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**Item 7 “Evolution of the international trading system and
its trends from a development perspective”**

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South-South versus South-North Arab FTAs: Trends, Challenges and Way Forwards

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Background

- The last two decades have seen an unprecedented surge in free trade agreements (FTAs).
- South-North (N–S) agreements driven by an economic giant—the European Union —are dominating Arab FTAs.
- Many Arab countries signed bilateral trade agreements with key developed regions around the world while others still negotiating additional agreements
- The mains important Arab FTAs are those with the EU and the USA

South-North Integration: the case of EU-Arab countries

- The Euro-Mediterranean Partnership (or Barcelona Process) signed in 1995 involves the largest number of Arab countries (9 countries).
- Its consists of creating a framework for political, economic, cultural and social ties between the partners.
- The Euro-Mediterranean Association Agreements (EMAA), replace the Cooperation Agreements of the 1970s, which were characterized by non-reciprocal preferences accorded by the EU to developing countries.
- The EMAAs provide for the establishment of FTAs by 2010 over a transitional period lasting a maximum of 12 years from the date of the entry into force of the agreements

South-North Integration: the case of EU-Arab countries (Cont.)

- Six Arab countries; Algeria, Egypt, Jordan, Morocco, Lebanon and Tunisia have ratified Associations Agreements with the EU.
- Syria is still in the process of ratification while the Palestinian Authority has entered into an interim agreement for early implementation of trade measures.
- GCC countries still negotiating FTA with the EU while others are not yet involved (Sudan, Iraq, Yemen...)
- The aims of the EMFTA has been to improve competitiveness of the AMCs and boost their economic growth through higher inflows of FDI and better export performance
- However, more than 15 years since its gradual implementation, the EMFTA did not delivered its promises in terms of increase in trade flows, FDI and economic growth.

South-North Integration: The Bilateral FTAs of Arab Countries with the US

- The U.S. Middle East FTA initiative started in 2003 with the purpose of creating a U.S. Middle East Free Trade Area by 2013.
- The U.S. objective with this initiative has been to gradually increase trade and investment in the Middle East, and to assist these countries in implementing domestic reforms, instituting the rule of law, protecting private property rights, and creating a foundation for openness, economic growth, and prosperity.
- Four Arab countries are already associated with the USA in bilateral FTAs: Jordan, Bahrain, Oman, and Morocco while many others still negotiating similar agreements.

Trends in the structure of Arab trade with the main economic blocs

- In 2010, intra Arab trade represented around 11% of total Arab's trade much lower than the EU or the North American Countries where intra-regional trade represent a larger share in their total trade, respectively 71% and 50%.
- During the period 200-2010, Arab exports increased by 27% compared to 11% for its imports. However, intra-Arab trade did not experienced a similar improvement.
- In 2010, trade with the EU represent 24% of total Arab trade both inter and intra regional. However, Asian countries are far the main partner for the Arab region with approximately 63% of total Arab trade.
- Arab exports to emerging economies in Africa and Latin America, currently too small, could represent a source for additional economic growth in the coming years.
- The high contribution of intra-regional trade to total trade of the EU, Asian countries or North American countries confirm once again the increasing importance of intra-regional trade. In contrary, Arab region and Sub-Saharan Africa maintained stronger trade links with Developing countries than with the proper region

A preliminary assessment: the case of Tunisia

- Tunisia is the first country in the Arab region which already fully implemented the FTA with the EU over the period 1996-2007.
- Tunisia has been assessed as the best performing country in terms of trade liberalization, competitiveness, investment climate, growth, and poverty reduction by major international institutions
- However, the political change that has been occurred in January 2011 confirms that Tunisia is suffering from various structural economic and social constraints and that its model of development is no more pro-employment or pro-poor.
- A preliminary ex-post assessment of the effective impacts of the implementation of the FTA with the EU is illustrative even for the other countries of the regions.

Very Mitigate impacts on GDP, FDI and Unemployment

Table 1: Tunisia's Growth performance over the periods 1990-1998 and 1999-2008

		GDP growth			FDI/GDP			Unemployment		
	Entry into Force of the FTA	Total	Before FTA	After FTA	Total	Before FTA	After FTA	Total	Before FTA	After FTA
Countries that have signed Euro Med agreement										
Tunisia	Mar-98	5.2	5.3	5.0	2.26	1.79	3.79	15.2	16.0	15.0

Source: World Development Indicators (World Bank, 2009)

Note: the After FTA period covers the years 1998 to 2008 while the before FTA includes the years 1990 to 1997.

