (The same in the case of NAFTA). There is however a difference between the CEECs and the Euro-Med Agreements. In the former anti-dumping will be discontinued once competition and state aid policies are implemented to the satisfaction of the EU. No such provision is found in the EMAs.

Developing countries have a lot to gain from competition authorities being involved in antidumping because they tend to protect the competition process rather than firms local firms, contrary to the authorities in charge of dumping assessment and anti-dumping enforcement (Hoekman and Holmes, 1999). However, domestic lobbies in developed countries (and also in developing countries) are too strong to accept subjecting anti-dumping to the competition process and criteria.

Option 3: Extend the reach of WTO 'non violation' dispute settlement mechanisms

Article XXIII:1 of the GATT allows a member country to challenge actions taken by governments that nullify or impair commitments taken by the latter in trade negotiations. The

only case brought to the WTO dispute settlement mechanism under this article is the Kodak-Fuji case. The panel rejected the US complaint, concluding that the exclusivity agreements between Fuji and film wholesalers and the alleged administrative guidance role played by the Japanese government cannot be interpreted as resulting in the nullification or impairment of any of the commitments made by the Japanese Government towards GATT.

As the Kodak-Fuji case shows, the 'non violation' GATT provision is very difficult and unlikely to be applied to restrictive business practices because the GATT deals with Government policy and behavior and not with firms. Unless there is some multilateral agreement on minimum competition rules, the link between the non-violation provision and anticompetitive business behavior would be very difficult to make.

Option 4: Give WTO a competition advocacy and discovery role:

The trade policy review mechanism could be expanded to include anti-trust practice and law, in addition to the traditional areas covered and which are subject to WTO disciplines. Such action may be useful in bring to the fore differences and problems of anti-trust practice. It may thus contribute to more transparency at the international level. Such action would however be difficult to justify within WTO, given that the review of government policy with regard to trade issues is an instrument of monitoring the degree of compliance of the government with its GATT commitments. The competition policy review would have no effect, just like the introductory review of the macroeconomic situation that the trade review procedure allows for. The inclusion of a competition review would then be useful only as an exercise for future effective use by WTO in case multilateral commitments are made in the area of competition. Finally, there may be a risk that a competition review be misused in the enforcement of the GATT non-violation dispute settlement provision.

Option 5: Prohibit anti-trust exemptions allowing private restrictions on trade:

Collusive conduct may take place between exporting firms in developed countries but with restrictive effects in some developing countries, not in their home countries or in the countries where they are domiciled. Restrictive conduct by firms is thus left out of the international

trade system. It is only some international competition agreement that can deal with this very important issue.

Such practice is excluded from anti-trust law. The most important exemptions are indeed those that are already granted to export cartels that have no effect on the domestic market. One general argument is that competition policy tends to be much stricter when firms' conduct concerns the domestic market than foreign markets. Competition authorities tend to turn a blind eye on collusive behavior or the abuse of a dominant position when it comes to foreign markets. On this issue the US position is in favor of a voluntary agreement to prosecute hard core cartels through the strict enforcement of national competition laws. However, it is unlikely that existing arrangements, considered today lawful, be declared unlawful even if such voluntary agreement is adopted (Hoekman and Holmes, 1999).

Furthermore, the US proposal concerns world wide price fixing and market sharing rather than the dominant position on one particular market.

A ban on export cartels would be beneficial to developing countries as they generally have very little market power in international trade. Petroleum is the most obvious exception although the Oil cartel has lost most of its power over international prices. The issue of whether prices have been close to competitive market equilibrium prices is debatable, but in principle MENA oil producing countries stand to lose from a ban on export cartels.

Option 6: Pursue sector-specific agreements or commitments (such as the agreement to liberalize access to basic telecommunication services under the auspices of GATS

Existing WTO agreements where anti-trust obligations may be negotiated: TRIPs (anti-trust like criteria such as requiring compulsory licensing), TRIMs (reference to possible future discussions on the need for anti-trust disciplines), GATS and government procurements. The Telecommunication Agreement shows that such agreements are feasible. However, since they do not impose the same competition rules across sectors and goods and services, they may lead to serious distortions and efficiency problems in the long run.

Conclusion:

(to be completed)

Annex:
Table - Degree of concentration in Tunisian Manufacturing (1993):
(For each industry, first row: share of the four largest firms; second row: share of the two largest firms)

	<u>/0\</u>	(2)	(A)
(1)		(3) % share in	
Industry	in total employment		number of firms (respondent
			s)
Food and Beverages:			
191 Tobacco industry	98	99	3
184 Alcohol distillation	100	100	2
183 Brewery	100	100	1
181 Non alcoholic beverages	69	78	11
181 Non alcoholic beverages	53	52	
172 Animal feed	67	85	13
172 Animal feed	45	70	
171 Miscellaneous food industries	70	86	14
171 Miscellaneous food industries	44	70	
162 Chocolate and Candy industry	100	100	4
162 Chocolate and Candy industry	81	92	
161 Sugar industry	92	93	3
152 Canned fish	78	96	6
152 Canned fish	44	56	
151 Canned vegetables and fruits and marmalades	50	63	17
151 Canned vegetables and fruits and	36	37	
marmalades 142 Oils (other than olive oil) and fats	100	100	4
142 Oils (other than olive oil) and fats	79	86	4
134 Biscuits	84	84	6
134 Biscuits	51	52	0
133 Bakeries	19	91	78
133 Bakeries	12	64	10
132 Pasta and couscous	66	85	12
132 Pasta and couscous	18	10	12
132 Pasta and couscous	10	10	
131 Grain Milling	45	65	11
131 Grain Milling	24	36	
121 Milk industry	78	81	9
121 Milk industry	48	50	
111 Canned meat	100	100	2
Construction Materials:			
241 Glass industry	60	73	18
241 Glass industry	43	58	
232 Tile industry	25	29	23
232 Tile industry	14	24	
231 Brick industry	52	60	51
231 Brick industry	34	46	
222 Cement-based products	46	54	32
222 Cement-based products	33	30	
221 Cement and Plaster	81	87	7
221 Cement and Plaster	48	51	

212 Marble	45	42	23	
 				
Mechanical and Electrical Industries :				
381 Household appliances	100	100	4	
381 Household appliances	70	97		
372 Electronic Household Equipment	100	100	4	
372 Electronic Household Equipment	60	75		
371 Electronic Professional Equipment	68	73	8	
371 Electronic Professional Equipment	64	46		
362 Miscellaneous Electrical Equipment	56	69	18	
362 Miscellaneous Electrical Equipment	36	46		
361 Electrical Equipment	75	85	9	
361 Electrical Equipment	56	75		
342 Truck assembly	100	100	2	
341 Spare parts (for cars)	69	77	18	
341 Spare parts (for cars)	58	49		
332 Industrial machinery	52	57	18	
332 Industrial machinery	28	27		
331 Agricultural machinery	100	100	2	
325 Metallic household appliances	53	85	14	
325 Metallic household appliances	31	77		
324 Quincaillerie	71	73	22	
324 Quincaillerie	58	56		
323 Metallic Wrapping	95	98	6	
323 Metallic Wrapping	75	73		
313 Foundries	88	89		
311 Iron and Steel	100	100	2	
Chemicals:			_	
451 Tires and Rubber Products	96	99	6	
451 Tires and Rubber Products	87	95		
441 Pharmaceuticals	100	100	4	
441 Pharmaceuticals	89	98		
434 Miscellaneous Para-chemicals	100	100	4	
434 Miscellaneous Para-chemicals	79	95		
433 Perfumes and Toiletry	50	57	23	
433 Perfumes and Toiletry	31	38		
432 Soap, detergents and disinfectants	60	65	19	
432 Soap, detergents and disinfectants	32	40		
431 Paint, ink, glue and colorants	48	57	19	
431 Paint, ink, glue and colorants	32	36		
422 Base chemical products	100	100	2	
421	100	100	1	
412 Other fertilizers	100	100	1	
411 Fertilizers (sulfuric acid and	100	100	3	
phosphate-based)				
411 Fertilizers (sulfuric acid and phosphate-	98	97		
based)				
Textile, Clothing and Leather:	26	27	4.4	
553 Footwear	36	37	44	
553 Footwear	21	23	18	
552 Other leather and plastic products	60	65 46	10	
552 Other leather and plastic products	38 93	91	5	
551 Leather and Skin Work 551 Leather and Skin Work	69	67	5	
	7	11	271	
541 Apparel	•	• •	2	

541 Apparel	4	6	
531 Underwear	32	32	31
531 Underwear	17	18	
513 Other Textiles (pressing ,etc.)	40	38	27
513 Other Textiles (pressing ,etc.)	24	23	
512 Textile: weaving	59	77	46
512 Textile: weaving	48	68	
511 Textile: Spinning	68	80	18
511 Textile: Spinning	55	66	
613 Wood Furniture	64	62	28
613 Wood Furniture	37	35	

Source: Unpublished data of "Enquête d'Entreprises Manufacturières", Institut National des Statistiques (1993)

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n° Inv. 19914 23 LU6.1999

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Preparing for the WTO 2000 Negotiations: Mediterranean Interests and Perspectives Cairo, Egypt, 14-15 July, 1999

Dealing with Regulatory Regimes and **Trade Costs in MENA Region**

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Sponsored by the Economic Research Forum, Istituto Affari Internazionali and the World Bank

Contribution of the World Bank and IAI made possible by financial support from the Government of Italy and the Netherlands

Dealing with Regulatory Regimes and Trade Costs in MENA Region

Jamel Zarrouk

Introduction

Since the conclusion of the Uruguay Round, there have been two major trends in the international trade of MENA countries. First, following the unparalleled wave of trade reforms that swept most developing countries, many of the countries in the MENA region have undertaken major steps to implement tariff and fiscal reforms and to dismantle quantitative restrictions that were means of commercial policies. Second, far-reaching privatization programs have also been set up, although the implementation has been slow in most countries in the region.

As a result of liberalization and privatization efforts, the long-term prospects of many of the countries in the MENA region to compete in world markets have improved. However, less visible barriers (either related to domestic regulations or produced by inefficient administration of the trade transaction process) have emerged as causes for concern to domestic firms engaged in international trade.

Initially, domestic regulations were intended to protect public interests. For instance, the enforcement of health, safety, and environmental protection requires setting up testing and certification systems to assure the safety or reliability of manufactured goods. To the extent that technical regulations and standards involve testing and certification procedures that are required by respective governments in both exporting and importing countries, these are often duplicative and discriminatory, entailing additional costs in product modification to industry. Moreover, such costs would not necessarily benefit consumers nor ensure better public health or environmental protection. Other examples of regulatory regimes that raise trading costs are excessive control and inefficiency of customs clearance procedures, and the monopoly of service providers in the ports; both can cause costs of various kinds and thus keep prices to consumers inefficiently high. Estimates of these costs show that they exceed the actual level of duties on the imported products. Unlike customs duties, which are part of government revenues, the cost of customs clearance barriers are deadweight losses that no one benefits from and which usually do not serve the public interest.

In international service transactions, countries frequently restrict the mode of penetration to domestic markets or simply prohibit domestic markets for foreign suppliers in many activities such as insurance, domestic transportation, and basic telecommunications or even distribution services. There is substantial evidence that such policies inhibit competition in service industries, entailing extra costs to producers and consumers, and overall reduce the exporting performance of developing countries.

Today access to global networks in communication and transportation has changed the nature of the international market place. To the extent that firms establish themselves where they can operate efficiently, the availability of competitive support services is vital for the location of industry. Moreover, as tariffs and non-tariff measures have been declining everywhere, the difference in performance among different domestic regulatory policies has become a crucial determinant of decisions by foreign investors.

Comprehensive estimates of the total cost and incidence of the various regulatory barriers that confront producers and traders in the MENA countries are lacking. One study (Nathan Associates, 1996) assessed the welfare cost of regulations and other government interventions. It found that these have a negative direct impact equivalent to one percent of GDP. Another study (Galal, 1998) estimated the benefit from adopting a more competitive regulatory regime for telecommunications would generate a net welfare gain of US\$800 million, or 1.2 percent of GDP. Indirect effects—e.g., through discouraging investment—will increase total costs further. A study by Hoekman and Konan (1998) estimated the welfare gains for Egypt from policy integration (i.e. liberalizing services industry and adopting the EU standards regulations regime under the EU-Med Free Trade Agreements) would raise Egypt's GDP by 5 percent and service sector production would double. It would be useful to assemble comparable data on regulatory costs and administrative inefficiencies in other MENA countries, especially as they relate to the export performance as well as to the most efficient trade policy instrument to remove such regulatory barriers to trade.

The purpose of this paper is threefold: (i) to assess the extent of regulatory policies as real trade costs by shedding light on specific cases from the MENA countries; (ii) to discuss the feasibility of implementing policy instruments and approaches to remove such regulatory barriers; and (iii) to link national efforts to regional and multilateral

approaches in designing and applying domestic regulations that reduce trade costs and maximize the benefits of policy integration.

2. Policy Issues in Regulatory Regimes and Trade Costs: The MENA Case

Regulatory Regimes Impose Transaction Costs on Imports and Exports

As tariffs and other classical trade barriers are declining in importance, industries are increasingly concerned with the economic impacts of differences in regulatory regimes across countries on their ability to compete. Regulatory regime differences can adversely affect trade and investment reforms aimed at increasing the competitiveness of the domestic industry. For instance, the benefits of a significant reduction in or elimination of tariffs for intermediate goods could be substantially diminished if customs procedures and administrative requirements impose transaction costs on the imports of these goods. Other examples concern the contestability of markets, where domestic regulation impedes foreign firms from competing with national ones, or where governments use domestic policies to protect domestic firms. Regulation in service industries is particularly prone to such use.

In the areas of product standards, testing, and certification procedures, duplicative testing and certification requirements have gained importance as barriers to international trade. Industry may have to retest and certify products that have already been tested for conformity to equivalent standards for other foreign markets. This implies higher compliance costs for firms that translate into higher prices to consumers. Many developing countries have made special efforts to increase the conformity of national standards with international standards. Others adopted standards of their main trading partners, such as the European standards regime. As far as countries in the MENA region are concerned, most of them have developed standards that were formulated and set by national bodies. Technical standards are predominantly related to food products, engineering goods, and consumer products. However, the majority of these national standards have no equivalence to international standards. For instance, there were around 1,000 standards in Egypt, of which only 25 to 30 percent are in conformity with international standards (WTO, 1999). Saudi Arabia has around 1,300 standards of which one-third conform to international standards; the balance are related to product testing conformity to specific standards and verification of compliance.

