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PROCEEDINGS OF THE EXPERT GROUP MEETING ON THE CHALLENGES AND OPPORTUNITIES OF THE NEW INTERNATIONAL TRADE AGREEMENT WTO FOR ESCWA MEMBER COUNTRIES IN SELECTED SECTORS

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Preface

This volume on the challenges and opportunities created by the WTO for the ESCWA member countries is the result of close cooperation between several individuals and institutions inside and outside the region. The various contributors have all been motivated by the desire to serve the economies of the member countries. The case studies addressed in this volume, which were discussed at the Expert Group Meeting, relate to products that are strategically important for the region and are likely to be affected by WTO rules and regulations. ESCWA conducted the case studies and the Meeting in cooperation with UNCTAD, the Arab Planning Institute in Kuwait, the WTO and several other institutions; these organizations made every effort to facilitate their staff members' contribution to and participation in the Meeting. The holding of the Expert Group Meeting and the publication of the present proceedings would not have been possible, however, had it not been for the generous support received from the Friedrich Naumann Foundation (FNF) of Germany. We owe a debt of gratitude to Foundation Director Mr. Uli Voght for his understanding and foresight, and to Mrs. Winters and the FNF staff for their energetic follow-up during the preparation of this volume. Finally, we would like to thank the Director of the Arab Planning Institute, Mr. Issa Al-Ghazali, for hosting the Meeting in Kuwait, and to Dr. Ahmad Al-Kawaz for his active support during the Meeting. This volume is the first of several ESCWA publications on the WTO and the ESCWA region.

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CHALLENGES AND OPPORTUNITIES OF WTO FOR CRUDE OIL, PETROLEUM PRODUCTS AND PETROCHEMICALS IN ESCWA MEMBER COUNTRIES

by

Thouka M. S. Al-Khalidi

The General Agreement on Tariffs and Trade (GATT) was signed at the Geneva Conference in 1947 and entered into effect on 1 January 1948 but, its rules and regulations remained limited in scope and coverage of sectors and commodities despite seven rounds of negotiations. Many developing countries, at that time did not think that it was important to join the GATT since they could pursue their own national-driven trade policy without being restricted by the GATT rules and regulations. Some of them conceived trade liberalization and deregulation as beyond what their developing economies can cope with; while others saw them as against their national sovereignty. The establishment of the World Trade Organization (WTO) at the conclusion of the eight round of negotiations: the Uruguay round in 1994, and the entry into force of the multilateral trade agreements (MTAs), have considerably reduced the scope of countries which are not Members of GATT/WTO to stay outside and continue their previous, or initiate new, national-driven trade policies.

Among ESCWA member countries, only Egypt and Kuwait were contracting parties to the GATT on the eve of signing the Final Act embodying the results of the UR negotiations in Marrakesh on April 15, 1994. Today and after more than three years, the number has increased to five. They are namely: Bahrain, Egypt, Kuwait, Qatar and the United Arab Emirates. The rest of ESCWA countries falls into two categories: First, those which are in the process of accession, namely Jordan, Saudi Arabia and Oman. Second, those which have not yet initiated steps towards accession like Iraq, Lebanon, Palestine, Syrian Arab Republic and Yemen.

The principles of the new international trading system, as spelled out by the WTO Agreement are explicit on many sectors and commodities; yet not explicit on others. Among the latter is crude oil. Crude oil was not explicitly addressed by the GATT 1947 or its subsequent rounds of negotiations, since it had not been considered as an ordinary economic commodity but as a strategic one. In addition, when the GATT negotiations started in 1947, most of the petroleum fields in the world were under the control of multinational companies, which were mostly owned by nationals of the main contracting parties to GATT such as: the US, Britain, the Netherlands and France. These countries wanted to avoid new tensions over the control of resources through re-negotiating the terms governing the pricing and production for oil. For these reasons it is believed that there was an un-written gentleman's agreement involved an understanding among the original signatories of the GATT not to discuss petroleum issues in the initial negotiation and its subsequent negotiating rounds. Another factor is the special nature of oil as an exhaustible natural resource, and its uneven geographical distribution resulting in reducing the impact of tariff and non-tariff barriers, which were the main concern of GATT and its subsequent rounds of negotiations, as instruments of trade policy. Finally the fact that major oil producing and exporting countries in the Middle East were not contracting parties to GATT, was an additional good reason for not addressing crude oil explicitly.

Influenced by the aftermath of the two major upward adjustments in oil prices during the seventies and eighties, some industrialized countries, with an initiative from the US, included the subject of export restriction and dual-pricing practice in petroleum in the Tokyo round, and then in the UR. The two rounds, however, failed to conclude an Agreement in this respect. Since the launching of the new multilateral trading system, following the conclusion of the UR, concerned Organizations like the WTO and UNCTAD, have confirmed, on different occasions, that trade in crude oil is not excluded from the rules and regulations of the UR Agreements, although it was not explicitly addressed.

It is worth noting that oil-exporting countries in the ESCWA region, including those which have already acceded to the WTO, are not yet aware of the challenges the WTO Agreement holds for the future of OPEC and the access of their petrochemicals to cheap feed-stock.

In addition to these two important issues, the future of the region's trade in crude oil, petroleum products and petrochemical will be affected by other UR Agreements. Oil exporting countries in the ESCWA region, therefore, need to improve their understanding of the underlying provisions of the new trading system by knowing the relevant Agreements; and the opportunities and challenges they hold for the future of trade, investment, production and prices of crude oil, petroleum products and petrochemicals.

The arguments presented in this study partly depend on analyzing relevant provisions of Final Act, partly on consulting literature available on the subject, and partly on discussions and consultation with officials in concerned organizations. The latter included: the European Union Headquarters in Brussels/Belgium, the WTO and UNCTAD in Geneva; and UNIDO and OPEC in Vienna. Consultations also took place with government officials in many Departments in the State of Qatar: Ministry of Finance, Economic and Trade; Ministry of Energy and Industry, Qatar General Petroleum Cooperation, Higher Council of Planning; Qatar Petrochemical Co. Ltd. and the Gulf Organization for Industrial Consulting (GOIC). Since views held by OAPEC were also important, consultation with concerned officials took place through correspondence.

Before embarking on the main purpose of the paper brief background information is given about the importance of these commodities in the world international merchandise trade and in ESCWA foreign trade figures.

I. IMPORTANCE OF CRUDE OIL, PETROLEUM PRODUCTS AND PETROCHEMICALS IN THE WORLD MERCHANDISE TRADE

A. CRUDE OIL

The world trade in crude oil (the average of exports plus imports) recorded $222.8 billion or 11 per cent of the world total merchandise trade in 1980 as the international price level of crude oil reported its first peak of the 1980s by rising from $17.3 per barrel in 1979 to $28.7 per barrel in 1980 (table 1), a clear declining trend was noted, therefore, in the exports of crude oil in value and percentage terms as oil prices started to drop in 1986 while the world trade total merchandise trade continued to increase. The latter reached $3483.5 billion and $3674.4 billion in 1991 and 1993 respectively; yet, trade in crude oil, was on the decline which resulted in a drop in the ratio to the total merchandise trade to as low as 4 per cent in 1993 and 1994.

The decline in the world trade of crude oil, in absolute and in relative terms, is attributed to a number of factors such as: drop in the level of oil prices; rationalization of energy consumption by developed industrial countries; development of industries with lower energy inputs; more use of oil substitutes like natural gas and electricity, and the success achieved by some oil-importing countries in developing their own oil resources. In addition, higher levels of trade liberalization and the integration of the ex-socialist countries in the world economy, has been contributing to the increase in the world trade at higher levels than the increase in the world economic activity.

Developing countries including ESCWA member countries are still the world's main supplier of crude oil as their share in the world's crude oil exports increased, without interruption, from 70.5 per cent in 1985 to 76.3 per cent in 1991 and to 78.5 per cent in 1993.

Developed countries on the other hand, continued to be the world's main market for crude oil. Their share in the world imports of crude oil increased from 67.8 per cent in 1985 to 74.8 per cent in 1991, but dropped slightly to 73.2 per cent in 1993. Among developing countries the high levels of economic growth in South and South East Asian countries sent their share in the world total imports of crude oil on subsequent increases from 10.2 per cent in 1985 to 15.4 per cent in 1993.

B. PETROLEUM PRODUCTS

Trade in petroleum products (Gasoline, Distillates, Risduals and Others), during the period 1980-1993, contributed only moderately to world total merchandise trade with a declining trend in absolute and percentage terms, (not more than 2.5 per cent in the 1980s dropped to less than 1 per cent in 1990s) (table 1).

TABLE 1. WORLD: TRADE IN CRUDE OIL, PETROLEUM PRODUCTS AND PETROCHEMICALS (US $ MILLION) AND THEIR PERCENTAGE RATIOS TO THE WORLD TOTAL MERCHANDISE TRADE, 1980-1994*
(Selected years)

World	1980	%	1985	%	1989	%	1991	%	1993	%	1994	%
Total Merchandise Trade	2019288		1932316		3102732		3483500		3674398		4195002	
Trade in crude oil	222837	11.04	172789	8.94	137214	4.42	165330	4.75	149039	4.06	166591	4.00
Trade in Petroleum product	40660	2.01	47926	2.48	25927	0.84	32295	0.93	34484	0.94	--	--
Trade in petrochemicals	31694	1.57	36955	1.91	86688	2.79	99664	2.86	101840	2.77	--	--

Source: UNCTAD Comtrade 1996/1997 and UNESCWA External Trade Bulletin of the ESCWA region, eighth issue, 1996.

* The simple average of exports plus imports of goods.

Developed countries are still dominating the world total export of these products despite the significant decline in their share from about 65 per cent in 1980 to 49.1 per cent in 1993. Developing countries, on the other hand, greatly strengthened their share in the world exports of petroleum products from 21.3 per cent in 1980 to 37.4 per cent in 1993. The main emerging players seemed South and South East Asian countries and China.

On the import side, developed countries increased their share in the world's imports of petroleum products from 36.4 per cent to 45.4 per cent between 1980 and 1993 against a decline in the share of developing countries on the other hand from 49.2 per cent to 42.7 per cent.

C. PETROCHEMICALS

Unlike crude oil and petroleum products, the world trade in petrochemicals demonstrates a rising trend, in both value and percentage terms, in the increasing world total trade. This is because petrochemicals industries have emerged as one of the world fastest growing industries, characterized by strong backward and forward linkages, and strong interaction with most of the production and services sectors in the economy. The most important among these sectors are: mining and quarrying, manufacturing industries, agriculture, building and construction and transport and communication. The importance of petrochemical industries is also driven from large diversity, attraction of fast technological progress and easy substitution for natural products. Currently, there are more than 3000 final products which use petrochemicals as inputs. The value of the world trade in petrochemicals went up from $32 billion in 1980 to $86.7 billion in 1989; and their share in the world total trade rose from 1.6 per cent to 2.8 per cent. Further increases were reported in 1991 and 1993 when reached around $100 billion and $102 billion respectively. Their share in the total trade, however, remained at an average of 2.8 per cent (table 1). Since petrochemical industries are capital intensive, and require high technology and large market access, the opportunity to introduce and develop them was initially in the developed industrial countries especially the United States, the EU and Japan. These countries are still the world main producers and exporters.

Table 2 displays the world exports and imports of main category of petrochemicals: basic, intermediate and final, in value and percentage share during the period 1980-1993.[1]

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[1] The classification of petrochemicals is based on the stage of processing and not the use of the product.

TABLE 2. WORLD: EXPORTS AND IMPORTS OF PETROCHEMICALS BY MAIN CATEGORY (US $ MILLION) AND MAIN COUNTRY AND GROUP OF COUNTRIES*, (PERCENTAGE SHARES) 1980-1993
(Selected years)

	Exports %					Imports %				
	1980	1985	1989	1991	1993	1980	1985	1989	1991	1993
I. Basic (mn)	**4983**	**5322**	**5609**	**5555**	**5463**	**4302**	**4823**	**6625**	**6964**	**5625**
Developed countries	84.5	81.6	74.8	69.4	65.2	89.2	73.6	72.6	69.6	65.9
European Union	70.8	62.2	56.0	51.7	50.4	63.8	63.5	47.0	41.1	37.4
United States	5.7	11.6	11.1	9.6	9.1	9.6	5.1	10.2	10.1	9.4
Japan	3.2	2.6	4.9	5.3	3.9	5.2	3.6	8.8	8.7	10.4
Developing countries	10.9	14.4	23.5	28.7	32.2	6.9	16.4	21.7	24.9	28.8
South-South East Asia	3.6	5.5	17.2	21.5	23.4	2.1	3.0	4.4	6.6	10.6
China	0.1	0.6	0.8	0.8	1.7	0.5	0.2	0.1	0.4	0.4
Eastern Europe	2.7	0.9	0.9	0.9	1.8	2.9	3.1	2.1	2.0	4.9
II. Intermediate (mn)	**7459**	**9024**	**19695**	**20390**	**22999**	**76931**	**10489**	**24453**	**25882**	**26908**
Developed countries	62.6	60.0	64.7	64.1	63.6	90.9	81.6	86.7	86.2	85.5
European Union	47.6	40.9	41.4	40.2	39.4	58.2	50.5	49.6	50.6	49.5
United States	4.0	7.5	9.6	10.6	11.0	17.7	18.3	18.9	18.2	17.6
Japan	4.0	4.8	6.4	6.4	5.5	8.1	5.3	7.5	8.2	9.2

TABLE 2. *(continued)*

	Exports %					Imports %				
	1980	1985	1989	1991	1993	1980	1985	1989	1991	1993
Developing countries	29.4	28.6	30.8	31.8	32.0	5.7	8.3	9.1	9.4	11.3
South-South East Asia	14.4	15.4	18.7	19.5	20.1	1.3	1.5	2.0	2.5	3.8
China	1.8	1.7	2.2	2.0	2.3	0.7	0.5	0.9	1.0	1.4
Eastern Europe	2.4	1.3	1.3	0.9	1.6	0.7	0.7	1.2	1.5	1.8
III. Final (mn)	**20259**	**21549**	**58277**	**69289**	**70131**	**18692**	**22701**	**58716**	**71249**	**72554**
Developed countries	65.8	65.2	70.4	68.8	64.9	95.6	82.0	86.8	84.3	81.9
European Union	54.9	50.6	54.2	53.5	47.3	68.7	58.9	59.3	56.6	51.6
United States	1.7	4.9	5.0	4.7	6.7	15.7	12.2	14.7	14.9	15.2
Japan	1.4	2.0	2.6	2.4	2.2	6.7	6.3	7.3	7.2	9.0
Developing Countries	23.5	26.9	24.4	27.0	30.8	2.8	6.8	10.4	11.9	15.8
China	1.3	4.6	2.3	2.5	2.8	0.4	0.1	0.3	0.4	0.4
Eastern Europe	2.5	1.5	1.1	1.7	1.9	1.0	1.0	1.2	1.1	1.4

Source: *UNCTAD Comtrade* 1996/1997.

* The total percentage shares of each category should add up to 100, the difference, however, is attributed to the "rest of world".

II. IMPORTANCE OF CRUDE OIL, PETROLEUM PRODUCTS AND PETROCHEMICALS IN THE ECONOMIES OF ESCWA MEMBER COUNTRIES

A. ESCWA AND THE WORLD

1. *ESCWA merchandise exports and the world merchandise exports*

The world's merchandise exports almost doubled between 1980 and 1993 increasing from $1989.9 billion to $3632.1 billion. The exports of ESCWA member countries, however, dropped sharply to $78.3 billion and $83.2 billion in 1985 and 1989, respectively following the peak of 1980, $194.3 billion. Though, some improvement did occur, when the value increased to $91 billion and $96 billion in 1991 and 1993 respectively. These different directions of developments resulted in a drop in the ratio of ESCWA exports to the world total exports from as high as 9.8 per cent in 1980 to a level as low as 2.6 per cent in both 1991 and 1993, (see table 3).

2. *ESCWA crude oil exports and the world crude oil exports*

Apart from Jordan, Lebanon and the Palestinian territories, all other ESCWA member countries are oil-producers and exporters. Some GCC countries and Iraq are among the world's major oil-producers and exporters; and thus dominate the world trade in crude oil. In 1980, ESCWA countries exports of crude oil amounted to $104.5 billion or 65.2 per cent of the world total crude oil exports of $160.2 billion (see table 3). The share of ESCWA, though dropped to less than 50 per cent in 1985, and oscillated between 54 and 51 per cent in 1989 and 1991 respectively, it exceeded again 60 per cent ($117 billion) in 1993 which indicates the region is still the world's main supplier.

3. *ESCWA petroleum products export and the world export of petroleum products*

Most of world exports of oil was in form of petroleum products before the Second World War; and the United States was the main supplier. However, in the post World War II, when the Middle East became the world main source of crude oil, the world trade in oil shifted from petroleum products to crude oil; yet the refining industries continued to be concentrated in developed countries. The major oil-exporting countries members in ESCWA demanded more than once a fairer share in refining industries to be established in their region in proportion to their endowment of crude oil; but developed countries refused because of their excess capacity while the world demand was shrinking as many countries developed their own refining industries to meet domestic need. The latter was reflected by the mounting decline in the share of petroleum products in the world total exports which went down from 2.5 per cent in 1980 to less than 1 per cent in 1991 and 1993 (table 1).

However, the ESCWA member countries' share in the world's exports of petroleum products increased significantly from 4.2 per cent in 1980 to 11.4 per cent (by around 200 per cent) between 1980 and 1985, compared to the increase in the world's exports by 28 per cent. Following the sharp drop in the region's share in petroleum products export in the following years, the share increased to 6 and around 7 per cent in 1991 and 1993 respectively and thus became more in proportion to the region's total capacity of refinery industry of 8 per cent of the world total capacity (table 3).

4. *ESCWA petrochemicals exports and the world petrochemicals exports*

The real beginning of petrochemical industries in the ESCWA region was in the eighties following the two upward adjustments in the international oil prices in 1973/1974 and 1979/1980.