A disappointing impacts on bilateral trade

a declining role of the EU despite its preferences on the Tunisian market

Table 2: Average growth of Tunisian imports		Table 2: Average growth of Tunisian exports	
by major origins over the period 1998-2008		by major destinations over the period 1998-2008	
Region	(%)	Region	(%)
EU	9.7	EU	12.6
USA	10.6	USA	30.6
China	28	China	445.1
Arab countries	14.9	Arab countries	15
ROW	14.3	Row	10.6

Why the expected gains have not been observed

- FTAs between Arab countries and the EU are based on reciprocal liberalization for industrial trade and eventual liberalization for agricultural products and services based on progress in the Doha Round of the WTO.
- Measures to liberalize trade in manufactured products are well defined and adhere to fixed timetables. However with regard to agriculture and services, measures are less clear and with no specific schedule.
- Under the EMAAs, the EU has not offered significant new concessions to Arab Mediterranean countries in terms of market access for their agricultural exports. By contrast, at the end of a fixed schedule for phasing out tariffs on manufactured products, the EU will benefit from duty-free access to the partners' markets.

Why the expected gains have not been observed (Cont.)

- The exclusion of agriculture from the FTAs has limited the possible benefits for some Arab countries as exporters that find it hard to compete with European producers given the high protection that the EU offers its agriculture.
- Given the high concentration among a few products in agricultural exports from Arab countries, if the EU blocks entry of a few commodities it could be equivalent for some countries to blocking their total agricultural exports.
- The agreements eliminate tariffs on industrial goods exported from some Arab countries to the EU, but the benefits are expected to be too small because EU industrial tariffs are already low and because the manufacturing sector in the Arab region may have difficulties competing with EU firms in European markets.

Barriers towards expanding Arab exports to the EU market

- Very restrictive rules of origins on Arab manufacturing exports to the EU
- Very restrictive barriers to the Arab agricultural exports to the EU in the form of minimum entry price, calendar of free quota, standards...
- European markets on recession
- A costly technical barriers to trade

Why South-South integration is important for the Arab region

- Arab FTAs with the EU should be reinforced to increase inter-regional trade
- Pan Arab FTA is a first step in enhancing intra-regional trade but needs many improvements in terms of reducing long negative lists and NTBs, lowering technical barriers to trade through investing in infrastructures and improving the institutional efficiency...
- Extend tariff liberalization with other Southern economic powers may improve efficiency of Arab imports, reduce production costs, improve domestic demand and competitiveness. More over, moving from preferential to universal trade liberalization enforce trade creation and reduce trade diversion.
- However, risks from South-South integration should be careffully taken into account mainly in terms of macroeconomic and sectoral policies that affect competitiveness and trade.

Preliminary estimations of the gains in GDP from reinforcing Arab integration with Southern partners compared to FTAs with the EU and USA

Results are expressed in % variation in 2015 compared with the reference scenario

	FTA+ Infrastructure+Migration among Arab countries	Full FTA with china	Full FTA with EU	Full FTA with India	Full FTA with USA
Arab	3.6	0.4	0.8	1.6	0.2
OPC	3.1	1.0	0.4	1.7	0.2
NOPC	4.5	-0.6	1.6	1.5	0.1

Way forwards

- Arab countries could generate additional and significant gains through a deeper Pan Arab integration as well as with other key economic partners
- Concerning the Pan Arab Integration, much remains to be done if the Arab region is to more fully exploit the potential benefits of regional integration. They should keep working on the constraints that its regional integration process continues to suffer from:
 - (i) the persistence of non-tariff barriers,
 - (ii) failure to implement effective and complete customs Unions;
 - (iii) inadequate regional infrastructure;
 - (iv) weakness in the national and regional institutional apparatus; (v) limited coordination (or convergence) of macroeconomic and sector policies,
 - (vi) and the absence of mechanisms to promote a socio-economic development that would compensate for asymmetries in the distribution of the benefits of integration.