Quality control measures on imports can effectively be an import barrier if they are unevenly applied to some imported products, depending upon the use of these products (i.e. whether they are industrial inputs or final goods). Quality regulation may be applied also to exports. But quality assessment can add expenses and complexity when the exported good is subject to quality control in the importing country. In many of the MENA countries which implemented tariff and non-tariff reforms (Egypt, Jordan, Morocco, and Tunisia), there has been enforcement of health and safety standards as reflected by an expansion of the list of imports subject to mandatory quality control. For instance, in Egypt, following liberalization of imports, a number of banned products including poultry, eggs, coffee, iron tubes, ceramic sanitary ware, stoves, heaters, and washing machines were moved to the quality control list. It was reported that Egypt raised the number of imported products subject to quality control measures from 69 in 1992 to 182 in 1998 (WTO, 1999). While such measures are necessary to ensure minimum health and safety standards, they may have been applied in a discriminatory fashion depending upon the use of the imported items. For instance, a Ministerial decree instructed the exemption of inputs imported for industrial use from quality control measures. Moreover, the imposition of mandatory quality control is not always enforced towards domestic manufactured products that are import-equivalent.

Administrative Customs procedures may involve barriers for imports and exports. For example, excessive documentation requirements and outdated and slow procedures create an overall negative trading environment. These measures simply impose additional costs by requiring firms to spend unproductive resources from which no benefits are derived. Anecdotal evidence of administrative customs inefficiencies and of its impact in several MENA countries is abundant. The average customs clearance transaction in MENA countries (e.g., Lebanon, Egypt) requires 25 to 30 stages, and takes from one day to several weeks (Hoekman, 1998). Inefficient regulation of port operations has contributed to implicit tariffs of 5 to 15 percent on exports in Latin America (Guasch and Spiller, 1999). Valuation procedures are a major uncertainty on the part of importers, as customs generally expects underinvoicing. In Jordan, the law rewards customs officers who allegedly uncover invoice misreporting and charge penalties to the importers. It is the practice in some MENA countries that customs valuation officers question every invoice in order to charge penalties or collect "rewards." However, a number of Arab country members of the WTO (Egypt, Morocco, and Tunisia) have stepped up efforts to improve inspection and clearance activities in anticipation

of the implementation of the GATT Customs Valuation Agreement, although Egypt has asked for a delay on the implementation of parts of the Agreement (customs valuation based on computed value) for a period of three years.

Regulatory Regimes in Services Industry Fills Non-Competitive Vacuum

The consequence of regulation in services is more problematic as far as economic efficiency is concerned. Typically, international service transactions require the producer and consumer to be at the same place. Policy regulation for the provision of services may restrict both the cross-border exchange of services and the physical entry of service provider into the domestic market.

In some other cases, foreign access to service markets may be reserved exclusively for domestic suppliers in domestic transportation and basic telecommunication services. Many countries set up policy regulation requiring that activities such as legal, insurance, educational, and investment advisory services be provided by residents (who could be foreign nationals) or citizens. Such service occupations often must obtain certification or licensing in such fields as law, accountancy, and medicine. A key problem here is non-recognition of certificates granted abroad, such as foreign diplomas or professional certificates. Many other types of business services may require that foreign suppliers use domestic distribution and communication infrastructure. Distribution arrangements can effectively bar market access for name-brand products. An important regulation that has been applied in the Gulf countries (Saudi Arabia, U.A.E, Kuwait, Oman, and Qatar) requires that foreign suppliers appoint only citizens of the respective countries as local agents. In the UAE, the law seems to grant even indefinite distributorship monopoly to the initially appointed local agent. Such a regulation can prove to be a disincentive to technology transfer through foreign direct investment.

Generally, there is substantial evidence that such policies reduce competition in service industries and are very costly. While efficient producer services play a crucial role in the competitiveness and growth prospects of many developing countries, poor transportation and storage facilities can be detrimental to agricultural output. In addition, underdeveloped communication networks can raise the costs of exporting activities and reduce the international competitiveness of domestic firms engaged in exports.

Preference of Domestic Suppliers for Public Procurement: A Costly Policy

Governments in the MENA region frequently discriminate in favor of domestic firms when procuring goods and services. Such discrimination can take various forms: price preferences, local content rules, or residency requirements. Experience shows that even without fully adopting the principle of national treatment, effective market access opportunities require the adoption of some international standards for procedural requirements to ensure transparency and provide potential suppliers with realistic opportunities in bidding for contracts, thereby reducing corruption that imposes high costs on trade goods (Hoekman and Mavroidis, 1997).

3. Dealing With Regulatory Regimes in the MENA Region

An important point to start with is the fact that regulatory regimes are rarely brought to the public view by politicians because they wish to hide the cost of regulation from consumers and because it is usually difficult to estimate the adverse impacts of regulations on trade costs. More available information on the economic impact of numerous regulations would increase public decision-making for regulatory reforms in MENA countries. There is a general need in MENA countries for conducting cost-benefit analyses of significant regulatory policies and assessing other alternatives, including ways to improve their impact. It is also important to design regulatory programs for decision-makers to effectively manage the transition to a deregulated environment.

Regarding the policy instruments that deal with regulatory regimes, these range from unilateral decisions to implement regulatory reforms to international cooperation. For instance, dealing with the anti-competitive effects of regulation harmonization and acceptance (or "recognition") of foreign regulatory regimes may be pursued unilaterally or in a concerted manner. In the case of harmonization, a country unilaterally adopts another country's regime of regulations. Harmonization may also involve cooperation or the negotiation of a common set of disciplines. One example is that many MENA countries use product standards developed in Europe or the US. A complement of unilateral harmonization to the standards of a trading partner or international norms is unilateral recognition of foreign regulatory regimes. Thus, a government may decide that the professional qualifications of doctors trained and certified in certain countries are sufficient for them to practice (there are still nationality constraints and economic needs tests that restrict entry by foreign service providers). Similarly, a government may accept a third-party certificate of safety for certain imports as sufficient proof of quality (e.g., the Underwriters Laboratories (UL) mark is accepted in many countries). However, unilateral recognition to reduce transaction costs

is limited to the territory of the government concerned. In some cases, a government or regulatory body may not be familiar with or does not trust foreign certification systems. In this case, products will be subjected to duplicative testing and certification at the border, imposing additional costs on imports. Negotiation of *mutual* recognition agreements (MRAs) is another instrument through which transactions costs can then be reduced further. MRAs may require some degree of harmonization, especially in areas where mandatory standards or regulations apply, so as to ensure that the stated norms satisfy minimum standards.

In general, effective use of the aforementioned options to deal with regulatory barriers depends in this connection on the types of barriers that are involved. Some reductions in trade costs can be extended to all sources of imports. An example is simplification of customs clearance procedures and associated documentary requirements. Other liberalization actions will not automatically extend to third countries, such as the recognition of professional qualifications. In principle, the FTA between the EU and the Mediterranean countries could help to achieve a cost reduction off inefficient administrative procedures through a process of simplification and abolition of administrative controls and harmonization and mutual recognition of standards (Hoekman & Konan, 1998).

Concluding Remarks

Regulatory regimes often have undesirable economic effects, most of which reduce the competitiveness of domestic firms engaged in exporting activities. In recent years, many countries in the MENA region have made special unilateral efforts to harmonize or to recognize the conformity of national standards with international standards. Despite these efforts, the majority of standards in the MENA countries have no equivalence to international standards. One must take into account that distortionary regulatory regimes cannot be eliminated on a unilateral basis only. To the extent that this is the case, account must be taken of the need to negotiate MRAs and equivalent instruments.

Regarding regulatory regimes to open service markets to foreign competition, these remain highly restrictive in MENA countries. Market access restrictions for services usually involve not only barriers to the foreign services transactions, but also policies affecting the physical entry of services providers into markets. Such policies reduce competition in service industries and raise trade costs of doing business abroad.

Dealing effectively with regulatory reforms for the temporary movement of service providers (professional/technical services) in the regional context can provide a positive economic outcome. Other regulatory reforms in services are more effectively dealt within the GATS context. The advent of the WTO 2000 negotiations in services is an opportunity for the MENA countries to consider reforms and give a great deal more thought to the design of a far-reaching regulatory reform programs, sector by sector, in order to evaluate the consequences and tradeoffs involved.

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n° Inv. 19914 23 LU6, 1999

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Liberalizing Trade in Services:
Harnessing Reciprocal Negotiations to Regulatory Reform

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Sponsored by the Economic Research Forum,
Istituto Affari Internazionali
and the World Bank

Contribution of the World Bank and IAI made possible by financial support from the Government of Italy and the Netherlands

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> Revised July 5,1999

* A preliminary version of this paper was presented at the conference "Services 2000 – New Directions in Services Trade Liberalization," Washington DC, June 1-2, 1999. We are grateful to Geza Feketekuty, Patrick Low, Juan Marchetti, Aaditya Mattoo and other participants for helpful comments and discussions. The views expressed are those of the authors and should not be attributed to the World Bank.

Liberalizing Trade in Services: Harnessing Reciprocal Negotiations to Regulatory Reform

At the time the Uruguay Round was concluded (1994), many observers were critical of the structure of the General Agreement on Trade in Services (GATS). They argued that schedules are hard to interpret and would not generate a powerful momentum for future liberalization of markets. The "positive" list approach towards scheduling commitments was perceived as an opaque instrument (it is difficult to know what is <u>not</u> liberalized). The sectoral focus (illustrated by specific annexes for financial services and telecoms) was seen as a danger because it limited the potential for inter-sectoral trade-offs and concessions by GATS members.¹

Developments subsequent to the Uruguay Round have given some cause for optimism, but also provide cause for concern. On the positive side, the sectoral approach worked better than expected. Two agreements on key services sectors (financial services and basic telecoms) were successfully negotiated. While these agreements introduce only a limited dose of liberalization, the fact they were concluded at all suggests the critics may have been too pessimistic. On the other hand, the pessimists can point to the failure of efforts to conclude sectoral talks to liberalize maritime transport (under GATS) and to negotiate a Multilateral Agreement on Investment (MAI) (under the OECD). Among the many disturbing aspects of the MAI negotiations was that it revealed that a "negative" list approach to scheduling commitments is not necessarily a much better way of dealing with complex barriers to competition: the lists tabled by MAI negotiators were so long that they tended to make the general MAI disciplines irrelevant. The MAI experience illustrates that although there is value in transparency, this *alone* is not sufficient to

¹ See, for example, Hoekman (1996) and the references cited therein.

move a liberalization agenda forward. It needs to be supported by domestic political forces that favor moving forward in the pursuit of liberalization. The existence of such a domestic consensus was a major factor behind the successful conclusion of the GATS basic telecom talks.

In many countries attempts to liberalize services during the Uruguay Round were not accompanied by a wide and lively debate regarding national interests and objectives. Often negotiating positions were largely driven by specific industry interests. This was one factor underlying the limited liberalization that was achieved—rational "status quo bias" prevailed.

After its inception, the GATS continued to attract little public attention. Its provisions, let alone its existence, remain relatively unknown or understood even among those who have an interest in the functioning of the trading system (multinational business). No major disputes regarding the implementation of the agreement have been brought forward. This suggests the agreement is not perceived as particularly relevant to the various stakeholders (business, consumer groups). At the same time, there is a strong sense of disquiet in many countries regarding the impact on national welfare of multilateral liberalization commitments.

New negotiations on services are due to be initiated in 2000—as called for in the Uruguay Round Agreement. WTO members will have to determine how and what to negotiate. The MAI experience must be internalized, but how to do this is not clear, especially given vociferous opposition by some influential NGOs to strengthening the trading system. Meanwhile, there is a wide recognition among the business community and officials that the *status quo* is not an acceptable option, simply because the existing schedules of commitments in the GATS are not particularly useful. The correspondence between what is scheduled and the effective barriers to trade and investment that are in force is rather loose, to say the least. The question how to proceed on services is particularly acute for developing countries. Almost all governments

increasingly recognize the vital role that an efficient and vibrant service industry plays in the process of economic and social development (certain services are basic inputs or components of the economic infrastructure, whereas other services can be a provisional shelter useful for social stability).

This paper discusses how the coming WTO negotiations might best be used to help achieve national economic objectives. It is organized as follows. Section 1 argues that a fundamental rule of thumb for policy should be to seek to achieve and maintain a uniform (across-the-board) set of incentives for economic activities. Section 2 points out that to achieve this in the service sector context a high dose of unilateralism is needed. Central decision-makers cannot rely on the trade negotiating process to obtain an outcome that is welfare-improving for their economies. Strategic choices must be made to define and sequence the liberalization and reform process. Section 3 describes a number of instruments which can assist governments in identifying reform priorities. Section 4 turns to the GATS, and discusses how multilateral negotiations and disciplines can be approached from a domestic reform perspective. Section 5 concludes.

1. Rules of Thumb: Think General Equilibrium and Pursue Neutrality

Governments intervene in markets for a number of reasons: to provide public goods; to redistribute income in the pursuit of equity objectives; and to protect and support favored industries or activities. Such support is provided *inter alia* through trade protection and fiscal incentives (tax concessions, subsidies). The tariff peaks and the tariff "escalation" found in most national tariff schedules reflects the desire to favor certain industries over others. As a result, effective rates of protection can be very high or very low—negative rates of effective protection

are not rare—that is, activities may be taxed rather than supported. Table 1 provides general evidence on the survival of tariff escalation and dispersion after more than 40 years of GATT-based rounds of negotiations to reduce barriers to merchandise trade.