Given the comperative advantage of having an easy access to cheap feed-stock, oil-exporting countries in the ESCWA region have achieved significant developments in the area of petrochemical industries following the two price adjustments mentioned above. Petrochemicals are now produced in 13 Arab countries, yet ESCWA members, especially the GCC countries, still have the leading role among them. Saudi Arabia alone owns 60 per cent of all Arab countries total capacity production including projects under constructions.

Foreign trade figures of the region show that the exports of petrochemicals had a modest start in 1980 with a total of only \$7 million (0.02 per cent of the world's exports of petrochemicals). They increased significantly in the following years to reach as high as \$1887 million in 1991, i.e. by 269 fold over 1980; and the percentage share in the world exports increased to 2 per cent. The value, however, dropped to \$1681 million and the ratio to 1.7 per cent in 1993. The region, however, is still a minor player in the world's exports of petrochemicals. The limitation is not only in quantity but also in structure. They mainly consist of certain basic and intermediate and few final products compared with the internationally recognized ones.

B. IMPORTANCE OF TRADE IN CRUDE OIL, PETROLEUM PRODUCTS AND PETROCHEMICALS TO THE TOTAL EXPORTS OF ESCWA MEMBER COUNTRIES

1. *Total exports*

Due to the fact that some GCC countries and Iraq are the world's major oil-producers and exporters, the region's exports have been dominated by crude oil. Also, though at much lesser degree, by petroleum products and petrochemicals. In 1980, following the second upward adjustment in oil prices, the region's total exports equalled to \$194.5 billion; 94.5 per cent of which was crude oil. Petroleum products made \$1.4 billion and 0.7 per cent, while the exports of petrochemicals were of insignificant percentage share (table 4). As the peak of 1980 came to an end, the region's total export

TABLE 3. ESCWA REGION: TOTAL EXPORTS AND EXPORTS OF CRUDE OIL, PETROLEUM PRODUCTS AND PETROCHEMICALS (US$ MILLION) AND THEIR PERCENTAGE SHARES IN THE WORLD TOTAL EXPORTS, EXPORTS OF CRUDE OIL PETROLEUM PRODUCTS AND PETROCHEMICALS, 1980-1993
(Selected years)

	1980	Percentage share	1985	Percentage share	1989	Percentage share	1991	Percentage share	1993	Percentage share
	Value US. $ (million)	ESCWA/ World %	Value US.$ (million)	ESCWA/ World %	Value U.S$ (million)	ESCWA/ World %	Value U.S $ (million)	ESCWA/ World %	Value U.S.$ (million)	ESCWA/ World %
World total exports	1989867		1935209		3044013		3421330		3632090	
ESCWA total exports	194314	9.77	78340	4.05	83176	2.73	90797	2.65	95710	2.64
World crude oil exports	160210		150257		118414		138899		117003	
ESCWA crude oil exports	104482	65.22	68285	45.45	63987	54.04	70555	50.80	73391	62.73
World Petroleum Products Exports	32263		41224		22413		29339		34335	
ESCWA Petroleum product export	1362	4.2	4684	11.36	298.5	1.33	1762.5	6.00	2356.5	6.86
World petrochemical exports	32700		35896		83581		95234		98592	
ESCWA petrochemical exports	7	0.02	69	0.19	211	0.25	1887	2.00	1682	1.71

Source: UNCTAD Comtrade 1996/1997.

of crude oil dropped significantly; and their percentage shares in the region's total exports made an average of around 77 per cent during the years 1989, 1991 and 1993. The ratio was higher, however, in the GCC countries than in other ESCWA countries especially after the imposition of the UN economic sanctions on Iraqi in 1990. Despite significant improvement compared to 1980, the region's exports of petroleum products and petrochemicals continued to be low in value and percentage terms. In 1993, they both made 4.1 per cent of the region's total exports and mainly originated from the GCC countries as indicated in table 4.

C. MAIN TRADING PARTNERS

1. *Crude oil*

The main market for crude oil exports by the ESCWA countries members in OPEC is still the developed industrial countries. Their share amounted to 71.5 per cent in 1980 but dropped to 65.8 per cent in 1991 and 66.6 per cent in 1993. To the contrary, developing countries markets opened up gradually to the region's crude oil exports and captured around one-third of these exports in 1993 compared to one fifth in 1980. The main importers among developing countries were South and South East Asian countries, owing to higher levels of economic growth with a share increasing from 13.7 per cent in 1980, to 25.7 per cent in 1993.

2. *Petroleum products*

Petroleum products or oil-refining industries in the region first started to satisfy domestic consumption and not for export. It was mainly after the first and second upward adjustments of oil prices in the seventies and early eighties when the ESCWA oil-exporting countries started to develop and expand their refining industries for export purposes. In their attempt to develop downstream related industries, many oil-exporting countries in the region went into Joint ventures and partnership with foreign companies in Europe and Asia. The region's exports in these products, however, are still minimal compared to the region's crude oil exports and fluctuated significantly from year to year. The main outlets in 1993 were developing countries (49.4 per cent) followed by developed countries (31.8 per cent) while 18.8 per cent went to the rest of world.

3. *Petrochemicals*

The region's exports of petrochemical in the 1980s consisted of some intermediate and final products, and were entirely exported to developing countries (table 5). It was only in 1991 when the region's exports of petrochemicals, $1871 million, started to gain relative significance in value and all categories contributed to the increase. On average, 33 per cent of the region's exports went to developed countries, 59 per cent to developing countries and around 8 per cent to "rest of world". On more specific geographical distribution, the EU was the main market among developed countries, and South and South-East Asia among developing countries. In 1993, total

TABLE 4. ESCWA REGION: EXPORTS OF CRUDE OIL, PETROLEUM PRODUCTS AND PETROCHEMICALS (US $ MILLION) AND THEIR PERCENTAGE SHARES IN THE REGION'S TOTAL EXPORTS, 1989-1993

(Selected years)

	1980	%	1985	%	1989	%	1991	%	1993	%
ESCWA										
Total export	194540		78178		83684		91775		96658	
Crude oil	183541	94.5	68285	87.3	63987	76.5	70555	76.9	73391	75.9
Petrochemicals	7	0.0	68.6	0.1	211	0.3	1887	2.1	1682	1.7
Petroleum products	1362	0.7	4684	6.0	2995	0.4	1762.5	1.9	2356.5	2.4
Sub total export	184910	95.2	73038	93.4	64497	77.2	74205	80.9	77430	80.0
GCC										
Total export	162595		62039		64835		82816		88652	
Crude oil	153932	94.7	53597	86.4	50037	77.2	66455	80.2	69371	78.3
Petrochemicals	7	0.0	68	0.1	178	0.3	1886.9	2.3	1680	1.9
Petroleum Products	1208	0.7	3548	5.7	10.5	0.0	1622	2.0	2158	2.4
Sub total export	155147	95.4	57213	92.2	50226	77.5	69963	84.5	73209	82.6
Other ESCWA										
Total export	31945		16193		18849		8959		8006	
Crude oil	29609	92.7	14688	91.0	13950	74.0	4100	45.8	4020	50.2
Petrochemicals	0	0.0	0.6	0.0	33	0.2	0.1	0.0	2	0.0
Petroleum products	154	0.5	1136	7.0	288	1.5	141	1.6	199	2.5
Sub total export	29763	93.2	15825	98.1	14271	75.7	4241	47.3	4221	52.7

Source: UNCTAD Comtrade 1996/1997; total exports are crude oil exports and from the Joint Arab Economic Report 1995 and UN-ESCWA External Trade Bulletin, 7th issue 1995.

exports dropped to $1652 million due to the drop in the exports of final petrochemicals, from $1158 million, to $850 million. The share of developed countries, especially the EU, significantly dropped in all commodities but mainly in basic ones, with around 40 per cent decline. Developing countries became a more significant outlet of the region's petrochemical exports with an overall share of 63.1 per cent compared to 59.3 per cent in 1991.

On a country level, Saudi Arabia is the main producer and exporter of petrochemicals in the region. It has, as a late starter, made impressive progress especially over the last ten years, and is now the region's most advanced country in petrochemical industries both in quantity and range of products. During the period 1980-1993, the ratios of it is exports to the region's total exports of basic products ranged between 55-79 per cent; of intermediate products between 43-99 per cent; and of final products between 90-92 per cent. Other countries with significant contributions were Bahrain and Qatar for basic petrochemicals, and Qatar and Kuwait for intermediate. Other ESCWA countries were either non-producers of petrochemicals or produced mainly for domestic market.

Any changes brought about by the new international trading system will not affect only the region's exports of petrochemicals but also its imports. Countries of the region, once they join the WTO, will have to open their markets, though gradually, to petrochemicals of other countries. Imports of petrochemicals by countries of the region have been rising since 1980 from only $51.1 million to an average of $239 million in 1985 and 1989. In 1991, they increased by around six fold to $1317.3 million, but dropped sharply to $808 million in 1993. Final products, made on average over 80 per cent of the region's total imports followed by intermediate products, and finally basic products. For all categories, the main suppliers were developed industrial countries mainly the EU.

D. CURRENT TRADING ARRANGEMENTS INCLUDING TAXES, SUBSIDIES, QUANTITATIVE RESTRICTIONS AND PREFERENTIAL TREATMENT

The region's main trading partners in crude oil, petroleum products and petrochemicals were developed industrial countries. It is only recently, when developing countries, especially newly industrialized countries in South and South East Asia, started to have a larger share in the region's exports of these products. The trading arrangements including taxes, subsidies, quantitative restrictions and preferential treatment which govern the region's exports of these products, therefore, are those govern their exports to developed countries.

1. *Crude oil*

Crude oil is considered almost a duty free product i.e. not subject to significant tariffs. It enters the EU markets totally duty free, while it enters the United States subject to tariff rate equal to ¢10.5 a barrel if the density of oil is above 25 degree; and

¢5.25 a barrel for lower densities. In addition, the United States and some European countries such as Holland, Denmark, Germany and Belgium, have imposed carbon tax on all types of energy including crude oil whether imported or domestically produced. The carbon tax is considered, by the countries concerned, a domestic tax and not a tariff. The tax rate varies from one source of energy to another depending upon its content of carbon residuals. In the ESCWA oil-exporting countries, oil exports are not subject to any type of direct taxes or subsidies. However, the difference between cost of production and the export price of crude oil is considered an export tax especially since crude oil for domestic use is sold at nominal prices.

TABLE 5. ESCWA REGION: EXPORTS OF PETROCHEMICALS BY MAIN CATEGORY (US $ MILLION) AND MAIN TRADING ARTNER, (PERCENTAGE SHARES) 1985-1993
(Selected years)

	1980	1985	1989	1991	1993
Basic1/	0	16	70	314	321
(PERCENTAGE SHARES)	%	%	%	%	%
Developed countries	0.0	0.0	60.2	50.3	28.2
EU	0.0	0.0	35.4	33.2	19.9
Rest of Developed countries	0.0	0.0	24.7	17.2	8.4
DEVELOPING COUNTRIES	0.0	0.0	39.8	45.5	61.0
South-South East Asia	0.0	0.0	32.4	42.8	61.0
Rest of developing countries	0.0	0.0	2.2	0.7	5.3
REST OF WORLD	0.0	100.0	0.1	4.2	10.8
	1980	**1985**	**1989**	**1991**	**1993**
INTERMEDIATE2/	5	28	3	400	482
(PERCENTAGE SHARES)	%	%	%	%	%
Developed countries	0.0	0.0	4.0	16.9	10.0
EU	0.0	0.0	4.0	13.8	7.0
Rest of Developed countries	0.0	0.0	0.0	3.1	3.0
DEVELOPING COUNTRIES	100.0	0.7	88.0	73.3	65.5
South-South East Asia	100.0	0.0	0.0	68.2	64.2
Rest of developing countries	0.0	0.7	88.0	5.1	1.3
REST OF WORLD	0.0	99	8.0	9.7	24.3
	1980	**1985**	**1989**	**1991**	**1993**
FINAL3/	2	23	129	1158	850
(PERCENTAGE SHARES)	%	%	%	%	%
Developed countries	0.1	0.0	2.3	34.1	26.4
EU	0.1	0.0	0.0	30.5	22.6
Rest of Developed countries	0.0	0.0	2.3	3.6	3.8

TABLE 5 (*continued*)

	1980	1985	1989	1991	1993
DEVELOPING COUNTRIES	99.9	0.4	1.6	54.4	62.6
South-South East Asia	0.0	0.0	0.0	28.6	25.9
Rest of developing countries	99.9	0.4	1.6	24.6	31.9
REST OF WORLD	0.0	99.6	96.1	7.8	11.0

	1980	1985	1989	1991	1993
TOTAL	6.5	67	202	1871	1652
(PERCENTAGE SHARES)	%	%	%	%	%
Developed countries	0.0	0.0	22.5	33.1	22.0
EU	0.0	0.0	12.4	27.3	17.5
Rest of Developed countries	0.0	0.0	10.1	5.7	4.4
DEVELOPING COUNTRIES	100.0	0.6	16.0	59.3	63.1
South-South East Asia	71.7	0.0	11.3	39.4	42.6
Rest of developing countries	28.3	0.6	2.9	17.2	17.8
REST OF WORLD	0.0	99.4	61.5	7.6	14.9

Source: UNCTAD Comtrade 1996/1997.

1/ Main exporting countries are Bahrain, Qatar and Saudi Arabia.
2/ Main exporting countries are Bahrain, Egypt and Saudi Arabia.
3/ Main exporting countries are Bahrain, Egypt, Qatar and Saudi Arabia.

2. *Petroleum products*

The region's exports of petroleum products are not subject to export tax but considered subsidized indirectly with crude oil being provided free of charge to refineries owned by the governments, or at discounted price for joint-ventures. They are, however, subject to tariffs by importing countries as well as high domestic taxes in Europe and the United States. In the latter a tariff of ¢10.5 is imposed on a barrel of Naphtha, Diesel oil and fuel oil, compared to ¢52.5 on a barrel of Gasoline. In the EU a tariff of 6 per cent is imposed on light and medium petroleum products and 3.5 per cent on fuel oil and gas oil with Sulphere content above 0.2 per cent. ESCWA oil-exporting countries, among other Arab oil-countries were exempted from these tariffs under the Generalized System of Preferences (GSP).[2] But in December 1994, the EU unexpectedly, decided to exempt Saudi Arabia from the GSP, and imposed tariffs on its exports of petroleum products.

[2] The GATT Agreement was amended in 1965 to include, for the first time, a section on Trade and Development. It aimed to enable developing countries to trade with developed countries on a non-reciprocal basis and permits a system of generalized trade preferences by developed to developing countries thereby waiving the most favoured nations clause. The arrangement comes to be known as the Generalized System of Preferences GSP. (Macmill Dictionary of Modern Economics (1985) p. 172.

3. *Petrochemicals*

Developed industrial countries are the main outlet for the exports of petrochemicals from developing countries including ESCWA countries. The latter, however, face considerable difficulties in exporting their products to these countries especially the EU. Although their exports fall under the rules of the GSP which allows them (except Saudi Arabia) duty-free entry to the EU member countries, the GSP concession is subject to quantitative ceilings. The ceilings allow virtually all petrochemical exports of ESCWA member countries to enter the EU market duty-free; yet since their exports are too low to exceed the ceilings, due to the exemption of Saudi Arabia, the region's main exporter, the region's benefit from the concessions is quite modest.

In practice, member countries of the EU have resorted to a number of measurements to protect their domestic market from the competition of similar products from ESCWA countries. These measurements include tariff and non-tariff barriers. Among non-tariff barriers are: quantitative ceilings, lists of sensitive goods, anti-dumping duties, internal price restrictions and value-added tax. The results of studying the impact of these measurements have shown that only 10 per cent of the Arab countries' exports of Methanol, for example, can enter the European markets under the GSP; and similar ratios of other petrochemical exports are expected. Any amount which exceeds this ratio is subject to extra tariffs. The latter's effective rates (actual protection effect) go above 22 per cent for Methanol, 25 per cent for PolyEthylene, 26 per cent for Ethylene and 33 per cent for Ethylene glycol. Moreover, often, ceilings are imposed on quantities subject to tariff payment. The GCC countries have been trying, for about a decade, to reach a free trade agreement with the EU under which petrochemical exports can freely enter the EU markets; yet, the latter have been insisting on excluding these products from any free trade arrangement with the GCC. Negotiations between the latter and the EU on the duty structure on petrochemicals have been going on for some years.

ESCWA countries also export petrochemicals to the US which uses a number of non-tariff barriers; the most important among them are: the "equation of competitive need"; upon which a ceiling is imposed on the quantity of imports allowed to enter the American market, which no country is allowed to exceed, and provision of value-added. Moreover, the United States uses bilateral agreements to impose voluntary restrictions on exports from its trading partners regarding certain goods including petrochemicals.

Japan, which is another market for ESCWA petrochemical exports, imposes high tariffs on petrochemical imports. Among 23 products only Uria and SBR enjoy tariff exemption. The rest are subject to tariff rates between 2-22 per cent. These rates are in nominal terms, but their effective rates can reach as high as 42 per cent for Poly-propylene and 49 per cent for Ethylene glycol.

III. URUGUAY ROUND AGREEMENTS AND DECISIONS: DIRECT AND INDIRECT RELEVANCE TO CRUDE OIL, PETROLEUM PRODUCTS AND PETROCHEMICALS AND THEIR IMPLICATIONS (OPPORTUNITIES AND CHALLENGES) FOR ESCWA MEMBER COUNTRIES

The Final Act embodying the results of the Uruguay Round Multilateral Trade Negotiations contains: the Agreement establishing the World Trade Organization (WTO), its four Annexes, 23 Ministerial Decisions and Declarations, and the Understanding on Commitments in Financial Services.