[Table 1 here]

The economic justification for government intervention to favor certain economic activities over others generally rests on the existence of market failure, i.e., externalities. While the theoretical case for intervention is clear cut, in practice the interventions observed in most countries to favor some industries over others are not aimed at offsetting market failures. Instead, they simply reflect the outcome of political processes and rent-seeking (directly unproductive profit-seeking) activities. From a national welfare perspective such selective intervention is costly, leading economists to suggest that a good rule of thumb for policy is to establish a level playing field in the sense that incentives to engage in different types of economic activities are neutral. While government should intervene to ensure that firms and households take into account the negative externalities that are created by their activities (through pollution taxes, zoning restrictions, etc.) and can benefit from positive spillovers (e.g., education, infrastructure), these are non-industry-specific types of actions. At the firm or industry level the incentive structure should be neutral. The rationale for this is largely a political economy one. Although in theory industry-specific intervention might be justified on a variety of "strategic" grounds, as was pointed out by Hayek (1945) over 50 years ago, in practice governments will lack the information necessary realize the potential gains. Recognizing that in addition to the information problem, political imperatives and rent-seeking will inevitably induce governments to diverge from "optimal" interventions, there is a strong case for pursuing neutrality as a fundamental rule of policy towards industries.

Many governments around the world are far from achieving this policy prescription. Although in practice it will be impossible to achieve fully, neutrality is a useful lens through which to assess status quo policies and identify reform priorities. One reason for is that it requires an economy-wide or general equilibrium framework to be used that considers the impact of one industry-specific policy on the economy at large. The absence of such a framework often results in highly non-uniform patterns of protection for industries that are detrimental to the longterm growth prospects of the economy. An example is the treatment of agriculture in many developing economies, which tends to discourage farm production through non-agricultural policies such as manufacturing protectionism and overvalued exchange rates, and within the farm sector, discourage exporters more than farmers that compete with imports (Schiff and Valdes 1992). Another illustration is provided by the emerging markets that were embroiled in financial crisis in the late 1990s. There is a strong parallel between the steel crisis in Europe in the 1970s and the banking crisis in Asia in the 1990s: in both cases, one sector remained highly protected during a period in which substitute goods or services were being liberalized. In the European steel case, protection for aluminum and other substitutes for steel were gradually reduced at a time of decreasing transportation costs; similarly in the banking case, short term capital flows were being liberalized at a time when the electronic "transportation" costs of moving funds was declining rapidly, whereas inward FDI in the financial services industry in many Asian economies remained restricted.

These examples illustrate the need for a comprehensive as opposed to a piecemeal approach towards liberalization and reform in order to reduce the dispersion in the incentives to undertake investments across sectors and activities. This is not to deny the role governments must play in redistribution and the provision of public goods, or that in the pursuit of these

activities governments will invariably affect economic activity. Central decision-makers have become increasingly aware of the benefits of "general equilibrium" approach in terms of improving resource allocation incentives. An example has been growing recognition that differences in domestic indirect tax rates can be damaging has led to a reduction in the dispersion in tax rates. There has also been a relative shift away from subsidies, motivated by the same factor of distrust of selective public actions (of course, driven also by budgetary constraints).

Of particular importance in the context of the prospective WTO negotiations is that a "general equilibrium" assessment should cover both goods and services to consider interaction effects. Actions taken in services markets can affect competition in goods markets and vice versa. Restrictions on competition in European car distribution as a means to support the EC voluntary export restraint agreement with Japan on cars are one example (Mattoo and Mavroidis, 1995). Similar effects may be caused by legislation allowing exclusive distribution or sole agency, or restrictions on parallel imports of branded goods. These practices can prevent the benefits of trade liberalization being realized by consumers—instead, the effect may be to transfer what was previously captured as tariff revenue by the government to the private interests that control distribution of imports. Such indirect effects are not limited to manufactures: a major trade reform program undertaken by India in the early 1990s that reduced import weighted average tariffs from 87 per cent in 1991 to 27 per cent in 1996, induced a disappointing agricultural supply response because of policies that restrict competition in the provision of key inputs such as credit, transport, storage, and communication services (Gulati 1998).

2. Achieving Greater Uniformity: Implications for GATS Negotiations

As is well known, the process of liberalizing trade in goods through reciprocal negotiations under GATT auspices has been successful because the intrinsically mercantilist behavior of trade negotiators (who focus exclusively on obtaining better access to export market for their national industries, using domestic trade barriers as negotiating coin) was consistent with (led to) the economically sound policy which focuses on the benefits for the domestic economy from cheaper imports and an improved allocation of resources that better reflects comparative costs. Because negotiating coin had to be expended to obtain better access to export markets, the process led to a gradual move towards the globally efficient outcome—free trade. Each GATT round led to successive reductions in foreign tariffs that were profitable for domestic exporters and decreases in domestic tariffs that were beneficial to domestic consumers. The latter were made feasible because export interests were willing (required) to support liberalization in domestic political markets.

Of course, the GATT focus on reciprocity is not ideal by any means. Abstracting from the non-trivial opportunity costs of maintaining protection, it results in a non-uniform pattern of protection. Uniformity in protection across activities is a key element for getting the most out of trade liberalization. In this perspective, the frequent focus on the "average" tariff by countries in trade negotiations is virtually meaningless: even if the average is low, the real costs of protection can be high if the dispersion of tariff rates across commodity groups is large. This is because the consumer deadweight losses from protection increase more rapidly than the level of protection and because distortions in terms of resource allocation tend to be more harmful as the dispersion of tariffs increases (such costs are a square function of the tariff level in the case of linear demand and supply curves). Account should also be taken of the administrative costs of non-

uniform tariffs, rent-seeking, and corruption.

Notwithstanding these caveats, GATT rounds resulted in greater uniformity: as tariffs were brought down, they have also become increasingly similar. The mercantilist approach of negotiators also helped to reduce the dispersion of tariffs directly: some of the negotiating formulas that were developed targeted high tariffs more than low tariffs in an attempt to increase access to more protected markets more than proportionately. Reciprocity worked well because two conditions were satisfied: tariffs constituted the dominant barrier on trade in goods, and most of the other major non-tariff barriers (quotas, antidumping measures, etc.) are not too difficult to "translate" in tariff terms. As a result, the value of "reciprocal concessions" associated with tariff or NTB decreases has not been too difficult to estimate: it was simplistically defined as the value of the concerned imports multiplied by tariff changes-a definition which allows across-the-board calculations. The relative transparency and simplicity of the instruments used also allowed the technique of tariff bindings to be used as an effective commitment device: "nullification and impairment" tactics by countries seeking to re-impose protection through the back door are difficult to hide, as they will generally fall foul of the GATT national treatment rule and the prohibition on quotas (Art. XI). Without the constraint of tariff bindings many of the GATT disciplines become unenforceable.

These two conditions are not fulfilled in the services context. Tariffs on services are rare. Non-tariff barriers in services are difficult to translate into tariff equivalents, if only because governments are not always aware of their existence (regulations inhibiting trade in services often were introduced so long ago that it has often become difficult to recognize their effects as an impediment). This issue is particularly serious because services are much more regulation-intensive than goods (and there are often good reasons for such regulations) and because the

economic linkages and interdependencies between services and between services and goods sectors (the input-output coefficients in national accounts) are less well understood than those that prevail between goods. Policymakers are more cognizant of the importance of steel for auto production than they are of efficient insurance or marketing services. In conjunction with the fact that this also implies that commitment mechanisms in the GATS are inherently weaker than in the GATT, the ultimate consequence is that it is much easier for a government to find a way to undo (whether deliberately or unintentionally) what has been agreed in a GATS negotiation—in other words, nullification and impairment will be more difficult to prove.²/

This situation has an important implication: trade and investment liberalization in services will inevitably be less susceptible to the reciprocal, market access dynamics that drive WTO negotiations. Governments must supply a large dose of "unilateralism" if they are to achieve the goal of uniform protection. Paradoxically, this may be a smaller burden for developing countries than for industrial WTO members. In the last twenty years, trade liberalization in goods by developing countries has largely been the result of unilateral measures. What the developing countries did in the Tokyo and Uruguay Rounds was mostly limited to the partial binding of these unilateral reforms—they did not actively engage in the GATT game. As a result, for most of the developing countries, the coming years of negotiations in services will have an "air de déjà vu." The high dose of unilateralism required for liberalizing services will be supported by the recognition of the high costs of granting services high rates of protection against foreign competition (and often domestic as well).

²/ These differences between trade in services and trade in goods may be eroded in the future because of the increasing dose of (environmental, technical, health-related etc.) regulations in the production of many industrial products.

Current levels of services protection are as high if not higher than those applied to goods ten or fifteen years ago. In many instances, the available information on the level of protection suggests average *ad valorem* tariff equivalents ranging from 50 percent to 100 percent for large sectors—clearly more than rates observable for manufactured goods in OECD countries, but similar to the rates existing in developing countries in the early 1980s (Messerlin, 1999; Warren and Findlay, 1999). Francois et al. (1996) estimate that the US Jones Act (which restricts maritime cabotage to US flag vessels) increases prices by 100 to 300 percent over the average world price. The effects of similar restrictions in developing countries are analogous. The case of Chile is analyzed in Bennethan et al. (1989); a number of African countries are analyzed in World Bank (1997). Fees charged by the (monopoly) public companies providing port services for handling and storage of goods in Egypt are some 30 percent higher than in neighboring countries (Mohieldin, 1997). Adopting a more competitive regulatory regime for telecommunications in Egypt has been estimated to generate a net welfare gain of \$800 million or 1.2 percent of GDP (Galal, 1998).

The need for unilateral action to undertake the reforms required to attain neutrality has implications for the process of formulating negotiating positions in multilateral (or regional) fora and determining who should take the lead in negotiations on services. In sharp contrast with trade in goods, services liberalization efforts must rely much more on central decision-makers as opposed to the negotiating process if they are to be an effective tool for economic development. In liberalization of trade in goods, mercantilist trade negotiators could play a central rôle with only limited potential to do significant economic harm to the national economy—the principal harm done derived from: (i) the opportunity costs of not pursuing deeper (unilateral) reforms, something that presumably was not a feasible option for many GATT members because of

domestic political constraints; and (ii) the non-uniformity that inherently emerges from "offer-request" type negotiations. The main reasons for the beneficial outcome were that the mechanics of reciprocity were needed to overcome resistance to liberalization, and that trade barriers (tariffs or NTBs) were prevalent enough and of a type that allowed the process to work. Trade negotiators had an obvious focal point (the level of trade barriers) and could go about their business, "doing good" in the process (Hoekman, 1997).

This dynamic is less likely to prevail in services. Reciprocity can play less of a rôle because exporters play a smaller role and non-border protection is dominant. The former implies that in many developing countries opposition to reform and liberalization cannot be counterbalanced by export interests seeking better access to foreign service markets; the latter implies that trade negotiators do not have equivalent focal points and the necessary information to employ the tools of their trade in a manner that guarantees the outcome is welfare improving. At issue in the services context are generally regulatory regimes that cannot (should not) be altered in incremental ways. In contrast to tariffs which can be changed smoothly and continuously, regulatory regimes are often "lumpy"—any change will generally be discrete and not necessarily in the national interest. In short, the onus will be on autonomous, national reform that must be undertaken and led by central decision-makers.

From this perspective, contrary to what is often said, developing countries may not need to expand greatly the capacities of their trade negotiators to "negotiate." Instead, the focus of attention should be on strengthening and maintaining a robust capacity for identifying, understanding and designing the *domestic* regulatory reforms that need to be undertaken in services in order to enhance the efficiency of the economy and bolster economic growth prospects. Multilateral negotiations and institutions should be seen and used as a facilitating

device to support the process of implementing the reforms, not as the driver of reform.³

3. Implementing the Uniformity Principle

Regulatory reforms in services should aim, directly or indirectly, on the establishment of a more uniform system of intervention. This will involve de-regulation—elimination of outdated, hence costly and inefficient, regulations, including restrictions on foreign entry—and re-regulation—the adoption of appropriate, market-(efficiency-) enhancing regulations. Although services liberalization does not raise new conceptual issues, it does raise new technical issues. Being less tradable than goods, services are more directly dependent on factor markets in the country of consumption-the market for labor, land and specific bundles of factors often described in certain network services under the generic name of "essential facilities." In the case of goods, a specific (non-uniform) treatment of factors of production can be circumvented by firms by moving production to the cheapest available location: specificity in the policy stance towards factors does not hurt foreign competitors, nor domestic consumers, as long as protection is uniform. As the degrees of freedom for choosing the location of production are more limited in services, the costs of specific policies towards essential facilities can be higher. This point is well known in relationship to barriers to access to essential facilities in telecoms. However, it is not limited to network services such as telecoms, energy, railways or air transport. For instance, essential facilities in retailing may consist of a piece of well-located real estate and associated transport infrastructures that are well designed to attract shoppers: restrictions on large shops (or even mere zoning regulations on the authorized type of buildings for different areas) could then

³ Of course, unilateral reform has always been the norm for developing countries, not having been players in GATT negotiations past. The reciprocity dynamics have been important primarily in reducing OECD trade barriers.

constitute a serious barrier to potential entrants because they create an artificial scarcity of usable land and/or infrastructures.

Thus, services liberalization requires a strong focus on attaining and maintaining uniform non-border protection. The domestic reform agenda is frequently complex, with progress being hampered by resistance by vested interests. Entry barriers often create significant rents for incumbents, who have a strong interest in blocking attempts by governments to increase the contestability of "their" markets. The primary need is to ensure that potential entrants are free to enter service markets, and that policies do not discriminate against foreign as opposed to domestic entrants. Entry barriers in many service activities tend to be justified by invoking market failure rationales that revolve around information asymmetries, fears of excessive entry, the need for universal service, etc. While there is often a valid rationale for intervention (regulation), this does not generally require the creation of significant legal entry barriers.

In the case of developing countries, pursuit of a domestic reform agenda may be easier to pursue because some of the aspects of regulatory reforms that are important in industrial countries are less prevalent. For example, the number and political strength of domestic service industries is often smaller than in industrialized countries as there tends to be excess demand for efficient services. Moreover, "sunk" costs (costs generated by components of an infrastructure which have few, if any, alternative uses) are likely to be small in many least-developed countries because past investments have been small and/or have not been maintained (as illustrated by the situation of many public telecom companies in least developed countries). Moreover, sunk cost bottlenecks related to network infrastructures may be slow to emerge in developing countries if central decision-makers make choices in terms of service-led competition, rather than infrastructure-based competition. For many developing countries, what is needed are well-

functioning services consistent with the prevailing scarcity of capital so as to minimize the cost of needed infrastructure.