Implementation of the WTO Agreement is only required by Members. However, the impact of the Agreement, especially as a source of challenges, may not be confined to Members alone, but also influence non-Members as well. The impact on Members is also expected to differ from one group of countries to another especially between developed and developing countries. The latter in particular are expected to face the challenging task of implementing the Uruguay Round Agreements. First of all, there are still some uncertainties with regard to details of application and interpretation of the Agreements especially by developed countries. Second, the whole process is so complicated that it would be difficult for the majority of the developing counties to cope satisfactorily with the requirements, implications, and results.[3]

On the Other hand, not all Agreements, Decisions or Declarations embodied in Final Act have an impact on all traded goods and service. The strength of the impact differs from one product, or a group of products, to another. Petroleum or crude oil is not explicitly addressed by the Uruguay Round or previous rounds of negotiations; yet there is no explicit exclusion as it was the case with agricultural products in pre-Uruguay Round negotiations. Trade in petroleum products and petrochemicals, however, is, by and large, as trade in any other manufactured goods (in particular chemical products for the latter) covered by the Uruguay Round; and consequently, subject to some of the Multilateral Agreements on Trade in Goods including GATT 1994, and some aspects of the General Agreement on Trade in Services (GATS).

The fact that crude oil is not addressed explicitly by the Uruguay Round Agreements, yet subject to these Agreements, makes it crucial to underline which of these Agreements and Decisions are relevant, and assess what kind of opportunities and challenges they hold for the future of the region's trade in crude oil. This task is particularly important since there is a general conviction among concerned organizations, like OPEC and OAPEC, as well as among officials in oil-exporting countries in the region, including those which have already accessed the WTO, that trade in crude oil is excluded from the Uruguay Round Agreements. Industries which are mainly oil-based like petroleum products and petrochemicals, although are subject to

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[3] UNCTAD workshop on "The Impact of the Uruguay Round Agreements on Development", Geneva, 3-4 March 1997.

the Uruguay Round Agreements, as any other manufactured goods, there is also a need to identify the relevant Agreements and assess their impact. Such assessment is particularly needed since the access of these industries in the region to cheap feed-stock (oil and gas), is very likely to be challenged by high-cost producers in the world mainly the EU, Japan and the US under the new international trading system.

A. EXPORT RESTRICTIONS AND DUAL PRICING

The two upward adjustments of the international price of crude oil during the seventies and early eighties highlighted the vulnerability of countries dependent on foreign supplies of natural resources. This promoted some industrialized countries, with an initiative from the United States, to include the subject of petroleum export restrictions in the Tokyo Round, (1973-1979). But the firm resistance of many developed and developing countries to accept commitments in the area of export restrictions beyond what was stipulated in the General Agreement succeeded in preventing the issue of export restrictions, including export taxes, from becoming the subject of a substantive agreement under the Tokyo Round.

During the course of the Uruguay Round negotiation certain attempts were made by some participants, namely the United States and the European Union, to tighten the multilateral trading rules to deal with policies with respect to petroleum and petroleum products, notably the maintenance of dual prices. The relevant discussions were mainly held in the context of the Negotiating Group on Natural Resources - Based products. The problems identified in this respect were export restrictions and dual-pricing practices.

This paper aims to identify those Agreements of the Uruguay Round which when implemented can increase or decrease trade barriers to the region's exports of crude oil, and the exports and imports of petroleum products and petrochemicals through different measurements. The latter include: tariffs, countervailing duties, anti-subsidy duties, anti-dumping duties, technical barriers to trade, environmental protection measures, intellectual property rights protection measures and restrictions on current policies in respect of the commodities concerned. Such restrictions include the relevance of the Organization of Petroleum Exporting Countries (OPEC) under a global free trading system, double-pricing practices, export taxes and subsidies to petrochemical industries especially provision of feed-stock free of charge or at prices lower than the international ones.

B. EXPORT RESTRICTIONS, DUAL-PRICING PRACTICES AND THE LEGITIMACY OF OPEC

GATT contains a number of provisions which directly and indirectly relate to export restrictions and charges. Article XI prohibits quantitative restrictions on trade, both exports and imports, subject to certain exceptions. The most relevant exception for crude oil, however, is paragraph (g) of Article XX which states **"Nothing in this**

Agreement shall be construed to prevent the adoption or enforcement of measures relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption". The Article does not indicate, however, whether these measures are allowed only individually, i.e. on a country level, or also collectively, i.e. by a group of countries behaving collectively under the auspices of a well-defined body. This is the main reason for raising doubt about the legitimacy of OPEC under the new multilateral trading system. Officials in the EU see OPEC as a cartel which is against the principles of a free trading system and thus has eventually to be dismantled. The issue of OPEC, however, has not been officially raised with any OPEC member during accession to GATT/WTO. The matter is not over yet and any WTO Member can raise it in the future. Cost restrictions which include taxes or charges on exports are not prohibited but subject to negotiations. Some oil-producing countries like Venezuela found paragraph (g) of Article XX satisfactory enough while considering accession to GATT in 1990. Mexico, however, thought it was necessary to include a special provision in its protocol of accession recognizing its right to impose export restrictions consistent with this Article. Thus, paragraph 5 of the protocol reads: **"Mexico will exercise its sovereignty over natural resources, in accordance with the political Constitutions of Mexico. Mexico may maintain certain export restrictions related to the conservation of natural resources, particularly in the energy sector, on the basis of its social and development needs if those export restrictions are made effective in conjunction with restrictions on domestic production or consumption".**

Article II of GATT 1994 allows both export and import duties if they are applied on an unconditional Most Favoured Nation basis. Moreover, they can be bound against increases as a result of negotiations through inclusion in the schedules of concessions or commitments. Binding can be negotiated on an item by item basis in return for reciprocal concessions by interested trading partners.

Dual-pricing practices were seen, by some contracting parties to GATT, namely the EU and the US, to distort trade by maintaining price differentials to the advantage of domestic industry. Export restrictions on raw materials, and differential export taxes applied to raw materials and to processed products, result in the supply of raw materials to the local industry at lower prices than those prevailing on the world market. It is worth noting, however, that the dual-pricing of crude oil is not an ordinary practice caused by imposition of a tax rate over and above production cost. The practices are considered unique because they are made possible by the unequal distribution of oil resources and access to their supply. The mark-up over the cost of production in the export price of crude oil, therefore, should be seen more as a "scarcity rent" than an export tax. The level of rent varies from one production place to another, depending on the conditions of production which affect cost of production. The average rent level, however, varies depending on conditions of demand and supply in the international oil market. The mark-up over the cost of production in this respect, therefore, is not an ordinary export tax which its removal or binding can be easily negotiated.

The question of export restrictions is considered to be directly linked to the dual-pricing practices. But export restrictions and dual-pricing are different practices, and one of them should not necessarily lead to the other. The purpose of export restrictions by oil-exporting countries, for instance, is to prevent the prices of their exhaustible natural resources from sliding below a desirable level in order to guarantee a reasonable amount of revenues until the development of different sources of income is achieved. Governments can easily restrict exports without dual-pricing practices. The latter are not impossible without export restrictions, as it was argued by some contracting parties to the GATT during the Tokyo round and the Uruguay Round. Governments can restrict export but sell petroleum for domestic consumption at the international price level. Selling oil for domestic use, by governments of oil-exporting countries, at much lower prices than the international ones, however, is part of a welfare-state programme aims to transfer part of the oil wealth, owned by the government, to the people as well as an approach to achieve industrial development.

C. THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT) 1994 AND MARRAKESH PROTOCOL TO THE GATT 1994

The General Agreement on Tariffs and Trade (GATT) 1994, aims to liberalize international trade and increase market access to products, through tariff reductions, tariff binding and the transformation of non-tariff barriers into tariff barriers.

The tariff reductions are expected to increase exports through two different ways: a direct or price effect, and an indirect or income effect. The lowering of tariffs on goods will lower the prices of these products and thereby will generate the direct (price) effect. At a more aggregative level, tariff reductions on all the traded products will largely expand trade and income, generating thereby the indirect (income) effect. The latter results from the rise in world income which induces an increase in the demand for goods and services. These implications, however, cannot be the same for all products, and for all countries. Wide differences are expected from differences in the price elasticity of demand, and income elasticity of demand for each single product. In the area of crude oil and oil based industries the difference is quite obvious, at least, between crude oil on the one hand, and petroleum products and petrochemicals on the other. Among the latter two, there are large differences as well from one individual product to another. A separate assessment of the implication (opportunities and challenges) of the Agreement for each product is warranted. As a first study of its kind in the region, however, only a collective treatment by main category: crude oil, Petroleum products and petrochemicals is possible at this stage.

1. *Crude oil*

EU imports of crude oil from ESCWA member countries are duty free. But the same imports by other developed countries, are subject to tariffs, though at insignificant rates. Since crude oil is not addressed explicitly by the Uruguay Round Agreements, no commitments of tariff reduction or binding appear in any WTO Member's schedule of commitments. But owing to the insignificance of these tariffs, any commitments of reduction is not expected to increase the world demand for crude oil since demand is not highly price elastic. Yet, in the absence of tariff binding, nothing will prevent the main importing countries from increasing the existing level of tariffs on crude oil in the future for any reason including rationalizing consumption or protecting the environment. Therefore, oil-exporting countries could well be advised to ask for tariff binding on crude oil knowing that crude oil is not exempted from the WTO principles.

The indirect or income effect, however, should be very relevant. As tariff reduction on all traded products will largely expand trade and generate higher levels of economic growth, further demand for crude oil will be generated. Especially since the region is still the world's main supplier of crude oil.

2. *Petroleum products*

Exports of petroleum products are subject to Most Favoured Nation (MFN) tariffs in many developed industrial as well as newly industrialized ones. Some of the tariffs have continued in the post UR and still unbound. Petroleum products from ESCWA oil countries, however, have duty-free entry to the EU markets under GSP except Saudi Arabia, the region's main exporter. The EU is the only party which has included a tariff reduction on these products in its schedule of commitments. The new range falls between 3.5 to 4.7 per cent as shown in table 6.

TABLE 6. EUROPEAN UNION: TARIFF RATES ON PETROLEUM PRODUCTS
(*Percentage*)

	Commitments of tariff rates by the EU in the UR	Tariff rates currently applied	UR Gradual application of tariffs reductions				
			1995	1996	1997	1998	1999
Light and medium products	7.0	6.0	6.5	6.0	5.6	5.2	4.7
Gas oil and fuel oil	5.0	3.5	4.7	4.4	4.1	3.8	3.5

Source: Joint Arab Economic Report, September 1995, p.138.

ESCWA member countries which have been enjoying a preferential treatment under the GSP in the EU will be worse off if the preferential treatments are eroded and their exports of petroleum products to the EU become subject to the post UR's range of tariffs, (3.5-4.7 per cent). Saudi Arabia, however, may become the only better off country among ESCWA members, subject to accession to the WTO first. The region's net gain from the EU's reduction of tariff on petroleum products will, therefore, eventually depends on Saudi gains vis-a-vis other countries' losses. Since other countries' commitments on tariff reduction and tariff binding on petroleum products are minimal, no price effect is expected in the post-UR period. As for the indirect or income effect, which is expected from tariffs reduction on all traded products, it is difficult to envisage what type of effect will take place for several reasons:

1. Petroleum products are not important components in the ESCWA region's total trade or world merchandise trade. This is mainly because in most countries these industries are for domestic consumption and not exports-oriented.

2. Developed countries are still the world's main exporters of petroleum products. If a higher level of income increases the demand for petroleum products, developed countries are expected to challenge any increase in the share of ESCWA countries on the ground that their refining industries are highly subsidized through the provision of inputs at discounted prices.

3. Petroleum products are highly protected in most developed countries not through tariffs, but more importantly through high domestic taxes and excise duties, especially in the EU. Sometimes the level of the latter reaches up to $90 per barrel which makes, in practice, their market almost blocked in front of imported petroleum products.

3. *Petrochemicals*

(a) *Exports*

Petrochemical industries in the ESCWA region are primarily export-oriented. Thus, they are highly sensitive to developments in the international markets including implications of the Uruguay Round. The benefit of petrochemical industries in the region from the price effect and income effect resulting from tariff reduction on chemicals, and higher level of growth generated by liberalized trade, depends on certain factors. Among them: development in the structure of production, market access and unchallenged comparative advantage of access to cheap feed-stock.

As mentioned earlier, petrochemical products from the GCC countries, apart from Saudi Arabia, have duty-free entry to the EU market under the GSP. However, the same products are subject to high tariff and non-tariff barriers in the US and Japan as well as in South and South East Asian countries. Countries in these two regions are becoming increasingly more important markets for petrochemical exports from the GCC countries. In the chemical sector and as an integral part of the total UR package, Canada, the US and the EU proposed a Joint Framework Agreement for Market Access on Chemicals. The Agreement, has also been signed by other countries (see box 1).

BOX 1. JOINT GATT MARKET ACCESS PROPOSAL ON CHEMICALS

Canadian Chemical Producers; Association
Chemical Manufacturers Association (USA)
European Chemical Industry Council

October 28, 1991

Joint Framework Agreement for Tariff Harmonization in the Uruguay Round

1. The tariff levels of all products contained in Chapters 28-39 of the Harmonized Tariff System should be harmonized and bound. Harmonization shall start from currently applied MFN rates.

2. The harmonization will be phased as follows:

Tariff Level	Harmonization Level (See Attachment)	Time Frame
10% or less	5.5-6.5 per cent	5 years
10.1-25%	6.5 per cent	10 years
>25%	6.5 per cent	15 years

Applied tariffs currently below the harmonization levels remain the same subject to the provisions of paragraph 3.

3. Reduction of tariff levels below the specified harmonization level, including total elimination of tariffs, is a viable goal in certain sectors or for specific products and should be supported by negotiators.

4. There will be no exceptions to the harmonization agreement per se. The above phasing schedule is intended to accommodate products which may be sensitive to tariff reductions.

However, manufacturers of products which may be most sensitive to tariff reductions must justify their claims to their respective negotiators. Only those products as justified need not be subject to the provisions of Paragraph 2, but may be granted the following treatment:

A. Phasing shall not exceed 15 years.
B. The harmonization level may be different than those specified above.
C. Tariff reductions will be no less than 30% and be in the spirit of the harmonization agreement.

5. If, within the phasing periods, import surges occur such that imports of specific products are significantly in excess of the trend for a reasonable base period, affected parties will be allowed to delay tariff cuts for justified time periods. Such delays shall not affect the achievement of the final deadline for tariff harmonization.

BOX 1 ***(continued)***

6. Country coverage must be complete as possible and should strive to include: Argentina, Australia, Austria, Brazil, Canada, The European Community, Finland, India, Indonesia,Japan, Korea, Malaysia, Mexico, New Zeala, Norway; Singapore, Sweden, Switzerland, Thailand, Venezuela and the Untied States of America.

7. Tariff harmonization in accordance with the above criteria is subject to reduction and elimination of non-tariff measures which have been identified to the negotiators by their respective country chemical industries.

8. This agreement should be considered an integral part of the total Uruguay Round package. It is recommended that this agreement supersede previous tariff offers in the chemical sector.

October 28, 1991

Attachment I

Harmonized Tariff Schedule	Chemical Tariffs Harmonization Levels
Chapter 28'	5.5 per cent
Chapter 29'	
2901-2902	0 per cent
2903-2915	5.5 per cent
2916-2942	6.5 per cent
Chapter 30[1]	0 per cent
Chapter 31[1]	6.5 per cent
Chapter 3[2]	6.5 per cent
Chapter 33[2]	6.5 per cent
Chapter 34[2]	6.5 per cent
Chapter 35[1]	6.5 per cent
Chapter 36	6.5 per cent
Chapter 37	6.5 per cent
Chapter 38[1,2]	6.5 per cent
Chapter 39[2]	6.5 per cent

1. Where appropriate, the pharmaceutical 0-for-0 offer applies.
2. The industry will seek lower harmonization levels within these HTS chapters.

Source: Provided by the Ministry of Finance, Economies, and Trade in Qatar, April 1997.

According to this Agreement, tariff levels on all chemical products contained in chapters 28-39 of the Harmonized Tariff System, should be harmonized and bound. Harmonization shall start from currently applied MFN rates. Accordingly, all tariffs of 10 per cent or less should be harmonized to 5.5-6.5 per cent within 5 years. Tariff levels of 10.1-25 per cent should be harmonized to 6.5 per cent within 10 years; and tariffs above 25 per cent should be harmonized to 6.5 per cent within 15 years. Applied tariffs currently below the harmonization levels remain the same; and any reduction below the specified harmonization level, including total elimination of tariffs, is a viable goal in certain sectors or products and should be supplied by negotiations. To sum up, all tariffs on chemical products should be reduced to 6.5 per cent apart from few exceptions of zero tariff and 5.5 per cent tariff. Moreover, a signatories to the Agreement can only bind some tariffs without commitment to reducing them.

It is worth mentioning that the average of tariff reduction on all manufactured goods by developed countries to developing countries equals 37 per cent of the pre-UR tariffs, while that on chemical products equals 47 per cent, from 7.2 to 3.8 (box 2).

Box 2. European Union: Tariff rates on petrochemical imports from the GCC countries and scheduled reduction under Uruguay Round Agreements

		1995	2000	2005
-	Ethylene Bi Glycol	8.0	5.5	5.5
-	Ethylene	0.0	0.0	0.0
-	Ethylene Glycol	13.0	9.25	5.5
-	Melamine	8.0	6.5	6.5
-	Methyltert. Butylether (MTBE)	7.4	5.5	5.5
-	Methanol	13.0	9.25	5.5
-	Propylene	0.0	0.0	0.0
-	Styrene	6.0	0.0	0.0
-	Polyethylene LDPE-LLDPE-HDPE	12.5	9.5	6.5
-	Polysterne & Poly-vinychloride (PVC)	12.5	9.5	6.5

Source: Joint Arab Economic Report, September 1995, p. 139.

Any appropriate assessment of the future of petrochemical exports of the ESCWA region in the post UR should depend on the examination of these exports item by item and country by country; and not collectively. That is because each item is subject to different levels of tariff and non-tariff barriers in the pre-UR. Moreover, the level of exports of each item differs widely from one member country to another. A through examination, however, is beyond the scope of this study; and only an overall assessment is possible. Based on such an assessment, one can conclude that the major reduction in tariffs, binding of tariffs and the transformation of non-tariff barriers to tariff in many developed countries should enhance the ESCWA region's exports of petrochemicals, particularly to developed countries. However, it is difficult to generalize this conclusion because:

1. For each individual country the result depends upon the pre-UR position of its export of petrochemicals. Apart from Saudi Arabia, all petrochemical exports from the region enjoy preferential treatment in the EU market and Japan. Such a differential treatment is supposed to come to an end in the post UR period. Accordingly, only Saudi Arabia will be better off while the rest of countries of the region will be worse off at least in the short run. But, since Saudi Arabia is the source of over 85 per cent of the region's petrochemical exports, the region as a whole should become better off provided that Saudi Arabia becomes a Member in the WTO.

2. Developed country Members in the WTO may not easily grant market access to petrochemicals from the GCC countries if Saudi Arabia accedes to the WTO. Member countries in the EU in particular, believe strongly that all petrochemical products from the GCC countries are highly subsidized; and consequently, it is neither fair nor possible to grant them market access on equal footing as petrochemicals from other sources. Thus, if higher-cost producers of petrochemicals in the World succeed in imposing anti-subsidy duties, on petrochemical exports from the Gulf region, in their own markets and in third country market, the result will undermine any market access provided by the GATT 1994 to petrochemical products including those from the ESCWA region.

(b) *Imports*

The ESCWA region imports a large amount of raw materials used in domestic petrochemical-based manufacturing industries such as: paints, washing preparations, pharmaceutical products and others. Qatar and the UAE specified a general average of 15 per cent on all industrial goods including petrochemicals; and an average of 20-30 per cent on infant industries that still need protection. The range of tariff reduction and the number of years over which the reduction should take place in Qatar's schedule of commitments are shown in table 7.

Thus, since Gulf markets are not highly protected, any commitments by these countries towards further liberalization of imports of petrochemicals should not create a problem for their petrochemicals industries. In addition, most of their imports of petrochemicals are not competitive with domestic products. The same argument, however, may not apply to other ESCWA member countries like Egypt, Iraq and the Syrian Arab Republic owing to their more protective import policy.

TABLE 7. QATAR: COMMITMENTS TO TARIFF REDUCTIONS UNDER THE WTO IN THE AREA OF PETROCHEMICALS

SITC R3	Products	Level of tariff from/to	No. of years
511110	Ethylene	15-0	10
512110	Methanol	15-5.5	10
55	Washing preparation ETC	15-6.5	10
571100	Polyethylene	15-10	15
572100	Polystyrene	15-10	15

Source: Babban, M. A., p. 16.

D. AGREEMENT ON SUBSIDIES AND COUNTERVAILING MEASURES

A subsidy is a financial contribution by government (regardless of its form) to an enterprise or a group of enterprises to promote export (paragraph 1.a of Article 3) or encourage the use of domestic products over imported products (paragraph 1.b of Article 3).

There are two dimensions to the implications of this Agreement for countries of the region in the area of crude oil, petroleum products and petrochemicals. First, challenges by other countries to the subsidies given in the region to petroleum products and petrochemicals produced for exports and domestic consumption; second, challenges by countries of the region to other countries' subsidies on competitive products.

Providing inputs of oil and gas to domestic industries for exports as well as for domestic consumption makes such subsidy not prohibited under paragraph (1.a) of Article 3 of the Agreement; yet prohibited under paragraph (1.b) of Article 3. This is because the subsidies encourage the use of domestic goods over imported goods i.e. domestic petrochemicals and petroleum products over imported ones. Other subsidies (Provisions of land, equipment and building free of charge or at discount price) are prohibited under Article 6 (serious prejudice) and only allowed for research, protection of the environment and for deprived areas.

However, if any Member in the WTO wants to raise an anti-subsidy case against petrochemical products from the GCC countries, it has to bring the case to the WTO/Dispute Settlement Body with all the required evidence. Moreover, the procedures have to be on product by product bases and not for all petrochemicals or petroleum products. This is important because what matters in assessing the impact of a subsidy, is the share of each item of petrochemical from each GCC country to the EU's total market in that particular products, and the injury this subsidy is causing to the industry of that product as a whole. Another argument was put forward by some officials in the WTO which, if is well studied and developed, may help oil-exporting countries in overcoming the dilemma of dual-pricing in oil industries. The argument would be for: oil-producing countries to price the crude oil at cost plus a reasonable profit margin. At this price they could sell crude oil for domestic consumption as well as for a certain quota of exports (i.e., the latter is exported at zero tariff). A tariff then could be imposed on any quantity of export above this quota which would be called tariff quota) and it is allowed under WTO. This suggestion, however, need to be studied and elaborated before implementation to avoid any possible loop-holes especially under the circumstances of a weak oil market.

Another question which was a subject of discussion with the WTO was whether oil producing countries in the region can claim comperative advantage by producing petrochemicals at a lower cost than their competitors. Since the WTO is a legal body and comperative advantage is a policy issue, the answer was that the WTO would not get involved automatically unless the party concerned present its case with a very strong argument.

The problem of subsidies would still remain regarding the provision of cheap feed-stock for domestic petrochemicals to encourage the use of domestic petrochemicals and petroleum products over imported ones. But since most of the region's imports of petrochemicals are non-competitive imports, domestic products are not driving imports out of the domestic market. The problem, however, can also be solved if countries of the region's partnership and joint-ventures is widely spread among influential foreign companies from different countries.

The Agreement, in principle, provides oil exporting countries with a case against the present structure of energy taxes in the EU countries and the USA, which already tax oil more heavily than other fuels. But, as a result of certain limitations on the interpretation of the operation of Article III on National Treatment, present taxation affording differential treatment for coal, gas and oil probably cannot be reversed. The limitation of operation of Article III permits the retention of an absolute difference in the level of taxes applied to domestic and imported products, required by existing legislation, but no subsequent change in legislation should have the effect of increasing the absolute margin of difference. Oil exporting countries, therefore, should examine new taxation proposals in consumer countries under this aspect. In light of the various new proposals for extension of multilateral trade obligations into the area of domestic policy, ESCWA oil-exporting countries should consider bringing even current taxes into the WTO future negotiations.

E. AGREEMENT ON TECHNICAL BARRIERS TO TRADE

The objective of the Agreement is to encourage the development of international standards and conformity assessment system; however, not to let technical regulations and standards (including packaging, marking and labelling requirements) create unnecessary obstacles to international trade.

Given the complexity of technical standards that prevail in the petroleum-based industries, the relevance of this Agreement to oil-exporting countries is evident. It holds both opportunities and challenges to trade in these products. The former present themselves in the guidelines of the Agreement so that these measures are not used as barriers to trade, and Members are to ensure MFN and national treatments in the application of these measures. The measures will protect oil-exporting countries from arbitrary actions that may be taken against them by other WTO Members. On the challenges side, the Agreement is environment-related. It can be, therefore, easily used to attack oil-and oil-based industries in the region on environmental grounds. The Agreement, however, might become a disguised blessing if its requirements force concerned countries in the region to introduce environmental measures and increase compliance with the international standards and regulations. It is worth mentioning that both Qatar and SABIC in Saudi Arabia, have already initiated steps toward implementing environmental rules and regulations in petrochemical industries.

F. AGREEMENT ON TRADE-RELATED INVESTMENT MEASURES (TRIMS)

The Agreement recognizes that certain trade-related investment measures (as illustrated in the Annex of the Agreement)[4] can cause trade-restrictive and distorting affects. Its objective, therefore, is to avoid such types of investment measures and to create a strong link between trade, investment and free competition. The Agreement provides that, no later than five years after the entry into force of the WTO, the Council for Trade in Goods shall review its operation and consider whether the Agreement should be complemented with a provision of competitive policy. The WTO has not yet dealt with anti-competitive practices, but it is left to each Member to determine the need for such provisions in its national legislation.

Among ESCWA oil-exporting countries, some members have more liberal trade and investment policies, especially toward FDI, than others. However, even the more liberal countries have their reservation against certain kinds of FDI. While the GCC countries have extended joint ventures to refining and petrochemical industries, do not intend to re-open the production of crude oil toward FDI. Some refer the inclusion of the TRIMs in the UR package to the dissatisfaction of transnational companies with the conditions imposed by some countries; and thus, exercised pressure on their

[4] TRIMs that are inconsistent with the obligation of national treatment include those which are mandatory or enforceable under domestic law or under administrative rulings. It also includes those measures compliance with which is necessary to obtain an advantage and which require.

governments to push for its inclusion. As a result, Article 3 requires national treatment, and Article 11 requires lifting restrictions on imports. The provisions of this Agreement and further extension to cover free competition, however, is likely to limit the scope for the formulation of national policy objectives in crude oil industry production and investment.

G. AGREEMENT ON IMPLEMENTATION OF ARTICLE VI (ANTI-DUMPING) OF GATT 1994

For the purpose of this Agreement, Paragraph 1 of Article 2, "Determination of Dumping" clearly states: a product is to be considered as being dumped, if the export price of the product exported from the country to another is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country.

Although, some argue that providing cheap inputs to petroleum products and petrochemical industries in the ESCWA region represents a case of dumping in the markets of other countries, the fact is not so. Since provision of inputs at a discount price is not strictly to production for export, but also for domestic use, the anti-dumping procedures are not applicable according to Article 2 mentioned earlier. Officials at the WTO, also argue that unless the definition adopted by the Agreement is met, the case does not represent a dumping case. Providing cheap raw materials to petroleum products and petrochemical industries in the ESCWA region for exports as well as for domestic consumption, may fall under subsidies but not dumping. However, presenting a dumping case has to be argued product by product, knowing that dumping usually targets certain markets and not all markets in the world. This is why the Agreement refers to an appropriate third country for comparison, which is not the case of petroleum products and petrochemicals from the ESCWA region.

Another dimension of the implication of this Agreement for the region's oil industries is how viable their domestic markets are for dumping pressure from other producers of the same products. If providing cheap inputs to domestic petroleum and petrochemical industries is not challenged by other countries, the probability of dumping by other countries would be very weak, if not nil. But, if the challenge to cheap input proves successful, the competition between the EU countries and South and South East Asia on dumping the markets of the ESCWA region with petrochemical products, can be strong.

H. AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS (TRIPS)

The objectives of this Agreement are to reduce distortions and impediments to international trade while taking into account the need to promote effective, and adequate protection of intellectual property rights. The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technology knowledge and in a manner conducive to social and economic welfare. It also ensures that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade.

Technological progress has already given petrochemical industries in developed countries a strong competitive advantage over their counterparts in developing countries. The TRIPs rules, are expected to exert a considerable effect on the future progress of petrochemicals in developing countries. The expectations are built on fast technological progress in developed countries on the one hand, and the latter's tightening of control over transfer and dissemination of technology unless at a very high price, on the other.

Due to high R and D intensity in petrochemicals, concerned ESCWA countries parties are advised to modify the impact of the Agreement on the progress of these industries through the application of certain methods such as: Establishing joint ventures with big transnational companies with access to update technology; encouraging domestic R and D and cooperation with R and D institutions in other countries; and providing opportunities for the use of unproven technology. In this respect SABIC in Saudi Arabia has already been following this approach with some successful experience.

I. UNDERSTANDING ON THE INTERPRETATION OF ARTICLE XXIV (ON CUSTOMS UNION AND FREE TRADE AREAS) OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE 1994

The Understanding on the interpretation of Article XXIV of the GATT 1994 (on Customs Union and Free Trade Areas) should provide countries of the ESCWA region with an opportunity to develop their petrochemical industries through enlarging and protecting their domestic market under the umbrella of a customs union.

This situation is expected to be further accentuated under the new international trading system: first, because of growing regionalism, especially among major producers in Europe, North American, Japan and other pacific countries; and second, because high cost producers are likely to deny petrochemicals exports from the ESCWA region market access as long as they are provided with cheap feed-stock. If this happens, petrochemical industries in the region can face a serious set back since recent and future developments are based on the region's comperative advantage of access to cheap feed-stock. These two factors should encourage Arab countries to look for alternatives; among them is expanding their own market. The Arab market for petrochemical-based commodity is still greatly underdeveloped compared to other countries; while the size of demand is on a rising trend due to growing per capita income. The creation of a regional market in petrochemicals, therefore, provides a solid base on which petrochemical industries in the region can face outside competition, and absorb market shocks which are so common in the petrochemical industry. It can make Arab petrochemical industry a global force relying on large market access and access to cheap feed-stock. Both elements will work to attract FDI to the region and advanced technology.

J. THE GENERAL AGREEMENT ON TRADE IN SERVICES (GATS)

The General Agreement on Trade in Services (GATS), provides a framework for the negotiations of commitments on trade in services.

Cross-border services in the area of crude oil, petroleum products and petrochemicals include pipeline and maritime transport, and commercial presence e.g. foreign investment which covers flows of capital and movement of natural persons. It covers joint ventures in the development of new production opportunities, distribution and the entry of foreigners to provide exploration or other oil field services.

Acceptance of the GATS implies that the acceding country grants a number of specific commitments on services to be included in its schedule for negotiations during the accession negotiations. Commitments under GATS can be offered to external "market access" and/or national treatment but neither are general obligations. Acceding countries have to take into account the schedules of other WTO Members. For oil-exporting countries in the region, and in respect of crude oil and oil-based industries, certain areas such as the EU, the United States, Japan and South and South East Asia are of particular importance. It should be expected that the EU, the United States and other WTO Members with competitive advantage in services related to oil exploration, production and exportation, will insist on big commitments from oil-producing countries, on the basis of MFN and national treatment, especially in crude oil related services of interest to them. Such services include construction and engineering consultancy, pipeline transport, maritime transport, telecommunications and others. Oil-exporting countries in the ESCWA region while accepting the GATS provisions, should not only consider their existing expertise in these areas, but also their potential to develop more expertise when granting market access to oil-related services.

K. TRADE AND THE ENVIRONMENT

GATT rules essentially placed no constraints on the ability of countries to use appropriate policy to protect their environment from damage resulting from domestic production activities or from the consumption of domestically produced or imported products (Article XX: General Exception). Nor did GATT rules challenge national sovereignty in imposing sales taxes on products that create pollution; on the favourable tax treatment of environmentally friendly products; on taxing production and sale of particular products even to the extent of prohibition; or on ceilings on air pollution levels. As long as these taxes, standards or other regulations, were applied in a non-discriminatory fashion, in the sense of treating domestic and imported goods equally, and applied to all contracting parties equally, they did not represent disguised protectionism according to GATT.

Because of the high pollutant content of crude oil, petroleum products and petrochemicals, enforcement of measures relating to environmental protection represents a new and additional challenge to the concerned countries in the ESCWA region, now and in the future. These challenges involve higher production cost, restrictions on new explorations and imposing additional domestic taxes, including the carbon tax on oil consumption in developed countries. Oil-exporting countries in the ESCWA region are, therefore, advised to monitor and analyse developments in the field of energy use and the environment through different channels including the Environmental Task Force established by OPEC in 1994 in order to provide policy makers in concerned countries with policy-oriented recommendations. Oil-exporting countries Members in the WTO are also advised to play an active role in shaping the direction of the debate within the "WTO Committee on Trade and Environment" to influence decisions to their interest and prevent using environmental issues as barriers to trade in crude oil and oil-based industries.

L. AGREEMENT ON UNDERSTANDING OF RULES AND PROCEDURES GOVERNING THE SETTLEMENT OF DISPUTES

The dispute Settlement System of the WTO is a central element in providing security and predictability for the multilateral trading system. It serves to preserve the rights and obligations of Members under Agreements covered by this Understanding.

Crude oil, petroleum products and petrochemicals is expected to become a strong area of dispute between exporting and importing countries on issues like protection of the environment, intellectual property rights, subsidies, dumping and others. The Agreement governing the settlement of disputes, therefore, is highly relevant to ESCWA oil-exporting countries. It would, however, depend on Membership in the WTO. Non-Members would not have access to such a strong protection tool vis-a-vis trade practices by powerful and influential countries. Yet, in order to achieve the full use of the Agreement, ESCWA member countries are required to build national and regional capacity in understanding the legal aspect of the WTO based on good understanding of national and international laws. It should also benefit from the technical assistance the WTO usually provides to developing country Members upon request.

IV. RECOMMENDATIONS

1. Strengthening cooperation and coordination among oil- exporting countries in the ESCWA region, and with other oil-exporting countries in OPEC to achieve policy-oriented assessment and monitoring to the implication of the WTO Agreement for crude oil and petroleum products, especially the future of OPEC.

2. Establishing a network which includes among its members the important regional and international organizations concerned with the future of these industries in the region. Such organizations may include: OPEC, UNCTAD, ESCWA, UNIDO, OAPEC, AIDMO and GOIC. The purpose of the network is to initiate, coordinate and

complement efforts aiming at analysing and monitoring the implication of the WTO agreement for these industries, and formulate useful policy recommendations.

3. Using the WTO as a forum to enhance and strengthen dialogue and discussions with oil-consuming countries especially developed one's to solve controversial issues related to oil and oil-based industries. Such issues include:

(a) Matching security of supply with security of demand of crude oil in order to insure a sustainable energy future;

(b) Achieving price stability; and consequently, avoiding over-production of these exhaustible resources. The responsibility of preserving a commodity which is still of strategic importance to world economic growth and well being should be shared by both consuming and producing countries alike;

(c) Requiring the OECD countries to restructure and harmonize their energy tax systems in order to achieve simultaneous realization of oil supply and clean environment;

(d) Seeking the support of other WTO Members to bring the matter of internal taxes on petroleum products in developed countries to the attention of the WTO.

4. Adopting a long-term policy for the development of petrochemical industries in the region. Such a policy is important in order to avoid hasty and country-oriented decisions especially regarding FDI, which may inevitably lead to a conflict of interests among member countries. This policy can best be implemented within a framework of a customs union among member countries. A customs union will also provide a larger market for petrochemical industries of the region away from challenges imposed by other WTO Members especially regarding the access of these industries to cheap feed-stock.