This reasoning can be applied, *mutatis mutandis*, to non-network services as well. For instance, in many least-developed countries, many of the state-owned ships that were purchased in a wave of implementation of the UNCTAD Liner Conference Codes have little value, except as a source of scrap iron. In some countries state-owned shipping companies often comprise a small management team, which grants operating licenses under the costly (collusive) rules of the UNCTAD Codes and eventually (but not always) deriving rents from this situation. Here again sunk costs are less of a constraint than in OECD countries.

Another possible difference between regulatory reforms in developing and industrial countries concerns the trade-off between equity and efficiency. In industrial countries, regulatory reforms can be detrimental to certain groups of consumers or citizens. This possibility seems more remote in developing countries (particularly in the least-developed countries) because most of the existing service monopolies are currently far from providing universal service of uniform good quality (telecoms, airlines, roads, etc.). In other words, the concerns about "universal service" in certain industrial countries (with their strong protectionist potential) may be less important in many developing countries, simply because this objective has not (yet) been attained.

Because there is less scope for international outsourcing (geographic "splintering" of production), the political economy of services liberalization should be easier than it is for goods.

Labor is less likely to be put into a situation where whole industries are confronted with a high probability of total demise because the country is unable to produce the goods concerned efficiently. Instead, new entrants will need to employ local labor and produce services locally.

Users of services—which include manufacturing firms—are more likely to be sensitive to the argument that inefficient service industries cannot be tolerated because many services are vital determinants of their ability to compete on world markets.

Determining priorities and designing domestic reforms

Regulatory reform is a complex and complicated process, especially if the objective of uniformity is taken seriously. Nonetheless, both economic theory and cross-country experience suggest a number of steps that can be taken by governments in determining the need for—and the design of—policy reforms.

First, regulatory reforms require a proper definition of the "relevant markets" that are affected or involved. Although in principle a general-equilibrium approach is required in the assessment of policies—all activities have to be put "on a par"—in practice this is impossible to operationalize. Instead, efforts should be made to identify the appropriate nexus of related, interdependent activities. For instance, liberalizing air transport without liberalizing airport slots does not lead very far: the price of air tickets will mirror *both* competitive pressures in terms of routes (if there are several airlines in presence, which is not necessarily the case) *and* monopoly rents related to airport slot monopolies. Another example is maritime transport— Francois and Wooton (1999) estimate that the welfare gains from trade liberalization (better access to markets) may be doubled if complementary actions are taken to increase competition in the shipping sector. Yet another example is cross-subsidization between network services, such as between telecom and electricity (a electricity monopolist could cross-subsidize its telecom activities, in

⁴/ A vertically integrated firm maximizes its profits precisely when it behaves as a monopoly at only one stage of its activities.

particular if the technology is developed to use electricity cables to send telecom signals). A "general" general-equilibrium framework is too complicated to be conceived and managed by decision-makers. Thus, "partial" general equilibrium frameworks should be developed, each of which comprises a cluster of inter-related services activities. This pragmatic approach could be based on the well known "effective rate of assistance" (ERA) concept (GATT, 1989).

Such an approach could build on two tracks. First, a government could estimate ERAs based on all taxes and subsidies that apply to a broadly defined service activity (such as audiovisuals, tourism, telecoms, etc.), the major inputs into this activity (goods and services) and the factors of production used. Input-output tables and social accounting matrices are a vital tool in determining the various clusters of activities and their major inputs. This "public budgetbased" component of the ERA can be complemented by a "private" sector component where businesses producing the services involved would be invited to identify the border and nonborder policies that they perceive to be crucial impediments to their ability to contest markets (at home and abroad), and to provide qualitative (quantitative, if they exist) information on these elements. For example, the ERA for tourism in a Sub-Saharan African country could take into account the explicit taxes and subsidies on hotels, wildlife parks, telecoms, airport slots and airlines, as well as the impediments, more difficult to measure, that limit the country's capacity to attract, ship and host foreign visitors to and between its major tourism sites. It is important to underline that the goal of such an exercise is not to favor any particular activity, but rather to ensure that all the services under examination are roughly treated the same way in terms of explicit support (or taxation).

Clearly such an exercise will be information- and resource-intensive and require substantial analytical input. The institution that is given the task of undertaking the required

analysis should have ability to collect, compile and process a wide range of quantitative and qualitative information. The type of institution that is required is one that has been termed a transparency or competition-advocacy body in the literature. The Australian Productivity

Commission is a good example. In a number of economies in transition this role has been played to some extent by the Competition Office. Many governments may find it difficult to establish and staff such an institution, and many may not be able to devote adequate resources for its operation. However, almost all countries have access to competent officials, legal experts and academics. What is required is a policy decision to establish the required institution, provide it with the necessary mandate to undertake the work required, and, most importantly, to consider seriously the results of its work.

Given information on the ERAs across clusters, a number of simple rules of thumb for regulatory reforms can be identified. First, such efforts in services should aim at reducing the highest ERAs first. In addition to directly targeting policies that give rise to high ERAs, efforts should center on increasing the level of competition in markets. Competition is the engine for providing the benefits expected from regulatory reform. This requires the abolition of legislated and administrative barriers to entry in sectors where there is compelling economic rationale for maintaining such barriers. To maximize the benefits of such initiatives no distinction should be made between domestic (national) and foreign firms as benefits from increasing access to markets are generally maximized if foreign firms are able to contest markets. A lesson from the experience of OECD countries in this connection is not to rely too much on the ability of competition law and rulings to deliver a high level of competitive pressure in services. For instance, there is an emerging recognition that competition cases in the telecoms area have led to stalemate situations, rather than enhancing competition. When initiating domestic regulatory

reforms, developing countries should consider adopting direct mechanisms to deliver a prompt increase in competitive pressures. For instance, Guatemala has introduced a dispute settlement mechanism based on "final offer arbitration" (administered by a specific industry regulator), and this method seems to have delivered more rapid gains from service liberalization than competition law court-based disputes (Spiller and Cardilli, 1997).

There is a growing literature which provides rules of thumb or criteria to identify whether an "acceptable" level of competition exists in a given service industry at a given period of time. For instance, air routes with less than three operating airlines are unlikely to be under intensive competition, and large gains from regulatory reforms can be expected (Morrison and Whinston, 1997). In the case of multimodal competition (such as between trains and airlines), price comparisons between similar air routes with and without multimodal competition can be a good proxy for assessing the capacity of regulatory reforms to deliver the benefits of increased competition.

Both the OECD and emerging market experience illustrates the need to consider strengthening regulatory supervision for some sectors where asymmetric information and related problems prevail—regulatory reform can entail re-regulation as well as de-regulation. The OECD experience also underlines the need to enhance the governments' ability to generate and have access to a wide body of accurate information to allow an assessment of the impact of policy changes and to identify priorities for reform. Where regulation is called for, this is best done by ad hoc specialized agencies. However, such institutions will give rise to high risks of non-uniform protection and are also open to capture by vested interests. Another rule of thumb is therefore that regulatory agencies, and more generally the government broadly defined, be subjected to the scrutiny of the "apex" transparency institution mentioned earlier that has the

mandate to assess the economic impact of their activities and is responsible for providing recommendations to assist government in the pursuit of neutrality of policy.

The importance of strengthening capacity to collect and analyze information cannot be over emphasized. A common mistake made by governments involved in regulatory reform is to reduce the ability of agencies to compile the information needed to monitor the impact of reforms. Relatively good information on prices prevailing in liberalized services can be obtained rapidly and cheaply, as illustrated by telecoms or energy (for instance, see Productivity Commission, 1999). These encouraging developments suggest that the absence of information in services may be more a consequence of old regulations and market closure than an intrinsic feature of service industries. It also suggests that the ERA approach could be more useful than might be expected today for estimating *ad valorem* tariff equivalents of regulatory barriers.

4. Harnessing GATS Negotiations to the Domestic Reform Agenda

The reliance on unilateral, autonomous initiative that is required to pursue a growth-enhancing domestic regulatory reform agenda and increase competition on service markets does not eliminate the benefits from multilateral cooperation. A multilateral liberalization effort can be beneficial in moving the world closer to the ideal of free trade by helping to remove regulatory barriers to entry in service industries and increasing the global information base regarding the level and impact of these barriers.

In some countries, vested interests are powerful enough to block welfare-improving reforms. In such cases, multilateral negotiations offer an opportunity to break the political

⁵/ In service sectors not dominated by public monopolies, the information could also be limited, though not too difficult to get (such as land prices for large retail stores).

deadlock. This, of course, is a basic rationale for reciprocity in WTO negotiations—as long as the agenda includes enough items that can help change the domestic political equilibrium, it can support beneficial reforms. However, as discussed above, the relevance of this argument is likely to be limited for many developing countries. In the case of services, in the early stages of liberalization, little support for reform can be expected to emerge from (potential) exporters of services. In general, in most countries there are unlikely to be many (potentially) competitive exporters of services, if any. In those instances where there is a political economy rationale for pursuing reforms through a multilateral mechanism, issue linkages will be required to areas outside services, as that is where developing countries have the greatest export interests—examples include disciplining the use of contingent protection and reducing barriers to trade in agricultural products.

At the same time, the opposition of domestic firms to the prospect of increased pressure from imports may not be as strong in services as in goods, especially if there are scale or scope economies. Indeed, those that liberalize first may have a strategic advantage—a point underlined by economic analysis and present in the minds of many service providers who are more eager to liberalize, even in the absence of narrow reciprocity, i.e., "equivalent" concessions being offered by trading partners. This suggests care should be taken not to fall into a "negotiation trap"—seeking to apply standard GATT techniques of regarding liberalization commitments as "concessions" for which compensation must be obtained. What is required is the pursuit of the national reform agenda. The approach should be akin to a more or less explicit joint or concerted exercise in unilateral liberalization. Any "concessions" to be negotiated should center on the time frame for reaching a common threshold of liberalization or the implementation of an agreement that is required in order to develop and strengthen the institutions that are needed to implement a

particular reform that is deemed to be welfare enhancing. Conversely, all proposals that are not welfare enhancing should be rejected.

While this approach may sound idealistic and unrealistic, it is a good description of the EC's Single Market exercise in services. Perhaps the best illustration is the recent electricity case where some Member states did not hesitate to liberalize much more quickly and deeply than others, underlining the non-reciprocal approach. Similar dynamics arose in the WTO negotiations on financial services and telecoms. The success of these sectoral talks was largely a reflection of the fact that most of the governments involved were convinced of the need to pursue regulatory reforms in these sectors, including liberalization and elimination of entry barriers. This was a precondition for the agreements to materialize—it was clear that the associated regulatory reforms did not go beyond what had already been accomplished or decided in the national (unilateral) context.

In order to be able to participate effectively and maximize the benefits of GATS negotiations it is vital that governments come prepared, i.e. develop a well-defined domestic reform agenda they desire to pursue. Only countries that have already identified their domestic regulatory reform agenda can arrive at the negotiating table with an adequate sense of what proposals are in their interest and the ability to reap the benefits from the exchange of information that occurs in the course of negotiations. A country having no or little information on its own service sector-related policies and without a clear domestic strategy will be flying blind in GATS discussions. As mentioned, this is less of a problem in merchandise trade talks because a country always has information on its own tariffs and related trade policies, and in any event, the policies that are on the table are generally policies that it would be desirable to eliminate.

This is not the case with services, which points again to the need to come prepared with a clear

domestic reform agenda that aims to attain a more uniform pattern of protection (i.e., neutrality). Economically meaningful choices regarding the design and sequencing of regulatory reforms aimed at increasing competition in domestic service markets requires a profound knowledge about effective resource allocation and ERAs in the economy that trade negotiators do not have. Central decision-makers must therefore not only design and pursue a national reform strategy, but provide clear instructions and briefs to their officials who represent them in negotiations.

A major beneficial role that can be played by the GATS/WTO is to assist member governments attain and maintain a neutral economy-wide sectoral policy stance. This can be done through design of the disciplines (rules) that are negotiated and enforced, and through the creation of mechanisms that foster transparency and generate information. A first and minimum requirement is that the GATS covers all services. There is no rationale for excluding certain sectors or modes of supply from the national treatment and market access disciplines of the GATS. Given that the GATS allows for derogations to both principles, at the very least comprehensive scheduling will ensure that a government is forced to consider the justification and economic rationale for the policies it maintains that are not in conformity with these principles. One way of moving towards this is to apply a formula approach to expanded coverage in the next round of negotiations, setting minimum coverage targets for GATS members, to be attained by a specified date (which may vary depending on per capita income level to allow for a transition period) (Hoekman, 1997). A more ambitious approach would be to seek agreement on a deadline for full coverage to be reached. It seems unlikely that WTO members will be willing to consider moving from a positive to a negative list approach to scheduling commitments—but there is nothing to prevent individual countries from doing so. Whatever formula or focal point is established for the negotiations, individual countries should consider going beyond this. In the

process valuable information can be obtained on how different policies affect clusters of activities that are inter-related and interdependent.

Second, the focus of attention should be on identifying what horizontal, cross-sectoral, disciplines can contribute to the realization of the principle of uniform protection. In the GATS context this implies that scheduling of liberalization commitments should shift from the sectoral (specific) to the horizontal (general). Ideally, given universal scheduling of service sectors by a country, restrictions should be of horizontal (across-the-board) nature, and negotiating efforts should center on developing disciplines that make sense from a long-term growth and economic development perspective. In general, these are likely to focus on safeguarding the contestability of markets while maintaining national sovereignty to regulate activities to attain health, safety, prudential and related objectives. In this perspective, it would be useful to consider "generalizing" the appropriate parts of the so-called "Reference Paper" in telecoms in order to make it a "horizontal" set of disciplines to be included into GATS as such. The Reference Paper includes concepts such as "affecting the terms of participation" and "essential facilities" which could usefully be extended to all services, even those without any background of monopoly or public ownership or control.