5. Building a national and regional legal capacity capable of understanding and interpreting all the WTO Agreement provisions related to these industries. The WTO is a legal body; consequently, the strength of argument and counter-argument can be decisive in seizing opportunities or avoiding challenges raised by other Members;

6. Capitalizing on the recent developments and structural changes that have occurred in the world petrochemical industries, as well as building on the success registered so far by the GCC petrochemical industries. This can be achieved through addressing the following points:

(a) Encouraging joint ventures with foreign companies on a selective basis;

(b) Encouraging the private sector to play a more dynamic role in petrochemicals;

(c) Encouraging downstream processing industries which rely on petrochemical products;

(d) Encouraging R and D in petrochemicals in order to give a competitive edge to the region products in international markets;

(e) Encouraging intraregional trade in petrochemicals by coordinating to establish more complementary than competitive industries.

(f) Encouraging the formation of a trade association of petrochemical producers in the region similar to those that exist in other countries. The main purpose of the association should be to take action to promote the region's petrochemical competitiveness, produce statistical data and provide information for its members. The association should also maintain contact with counterparts in other countries.

IMPACT OF WTO AGREEMENTS TRADE AND FINANCIAL SERVICES IN THE ESCWA REGION

by

*Mahmoud Abul-Eyoun**

I. INTRODUCTION

Foreign trade plays an important role in expanding the markets beyond the national boundaries. It can stimulate economic growth and bring more efficiency to the world economy. Efforts to open markets and to secure fair competition and thus efficiency on the multilateral level started some fifty years ago. It took eight rounds of negotiations among the member countries of the General Agreement of Tariffs and Trade (GATT) to set the rules of foreign trade in goods and to create the World Trade Organization (WTO). The longest ever (1986-1993) eighth round, known as Uruguay Round (UR), succeeded in bringing the participating countries to agree to set the rules for trade in all services for the first time. The General Agreement on Trade in Services (GATS) as the first multilateral agreement now sets global principles, provides legally enforceable rights to trade in services and creates a structure for future periodic negotiations for its progressive liberalization. The GATS provided and opportunity for the countries to schedule the commitments to make to guarantee the openness of their services markets. Among the services sectors covered by the GATS, the Financial Services (FS) is one of the most important sectors in the world economy.

The FS as a sector that comprises banking, securities business, insurance, asset management, etc., is estimated to involve US$ 1.2 trillion per day in foreign exchange transactions.[1] International financing extended by banks around the world reporting to the Bank for International Settlements (BIS) is estimated at US$ 6.930 billion at the end of 1996, including US$ 5,015 billion net international lending. Total world banking assets are put at more than $20 trillion, insurance premiums at $2 trillion, stock market capitalization at over $10 trillion and market value of listed bonds at around $10 trillion.[2]

FS industry is one of the most structurally complex industries in the world economy. It is also one of the fast-moving, innovative, technology using and customer

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[1] WTO, Financial services: a Non-attributable Background Note dated 7/5/1997.

[2] Figures from IMF, BIS and European Commission.

oriented business. Not only it presents products that are considered essential for smooth and efficient functioning of the world trade in goods and other services, it has also implications on savings and investment decisions, monetary policies and thus economic growth and development. Smooth functioning of the financial systems can ensure the flow of the financial resources from where they are generated to where they are needed and used efficiently. Therefore, governments have to ensure that their financial system is sound and stable to avoid the economic shocks and crises that can be caused by banks' failures.

The intervention in the interests of prudential regulation is an important condition underpinning financial market liberalization. This intervention, in some cases, may result in reducing the degree of competition in the financial markets and thus decreasing its efficiency. Blocking the market entry either of domestic or foreign service providers could reduce the possibility of competition and hence, market liberalization.

Thirteen countries are members of the United Nations Economic and Social Commission for Western Asia (ESCWA). Only five countries are members of the WTO and only five of them scheduled commitments to liberalize their FS sectors within the GATS. The degree of the financial systems development varies between the countries of the ESCWA. Some need internal reforms before even thinking of joining the multilateral framework provided by the GATS and some are in an advance state of open market access in FS.

The purpose of this paper is to assess the possible participation in the GATS financial services liberalization between the ESCWA member countries. The paper will compare the GATS liberalization with the state of the financial sector liberalization in these countries. It will focus on the opportunities that may result from participating in the multilateral efforts to liberalize FS and the challenges required to have a sound and stable financial markets.

The rest of the paper is organized as follows: Section II surveys the basic concepts of the international trade in FS and the importance of such services in the world economy. The contestability of the FS's markets, how barriers to free market access can reduce the degree of contestability and how the financial sector reform, whether unilaterally of multilaterally decided, can reduce the barriers and bring some degree of contestability to the markets are discussed in section III. Section IV overviews the GATS, its rules for FS liberalization, the status of the multilateral negotiations and explains how to schedule a specific commitment to liberalize this sector. In section V, we will assess the financial sector in the ESCWA region and the schedules of commitments already presented to the WTO by five of the member countries of the ESCWA to foresee the challenges ahead of these countries to reach the state of open FS markets. The paper closes with a concluding section.

II. INTERNATIONAL TRADE IN FINANCIAL SERVICES

A. IDENTIFYING FINANCIAL SERVICES MARKETS

Financial services are defined as those products provided by the financial institutions to the consumers requiring such services or products. The three elements that can be identified from this definition are the financial institutions, or the service providers, the products they present or produce, and the consumers or the customers of the financial institutions. Those elements represent together the market of the FS as shown in the figure 1.

Financial institutions are those established to work as financial intermediaries. Those could be bank or non bank financial intermediaries (i.e., insurance companies, investment trust companies, finance houses, etc.).[3] The main function of the financial intermediaries is to channel money throughout the economy using different instruments in order to make profits for their shareholders.

Financial institutions are different in size and in the area of specialization. They could be small or big institutions, providing their services through performing activities inside their country of residency or on a regional or global basis. The structure of their ownership could be private, government or a mix of private and public. The ownership of foreigners or non-residents might be possible in some cases depending on the domestic legislation.

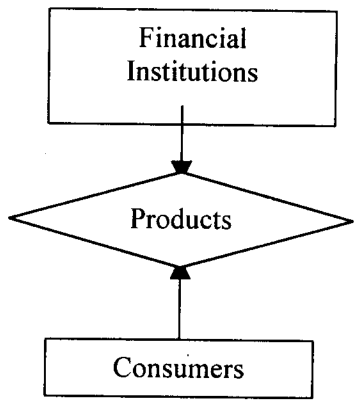

Figure 1. The market of the FS

The activities of the financial institutions include many forms of the FS. Those activities[4] include (1) acceptance of deposits and other repayable funds from the

[3] Wright & Valentine, (1989), pp. 29-31.

[4] These are the financial services activities as defined in the Annex on Financial Services included in the GATS.

public; (2) lending of all types, including consumer credit, mortgage credit, factoring and financing of commercial transactions; (3) financial leasing; (4) all payment and money transmission services, including credit, charge and debit cards, traveler's cheques and bankers' drafts; (4) guarantees and commitments; (6) trading for own account of customers, whether on an exchange, in an over the counter market or otherwise, the following:

(a) Money market instruments (including cheques, bills, certificates of deposits);

(b) Foreign exchange;

(c) derivative products including, but not limited to, futures and options;

(d) Exchange rate and interest rate instruments, including products such as swaps, forward rate agreements;

(e) Transferable securities; and

(f) Other negotiable instruments and financial assets, including bullion.

The activities of the financial institutions also include (7) participation in issues of all kinds of securities, including underwriting and placement as agent (whether publicly or privately) and provision of services related to such issues; (8) money broking; (9) asset management, such as cash or portfolio management, all forms of collective investment management, pension fund management, custodial, depository and trust services; (10) settlement and clearing services for financial assets, including securities, derivative products, and other negotiable instruments; (11) provision and transfer of financial information, and financial data processing and related software by suppliers of FS and (12) advisory, intermediation and other auxiliary FS on all the activities listed above, including credit reference and analysis, investment and portfolio research and advise, advice on acquisitions and on corporate restructuring and strategy.

In addition to the above activities which are usually performed by bank financial intermediaries, products usually provided by the insurance companies include the following activities: (1) direct life and non-life insurance (including co-insurance); (2) reinsurance and retrocession; (3) insurance intermediation, such as brokerage and agency; and (4) services auxiliary to insurance, such as consultancy, actuarial, risk assessment and claim settlement services.[5]

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[5] There are several other definitions, the most referred to is the definition of Moshirian (1994) which is used for statistical measurement of the trade in FS.

FS are classified as producer services to distinguish them from other distributive and professional services. They are also considered as technology-based and not as tertiary services. They require basically human capital and they should be customer-oriented.[6]

The consumer is the customer of the financial institutions' products as mentioned earlier. A wide spectrum of types of customers deal with the financial institutions, but not limited to, governments and government institutions; business sector firms covering all production and services activities; and individuals forming the households sector. The customers could be residents of the country in which the FS are provided or could be non-residents. Their purpose of consuming or using the FS have different orientations.

B. TRADE IN FS

The activities of the financial institutions usually cover the domestic market of the FS. However, and as essential for the success of some of their activities, financial institutions, specially banks, should always keep a correspondent relationship with other non-resident financial institutions. These correspondent relationships are limited to servicing some customers of the banks but not all. The relationships of such type may not give banking institutions the full freedom of investing their excess liquidity in the foreign markets and may not help them mobilizing savings from such markets. For those reasons, among others, financial institutions tend to penetrate the international markets as long as there are no barriers to their entry.[7]

Some services, including some banking and insurance services, are characterized by the features of non-storability and non-transportability. This imply a simultaneous production and consumption and require some form of commercial presence of the provider of such services in the territories of the country where the consumers of such services exist.

Sampson and Snape (1985) distinguished four types of transactions through which the service can be provided internationally:

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

In type A, both the consumer and the producer do not move from their country of residency but the transaction can occur if the service can be moved or transported

[6] See Abul-Eyoun, (1996), pp. 253-4.

[7] See Walters (1985) for more detailed reasoning of why financial institutions go international, pp. 28-34.

across the borders. In order for the consumer to use the service, he has to move to the country of the provider of the service as in type B transactions.[8] Type C transactions involve the international movement of capital and labour. This movement provides the main mode of supply of such type of transactions.[9] International FS rely mostly on types A, B, and C of transactions and less on type D. Figure 2 explains the application of the above types of transactions on the international FS.

A *Inter-bank transactions * Financial advisory services	B * Services provided to travellers in the countries they are visiting by domestic financial institutions. * Services of the offshore institutions.
C *Foreign direct investment * Branch and rep. Offices activities.	D * Services provided to (or from) a foreign resident by another foreign resident in a different country

Figure 2. Types of International FS Trade Transactions

Trade in services in general, and in FS in particular, can be defined as the supply of a service:[10]

(a) From the territory of one country into the territory any other country;

(b) In the territory of one country to the service consumer of any other country;

(c) By the service supplier of one country, through commercial presence in the territory of any other country; and

(d) By a service supplier of one country, through presence of natural persons of a country in the territory of any other country.

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8 As in the case of tourism services.

9 Type D is referred to as "footloose" services such as a tourist going to a hotel run by a transnational company in a third country.

10 This is the definition adopted by the GATS. See Article I in International Legal Materials, September 1994, pp.1168-9. Note that we replaced the word "Member" by the word "country".

In the above definition of the trade in services, the supply of a service, or the **market access**, can be done either through **cross-border trade**, where neither the supplier of the service nor the consumer of such service move, but the service moves according to mode (a) of the definition, **consumption abroad**, where the consumer has to move to the country of the producer in order to consume the service according to mode (b) of the definition**, commercial presence abroad**, where the provider of the service has to move to the country of the consumer in the form of capital required to set his business (e.g. foreign direct investment, a branch or a representative office) according to mode (c) of the definition, and/or through **the temporary movement of natural persons**, where the supplier as a natural person has to move on a temporary basis to the consumers' country of residency in order to deliver the service.

C. IS IT A NEW PHENOMENON?

International trade in FS is not a new phenomenon. It can be traced back to the ancient Egyptians and Sumerians who used papyrus letters of credit and clay-tablet cheques to facilitate international trade in goods. Merchant banking dominated by the Medici and Fugger banks during the fifteenth and the sixteenth centuries involved cross-border operations.[11] The expansion of trade in goods among nations during that period required some form of FS that can facilitate the payments for such trade. This required maintaining links between merchant banks. The Medici family of Florence not only had numerous correspondent relationship in Europe, they also had branches in some major European cities.[12]

Services provided by the merchant banks were produced in one country and consumed by the customers in another country. This was done either by the commercial presence of the service provider outside the territories of his country of residency or through the correspondent relationship with a domestic service provider in the consumer's country of residency. The telecommunication and transportation technologies developed during that period helped to carry the services directly to the consumer's country of residency. The consumers did not move, but the service did.[13]

D. THE IMPORTANCE OF FS IN THE WORLD ECONOMY

Measuring trade in FS is one of the major constraints for proper empirical analysis of the importance of the FS in the world economy and the importance of trade in FS as compared with trade in services in general. As indicated by Moshirian

[11] Walter (1985), p. 14.

[12] Ibid., p. 14.

[13] On the other hand the income generated by the merchant banks as a result of this type of cross border operations is the value of such transactions. This income may take the form of commissions, fees and related returns and the discounted present value of the expected returns associated with services sold during the current period. See: ibid., p. 15.

(1994), one must distinguish between FS exports/imports and the FS income/ expenditure.[14]

In a recent study by the WTO economists, released on 22 September 1997, the results indicated that the FS sector has explained rapidly in recent years. The study notes that employment increased by 25 to 50 per cent in a number of industrialized countries since 1970 and now represents 3 to 5 per cent of total employment. Value-added in the financial service sector has also grown considerably over the past 25 years and now reaches between 7 and 13 per cent of GDP in Hong Kong (China), Singapore, Switzerland, and the United States.[15]

According to the study, 'financial service sector growth reflects the rise in international financial market activities. Lending and securities trading, and derivative markets have experienced rapid growth in the past 10 years, with many developing and transition economies also benefiting from improved international market access. Foreign ownership of banking assets, an indicator of commercial presence in this sector approaches 20 per cent in the United States, Argentina and Chile. Consequently, the study says, cross-border trade in FS more than tripled between 1985 and 1995 and now exceeds US$ 50 billion for the most important trading countries. Data for the United States suggests that trade through commercial presence in foreign markets is even more important than cross-border trade'.

Banking assets, which is the motivator behind the increase in the FS trade were estimated at US$ 40 trillion in 1994, of which US$ 7909.4 billion represent deposit banks' foreign assets.[16]

III. THE CONTESTABILITY OF THE FS MARKETS AND THEIR DEGREE OF OPENNESS

A. THE MEANING OF A CONTESTABLE MARKET

A market can be defined as 'contestable' if it is characterized by very low barriers to entry by new sellers. If a market if fully contestable, there would be no substantial barriers to entry by foreign firms, whether this entry is achieved from their home nations or through foreign direct investment. Contestability of markets is an important criterion for the degree of market openness.[17]

The theory of contestable markets can be traced to the work of Baumol, Panzar and Willig who argued that a market is perfectly contestable if three conditions were

[14] Moshirian (1994), pp. 349-357.
[15] WTO (1997), 'Open Markets in Financial Services' No. B3651e.wpf, on WTO web site.
[16] IFS, July 1997, pp. 42-3.
[17] See: Graham and Lawrence (1996) p. 1.

satisfied. First, new firms will have the same advantages as compared to the existing firms in the market.[18]

Second, there are zero sunk costs.[19] The third condition is that the entry lag is less than the price adjustment lag for existing firm. Considering these conditions, contestability is a theory in which potential competition plays the dominant role in generating competitive behavior. The outcome of a perfectly contestable market is socially efficient.

The application of the theory of contestability of markets to the FS markets will, in most cases, result in a great deviation from the conditions of contestability.

Regulation of the financial markets may add barriers to entry, place advantages in favor of the existing domestic financial institutions, and may not guarantee zero sunk costs. In the following paragraphs, a deeper analysis of the types of barriers that may reduce the degree of contestability of the financial markets will be explained. The possibilities of reducing or eliminating the barriers to entry will also be discussed.

B. WHY FS INDUSTRY IS USUALLY SUBJECT TO REGULATION AND PROTECTIONISM?

FS is one of the most heavily regulated industries in the world. Its links with the households and business sectors, governments and the external sector (representing the rest of the world) may explain partially why this industry is subject to regulation. Through its links, the FS can affect saving and investment decisions, the volume and the flow of foreign trade to and from a country, and the volume of domestic funds available to finance government's budget deficits. As FS is considered one of the vehicles for implementing the economic policy in general and the monetary policy in particular, financial institution's behaviour is pivotal in achieving the objectives of such policies.

FS sectors are also very susceptible to crises either originating from local or from foreign sources. The failure of any financial institution could affect negatively not only the rest of the financial institutions but it could also damage the economy as a whole.[20] The international crises usually affect the domestic financial system through the international links between the financial institutions.[21] Without local and foreign safety nets, most countries tend to protect their financial markets.[22]

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[18] This means that new firms will face the same market conditions as the old existing firms, including technology, input prices, products and demand.

[19] This means that entry costs are totally recoverable and there will be no exit costs.

[20] Walter (1985), op.cit., pp. 5-6.

[21] We refer to the BCCI case.

[22] Walter, op.cit., p. 7.

For these reasons, among others, financial sectors in general and banking institutions in particular are subject to different degrees of regulation and protectionism. These regulations may affect the contestability of the financial markets as it may include barriers to entry and restrictions on competition. The regulation and protection are not only limited to developing economies, it can also be found in industrialized and developed economies as well.

C. FORMS OF REGULATIONS AND TYPES OF BARRIERS THAT CAN REDUCE FINANCIAL MARKETS CONTESTABILITY

Governments used to deal with the financial sector regulation in different ways, and accordingly, the forms and degrees of regulation vary from one country to another. On one extreme, the complete regulation may take the form of nationalizing the financial institutions in a way to guarantee complete control over their decisions. This form of excessive regulation naturally includes elimination of any form of competition either among the nationalized financial institutions or between these institutions and the foreign suppliers of the same services. Although it is easy and simple for a government to administer the financial institutions in the case of excessive regulation, the price of such intervention would be the complete loss of efficiency in allocating savings according to the free market parameters. This form of regulation was found in the former centrally planned economies and could be found in some closed developing economies.