Third, a strict policy of MFN is desirable. The appropriate geographical scope of regulatory reforms depends on the extent to which decisions by national authorities do not internalize external effects across jurisdictions. In this context, regional liberalization of transactions in services can provide a positive economic outcome, in contrast to the case of trade in merchandise where there is more cause for concern about trade diversion. However, to the extent that regulatory reforms pursued in the regional context can be applied on a nondiscriminatory basis—which the available evidence suggests is generally the case—there is

less need to worry about the discriminatory effects of regional cooperation (World Bank, 1999).

On all these dimensions—identifying prevailing policies and their effects on clusters of activities, assessing modalities of disciplines that seek to increase the contestability of service markets, and determining whether (how) regulatory reforms are (can be) applied on a nondiscriminatory basis—a multilateral institution such as the WTO can play a very constructive role in assisting governments implement and maintain a coherent development strategy.

Designing a regulatory reform program to achieve greater uniformity in incentives is difficult.

Multilateral surveillance of domestic policies can help in monitoring the prevailing policy stance and identifying areas where action may be required. Moreover, multilateral cooperation is required in order to reduce the competition reducing effect of domestic regulations, especially in the area of mandatory standards—for product safety, professional certification, prudential regulation, etc. This is perhaps the major area where future efforts should focus, not least because it is one where unilateral action is inherently limited.

5. Concluding Remarks

This paper has sought to identify a number of rules of thumb for developing country decision-makers in the run-up towards the next round of multilateral negotiations on services, due to be launched in 2000. The characteristics of services markets have a number of implications for the process of multilateral negotiations.

First and foremost, decision-makers should seek to adopt a policy stance that reduces the existing dispersion in the level of support or assistance that is given to activities. Uniformity of protection should be the primary rule of thumb. This in turn requires that information be collected and compiled to allow decision makers to identify priorities and the indirect effects of

existing regulatory interventions across sectors and activities.

Second, governments cannot rely on the familiar process of reciprocal exchange of "concessions". Instead, a pro-active policy stance is required that is firmly centered on a domestic reform agenda. Much of what is required in order to ensure that the WTO process is a facilitator of the adoption of policies that will support economic development will have to be undertaken unilaterally. Developing countries can expect very little from playing the traditional reciprocity game that has been pursued by OECD countries to good effect in liberalizing their merchandise trade. In many cases, developing countries' informational deficit will be bigger, their service export interests less powerful, and their import-related interests more friendly to liberalization—a modern development strategy requires cheap and abundant differentiated intermediate services, and the sunk cost-motivated resistance to liberalization that is observed in OECD countries is less likely to prevail.

Many observers have noted that the GATS is an imperfect instrument (e.g., Low and Mattoo, 1999; Snape, 1998). Notwithstanding the deficiencies, it can be used as a commitment and signaling device by governments that have decided that regulatory reforms are in the national interest. Specific commitments can be made for all modes of supply, including FDI, and governments that have decided to open access to services markets to foreign providers should pursue the option of locking-in policy reforms as much as possible through the existing GATS mechanisms. Future efforts to expand GATS disciplines should center on expanding the sectoral coverage of the agreement and strengthening the transparency and information collection and dissemination functions of the WTO secretariat.

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Table 1: Nominal rates of assistance via trade policies,^a
1992 and post-Uruguay Round implementation (per cent)

	Advanced industrial economies	Newly industrialized economies ^b	Low- and middle- income economies
1992:			_
Agriculture and processed food	39	43	7
Other primary and manufacturing industries	3	8	12
Post-Uruguay Round:			•
Agriculture and processed food	33 .	33	6
Other primary and manufacturing industries	2	6	11

^a The nominal rates of assistance to each sector is calculated from the detailed industry estimates by using production for each sector in each region of the data base valued at distortion-free prices as weights.

Source: Hoekman and Anderson (1999). Unpublished compilation from the GTAP Version 3 data base prepared by Anna Strutt. See http://www.agecon.purdue.edu/gtap for details of the GTAP data base.

^b Hong Kong, Korea, Singapore and Taiwan.

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The Cultural Dimension of Economic Policy

Scholarly inquiry and research in the social sciences are a curious exercise, for they often involve an interface of a cross-cultural nature: the inquirer and the subject of inquiry belong to different cultures. We hardly ever stop to ask ourselves about the dynamics of the encounter. Does it really matter who undertakes the study, or is it just a matter of how the study is done? These may or may not be valid questions, but one way or the other we face them, implicitly or explicitly. Indeed, the quest for knowledge across ethnic and cultural barriers has for long been the subject of heated discussion centered around the concept of "orientalism" posited by Edward Said. Speaking to a full house at the MESA meeting last December in Chicago, Said found it necessary to reassure his audience that he had never intended to say that only nationals could fairly and authentically study their culture.

Similarly, the position of turning a blind eye to local scholarship is no longer tenable. The social science literature in Arabic, for example, has made considerable progress in the last two decades, a fact which makes it an essential part of world scholarship. Another drawback to the approach, which overlooks local scholarship is that it is based on a perspective, which objectifies the "other" - the object of observation - who is seen as inert, passive, voiceless. To a more concerned observer, in contrast, the same object will be seen as full of motion, color, and voice. It is because of this difference, that we should be wary of ethnocentric scholarship.

In a field dominated by subjective assessments, the observer brings something special and essential to the subject of his/her discourse. He/she does not "discover" reality, but participates in the making of a body of knowledge. That is why it matters very much who conducts an inquiry and how it is conducted. For those of us who are keenly aware of their own limitations, we reach the limits of our aspirations for the" truth" by positing honesty and expertise as conditions. We do not let our wishes and desires interfere with relevant facts, nor do we violate the formal rules of inquiry in eliciting information or in stating the bearings of the evidence. The rest of the picture remains burdened by our subjective concerns and our worldviews.

In the social sciences, an observed regularity is bounded by cultural parameters. A policy, moreover, is even more subjective, for it is a choice, and a choice is a cultural statement. For let us bear in mind that policy choices are always normative.

The cultural cleavage between the external viewer and the insider is deeper than it is among scholars from the same society, and the meaning expressed by the national scholar is more bounded by notions of relevance. What in the pursuit of knowledge we select, stress, ignore, bring together, disaggregate or dismiss makes a difference. This is true for the economist as much as for the sociologist and historian.

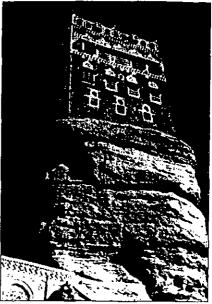
To take one example, Egypt in the sixties had very competent economists as it does today, yet the constructs they had developed were imbued with their nationalist perspective, enthusiasm for the drive by a youthful national leadership and by social concerns. Relevance to life thus played an important role in their discourse and choices. Generalizations about economic phenomena were given form and meaning beyond the figures on which they were based. While this helped expand perspectives and enriched the on-going discourse on development, the actors themselves became caught up in their nationalistic concerns and lost the distinction between the discourse of knowledge and the discourse of policy. What is the difference? In the first case, all perspectives are necessary to make a full picture clear; in the latter only the perspectives that are in line with ideological preferences - combined with compelling forces in the field of action - are brought to bear.

Knowledge is and must remain the least bounded; choices, in con-

Newsletter of the Economic Research Forum for the Arab Countries, Iran & Turkey

Volume six Number two July/August 1999

The Growth of Tourism in MENA



This 200 year old brick palace, summer residence of the late Imam Yahya, is located in the fertile Wadi Dhar region of Yemen near Sana'a. It is one of the many historical and cultural sites that Yemen can promote as it moves to increase its shore of the tourism market in the Middle East. The World Travel and Tourism Council estimates that Yemen will have the highest ratio of growth in tourism to GDP and tourism related capital investment growth to total capital investment in the Middle East over the next decade. Photo by H. Al-Amari. couriesy of Future Tours Industries.

This issue of Forum focuses on tourism as a potentially dynamic sector in the economies of the ERF region but with much room for further growth (see pages 8-15 of this newsletter). According to the World Tourism Organization, tourism receipts comprised nearly onethird of the total value of world trade in the service sector in 1997. Developing regions have done particu larly well, steadily widening their travel surplus - with a growth from US\$ 4.6 billion in 1980 to US\$33.7 billion in 1989 and US\$ 62.2 billion in 1997. In the Middle East, there has been steady growth in tourist arrivals over the past decade at a rate of 6.9 percent per year. As for tourism receipts, the Middle East has shown the highest increase (6.4 percent change) of any region between 1997 and 1998. Among the 40 most popular tourism destinations are Turkey, Egypt, Saudi Arabia, and Morocco. Turkey and Egypt are among the top tourism earners. The top tourism spenders include Kuwait, and Turkey. Given continued and increasing attention, tourism in the region promises to overtake the more traditional sectors of many MENA economies to become a prime contributor to national GDPs and employment generation.

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Preparing for the WTO 2000 Negotiations: Mediterranean Interests and Perspectives

A high level preparatory workshop for the forthcoming WTO 2000 trade negotiations focused on Mediterranean interests and perspectives. Held in Cairo in mid July, the meeting gathered several Ministers and senior officials from Arab countries, trade experts from the World Bank and the OECD, as well as trade economists from the region. Partners from the North included a delegation from the Italian Institute of International Affairs which was a co-organizer of the workshop with the World Bank and the Economic Research Forum. Other international and regional institutions were also represented with participants from the WTO, AMF, ESCWA, IFPRI, ICARDA, UNCTAD, and the Arab League. The meeting was supported by the governments of Italy and the Netherlands.

In the opening remarks, the importance of adaptability and flexibility from regional economies was raised as well as the need for developing countries to upgrade their negotiating competencies. Egypt's Minister of Economy Dr. Yousef Boutros Ghali made the point that there is a need for proper and sustainable linkages between countries, and that indeed, at the heart of the Millenium Round is increased structural interdependence. In this respect, he suggested two major issues that need to be taken into consideration. First, with regard the TRIPs agreement, additional tariff reductions and trade in services, countries do need protection, preferably not haphazardly. Second, given the interdependence of capital markets caused by the free flow of capital there is a need for a coincidence of supervision.

Egypt's Trade Minister Ahmed Goueily suggested that the implementation of any agreements reached, especially on anti-dumping and the use of discriminatory non-tariff barriers were issues of major importance. Minister Goueily also gave a brief run through of Egypt's preliminary response to the numerous new trade questions now being raised such as competition, investment, procurement, trade facilitation and labor standards, as well as electronic commerce/trade and the environment - and questioned whether all issues would be up for discussion in the upcoming round or whether it would take a built-in agenda, expressing some concern over the time horizon for the negotiations.

Overview

A Birds-Eye View of the Agenda: Developing Countries and the Millenium Round, by Paolo Guerrieri & Isabella Falautano

Globalization has induced major pressures towards a deeper form of international integration. These pressures emerge as countries prepare for the next round of negotiations. The central challenge of the Millenium Round will be how best to promote and secure internationally contestable markets. With the Uruguay Round, developing countries became full-scale participants in multilateral trade negotiations. To assure the continuation of multilateral trade liberalization the new Round should address a broader range of topics including the new challenges stemming from the existence of trade distorting practices closely linked to the structure of markets, the behavior of actors operating in markets, and public policies and interventions. However, much still remains to be resolved on traditional issues, particularly with respect to eliminating remaining tariff and non-tariff border barriers. The items on the agenda should include new areas such as trade in services and intellectual property rights, as well as second generation questions such as competition policies, the rules on FDI, and labor and environment standards. The hybrid issues of electronic commerce and information technology are also a new challenge.

Of particular importance to developing countries are agricultural and industrial tariffs and non-tariff barriers. Developing countries could gain



Members of the Italian team to the WTO 2000 Cairo workshop gather for a group photo. Other participants from international and regional institutions were also represented at the two-day meeting, as well as Ministers and senior members of Arab governments.

by the elimination of the very high tariffs on agricultural imports in many industrialized countries and future reduction in agricultural subsidies. The elimination of tariff escalation and peak tariffs together with the remaining high tariffs on many apparel and textile exports after the phase-out of quotas under the MFA could also be of great interest to developing countries. On the issue of services, the GATS institutional rules and structure need to be reformed and continually adjusted to face the challenges of the global economy. Proposals include increasing its transparency and providing greater clarity on its legal framework, as well as the horizontal rules and its negotiating procedures together with specific commitments. TRIPS is part of the built-in agenda but it is fundamental to provide financial and technological support by enhancing technical assistance without which the agreement might well not be implemented at the end of the transition period.

Some consensus must be reached on electronic commerce for the developing countries. Competition policy could be included on the agenda but it seems difficult at the moment to reach a single multilateral antitrust agreement. Without domestic liberalization, privatization and protection of competition any regional and multilateral effort risks being frustrated. The multilateral regulation of FDI is at an advanced stage, the issue is complex but is likely to be included in the negotiating agenda. In the new round, the developing countries can give an important contribution to reading the key issues of relations between trade, investment and development.

The authors are doubtful whether the new Millenium Round will provide a major forum for negotiating such measures of deep integration. It is probable that deep integration will be achieved for some of these issues in bilateral and regional arrangements - at least for a significant period of time. The protection of the environment and the link between trade and environment are also significant issues for the developed countries. In terms of the Millenium Round however, the authors believe that labor and environmental standards should not be negotiated in the WTO.

The authors suggest that with the increasing number of countries in the WTO, mechanisms are needed to reinforce participation in the decision-making processes. Technical support instruments are needed both in the accession and participation phases, cooperation with other international development aid agencies and initiatives fostering a kind of common "representation" between like-minded countries or groups. An important contribution can derive from the business groups and associa-

tions of the industrialized countries. Finally there is the need for coordination among multilateral economic governance institutions. Even more so since with the start of the new Millenium Round it is very likely that trade negotiations will continue to be pursued through a complex mixture of bilateral, regional and multilateral measures and agreements.

Where Does the Region Stand?