On the other hand, government intervention in the financial sector could be minimal. In some cases a complete independence of the monetary authorities is granted. The monetary authorities in this type of regulation usually follow the rules and principles of prudential control to ensure safety, stability and soundness of the financial system. In addition, market forces play an important role not only to give the right signals to the financial institutions but to guarantee competition which in turn will help these institutions take the most efficient and the minimum cost decisions. Free market based economy is a prerequisite for allowing such form of regulation which is usually followed by the governments of the industrialized developed economies and in some emerging developing economies.[23]

The types of barriers to a market based financial environment may include, as shown in figure 3, fixing interest rate, credit ceilings and administrative controls to channel credit to politically chosen sectors, restriction of the number of banks and financial institutions authorized to supply their services or giving exclusive right to an institution as the sole provider of a service or even giving monopoly power on a geographical bases. The barriers may also take the form of allowing some banks to provide services to specific sectors of the economy or allowing banks to work within specialized banking practices.[24] Ownership restrictions may give the government an

[23] Lately, Bank of England was given the full independence.

[24] Same analogy could be applied to insurance companies.

exclusive right to be the sole owner of some big banks and other financial institutions. Foreign ownership could also be restricted or, in some cases, totally prevented. Even foreign owned financial institutions may not be authorized to have access to the domestic financial markets.

D. STABILITY VERSUS EFFICIENCY: THE PRICE OF EXCESSIVE PROTECTION

Although the stability of the financial system is a major policy issue for the monetary authorities and the governments, the degree of optimality of each form and degree of regulation can easily be argued. No doubt that if the chosen form of regulation is near optimal, the cost of distortions tends to be very low and efficiency of the financial system can easily be reached. On the other hand, the price of the "artificial stability" which comes with excessive regulation could be very expensive for the economy.

Developing economies cannot afford the price of inability to mobilize domestic savings because of maintaining negative real interest rates. The excess demand for credit and the misallocation of credit or credit rationing usually results in an excessive amount of non-performing loans that can hinder the banking system and may lead to losing the international confidence in the domestic financial institutions. Developing countries will be better off if such repercussions can be avoided, especially if their securities markets are not well developed and their banking sector dominates the financial system.

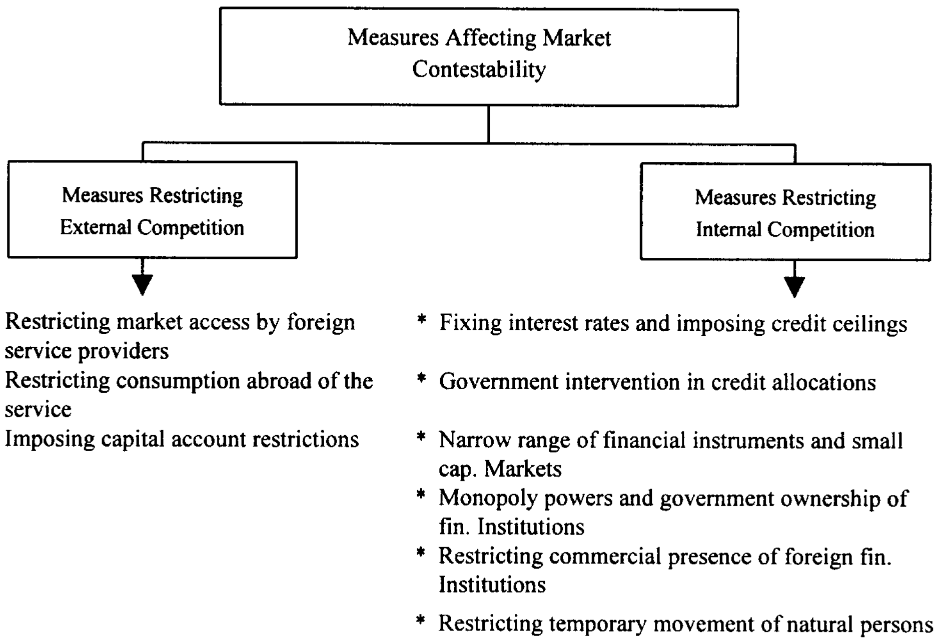

Figure 3. Examples of barriers to free financial system

Proper regulation does not mean that reaching the case of sound financial institutions and stable financial system is a free meal. However, the price of such case could be minimal if compared with the price of the repercussions resulting from the application of excessive regulation and maintaining artificial stability.

Governments, especially in most of the developing countries, are still reluctant to introduce financial market reforms despite the general acceptance of the importance of economic reforms aiming at reaching free market economies. Some developing economies which introduced macroeconomic reforms lately still have undeveloped financial markets. The governments which apply economic reform programs targeting economic stabilization through the improvement of the supply side of the economy must, sooner or later, introduce financial sector reforms to activate the mechanisms of the economic reform programs.

E. FINANCIAL MARKETS REFORMS: A STEP TOWARDS MARKET CONTESTABILITY

To guarantee the success of the economic reform programs designed to reach macroeconomic stabilization and stability, soundness and efficiency of the financial system should be an indivisible part of such economic reforms.

The concept of 'financial sector reform' means to change the existing financial sector toward a full-fledged and efficient market system to guarantee a well-behaved financial sector.[25]

The objectives of the financial sector reforms include improving economic performance by raising efficiency and lowering costs.[26]

Financial sector reform is a broad concept that includes 'financial liberalization'. The latter means the removal of regulations that limit competition in the financial system and that impede the free interplay of market forces either in determining the prices of the financial contracts (interest rate), or their quantities (credit ceilings).[27] Financial sector reform menu includes the following elements:

(a) Interest rate deregulation and elimination of all types of subsidized credit;

(b) Abolition of credit ceilings;

(c) Elimination of all forms of formal and informal intervention in the financial markets practices;

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25 Galbis (1994), p. 1 and Pill and Prodham (1995), p. 25.
26 Galbis, op. cit., p. 2.
27 Ibid, pp.1-2.

(d) Development of measures to develop financial markets (money markets, treasury bills, payment system and shift from direct to indirect monetary policy instruments;[28]

(e) Restructuring the financial institutions legally, financially, and administratively;

(f) Increasing competition among restructured and sound banks and the establishment of a powerful, effective and independent banking regulators in addition to the adoption of the international practices in the regulation and supervision of the banking system;

(g) Developing the securities market;

(h) Removal of controls imposed on the capital account of the balance of payment and opening the financial sector to foreign participation;[29] and

(i) Reducing uncertainties encountering the banking system and the economy as a whole.

A market determined interest rate will result in reaching a positive real deposit rate and the latter can allow a better mobilization of the domestic savings. Positive real interest rates may also attract foreign capital flows to the domestic market if foreign capital has free access to such market. Also it can reduce the dollarization of the economy as holders of foreign exchange will be attracted by the positive real yield on their domestic holdings.[30] All the above might lead, if accompanied by improved credit decisions based on credit rating criteria, to better allocation of the funds that can be made available to the domestic financial institutions among the borrowers who are willing to invest in the most productive activities.

Restructuring the financial institutions can help them be ready for competition. Competition among well structured, professionally managed, and financially sound banking institutions will reduce the cost of banking transactions and thus, reduce the risk margin usually added to their basic cost of funds.

Competition can also be strengthened by relaxing the restrictions on foreign ownership of domestic banks so that foreign 'best practice' managerial and credit

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[28] Sorsa (1997), p. 20.

[29] As mentioned in Sorsa, op.cit., p.20, opening the financial sector to foreign participation may not bring the desired results in terms of increasing financial depth and achieving better allocation of saving if the financial sector suffer from controls or negative interest rates.

[30] In the case of Egypt, financial reforms reduced the degree of the dollarization during the first half of the 1990s. see: Abul-Eyoun (1995).

assessment can be introduced and new technologies can be applied.[31] Integration of domestic and international financial markets is an important element of the financial sector reform policies. The abolition of the controls and restrictions on the current and capital account transactions can achieve such integration and therefore can keep domestic interest rates much closer to the world levels. Developing countries can also benefit from the global net capital flows to developing economies which exceeded US$ 150 billion in 1990-96. However, countries need to prepare well for capital account liberalization before abolishing the existing restrictions.

Finally developing the securities market will help ease the pressures on the banking institutions to provide financing to both the governments and the business sector, and will give broader choice to the owners of the money holdings to divest their portfolio and to achieve competitive returns. It can also help monetary authorities achieve the objectives of their monetary policy.

It worth mentioning that financial sector reforms do not mean that the role of the government will be abolished completely. Strengthening the capabilities of the regulators, adoption of the internationally accepted practices for bank supervision, requiring transparency of financial transactions, and the amendment of the old banking system's governing laws can facilitate the financial liberalization and is actually, a corner stone for having a sound and stable financial system. Governments can also continue to be an owner and an effective major customer of the banking system.[32] As the designers of the economic policies that can pave the way for the financial reforms, governments can continue to add more confidence and credibility to the financial system through creating a stable and viable economy. Full independence of central banks and monetary authorities can also be a further step towards financial market reforms, however, this can be the last step in the process of reform. England lately introduced this independence despite the historical excellent track record of the Bank of England as the regulator and supervisor of the English banking system.

It is not necessary, in implementing the financial sector reforms, to use the 'big-bang' approach. This approach would be economically optimal if no distortions or externalities existed.[33] Recent literature on transition economies pointed also to the merits of the big-bang approach in situations where distortions are extremely large. The 'Gradual Reform' approach is advisable to counter any risk the financial institutions may encounter during the process of reform and to develop mechanisms to bear the adjustment costs.[34] However, "Gradual Reform" should not mean that the required reform is an open ended process.

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[31] See: Pill and Pradhan (1997).

[32] See: Pill and Pradhan (1997), op. cit.

[33] For a bibliography on the subject see: Sorsa (1997), op. cit., footnote no.20 p. 19 and Ibid., p.4.

[34] Galbis (1994).

Governments should target to implement this reform in an identified and scheduled sequencing and within not very long transition period.[35]

F. UNILATERAL VERSUS MULTILATERAL AND INTERNAL VERSUS EXTERNAL FINANCIAL LIBERALIZATION

As mentioned above, financial liberalization is only a part of the financial sector reform policy. This liberalization could be unilateral, i.e., domestically originated, or multilateral. It should also be noted that financial liberalization can be looked upon from the a domestic market view or from the global market for FS view. As mentioned earlier it is not advisable to open financial markets to foreign competition without having a solid, sound and competitive system domestically. While section III of this paper will cover the multilateral efforts to liberalize trade in financial services in more detail, it worth mentioning here that one can not see any contradiction between the objectives of unilateral and multilateral liberalization efforts if the conditions for the international liberalization in a multilateral framework exist. The only purpose of both is to guarantee some degree of financial openness and to increase the contestability of the domestic financial markets.

G. INDICATORS OF THE DEGREE OF OPENNESS AND DEVELOPMENT

Before reviewing the measures that can indicate the degree of openness of the financial sector, it is important for both policy makers and researchers to assess the importance of the FS in their economies and compare it to other financial markets. This can be done by comparing the country's banking assets to the world banking assets and the stock market capitalization of such country to the world stock capitalization. While the former can show the ranking of the banking sector in a country as compared to all banking sectors of the world economy, the latter can express the degree of development of the stock market of a country and its attractiveness as a part of the financial sector.

To measure the level of development of a country financial sector, the concept of financial depth is usually used.[36] The financial depth of an economy indicates the extent to which an economy relies on formal baking sector in financial intermediation.[37] The indicators that can be used for this purpose include:

(a) The ratio of narrow money, M1, to nominal GDP;
(b) The ratio of broad money, M2, to nominal GDP;
(c) The ratio of financial liabilities, M3, to GDP; and
(d) Relative share of banking activities in GDP; and

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[35] For a good review of the literature of the sequencing of the reform, see Galbisi (1994) and Mohieldin, et at. (1996), p. 9.

[36] Sorsa (1997), op. cit., p. 22 for reviewing the literature.

[37] See: Ibid., p. 22.

(e) The share of private credit to nominal GDP.[38]

While zero percent means no banking, large informal sector and consumers hold assets outside the banking sector, 100 percent means a completely involvement of the banking sector in economic activities creating the country's GDP.

Policy related indicators also shed some light on the development and policy framework of financial sector. Four indicators can be used:

(a) Spreads in financial intermediation;
(b) Inflation rates;
(c) Level of real interest rates; and
(d) Net claims on government/total credit

The lower the percentage of the spreads, the more efficient the banking sector is and the lower the degree of risks associated with its operation. Positive real interest rate can be used as an indicator of the existence of a liberalized interest rate system. The degree of government dominance of the credit market can be indicated by the ratio of its net claims due to the banking sector to the total credit provided by that sector. The higher the percentage, the more the possibility of the existence of the 'crowding out' effect.[39]

Contestability and the degree of openness of the financial markets can also be measured by a number of indicators including:

(a) Profitability ratios (ROA, ROE);
(b) Interest margin;
(c) Foreign share in total banking assets or liabilities;
(d) Concentration ratios (market shares).

Profitability indicators are measures of the efficiency in resource allocation if the cost of traditional banking measured by the interest margin is not set at levels that maximize profits due to monopoly powers or high market shares. Foreign participation can be indicated by the share of foreign assets or liabilities in the banks consolidated balance sheet.

External openness indicators include current and capital account restrictions on transfers from and to the country and the ratio of foreign liabilities to total balance sheets.

The degree of the capital market development indicators include market capitalization in value and as a percentage of a country GDP, the value traded as a

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[38] See Pill and Pradhan (1995) op. cit., p. iv.
[39] See: Abul-Eyoun (1988).

percentage of the GDP, the value of shares traded as a percentage of the GDP and the number of listed companies.

As a point of caution, there are some conceptual limitations and other practical problems that should be considered in comparing the above indicators among countries. Some indicators comparisons might mislead the analysts because of the difference in the market size, the value of the GDP and the specific conditions prevailing in an economy. Comparability of data across countries may also cause false interpretations. One should take care of the above limitations and problems when analyzing the financial systems.

IV. FS AND THE GATS

A. THE GATS IN A NUTSHELL

The General Agreement on Trade in Services (GATS) as the first multilateral agreement now sets global principles, provides legally enforceable rights to trade in all services. The GATS creates a structure for future periodic negotiations for trade in services progressive liberalization. The GATS provided an opportunity for the member countries to schedule the commitments they were willing to make to guarantee the openness of their services markets.

The GATS has three **basic principles**:[40]

First, it covers all services except those provided in the exercise of governmental authority;[41]

Second, there should be no discrimination in favor of national providers of a service, i.e. the National Treatment Principle; and

Third, there should be no discrimination between other Members of the Agreement, i.e., the Most Favored Nation principle (MFN).[42]

The GATS legal texts provided some important exceptions to all three of these principles where,

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[40] See: WTO, General Agreement on Trade in Services, the Design and Underlying Principles of the GATS, on WTO, web site.

[41] Note that the only exclusion to what would otherwise be a universal sectoral coverage arises in the Annex on Air Transport services, which excludes traffic rights and services directly related to the exercise of traffic rights.

[42] Article II requires that members of GATS accord to "services and services suppliers of any other Member treatment no less favorable than that it accords to like services and service suppliers of other country."

(a) Governments have the right to choose the services in which they make market access and national treatment commitments;

(b) Governments can limit the degree of market access and national treatment they provide to foreign service providers; and

(c) Governments 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 generality.[43]

The GATS, as mentioned earlier in section I, defined trade in services in terms of four modes of supply, i.e., cross-border trade, consumption abroad, commercial presence abroad and/or the temporary movement of natural persons.

Developing countries received special treatment in the GATS. Article IV of the Agreement encouraged the increasing participation of developing countries in world trade. They were given exemption from the time constraint to establish information centers, whereas developed countries were obliged to establish contact points within two years from the date of entry into force of the WTO Agreement to facilitate the access of the developing countries' service suppliers to information related to their respective markets. Developing countries were given some flexibility in being a party to or entering into an economic integration agreement liberalizing trade in services between or among the parties to such an agreement.[44]

According to the GATS' Article XII, Member countries having serious balance of payment and external financial difficulties or threat, may adopt or maintain restrictions on trade in services in which they have undertaken specific commitments.[45] Article XIV granted the Member countries the right to adopt measures to protect public morals or to maintain public order, human, animal or plant life or health, and to secure compliance with laws or regulations related to the prevention of deceptive and fraudulent practices, privacy of individuals and safety.

Articles XVI, XVII and XVIII of the GATS represent the core of the Agreement as far as the specific commitments are concerned. Article XVI in part III

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43 Article II of the Agreement permits Members to annex to the Agreement MFN exemptions relating to specified measures. The exemptions can not be added in the future, and if listed at the time of entry into force of GATS they are subject to review.

44 Article V.

45 As mentioned in Article XII, it is recognized that particular pressures on the balance of payments of a Member in the process of economic development or economic transition may necessitate the use of restrictions to insure, inter alia, a level of financial reserves adequate for the implementation of its program of economic development or economic transition. These restrictions are relevant only when a Member has scheduled specific commitments to liberalize trade in services.

of the Agreement deals with the limitations and conditions on market access through the four modes of supply identified above. According to this Article, each Member shall accord services and service suppliers of any other Member treatment no less favourable than that provided for in his schedule taking into consideration the following limitations or conditions specified in paragraph 2 of this Article:

(a) Limitations on the number of suppliers;[46]

(b) Limitations on the total value of service transactions or assets;[47].

(c) Limitations on the total number of service operations or on the total quantity of service output;[48]

(d) Limitations on the total number of natural persons that may be employed in a particular service sector;

(e) Measures that restrict or require specific types of legal entity or joint venture; and

(f) Limitations on the participation of foreign capital.

Article XVII is related to the national treatment provision whereas a Member shall accord services and service suppliers of any other Member treatment no less favourable than that it accords to its own like services and service suppliers.

Article XVIII, entitled Additional commitments, offers the Members to negotiate additional commitments not dealt with under Articles XVI and XVII above. These commitments are related to measures affecting trade in services such as qualifications, standards or licensing matters.

B. THE GATS RULES FOR FS LIBERALIZATION

Due to the special characteristics of the FS among the services sectors covered, a special GATS annex was used to cover the following:

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46 In the form of numerical quotas, monopolies, exclusive service suppliers or the requirements of the economic needs test.

47 In the form of numerical quotas or the requirement of economic needs test. Expressed in terms of designated numerical units in the form of quotas or economic needs test. This does not cover measures of a Member which limit inputs for supply of services.

48 Expressed in terms of designated numerical units in the form of quotas or economic needs test. This does not cover measures of a Member which limit inputs for supply of services.

1. **Scope and Definition**: the annex applies to measures affecting the supply of the FS via the four modes of delivery mentioned above. The services supplied in the exercise of government authority excluded originally from the GATS was further explained to include (a) activities of the central banks, (b) activities related to the system of social security or public retirement plans,[49] and (c) activities of public entities for the account or with the guarantee of the government or using the government's money.

2. **Domestic Regulation**: The exemption of all measures taken for prudential reasons from the applicability of the GATS is considered of paramount importance to the countries willing to participate in the Agreement. Accordingly countries are free to apply all measures necessary to safeguard the integrity and the stability of the financial system or to protect consumers.

3. **Other Definitions**: the annex excluded public entities from the definition of the term 'financial service supplier'. A 'public entity' means (a) a government, a central bank or a monetary authority, or an entity owned or controlled by a Member and engaged principally in carrying out government functions or activities for government purposes,[50] or (b) a private entity performing the functions of the central banks.

As mentioned above, FS are defined in accordance with the definition mentioned in section I of this paper. However, according to the 'Understanding'[51] reached by the participants in the Uruguay round on commitments on FS, further explanations on the terms of the GATS was reached:

Market Access: (i) Members shall list existing monopoly rights and shall eliminate them specially the monopoly rights given to the public entities supplying services for the account or with the guarantee of the government or using the government's money. (ii) Member shall ensure that foreign service providers established in his territory are accorded the MFN treatment and the national treatment given to the public entities when they purchase FS in the territories of the member. (iii) Members shall permit non-resident suppliers of the FS (through an intermediary or as an intermediary)[52] to supply insurance of risk for specific activities, reinsurance and retrocession and services auxiliary to insurance services, and provision and

[49] If (a) and (b) are not provided by financial service suppliers in competition with a public entity or a financial service supplier.

[50] Not including those entities principally supplying FS on commercial terms.

[51] Understanding on Commitments on Financial Services.

[52] A non-resident supplier of financial service is that supplier 'of a Member which supplies a service into the territory of another Member from an establishment located in the territory of another Member, regardless of whether such supplier has or has not a commercial presence in the territory of the Member in which the financial service is supplied'.

transfer of financial data processing and advisory and other auxiliary services excluding intermediation relating to banking and other FS.(iv) Members shall permit their residents to purchase in the territories of any other Member almost all defined banking services specified in the Annex and in the insurance services specified in the understanding. (v) Foreign financial service providers were given the right to establish or to expand their commercial presence in the territories of a member including through the acquisition of existing enterprises. However, the Member may impose terms, conditions and procedures for the authorization of establishment or expansion of such commercial presence. (vi) members shall allow foreign service providers established in their territories to offer any 'new financial service'.[53] (vii) Members shall allow transfers of information, processing of financial information, and transfer of equipment as long as this does not contradict with protecting personal data, personal privacy and the confidentiality of individual records and accounts. (viii) Members shall allow temporary entry into their territories for a specified personnel of the foreign service suppliers who established or establishing commercial presence in their territories. (ix) Members shall remove or limit any significant adverse effects on financial service suppliers of any other Member that may prevent offering the service, limit the expansion of their activities into the entire territory of the Member and those measures applied to both banking and securities services.[54]

National Treatment: (i) Members shall grant to the suppliers of any other Member established in their territories access to payment and clearing systems operated by public entities and to official funding and refinancing facilities. (ii) Members shall ensure that entities, that require membership or participation in order for a supplier to provide the service, accord national treatment to FS suppliers of any other Member resident in their territories.

C. Initial Commitments of 1993 and the Later Developments

At the end of the Uruguay Round in December 1993, 82 governments (counting the then 12 Member states of the European Union individually) offered to open their markets to foreign FS providers in their schedules of individual market opening commitments in services. However, participants did not reach a full agreement and decided to continue the negotiations up to 30 June 1995 with the purpose of improving the FS market-opening package.[55] This deadline was later extended by another four weeks to the end of July 1995.

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[53] According to the definition of the Understanding a new financial service ' is a service of a financial nature, including services related to existing and new products or the manner in which a product is delivered, that is not supplied by any financial service supplier in the territory of a particular Member but which is supplied in the territory of another Member'.

[54] If the Member apply the same measures to both services but the supplier concentrates his activities in the provision of securities services only.

[55] That is 15 months after the Uruguay Round agreements were signed in Marrakesh and six months after the WTO agreements became effective.

By the end of July 1995, the second set of national offers and commitments[56] were made when 43 governments (counting 15 member states of the European Union individually) agreed to improve their Uruguay round offers.[57]

However, the United States announced that offers submitted by many of its important trading partners were inadequate and decided not to apply the MFN principle for these activities.[58]

To rescue the negotiations, the remaining participants agreed to a proposal from the European Community to implement their best offers until 1 November 1997. The MFN principle of non-discrimination between trading partners would also apply to all WTO members. According to the WTO ministerial declaration adopted in Singapore in December 1996, the negotiations resumed again in April 1st, 1997 with the objective of making further improvements to the schedules of commitments of the participants and to bring the United States into the improved package. The negotiations shall conclude on December 12, 1997.

D. CURRENT NEGOTIATIONS

At their meeting on 10 April many governments said that since the last round of talks in July 1995, significant liberalization had taken place in the financial service sector. The progressive liberalization in the sector could help pave the way for better offers at the end of 1997. Furthermore, the concluded WTO agreements on telecommunications services and on lowering tariffs to zero for information technology products were cited as evidence that single sector negotiations could indeed produce results.

Several participants announced changes in their domestic regulatory regimes for foreign banks, including the United States, Canada, Switzerland, Japan, Brazil, India, Thailand and Venezuela, and their willingness to reflect their positive legislative changes into their offers.

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56 The improved market access offers made in July 1995 entered into force on 1 September 1996. In 1995, it was agreed that such offers would stay in force until 1 November 1997 when, during a 60-day period, governments would have an opportunity to modify their commitments. The principles of this agreement are set out in the Second Protocol to the General Agreement on Trade in Services (GATS) and the Second Decision on Financial Services adopted by the Council for Trade in Services on 21 July 1995.

57 Australia, Brazil, Canada, Chile, Czech Republic, Dominican Republic, Egypt, the European Communities, Hong Kong, Hungary, India, Indonesia, Japan, Korea, Kuwait, Malaysia, Mexico, Morocco, Norway, Pakistan, Philippines, Poland, Singapore, Slovak Republic, South Africa, Switzerland, Thailand, Turkey and Venezuela.

58 The MFN or the "Most-Favored-Nation" corresponds to non-discrimination between trading partners as set out in Article 2 of the GATS.

At the Committee's meeting on 5 June, the governments of Australia, Bahrain, Canada, the European Union, Hong Kong, Japan, Switzerland and the United States said they would table their respective draft offers in time for the 17 July 1997 meeting. The overall tone of the meeting was very positive, with several countries reporting on recent national developments concerning liberalization in the FS sector.

E. UNDERSTANDING THE SCHEDULE OF COMMITMENTS

Before explaining the schedule of commitments on FS, it might be useful to go back to the distinction between external and internal liberalization referred to in Section II of this paper. Internal liberalization could include increasing participation of foreign service providers or suppliers in serving domestic financial markets with the objective of increasing the degree of competition and increasing the degree of efficiency. External liberalization means eliminating the barriers to entry and allowing the international trade in FS to be achieved.

Now, if we recall the four modes of supply of a service, i.e. cross-border trade, consumption abroad, commercial presence abroad and/or the temporary movement of natural persons, one can accept the argument that both the commercial presence abroad and the temporary movement of persons can be classified under internal liberalization measures, while cross border trade and consumption abroad can be classified under the external liberalization measures.[59] Keeping this in mind, table (1) gives an example of the schedule of commitment on FS.

V. CHARACTERISTICS OF THE FINANCIAL SECTORS IN THE ESCWA REGION

ESCWA region is composed of 13 countries, namely, Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, United Arab Emirates, Egypt, Syria, Yemen, Jordan, Lebanon, Iraq and Palestine. Only Egypt, Kuwait, Qatar, the UAE, and Bahrain are members of the WTO. Oman, Saudi Arabia and Jordan have requested membership. The first six countries of the countries composing ESCWA are also members of the regional Gulf Cooperation Council (GCC).

A. MACROECONOMIC PERFORMANCE

Because 10 of the ESCWA member countries are oil producers and exporters,[60] their economic performance in 1995 and 1996 benefited from the relative rise in international oil prices. This had positive impact on their trade balance and government expenditure.

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[59] See Sorsa, op. cit., p. 8.

[60] This includes GCC member countries in addition to Egypt, Iraq, Syria, and Yemen.

The GDP growth rates in the ESCWA countries, excluding Iraq, reached 2.1 per cent in 1995 and was estimated at 4.3 per cent in 1996 as compared to a 0.8 per cent in 1994. This growth differs between the member countries as shown in table 1 below.

TABLE 1. AN EXAMPLE OF THE SCHEDULE OF COMMITMENTS ON FINANCIAL SERVICES

Service Activities (1)	Modes of Supply (2)	Limitations On Market Access (3)	Limitations on National Treatment (4)	Additional Commitments (5)
Part I: Horizontal Commitments				
Applies to all sectors including financial services sector.	(1) Cross-border supply (2) Consumption abroad (3) Commercial presence (4) Temporary presence of natural persons	None, unbound, or list the type of limitations based on Article XVI of the GATS, or list other national limitations	List limitations on national treatment specially for mode (3) and (4)	Not necessary
Part II: Specific Commitments				
(1) Insurance and insurance related services:*	External liberalization: (1) Cross-border supply (2) Consumption abroad Internal liberalization: (3) Commercial presence (4) Temporary presence of natural persons	For each activity mentioned in column (1) list the limitations related to each mode of supply listed in column (2)	For each activity mentioned in column (1) list the limitations related to each mode of supply listed in column (2)	Not necessary
(2) Banking and other financial services (excluding insurance):*	External liberalization: (4) Cross-border supply (5) Consumption abroad Internal liberalization: (6) Commercial presence (4) Temporary presence of natural persons	For each activity mentioned in column (1) list the limitations related to each mode of supply listed in column (2)	For each activity mentioned in column (1) list the limitations related to each mode of supply listed in column (2)	Not necessary

* List all the activities to be liberalized according to the definition from Annex on Financial Services and the Understanding on Commitments in FS.

All GCS member countries, sharing the same economic and resource characteristics achieved positive growth rates in 1996. Kuwait registered the highest growth rate followed by Oman, Saudi Arabia, the UAE, Bahrain and Qatar. The other diversified economies of the ESCWA region registered the same GDP growth attitude. Syria achieved the highest followed by Jordan, Egypt, Lebanon and then, Yemen. Table 2 illustrates these developments.

TABLE 2. MACROECONOMIC INDICATORS

Country	GNP (1) US$ million	GNP Per capita (1) US$	GDP Growth Rates (2) %	
	1995	1995	1995	1996
Bahrain	4 525	7 840	2.2	2.8
Egypt	45 507	790	4.6	4.9
Iraq	n.a	n.a	n.a	n.a
Jordan	6 354	1 510	6.4	5.2
Kuwait	28 941	17 390	3.9	5.7
Lebanon	10 673	2 660	7.0	4.0
Oman	10 578	4 820	4.5	5.2
Qatar	7 448	11 600	(1.0)	1.6
Saudi Arabia	133 540	7 010	(0.2)	4.0
Syria	15 780	1 120	3.6	5.9
UAE	42 806	17 400	2.1	3.5
West Bank and Gaza	n.a	n.a	n.a	n.a
Yemen	4 044	260	6.2	3.0
ESCWA total			**2.1**	**4.3**

Source: (1) World Development Indicators. February, 1997. (2) ESCWA. Preliminary Overview of Economic Developments in the ESCWA Region in 1996. E/ESCWA/ED/1996/5. (N.Y. 16 December, 1996).

The current account balance as a percentage of the Gross Domestic Product showed an excellent record in both Egypt and Syria during the period 1993-1995. In the former it averaged -0.9 per cent, while in the latter it averaged -2.4 per cent. As for the GCC member countries, Kuwait was the only country in the ESCWA region who achieved a positive current account balance representing 11.3 per cent of its GDP during the same period. The available data for Oman and Saudi Arabia showed a higher current account deficit of -9/2 per cent and -9.9 per cent of their GDP respectively. The large out flow of the workers remittances in the GCC region could be one of the reasons behind this deficit. The other ESCWA members had higher deficit during the same period for other different reasons. Yemen recorded -6.8 per cent, Jordan -16 per cent and Lebanon -44.7 per cent. Certainly, there is a need to reduce the current account deficit in most of the ESCWA region.

The World Development indicators figures shown in table 3 below, reflect the low absorption capacity of the GCC economies and the financing difficulties facing the other ESCWA members. This phenomenon is one of the structural characteristics of the ESCWA region.

As reported by ESCWA, some of the member countries continued their efforts for achieving economic reforms, and some of them are backed by a support from the

World Bank and the IMF.[61] Bahrain, Egypt, Jordan, Kuwait, Oman, Syria and Yemen are the countries implementing economic reform programs. While Egypt passed the hardest part of the macroeconomic reform program and started to gain the results of a market economy, other countries still has a long way to reach this stage. The reforms implemented, so far, include, in some countries, measures to achieve financial sector reforms.[62]

TABLE 3. MACROECONOMIC IMBALANCES

Country	Current Account Balance	Gross Domestic Investment % of GDP	Gross Domestic Savings % of GDP	Annual inflation rates* %	
	1993-5	1993-95	1993-95	1995	1996
Bahrain	n.a	n.a	n.a	2.69	2.69
Egypt	-0.9	17.1	5.8	15.7	15.7
Jordan	-16.0	30.9	2.7	2.33	2.33
Kuwait	11.3	15.2	21.1	2.69	2.69
Lebanon	-44.7	24.1	-31.1	n.a	n.a
Oman	-9.2	17.7	26.4	n.a	n.a
Qatar	n.a	n.a	n.a	n.a	n.a
Saudi Arabia	-9.9	22.1	28.5	4.88	4.88
Syria	-2.4	n.a	n.a	7.97	7.97
UAE	n.a	25.3	32.6	n.a	n.a
Yemen	-6.8	14.2	-4.0	n.a	n.a

Source: World Development Indicators. February, 1997.

n.a.: data not published in the source.

* calculated from the CPI as reported in the IFS, July, 1997.

As a result of the monetary and fiscal policies applied by ESCWA member countries, prices increased moderately in some countries. Heavy subsidies are still a dominating factor in controlling the prices in the ESCWA countries.

B. THE FINANCIAL SECTOR IN THE ESCWA REGION: AN OVERVIEW

It is hard to aggregate the characteristics of the financial sector because of the different size of each ESCWA member country market and the different regulations governing each market. An acceptable way of comparing the financial sector in the region would be to analyze the financial sector in each country separately using some common criteria. The basic criteria would include the number of banks, their assets, the degree of concentration and the monetary authorities regulations. Data availability and limitations restricted the analysis to some of the ESCWA countries. Analyzing the degree of financial depth, the performance, the degree of openness of the markets will be dealt with later.

[61] Egypt (1990), Jordan (1992) and Yemen (1995) started implementing structural adjustment programs backed by the IMF and World Bank facilities.

[62] ESCWA (1996 a).

Bahrain's banking sector by the end of 1995 comprised 19 Full Commercial Banks (FCBs) including two Islamic banks, 2 specialized banks, 47 of licensed offshore banking units (OBUs), 27 investment banks and 43 representatives offices.[63] The domestic banking sector is dominated by five banks which share 80 per cent of the local bank assets. On the other hand, the business of the OBUs in the domestic market is limited because of the high degree of competition.

Bahrain Monetary Agency (BMA), the central bank, is the regulatory body of the banking sector since 1972. The domestic sector operations are controlled by the BMA which sets minimum reserve requirements, liquidity ratios and limits on loans to directors. Interest rates are market determined rates and are subject to competition between banks. To the contrary, OBUs operate with minimum restrictions imposed by BMA.

In the late 1970s Bahrain sought to become an international financial center. During the era of high oil prices and surpluses. Bahrain increasing role as a financial center accelerated. Over the past 10 years, lower oil prices, changing domestic banking regulations and the Gulf war have changed the picture. Lately, Bahrain's financial sector is being restructured to adapt to the realities of the 1990s.[64] The creation of the first credit rating agency in the Middle East, will help Bahrain maintain its role as a financial center in the Gulf.[65]

Six Bahraini banks are among the top 1000 world banks in 1996. Table 4 shows the financial performance of such banks as compared to the other leading financial institutions in ESCWA region. Although these banks are not that big in size considering their asset value, their ranking according to their soundness is very good.

Bahrain stock exchange comprised 36 Bahraini companies with a market capitalization of about US$ 5 billion at the end of 1995 as indicated in table 6. It is planned to include the listings of foreign companies and to trade foreign and local debt securities. The market is linked with Muscat Securities Market and has further ties with Amman and Beirut.

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63 Bahrain Monetary Agency, Annual Report, 1995.