MENA Countries and the Uruguay Round and Beyond, by Subidey Togan and Raed Safadi

MENA countries are becoming increasingly aware of the importance of trade and FDI for stimulating growth in the region. Despite some progress made in developing trade and FDI-related legislation and the liberalizing of FDI and trade regimes, the conditions for foreign investors in most economies are not sufficiently favorable to either attract FDI from regional partners or from other countries or to enhance intra and extra-regional trade. Data show that MENA economies have attracted only small amounts of inward FDI, in spite of being a large economic area. With the exception of Egypt, the ratio of FDI inflow to GDP has been volatile and has advanced relatively little over time. The participation of MENA economies in global international trade is also low. Intra-regional trade and investment flows have been very limited. The participation of the public sector in the national economies - either in the form of public monopolies, state-owned enterprises or via strategic shareholdings in privatized companies - remains considerable in many countries in the region. All this has resulted in a large gap between MENA economic performance and that of the rest of the world. While attempts at reforms should be home-grown, initiatives at the multilateral level can provide significant support, and in some cases may define the political feasibility of reforms.

Market access issues for goods are studied under the headings of tariffs, tariff agenda beyond the Uruguay Round and agricultural trade policy. The continuing reduction of tariffs under GATT auspices suggests that progress toward trade liberalization has been steady and marked. Tariff reductions however, have not been even for all products and sectors. Also the practice of tariff escalation continues to plague some sectors. This easts doubt on the popular assertion that tariffs no longer matter as an instrument of trade policy. An uneven tariff structure with high nominal rates stratified along the different stages of production, can yield high levels of effective protection. The authors suggest that the time has come to rethink the approach to tariff negotiations, and for the MENA countries to assume a leading role on this front. During the tariff reduction exercise of the Uruguay Round interest grew for eliminating tariffs on a sectoral basis, and the zero-for-zero approach emerged involving complete sectoral tariff elimination conditional on other trading partners doing the same. While this approach did not address other barriers to trade, its results in the reduction of tariff barriers are significant.

The Uruguay Round Agreement on Agriculture provided guidelines on how WTO member countries were to convert their non-tariff barriers into tariff equivalents. The agreement also provided for minimum import access by tariff quotas to be guaranteed in respect of all tariffied products. The agreement has resulted in a legally effective binding of tariff rates for agricultural goods and has imposed constraints on the most trade distorting types of agricultural policies such as export subsidies and total support. The reforms were more successful in changing rules than in reducing protection and liberalizing trade. Protection in many markets is still very high and the allowable export subsidies still distort the markets substantially. The next round of negotiations will have to decide on the steps to be taken. It will have to address issues

related to additional market access provisions, further reductions in export subsidies, setting limits to quantitative restrictions, and more discipline in the area of trade distorting domestic subsidies.

International trade had been seen largely through the prism of trade in goods. Services were subsidiary activities undertaken in the cause of facilitating the supply and commerce of goods. A fundamental feature of GATS is the principle of progressive liberalization. It reflects the reality that governments were neither willing nor able simply to open up their services markets to international competition from one day to the next. Progressive liberalization implies a gradual approach and the structure of the GATS accommodates such gradualism. The question is whether a proper balance has been struck between gradualism and the gradual elimination of ever higher levels of liberalization.

Financial services are one of the sectoral negotiations that were left over from the Uruguay Round. An interim agreement on financial services, securing further market access and national treatment commitments in the areas of banking, securities trading and insurance was accepted by some 30 countries in mid-1995. With this agreement MENA countries have succeeded in agreeing to a legal framework for market access in financial services. Yet there is a significant agenda of market opening measures to be taken by the MENA countries.

The issue of investment was taken up in the GATT context in the Uruguay Round eventually leading to the Agreement on Trade-Related Investment Measures (TRIMS). But the TRIMS agreement is very limited in scope. Countries in their efforts to facilitate investment by providing stronger assurances have increasingly concluded bilateral investment treaties and regional integration agreements. These agreements make binding provisions on expropriation, compensation of losses due to armed conflict or internal disorder, and for the transfer of payments. The possibility of having investment as a subject in the future WTO negotiations raises challenging issues for the MENA countries. These countries have to study the question of whether there is in fact a need for a multilateral agreement on investment. If the decision is taken to include investment in the Millenium Round, MENA countries have to clarify their views on the specific problems to be negotiated. In particular they have to consider among others problems related to the definition of investments, rules on performance requirements, investment incentives, compensation in cases of regulatory takings and dispute settlement.

Discussants Comments

The question was raised that the problem with the WTO is the lack of symmetry between what is expected from developing countries and from industrial countries.

Floor Discussion

On the issue of trade in services a question was raised on the commitments that have been reached. Mostly these allow entrance but in accordance with prevailing laws and regulations that in the final analysis do not allow much. Countries like the GCC for example go for gradualism where they insist on closing up some sub-service sectors. A comment was made about the increasing complexity of negotiations where it is important to distinguish among different issues according to the degree of national preferences and national interest. Another comment was made that it is important to look at new modes of negotiations and a request for clarification on the influence of developing countries in adopting new modalities. A point was raised that developing countries are marginal and that their influence is not great and thus a question that poses itself is how can their negotiating position be strengthened.

The authors responded to some of the points raised in the discussion. On the issue of new modalities and the influence of developing countries it was mentioned that during the Uruguay Round many products were losers, in fact all products of the MENA region were losers. For example, petrochemicals were never on the table in the first place. However, MENA countries could develop a strategy where they find partners to negotiate with them on particular issues in certain sectors.

Deep Integration, Euro-Med Free Trade and the WTO 2000 Negotiations, by Franco Zallio

In a few months time Mediterranean countries will be involved in several negotiating processes, namely the WTO 2000 negotiations and the negotiations on additional agricultural concessions foreseen by the Euro-Mediterranean Association Agreements (EMAAs). The interaction between the Euro-Med and the WTO 2000 negotiations is therefore an issue of some importance. The author tackles the issue from the point of view of the possible "deepening" of the Euro-Med agenda.

With regards to the Euro-Med partnership an already well-defined deep integration agenda, inclusive of action plans ranging from technical and financial assistance to training and administrative cooperation is emerging. There is a parallelism between the deepening of the Euro-Med partnership agenda and the possible inclusion of such issues as competition policy and trade facilitation in future multilateral trade negotiations. This should draw the attention of partner countries that the "new" trade agenda has a positive impact on multilateral negotiations. At the same time, partner countries who are not yet members should become more interested in acceding to the WTO.

A number of partner countries will have to reform their domestic regulatory policies either unilaterally or bilaterally. This will strengthen their negotiating position giving them more bargaining power in multilateral negotiations when it comes to defending their interests. The deepening of the Euro-Med Partnership then may have positive effects on the WTO 2000 negotiations. At the same time future multilateral negotiations may be helpful in reducing the negative impact of the deepening of the Euro-Med partnership agenda. The move towards deep regional integration may further widen the differences in economic liberalization among partner countries. It could also result in widening the differences in growth potential as a consequence of targeted inflows of FDI into partner countries. New or strengthened multilateral agreements on deep integration issues may be helpful in curbing this trend.

The Euro-Med partnership emphasis on deep integration issues may also distract from issues of greater concern to partner countries such as agricultural trade. Taking into account the role that European agricultural interests play in slowing down Euro-Med Partnership implementation, the future of WTO negotiations on agriculture may be a more appropriate forum to achieve a significant increase in market access. In this case, a positive interaction between regional and multilateral negotiations may emerge if a generally acceptable balance between old and new negotiating areas can be found.

Discussant's Comments

The discussant agreed with the author that deep integration has welfare benefits. There are difficulties however in achieving the partnership since both EU and South Mediterranean countries want to preserve their respective interests. To bridge this gap, South Med countries need to be more developed and achieve higher rates of growth. The issues that need more work are agriculture and the free movement of labor.

Floor Discussion

Comments were made about the Euro-Med agreements amounting to

unilateral liberalization policies with respect to the EU. The preferences under the former cooperation agreement have not changed much, and there is ongoing discussion on a free trade agreement between the EU and Latin America so South Med countries should not believe that they are getting many preferences. On the issue of deep integration it was noted that South-Med countries need first to deal with the issues of agriculture and textiles. A question was raised as to whether the agenda of the Millenium Round should include something on regional agreements.

Major Merchandise Trade Issues for the Mediterranean Region

Impact of the WTO Agreement on MENA Agriculture, by Nabil Chaherli and Moataz El-Said

A major challenge facing MENA countries is to achieve sustainable economic growth by means that alleviate poverty without jeopardizing the quality of the environment. This presents particular problems to the agricultural sector because of the direct link between production and the natural resource base. Attempts by governments to achieve food self-sufficiency have created perverse incentives to agricultural mismanagement resulting in resource depletion.

Several MENA countries face serious environmental and natural resource problems. Due to the limited potential for tapping new resources, future economic and population growth will put even higher pressure on the environment. Some environmental indicators have already reached critical levels. It is in this context that MENA countries will be negotiating the status of domestic agricultural policy in a multilateral reform framework. Important developments have taken place since the completion of the Uruguay Round negotiations. The US and the EU have reformed their agricultural policy and have taken steps that have affected their positions within specific regional trade arrangements. In particular the EU has initiated concrete steps for its enlargement to the East and negotiated some bilateral association agreements with a number of MENA countries. Many uncertainties remain for MENA however. With respect to future negotiations some issues have to be addressed for a better understanding of some of the major challenges and opportunities for MENA agriculture arising from any further implementation of bolder moves in multilateral trade reforms.

To reap the benefits of joining the world system it is not enough for MENA countries to negotiate radical reductions in border measures through international agreements and to eliminate unilaterally distorting domestic subsidies. Countries also need to harmonize the norms and standards for exporting agricultural commodities, improve their marketing systems, increase productivity rather than rely on protective measures, diversify their client base and expand exports of commodities where they enjoy a comparative advantage to non-EU countries. The region still retains great potential for agricultural production, with abundant skills acquired over many generations. If the countries of the region are to meet the globalization challenges and resource constraints, they must coordinate efforts for the Millenium Round of trade negotiations. The negotiations will make it easier for them to take advantage of the opportunities offered by a free and fair trading system without necessarily jeopardizing their food security goals.

Discussant's Comments

The paper makes an important point about inter-sectoral linkages, but does not develop this key idea. In order to carry out relevant policy analysis it is important to consider social issues like the needs of the most vulnerable and the quality of the environment. The results of the study are not "rhetorical" to the extent that they do not depict trade liber-

alization as a "win-win" situation. Even if this remains a sensible policy, the negative impacts on some groups must be addressed. The paper correctly points out that MENA countries are structurally different in many respects and they could be competitors on the demand side of the market for trade preference. The authors however do not seem to fully explore the implications of these facts and they seem to assume a sort of common interest.

Most studies focus on trade in primary commodities without taking into consideration trade in processed food products despite the fact that these present an increasing share of world trade. Some key questions arise like what happens if manufactures trade is also liberalized on a multilateral basis or in the EU-Med Agreements? What happens if the new round sees more real liberalization in agriculture? A fuller discussion of agricultural policy issues in relation to negotiations should include issues like the distinction between agriculture and food manufactures, market access, domestic support, export subsidies and overall trade policy environment. Earlier studies show that increased manufactures exports by developing countries would do most to increase incomes to pay for food. The issue is no longer the supply but the demand side. This will also reduce the anti-agricultural bias of existing policies. MENA countries therefore have an interest in a broad-based agenda in the new round including manufactures. They should consider coalition formation to press their own agenda.

Floor Discussion

A comment was made that the subsidy equivalent rates are much higher in the EU than in Tunisia, for example. MENA countries cannot subsidize like the EU so they have to maintain high protection. A problem of trade liberalization is that it will result in a trade deficit with consequent policy implications.

The authors responded that the trade deficit would indeed worsen if there is protection.

General Equilibrium Assessment of Trade Liberalization Effects Under Cournot Oligopoly Market Structure: The Case of Tunisia, by Rim Chatti

Tunisia, when faced with large current account deficits, a decline in petroleum production, a poor agricultural harvest and a fall in tourism receipts embarked on a far-reaching stabilization and structural adjustment program under the auspices of the IMF and the World Bank in 1986. Since then, the inward-oriented import substitution strategy has been gradually replaced by an outward-oriented export promotion strategy. Given that quantitative import restrictions no longer play a significant role, tariffs represent the major instrument of protection. This progress towards trade liberalization allowed Tunisia to joint the GATT in 1990, participate and sign the Uruguay Round agreement in 1993, become a member of the WTO in 1994 and sign an FTA with the EU in 1995. The purpose of the study is to assess the effects of complete trade liberalization under alternative oligopoly market structures.

A static general equilibrium model of a small open economy with increasing returns to scale and oligopolistic manufacturing industries was used to simulate the impact of removing all tariffs on imports. Results were also derived from a standard model with constant returns to scale and perfect competition in order to make comparisons. Results show that trade liberalization induces welfare gains equal to one percent of 1990 GDP in the case of constant returns to scale and perfect competition and 0.9 percent in the case of increasing returns to scale, ologopolistic market structures and barriers to entry and exit. Given the low share of fixed costs in total costs in the reference year, trade liberalization does not offer a strong opportunity to realize economies of scale.

When firms are allowed to enter and exit, trade liberalization entailed welfare losses equal to 0.4 percent of 1990 GDP. New entrants prevent incumbent firms from reducing unit costs. Indeed output per firm decreases on average by 10.9 percent and the number of firms expands on average by 27.9 percent. Sensitivity analysis indicates that results depend on the levels of elasticities of substitution between imported and domestic goods and the cost disadvantage ratios especially in the case of free entry and exit.

The author concludes that Tunisia being a small country with a tiny domestic market constraining any potential scale efficiency gains, the enthusiasm for trade liberalization is indeed justified and inevitable to promote competition and efficiency. This policy however is most efficient in increasing returns when it is pursued in combination with domestic industrial policy that enhances the realization of economies of scale by preventing excessive entry.

Discussant's Comments

The paper is extremely useful as it involves applying a rigorous quantitative model to a critical policy problem. Rigorous qualification of this type is valuable because it provides a basis for linking policy actions with the ultimate effects of these actions like the impacts on output, employment and economic welfare. Since it is unlikely to see complete liberalization of the type considered in the current paper however it is desirable to start examining incomplete liberalization rather than the complete liberalization considered in the paper. This means obtaining data on actual or likely offers and evaluating the benefits of these options. If the policy package is "good" in a welfare sense then it is likely to involve relatively large cuts in the high tariffs and smaller cuts in the lower tariffs. "Good" reductions in protection are also likely to increase the extent to which the economy can benefit from exploitation of scale economies. It is desirable in the Mediterranean context to include some discriminatory protection in the baseline. If this is done then liberalization is likely to be more beneficial than in the absence of discrimination. Finally reciprocal liberalization of the type included in the Uruguay Round or a future multilateral round will increase the demand for countries' exports, and hence potentially improve their terms of trade.

Floor Discussion

Two questions were raised: what is the scope for intra-industry trade? How can efficiency gains be insulated?

The author responded by saying that Tunisia is a price taker and the impact on European prices of exports will be negligible. With liberalization, trade creation is most likely to exceed trade diversion since 70 percent of Tunisian trade is with the EU. Also liberalization will lead to foreign competition which will reduce market power.

Textiles and Clothing in the Mediterranean Region: Opportunities and Challenges of Returning Textiles and Clothing to GATT Disciplines, by Hanaa Kheir El Din and Maamoun Abdel-Fattah

Textiles and clothing play an important role in the economies of the Mediterranean region. They significantly contribute to manufacturing production, employment and trade in several of these countries. Although total exports of textiles and clothing of these countries are relatively small, they represent a higher share of merchandise trade in these countries compared to the share of textiles in world merchandise trade. These sectors have been persistently protected in developing countries through tariffs and quantitative restrictions. Through a set of bilaterally negotiated agreements under the Multifiber Arrangement, industrial countries apply widespread and restrictive quotas against imports from

developing countries. Additionally imports of textiles and clothing have been restricted by high tariffs and tariff escalations.

Developing countries managed at the Uruguay Round to reach an agreement to integrate and liberalize trade in textiles and clothing over a transition period of 10 years starting 1995. The Agreement on Textiles and Clothing (ATC) is the transitional agreement that regulates trade in textiles over this 10 year period of phasing out of the MFA. It is important to note that importing industrial countries as well as a large number of developing exporting countries were in favor of this transition period to prepare domestic industries to face the expected enhanced competition resulting from freeing trade in textiles.

With the exception of Egypt and Turkey MENA countries do not participate in the MFA. However some of them face restrictions on their exports in industrial countries imposed outside the MFA. The EU and the USA are the two major users of the quote system and the two most important markets for the MENA region. Textiles and clothing exports from all countries in the region currently enjoy duty free access to the EU markets. Most of them enjoy unrestricted access to these markets under the free trade agreements with the EU, signed under the Euro-Med Partnership Initiative. In the USA Egypt and Turkey face tight restrictions on their textiles and clothing exports. Neither Egypt nor Turkey enjoy preferential duty treatment under the Generalized System of Preferences (GSP). They both face high most-favored nation (MFN) tariffs in the USA.

The transition to trade liberalization in trade in textiles and clothing is to be achieved under ATC through the gradual removal of existing quotas described by the agreement as "integration" and accelerated growth of remaining non-integrated quotas which is called "liberalization". Concurrently with the process of integration, products remaining under restriction should be allowed an additional increase in growth rates above those agreed upon under the MFA. This process of increasing the negotiated growth rates is sometimes called "growth-on-growth" provision.

Review of the first stage of the ATC showed that developing countries were not satisfied with the progress achieved. Much criticism about the phase out programs of the USA, EU and Canada has been voiced by the whole trading community and especially by the developing countries exporting textiles and clothing. In fact, none of the exports of Egypt and Turkey to the USA will be liberalized before the end of the 10 years transition period of integration under ATC. There are no opportunities created by the phase out stages under ATC then. It is important to note though that quotas in EU markets and in the USA have not been fully utilized. Practical experience has shown that safeguards and anti-dumping provisions have been increasingly used to restrict trade and exports to both the EU and the USA.

The implications of the ATC for countries of the region depend principally on the significance of the textile and clothing sectors in their external trade and on future trends in competitiveness. Countries in the region keep tight quantitative restrictions on their imports of textiles and clothing including bans in addition to an escalating system of tariffs. These restrictions are not fully effective. Elimination of quotas will open the market to those efficient relatively large suppliers who have exceeded their quotas or are close to fulfilling them. An important opportunity for exports available to countries in the region which have already reached a partnership agreement with the EU is the potential increase in outward processing activities. The reduction in MFN tariffs on textiles and clothing under the WTO will benefit Mediterranean countries in markets where they did not enjoy preferential treatment and were restrained by quotas. The extent to which regional exporters will benefit

from opportunities created by the implementation of ATC will depend on their ability to improve their relative competitiveness. On the import side the removal of restrictions will result in a surge of competing imports. If liberalization is only achieved according to WTO rules, no preferential treatment will be given to EU products. However, immediate removal of quantitative restrictions under the partnership agreement with the EU will give textile products from the EU additional preferential access in the region compared to countries subject to MFN tariffs as these tariffs within the WTO framework are to be reduced rather than completely eliminated.

Discussant's Comments

An important issue is what will happen when the MFA ends. This is surely a more than heroic task particularly taking into consideration the view held by many that it is still an open question as to whether the phase-out will indeed happen. Industrial countries as well as developing countries were in favor of a transition period. The problem is that industrial countries are "faking" liberalization as rightly pointed out by the authors. The authors are also right in implying that safeguards and antidumping proceedings may be used as a substitute for quotas. The initial step of applying anti-dumping measures causes numerous companies to pull out of the market thus decreasing supply and increasing prices.

Examples point that China is the real competitor in the area of lower priced clothing. To ensure that MENA countries are not pushed out of the market they must aim for higher quality products using their proximity to the EU. Since clothing products are becoming almost as perishable as fruits or vegetables with new fashions being introduced every few weeks or months, being close to final demand is an advantage that needs to be exploited. Much can be learned from such operations as has been shown in Taiwan with the export processing zones where companies have used their experience to get their own production lines running. The same can be said for Hong Kong companies that now set up their own lines to cater for Hong Kong and other Asian countries. Therefore the sooner domestic markets are liberalized so as to expose domestic producers to more competition the more productive they will become and hence the fitter they will be for the day when no quotas exist.

Floor Discussion

Comments from the floor included one on the question of infant industry; for example Egypt's textile industry is very old so if they can't compete now then they're in trouble. Another comment was that Tunisia is among the major suppliers to the EU market. The main problem is not export promotion but that firms are not allowed to sell on the local market, creating a dichotomy which is due to shortsighted policy. A further question was raised on the effect of inefficient transport on the textile industry?

The authors responded to some of the comments: the problem of inefficient transport results in raising the costs so again it reflects the question of high transaction costs in general. With regard Egypt's excessive protection to an "old" industry, the problem is one of policies - due to high costs the government feels that the industry needs sustained protection. There is an evident need here to revise agricultural policy towards cotton and industrial policy towards yarn.

Assessing Market Access Preferences for Mediterranean Countries on the EU Market for Industrial Goods, by Lorenza Jachia

Many MENA countries have concluded Association Agreements with the EU, and others are doing so. A free trade agreement has also been negotiated among Arab League States. The value of such agreements depends critically on the preference margin to which partner countries are entitled, the presence of non-tariff measures and of any mechanisms provided for within the agreements to reduce their effect on partner countries, and the extent to which rules of origin require processing of goods and services.

Despite ongoing liberalization at the multilateral level, the preferences that Mediterranean countries enjoy for industrial products exported to the EU market under the Cooperation Agreements of the seventies remain significant. The market access provisions of these agreements are currently still in operation regardless of the status of negotiation or implementation of the more recent Partnership Agreements which are the core of the EU's current Euro-Med policy.

Rules of origin regulations in the context of these agreements have been frequently criticized by beneficiaries as being unnecessarily restrictive and a hindrance to the development of exports to EU markets. Mediterranean countries need to adopt a clear and common strategy in order to ensure that rules of origin better reflect their industrial capacity and that market access preferences provided for under the EU-Med agreements can be fully exploited. It should be noted that the options at the multilateral level to tackle problems with preferential rules of origin are very limited. On the other hand Mediterranean countries may tackle the issue at the bilateral and regional level by renewing the emphasis on integration at the horizontal level and by ensuring that rules of origin requirements underlying FTAs are not as restrictive as the ones contained in the EU-Med agreements.

It is essential to combine efforts among Mediterranean countries to ensure that the full package applicable in the Moroccan and Tunisian Agreements be maintained and expanded to all UMA countries and potentially to the whole Mediterranean area. It should be recognized that the no-drawback rule is potentially damaging for the expansion of local and foreign investment in the Mediterranean region and that efforts to introduce this clause in the agreements should be resisted.

Discussant's Comments

In spite of being an informative and useful paper it falls short on the exact position that the negotiations should assume. It is important to note that there are two types of negotiations: the rules-based approach such as that of the WTO and the "power" approach. In the case of the latter a point is determined where the gains are shared and there are no losers. The paper should try to determine this point. Perhaps MENA countries should enter into a Customs Union and not an FTA? To benefit from integration MENA countries need to integrate among themselves. They need to look at what kind of rules of origin should be applied.

Services and Investment

A Case Study of Egypt: Identifying the Policy Bottlenecks, by Sahar Tohamy

Given the upcoming WTO negotiations, countries and groups of countries are assessing further liberalization of their services sectors and are preparing negotiation strategies to maximize their benefits from the next round of WTO negotiations. Many countries have decided to unilaterally liberalize and enhance competition in their economies without locking-in these policies in a multilateral agreement. Others have capitalized on what is known in the literature as 'anchoring' policies. The study focuses on Egypt in an attempt to summarize recent developments in its services sectors, its service trade patterns, and Egypt's policy options regarding liberalization of services.

Countries where services are mostly government monopolies may face the necessary pre-requisite of setting up regulatory bodies to govern

the newly-privatized sector before privatizing and liberalizing, to allow both domestic and international suppliers of the service. These countries however face political opposition which may be weaker and more diffused than that of a politically powerful domestic private supplier.

In the case of Egypt, the government's philosophy appears to be using service liberalization to achieve other goals. If the commitment to liberalize services is made and the issue is sequencing liberalization so as to minimize the danger of creating more market power, then the obvious place to start is in sectors that are initially private and without dominant public or private players. Liberalizing trade in services and the sectoral growth in trade may be Egypt's means towards solving many of its problems. Once that realization is made and there is vision for developing Egypt as a service-exporting country, Egypt becomes faced with a choice to make: to either rely on unilateral liberalization measures to allow for reversal in policies that go beyond what can be allowed for under an international commitment, or to lock-in policies in such agreements to enhance their credibility and the risk of reversal. Again quantitative analysis and country experiences suggest that the latter option produces a stronger impact of any change in policy.

Evidence from country experience shows that gains from liberalizing services are unquestionable given that liberalization enhances competition. Therefore the decision to liberalize services should not be open to compromise. The issue of how to achieve this goal however should be allowed to vary from sector to sector and the initial conditions of each sector should dictate the choice between simultaneous liberalization and commitment under GATS or liberalization-cum-privatization followed by GATS commitment.

Discussant's Comments

Before there is any hope for progress in GATS, most members of the WTO must believe that there is more to gain from making commitments in a multilateral setting than from unilateral action. So far, not much has happened to support that belief. In Egypt the greatest benefits from liberalizing the services sector were achieved through unilateral action. Improvements of most of Egypt's services sectors primarily affect Egypt's domestic economy where there is not much welfare gain for its trading partners. For most service sectors Egypt need not rely on multilateral negotiations to become more efficient and to lower costs. Perhaps because this is true for all countries, developing countries have not been too keen on making commitments in services. On the one hand, not all services are relevant to WTO 2000 negotiations. On the other hand, transportation and telecommunication services are not just important, but absolutely essential to trade and to Egypt's economy. An important point stressed in the paper is that in privatizing, a government monopoly should not simply be replaced by a private monopoly. Further regulations are not the answer either. Regulators tend to be captured by the industries they regulate and end up resisting market adjustments. In general, Egypt needs more competition in its service sectors, not just privatization or regulation.

Floor Discussion

Comments from the floor included that openness needs to be accompanied by commitments. Inefficiency in the service sectors impacts inefficiency in other sectors. Other questions included whether political economy constraints exist in Egypt and how they can be negotiated. Also how Egypt can negotiate with EU on opening up to deliver services to EU countries.

The author addressed some of these comments by saying that some issues are highly political and so are vulnerable in negotiations (for example, labor issues). There is potential for services to raise employ-

ment once liberalization and restructuring of the public sector take place. This will create opportunities that will link up with opportunities provided by the independent private sector.

Maritime and Air Transport: The Potential Gains from Liberalization, by Riad El Khouri

Whether in terms of traffic, equipment, infrastructure, institutions, or the legal framework MENA transport services are generally not up to the standard of countries with similar levels of GNP per capita or other measures of economic standing. The trend of partial or full privatization of government-owned transport firms and facilities applied by many states has strengthened internationally. However, privatization of some MENA country carriers has been deferred because of complexities encountered in the process, the economic condition of the firms concerned, or local circumstances. Commitments will give the transport sector in MENA countries a chance to collaborate with foreign service industries and to benefit from their technology.

MENA countries should pursue a broad based competition policy defined to encompass all actions governments may take to promote competition. The WTO process is driven by export interests concerned with market access not national welfare considerations and there is no assurance that any new GATS rules are welfare enhancing. MENA countries' transport policy reform programs therefore need to be complemented by supporting measures ensuring a minimum degree of competition to assure the functioning of market mechanisms. An advantage of GATS liberalization will be more investment in the transport sector secured through guaranteed conditions of access for investors. The GATS could also help in acquiring state of the art technologies and a management that promotes more competition hence better services and leading to lower prices for the consumer.

While bilateral agreements and their impact on issues of concern to the contracting parties are important, the multilateral agreements are of even greater significance owing to their wider geographical coverage and the larger number of contracting states. GATS negotiations on all forms of transport may make more progress if they are reorganized in terms of the different user communities. Negotiations should focus around four user communities: global corporations who need to ship parts, components and assembled goods, tour operators who provide organized leisure travel, business users of express parcel and courier services and users of scheduled public transport services. The coordination of MENA transport networks badly needs interface facilities at points of traffic transhipment. There is a pressing need to establish arrangements for cargo transfer between modes and in most of the region the transfer of cargo between two networks of the same mode is time-consuming and costly. The issue of foreign ownership restrictions of airports, harbors, and transport lines in the scope of GATS may be a political problem due to national considerations.

The liberalization of trade in transport services is in many ways fundamental to the smooth functioning of a regional integration agreement. Thus instead of postponing the integration of the transport services sectors to the late phases of regional integration in MENA, it may be more advisable to give this issue a higher priority from the beginning of negotiations on an agreement. The GATS transport arrangements could be a major incentive in this direction.

Discussant's Comments

The policy implications of the analysis should be spelled out more explicitly. The paper argues forcefully that MENA countries have an autonomous strong interest in opening their transport sector to external competition in order to increase its efficiency and attract foreign capital

and technology. The relevance of GATS negotiations on transport services goes far beyond their sectoral effects since transport services have an important role also as input for other productive activities. Even the competitiveness of a country's merchandise exports may be seriously hampered by deficiencies in transport services and this is another reason for recommending their liberalization.

The paper raises doubts about the feasibility of agreements. The WTO liberalization process - driven by market access interests of exporters - would not be suitable for promoting an open competition policy which serves the interests of domestic consumers. As a consequence MENA countries would be well advised to pursue autonomously their competition policies without relying on the discipline deriving from an international agreement. Competition policies would face the same problems that have so far hampered privatization of the transport sector. An international agreement could increase the credibility of MENA countries' competition policies with the domestic private sector and with foreign investors.

Floor Discussion

Comments included that some countries like the US apply restrictive practices to carry goods and services on national carriers only. Questions included what countries should push for in the WTO 2000 negotiations? What would be the best case scenario for the most advantageous Arab position? The author was requested to comment on the option of sector by sector negotiations. Also to provide clarification on the different instruments needed to liberalize transport in the region.

The author's response was that the transport sector needs to be rationalized. He recommended a sub-regional negotiating strategy but expressed the grim view that most probably maritime negotiations would again fail.

The New Trade Agenda

Competition Law in MENA: An Assessment of the Status Quo and the Relevance of a WTO Agreement, by Mohamed Lahouel.

Given the limited size of the domestic MENA economies, the number of firms in the industrial sector and in modern services tends to be very small. Competition is therefore limited and will remain so unless imports are liberalized. Import liberalization is thus a crucial factor to competition since the objectives of efficiency and development cannot be gained through trade and investment policy alone. In spite of the introduction of major liberalization reforms in some MENA countries, much more needs to be accomplished in a variety of areas. Competition law is only part of a much more comprehensive competition policy and the first problem to be resolved is to have competition legislation in the first place.

Market concentration has traditionally been considered a potential source of market power and anti-competitive behavior. What matters according to some analysts however is not the degree of concentration on the market but market contestability - that is, the absence of significant barriers to entry and the threat that potential entrants pose to incumbents. Four MENA countries have so far enacted a competition law: Tunisia, Algeria, Turkey and Kuwait. Several objectives are behind competition laws generally. The main objective is to ensure an efficiency allocation of resources. Other objectives are fairness, (high profits being considered unfair to the extent that they redistribute wealth from consumers and small firms to large firms), setting limits to economic power, the protection and development of small and medium sized firms, and regional market integration.

In Tunisia only very few cases have so far been brought before the

Competition Council. This raises important questions: to what extent is this due to the fact that the law is a national one with no discipline imposed from international commitments? Is the market free from collusive behavior and abuse of dominant positions? Is there an issue of "competition culture"?

Regional trade agreements contain generally limited harmonization of competition laws or cooperation provisions. The EU-Med agreements signed by Tunisia and Morocco contain the same provisions related to competition, with a market access objective behind the inclusion of competition provisions. A distinctive feature of competition policy in the EU is that a dominant position is not illegal if it leads to improvements in technology with the sharing of benefits with consumers.

The author concludes that most countries need to speed up the process of competitionlegislation, and that multilateral agreements should be undertaken by countries of the region. These should include an element on exclusive agreements especially with regard parallel imports. It is important to have international dispute settlement mechanisms and countries should insist on making anti-dumping consistent with competition law.

Discussant's Comments

The multilateral option to improve the coherence between trade and competition policies is one among three. The first is enhanced voluntary convergence in competition laws and enforcement practices. The author may want to consider some questions in this area: why very few MENA countries have opted to adopt competition law? What is the evidence in the MENA region and elsewhere for the proposition that the lack of competition law can leave countries exposed to the ill effects of anticompetitive practices and mergers? The second option is enhanced bilateral voluntary cooperation between competition agencies. Questions to consider in this area include to what extent voluntary bilateral agreements build the confidence and experience required to engage in more tormal and binding forms of cooperation among competition agencies. What are the limits of such bilateral agreements in the context of a subset of MENA countries and the region as a whole? The third option is regional agreements containing competition provisions. The author may want to look into examples of how regional agreements containing competition provisions have fostered greater coherence between trade and competition policies and/or enhanced convergence in competition laws.

Another approach is multilateral competition policy agreements. The author may wish to elaborate on the elements of a multilateral framework that would be advantageous to the MENA countries. There are plenty of reasons that experts have put forward on why it would be difficult to deal with particular cases involving private practices in a multilateral framework. These include the complex and fact-intensive nature of competition analysis, sensitivity of information, and the fact that a multilateral dispute settlement panel may lack enforcement power against irms and would also be unable to interfere with a domestic judicial process.

^vloor Discussion

Comments from the floor included a statement that multilateral frameworks would prohibit export cartels that could help oil-exporting counries. Further, to reach an agreement on competition law, FDI and mport competition need to be taken into consideration. More discussion s necessary on types of laws and regulations that are applied in MENA. Other questions included: what type of competition policy MENA counries should adopt? Why are competition policies not effective in the ountries that have it? Is there a way of using compliance to competition aws as a negotiating point?

The author responded that there are difficulties in the design and enforcement of the multilateral framework but multilateral agreements should not be thrown out. It does not matter what approach is used, countries need only to be careful with the objectives. On the issue of oil cartels, if a general agreement on export cartels is reached then oil-exporting countries will lose. Finally, developing countries will gain by having international rules and international settlement mechanisms.

Dealing with Regulatory Regimes and Trade Costs in the MENA Region, by Jamal Zarrouk

Since the conclusion of the Uruguay Round there have been two major trends in the international trade of MENA countries. First, major steps have been taken to implement tariff and fiscal reforms and to dismantle quantitative restrictions. Second, far-reaching privatization programs have also been set up although the implementation has been slow in most countries of the region. Today, access to global networks in communication and transportation have changed the nature of the international market place. Tariffs and non-tariff measures have been declining everywhere, and the difference in performance among different domestic regulatory policies has become a crucial determinant of decisions by foreign investors.

Regulatory regimes often have undesirable economic effects, most of which reduce competitiveness of domestic firms engaged in exporting activities. In recent years many countries in the MENA region have made special unilateral efforts to harmonize or to recognize the conformity of national standards with international standards. Despite theses efforts the majority of standards in the MENA countries have no equivalence to international standards. It is important to note that distortionary regulatory regimes cannot be climinated on a unilateral basis only.

Market access restrictions for services usually involve not only barriers to foreign services transactions, but also policies affecting the physical entry of services providers into markets. Such policies reduce competition in service industries and raise trade costs of doing business abroad. Dealing effectively with regulatory reforms for the temporary movements of service providers in the regional context can provide a positive economic outcome. Other regulatory reforms in services are more effectively dealt with in the GATS context. The advent of the WTO 2000 negotiations in services is an opportunity for the MENA countries to consider reforms and give a great deal more thought to the design of a far-reaching regulatory program, sector by sector, in order to evaluate the consequences and tradeoffs involved.

Discussant's Comments

The paper deals with an issue that is generally neglected. The purpose of the paper is threefold: to assess the regulations as real trade costs, removal of barriers and link with regional and multilateral approach. There is no general assessment of the cost of regulatory reforms in MENA. The paper gives practical examples of cost implication and shows that it is not significant. A comprehensive analysis of costs of regulatory reforms, however, is still needed. The paper shows that there is a need for further study to analyze the feasibility of policy instruments and the feasibility of conducting cost-benefit analysis of different types of regulatory reforms in MENA countries.

Floor Discussion

Comments included that it would be useful to have more numbers and more comparisons in the paper. It would also be useful to have a discussion on the application of EU-Med agreements in the region and whether anything can be learned from the EU. Regulatory reforms are needed because there are public goods and externalities that cannot be discard-

ed. Should the rules on regulatory reforms be mandatory? What is the status of various countries with respect to MRA?

The author responded that not all countries are part of the convention and more details on this will be pursued in the paper. None of the developing countries have signed the MRA agreement, only the EU and the USA. A distinction is needed between good and bad regulatory reforms.

Panel Discussion

The panel discussion addressed a variety of issues. H.E. Mohamed Al Mahayni, Syrian Minister of Finance pointed to the need for a concrete evaluation of the gains achieved by regional WTO members. It was clear that MENA had to develop a common strategy, reconcile discriminatory processes and tap EU assistance in facing the challenges. H.E. Mutaher Al Saidi, Yemen's Minister of State for Cabinet Affairs put forward several questions: do MENA countries have enough information to start developing a negotiating position? Can a negotiating position be developed without knowing the major choices and strategies? Is a set of objectives needed on an individual, group or sector by sector basis? Do MENA countries have a clear account of risks and potential gains? H.E. Ambassador Gamal Bayoumi from Egypt's Ministry of Foreign Affairs suggested that there often was a gap between theoretical and actual situations. The agreement with the EU dismantles customs over a period of 12 years without a negative list, while the Arab Free Trade Area envisages a huge negative list of anything between 600-1800 commodities. The net result could be an FTA without commodities! Ambassador Bayoumi concluded that Arab countries do not need more agreements. nor even political will. What was needed was what he called the "bureaucratic" will.

Prof. Mohamed Lahouel of Tunis University, speaking of the Arab Maghreb suggested that the objective of growth could only be achieved by opening up to the outside world. In the Maghreb, tariffs and non-tariff barriers are still very high. Tunisia and Morocco have signed partnership agreements with the EU but Algeria has not and it may be too late since the economy is being destroyed by illegal trade. Nor is Algeria a member of the WTO. It would be in the interest of Maghreb countries to promote textiles and agricultural.

Dr. Tamam Al Ghulfrom from Jordan's Ministry of Trade and Industry expressed the worry that the WTO 2000 agenda has already been identified, with MENA countries unfortunately on the receiving end. He doubted that they would be influential as a sub-region and suggested that developing countries as a whole need to act together as a group. Another problem is that not all countries are WTO members yet and that legislative and regulatory regimes in a country impede accession.

Dr, Mohamed Amerah from Abu Dhabi's Ministry of Economy and Commerce covered major UAR concerns over the WTO 2000. These included an only partially opened services sector, a subsidized agricultural sector, the textile industry and the lifting of quotas, the issue of non-tariff barriers, attracting more FDI, enhancing competitiveness, coordination among the UAE, the GCC and other Arab countries, and finally the negotiating and technical expertise that is needed in preparing for WTO negotiations.

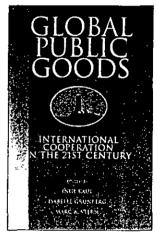
Dr. Jamal Zarrouk from the Arab Monetary Fund referred to problems at the regional level where countries are trying to implement instruments that are dynamic. In his view, there was a need to set up the foundation for FTAs. Rules of origin still lacked trust because of failures in the past. He suggested that Egypt should take the lead in the negotiations since it was the largest market.

Dr. Raed Safadi from the OECD expressed the belief that multilateral agreements for small, medium and large developing countries were the best option. Unfortunately, to date, MENA countries did not know what they wanted from negotiations, while other countries knew exactly what they wanted from MENA. On agriculture, the objective should be to bring the issue into the multilateral system. Whether the interests of MENA are served by the liberalization of the agricultural sector is a big question mark. It appeared more important to effect reforms at the domestic level rather than at the multilateral level. On services, the MAI failed because countries could not agree on dispute settlement and the definition of investment so there is no point spending too much time in negotiations.

Book Review

Global Public Goods: International Cooperation in the 21st Century. 1999. Inge Kaul, Isabelle Grunberg, & Marc A. Stern (eds.). New York: The United Nations Development Programme (UNDP). 546 pages.

Issues once considered to be of purely national interest are increasingly being recognized as significantly affecting the entire world. Many contemporary crises are the direct result of the undersupply of what are referred to as public goods, such as a healthy global environment or peace. Offered as a first step on the path to global wellbeing. Global Public Goods is a multidisciplinary and multilevel analysis of the challenges we face in our attempts at international cooperation and management of public goods. In this collection of essays from some of the most prominent thinkers of the latetwentieth century, including 1998 Nobel Prize recipient Amartya Sen.



this shortage of public goods is addressed at the global level. Case studies relating to equity and justice, market efficiency, environment and cultural heritage, health, knowledge and information, and peace and security are presented followed by a substantial discussion of policy implications as we move into the next millenium.

Public goods in this volume are defined as being nonrivalrous and nonexcludable in consumption or use. Social justice, then, is seen as a global public good in that everyone can enjoy the benefits resulting from it (such as stability, peace and security) at no expense to any particular individual. The same holds for public goods as diverse as financial stability, disease eradication, or internet access. Problems arise, however, in prioritizing the kinds of global challenges we face as a result of mismanagement of global public goods, in creating access to discussions of such challenges, and access to the actual goods themselves. There persist serious gaps in discussion and action relating to global public goods at the jurisdictional, participatory, and incentive levels. The question is how to achieve global collective action that will succeed in ridding the world of such over-supplied public "bads" as human rights abuses, inequity, and civil strife while increasing access to public goods.

Groups perhaps best able to answer this call to action are those which operate transnationally, such as corporations/businesses, social groups, NGOs, and international organizations such as the United Nations and the World Bank. These groups are best able to gather crucial information on national and region-specific situations and to convey this data to national governments and individuals. Such knowledge, coupled with continued economic aid to those regions unable to implement costly solutions to public goods issues is key to redressing global harm resulting from lack of such goods and to protecting the goods achieved.