64 The Banker, June 1997, p. 50.

65 EIU, Country Profile, 1996-97.

TABLE 4. ESCWA BANKING AND INDUSTRY BEST PERFORMANCE 1996*

Country	ESCWA	*World Ranking*		*Strength* Tier One Capital		*Size* Assets		*Soundness* Cap. Asset ratio		*Profits* Pre-tax profit		*Performance* Profits/ av. capital		ROA		*BIS* Capital
	Ranking	Latest	Previous	$M	%ch	$M	Rank	%	Rank	$M	%ch	%	Rank	%	Rank	Ratio
Bahrain	(3)	198	202	1540	8.3	21 265	269	7.24	378	149	9.6	10.1	654	0.70	654	na
	(22)	551	548	459	12.9	1 741	960	26.36	6	70	37.9	16.3	471	4.04	471	na
	(35)	814	738	239	0.8	2 402	904	9.97	161	27	-18.5	11.2	621	1.11	621	27.00
	(37)	856	779	220	1.5	373	999	58.81	1	16	44.3	7.2	737	4.18	737	na
	(39)	900	817	198	1.4	1 974	945	10.05	155	24	7.3	12.0	589	1.02	589	18.10
	(40)	909	824	195	1.5	600	996	32.5	4	19	11.0	9.7	673	3.13	673	40.00
Egypt	(10)	346	322	836	7.3	16 787	324	4.98	657	95	33.0	11.8	601	0.57	6.1	9.70
	(26)	651	595	360	1.9	12 856	383	2.80	948	37	35.1	10.5	643	0.29	643	na
	(27)	728	673	298	5.1	2 323	908	12.84	73	19	0.1	6.5	760	0.81	760	na
	(31)	792	722	254	3.0	7 517	527	3.38	895	25	17.3	10.0	659	0.33	659	na
	(32)	796	763	253	5.3	5 592	636	4.52	718	12	18.3	5.0	800	0.22	800	9.72
	(33)	797	725	253	2.9	2 294	913	11.01	122	83	36.5	33.2	75	3.60	75	15.00
Jordan	(4)	235	231	1 268	7.4	14 405	359	8.8	230	229	14.8	18.7	392	1.59	392	14.64
Kuwait	(6)	254	236	1 161	2.5	12 952	382	8.97	221	220	19.0	19.1	366	1.7	366	na
	(8)	291	277	1 001	6.7	10 245	444	9.77	170	116	84.8	12.0	594	1.13	594	17.1
	(18)	534	622	483	46.6	4 051	746	11.92	89	27	na	6.6	755	0.66	755	32.00
	(19)	537	498	480	2.4	4 861	686	9.88	163	85	15.4	18.0	413	1.76	413	27.59
	(20)	541	496	476	1.2	3 172	836	15.00	40	27	78.3	5.7	780	0.85	780	na
	(23)	583	653	420	42.0	4 168	736	10.07	153	15	-40.5	4.1	836	0.35	836	na
	(28)	730	757	297	29.3	4 668	701	6.37	475	105	96.4	39.9	36	2.25	36	9.03
	(34)	810	752	242	3.8	3 166	838	7.66	329	9	34.9	4.0	840	0.3	840	na
	(38) London	886	797	205	0.2	2 852	870	7.18	382	19	-19.8	9.2	679	0.66	679	na
Qatar	(14)	413	410	671	8.9	4 732	696	14.19	49	79	5.0	12.3	578	1.68	578	na
Saudi Arabia	(1)	174	163	1 942	2.5	20 470	279	9.49	189	187	21.0	9.7	670	0.91	670	21.00
	(2)	176	166	1 905	2.0	14 469	357	13.17	69	204	31.2	10.8	630	1.41	630	na

TABLE 4 (*continued*)

Country	ESCWA	*World Ranking*		*Strength* Tier One Capital		*Size* Assets		*Soundness* Cap. Asset ratio		*Profits* Pre-tax profit		*Performance* Profits/ av. capital		ROA		*BIS* Capital
	Ranking	Latest	Previous	$M	%ch	$M	Rank	%	Rank	$M	%ch	%	Rank	%	Rank	Ratio
Saudi Arabia (*continued*)	(5)	250	247	1 189	9.0	8 188	502	14.52	45	307	17.0	26.9	163	3.74	163	na
	(7)	270	271	1 089	12.2	10 907	428	9.98	160	286	5.7	27.8	140	2.62	140	na
	(11)	388	368	717	3.6	6 958	554	1.03	144	108	15.1	15.3	498	1.55	498	na
	(12)	393	379	708	4.4	7 336	534	9.66	180	94	3.5	13.6	551	1.29	551	na
	(13)	399	384	701	4.6	8 655	483	8.10	283	110	2.3	16.1	475	1.28	475	na
	(21)	546	511	467	5.2	5 042	671	9.26	209	57	7.1	12.4	576	1.12	576	na
	(24)	599	577	407	9.7	2 920	863	13.95	55	82	1.3	21.1	301	2.82	301	na
	(29)	739	692	291	8.8	5 017	673	5.80	561	55	-51.2	19.6	348	1.09	348	13.00
	(30)	740	603	291	-15.6	4 203	734	6.92	406	37	16.0	11.8	600	0.89	600	12.00
UAE	(9)	299	270	976	0.2	5 884	615	16.58	31	96	17.6	9.8	668	1.63	668	65.63
	(15)	500	463	534	3.9	6 378	582	8.37	265	62	29.7	11.8	598	0.97	598	20.17
	(16)	511	516	522	18.6	3 673	778	14.23	48	84	34.5	17.4	434	2.28	434	20.00
	(17)	528	524	489	15.2	4 227	729	11.57	100	88	12.3	19.3	362	2.08	362	25.50
	(25)	613	600	392	12.5	3 750	767	10.45	138	92	7.1	24.8	216	2.45	216	16.00
	(36)	824	795	235	13.2	1 222	987	19.22	9	39	30.7	17.7	423	3.20	423	na
	(41)	948	888	180	5.6	1 425	980	12.67	76	17	38.2	9.9	661	1.22	661	na
Memorandum items:																
UBAF	(42) London	950	875	180	7.2	1 508	974	11.94	88	57	28.3	32.7	77	3.78	77	23.00
	Top Bank	1	7	21 445	20.3	351 601	13	6.10	517	5 692	16.0	29.0	115	1.62	115	14.70

Source: The Banker, July 1996.

* Indicators are extracted from the performance of the ESCWA countries banks among The Top 1000 world banks in 1996.

** Tier One Capital is defined as the shareholders' funds, that is equity and reserves in addition to certain non-cumulative preference shares.

The Arab Insurance Group (ARIG) established by Kuwait, UAE, Libya and Qatar in 1980, is the largest insurance company in Bahrain. Its capital is US$ 3 billion.[66]

Egyptian banking sector is characterized by the large number of banks operating. The sector comprise 67 banks of which four fully state-owned, the 'big four' (866 branches), and 24 joint-venture and private commercial banks (288 branches), 11 joint-venture business and investment banks (88 branches), 4 specialized banks (1002 branches), and 21 foreign bank branches. There are 3 banks not subject to the Central Bank of Egypt's supervision. National Investment Bank (NIB) is a fully state owned bank holding the long-term resources of the social security system and utilizing these resources for financing semi-government and public sector investment projects.

Although the number of banks is large, the banking sector is highly concentrated. The 'big four' dominate about 70 per cent of the total banking assets. If their share in the joint-venture banks is taken into consideration, there share can easily reach 90 per cent.[67]

Despite the fact that non-performing loans are hindering the expansion of the banking activities, banks gained from the economic reform program in two directions. First they made substantial profits from investing in Treasury Bills and government long-term bonds since they were introduced in 1991 in addition to the gains achieved from the transactions in the capital markets. Second the dedollarization that took place after freeing interest rates in 1991 increased the liquidity of banking sector. Despite the large number of banks operating in Egypt, only six banks are classified among the top 1000 banks in the world as shown in table 4. The major phenomenon of these six banks is the low return on assets.

CBE controls the banking sector and directs monetary, credit and general banking policies through the usual means of discount and interest rates, liquidity and reserve ratios. CBE's policy is highly restrictive regarding the opening of more banks to operate in Egypt. The 1992 Banking Law no.37 allowed banks to operate under a minimum capital of LE 50 million. The amendment of that Law in March 1993 allowed branches of foreign banks to conduct business in local currency provided they abide with the local capital requirements. The restrictions imposed on the foreign banks to hold majority in the capital of joint venture banks was removed in June 1996. The 1992 Banking Law introduced a Deposit Insurance Fund whereas the deposit banks are required to contribute.

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66 No information is available to the author about the size of the insurance market in Bahrain.

67 EIU, Country Report, 1996/97.

Banking reform is a continuous process in Egypt since the commencement of its economic reform program in 1990. In the latest IMF stand-by arrangement signed in October 1996, which is targeting deepening the structural reform, banking reform took considerable attention. Measures on the improvement of prudential regulation, implementation of monetary policy and functioning of the foreign exchange market together with reducing bank exposure to a single customer are important issues to be implemented before the end of 1998. The government is committed to divest the bulk of the public holdings in the joint-venture banks and privatize one of the 'big four'.

Capital Market Law of 1992 revitalized the stock exchange. In 1994, Egyptian stock market was ranked one of the world's best performing stock markets. Although its capitalization is not as high as those of the GCC's stock markets, the number of listed domestic companies is the highest in the region as shown in table 6.[68]

Insurance market is dominated by four state-owned insurance companies, of which one is specialized in reinsurance. In addition to these companies the market include five privately owned companies and two joint-ventures with foreign firms operating in the free zones.[69] The 1995 insurance law allowed for a limited market access of the foreign firms by restricting their share in the capital to 49, although a full market access is guaranteed in the free zones.

The Jordanian banking activities involve 6 commercial banks with 200 branches, 4 private investment banks, 5 specialized credit institutions, one Islamic bank seven foreign banks with 40 branches. In addition to the banking institutions, the financial system include 4 non-bank financial institutions. The markets dominated by one player, the Arab Bank, a 'high street' bank with assets exceeding US $ 14.4 million at the end of 1995. In 1996 one merger was agreed upon between two banks and in 1997 the housing bank will become a commercial bank.[70]

At the end of 1996, the total assets of the banking sector increased to Dinar 8.8 billion, loans to Dinar 3.9 billion, deposits to 5.98 billion, and equity to Dinar 771 million. Liquidity ratio of the banking system was 53.2 per cent as compared to a minimum of 30 per cent required by the central bank, the actual reserves was 12.9 per cent as compared by a 14 per cent required, and the capital to deposits ratio was 10.9 per cent as compared to a 7.5 per cent required.[71]

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68 About 500 of these companies are closed companies and around 60 is regularly traded. See: Ibid, p.40.

69 For the review of the structure of the insurance sector see, CBE, Annual Report 1995/96, p.102.

70 EIU, Country Profile, 1997/8.

71 The Union of Arab Banks, April 1997.

The Central Bank of Jordan (CBJ) after the collapse of Petra Bank in 1990, and with the return of around 300,000 expatriates from the Gulf, started to rebuild reputation by enforcing rules and regulations that can guarantee a sound banking sector. With the increase in the bank's liquidity as a result of freeing interest rates and the dedollarization, banks started to increase its activities specially in the West Bank and Gaza. CBJ reduced lately the reserve requirements on foreign exchange deposits to 14 per cent instead of 35 per cent required earlier. It introduced asset swaps in foreign currencies in 1996. The bank is encouraging more mergers to take place between the existing banks to help meet capital requirements.[72]

Amman Financial Market (AFM) has been in existence since the late 1970s. it is small and lacking dynamism required to take off. 115 companies are listed and capitalization was about US$ 5 billion by the end of 1996.

Kuwait banking sector is composed of seven commercial banks, two specialized banks (industry and housing) and Kuwait Finance House. Financial sector in general is composed of, in addition to the banking institutions, 25 investment companies, 25 money exchange companies and 24 insurance and reinsurance companies in addition to the Kuwait Stock Exchange. The banking institutions have 6 branches, four representative offices outside Kuwait in addition to an international bank located in London (UBK).[73]

The structure of the banking sector did not change for the last two decades. As of 1996, government ownership was kept at a minimum levels in two commercial banks (Al-Ahli Bank at 0.9 per cent, and National Bank of Kuwait at 1.2 per cent) and was less than two-thirds in other banks (16.9 per cent in the Gulf Bank, 20.5 per cent in the commercial Bank, 31.1 per cent in Kuwait Finance House, 32.1 per cent in the Real Estate Bank, 58.1 per cent in Bank of Kuwait and Middle East and 60.3 per cent in Burgan Bank). The total number of commercial banks branches inside Kuwait was 85 by the end of 1996, of which 34 are branches of the largest bank, National Bank of Kuwait.

Although Kuwait is a small, it is an open economy with good connections with the international financial markets. However, the involvement of the government in the economic activities of the citizens to protect them against the setbacks of the economy, had considerable effects on the banking sector. The total government credit to the total banking assets reached 39.9 per cent by the end of 1996. The reason behind this is the fact that banks are holding debt bonds resulted from the involvement of the government in the debt settlement scheme that was introduced to resolve the repercussions of the collapse of 'Al-Monakh' market in the early 1980s and the Iraqi

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72 The Banker, August 1996.

73 CBK, Economic Report, 1996.

invasion in 1990. The holdings of the debt bonds enabled the banks secure their profits.

The banking sector of Kuwait is one of the highly profitable sectors in the region. Its financial institutions are sound and strong. According to the Central Bank of Kuwait (CBK), profitability indicators in 1996 showed 27.7 per cent profits to paid-in capital and 13.6 per cent profits to equity. Capital adequacy ratio reached 25 per cent in 1996 and equity covers about 27 per cent of the risky assets. The banking sector liquidity ratio was 44.4 per cent at the same year. Kuwait banking sector is highly reputable among world top banks. 9 banks were ranked among the top 1000 in 1996 including the bank located in London.

CBK was established in 1968 replacing the currency board established immediately after independence in 1961. The Bank is regulating the banking sector in Kuwait with the exception of the KFH which is not under its formal supervision. The autonomous nature of the bank facilities its prudential regulation of banks and the implementation of a much liberal monetary policy. The instruments of monetary and credit policies include determining interest rates ceilings based on the discount rate fixing, imposing reserve requirements (3 per cent since 1980), liquidity ratios and some credit ceilings specially on commercial loans and single customer exposure.[74]

Kuwait stock exchange is the second best in the ESCWA region in terms of capitalization in 1995. Its market capitalization to the GDP reached about 51.1 per cent and the value traded 24 per cent of the GDP with a high turnover ratio of 52.9 per cent as shown in table 6. An agreement was reached in 1996 on the cross listing of equities between the Kuwaiti market and the Egyptian and the Lebanese markets.

At the end of 1994, Lebanon had 82 banks were serving in the economy, of which 12 foreign banks were operating. The banking sector was an early casualty of the civil war with money and institutions leaving Beirut after being a leading financial center in the Middle East. Banks are now obliged to participate in the reconstruction efforts.[75] High interest rates are limiting the lending ability of the banks.

The banking institutions performance in 1996 was better as compared to the previous years. Liquidity ratio reached 67.8 per cent, equity to Assets ratio reached 5.2 per cent as compared to 3.9 per cent in 1995, net profit to assets reached 1.43 per cent while it was 1.5 per cent two years earlier, net return on equity dropped to 30 per cent from 41 per cent in 1995 and the loans deposits ratio went down to 43.3 per cent from 44.8 per cent in the previous year.[76] Profitability ratios reflect the low capitalization

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[74] See: IMF, Occasional Paper no. 150, April 1997.

[75] The Government required all banks to invest 40 per cent of its new deposits in T-bills. See EIU, Country Profile, 1996-97.

[76] Union of Arab Banks Magazine, August 1997.

of the banks and the need to revaluate their assets after a long period of persistent inflation.

Bank du Liban, the central bank is taking necessary measures to increase the capital base of the existing banks. Accordingly, banks are required to keep 10 per cent of their profits inside the countries to strengthen their reserves. The central bank also instructed banks to reduce their foreign exchange loan exposures by limiting lending to 60 per cent of the foreign exchange deposits. With this large number of banks, and with the capital base required for sound banking, mergers are expected in the future.

Beirut Stock Exchange was reopened in September 1995 after 12-year closure and very few companies were listed in 1996. A secondary market was opened to trade shares of the local property company, Solidere. This market is more successful than BSE which is now linked to some gulf stock exchange markets.

Oman's financial intermediation activities represented about 2.9 per cent of its GDP in 1995.[77] The banking system comprised seven commercial banks (244 branches), eleven foreign commercial banks (32 branches), and three specialized banks (housing, industrial development and agriculture banks with 23 branches).

Total credit represented 68.7 per cent of the total commercial banks assets in 1995. Personal loans represent a very high ratio of the entire bank credit (31.4 per cent at the end of 1995). This high level of the overall credit and of personal loans reduced the soundness of the banking sector considerably. Non of the Omani banks is among the world top 1000 banks in 1996.

The Central Bank of Oman (CBO) regulates the different banks and is responsible of a diverse range of FS which include insurance, hire purchase, leasing services and the first factoring in the Middle East.[78] It is the depository bank of the government, makes advances to cover the temporary budget deficit and administers the countries foreign debt. On behalf of the government, CBO issues T Bills and long term government development bonds. In the due course of its responsibility of regulating the banking sector, CBO administers banking credit, through imposing credit ceilings, fixing lending ratios and interest rates (discount and rediscount rates) in addition to the regular bank inspection. After the 1991 collapse of the BCCI, CBO introduced incentives for commercial banks to merge if they cannot comply with a higher capital requirements.

To safeguard banks, CBO introduced a deposit insurance scheme in April 1995. It also mandated requirement for banks to achieve a minimum risk based capital ratio of 12 per cent by the end of 1998.

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[77] CBO, Annual Report, 1995.

[78] The Banker, June 1996, p. 71.

Market access to the financial markets is restricted in Oman. Foreign participation in the capital of the firms is limited to 49 per cent except in cases where special permission is obtained. National treatment does not allow equal treatment of partially owned foreign and local companies in terms of corporate tax. Despite the latest changes in the investment laws that allow tax exemptions, there are a considerable amount of amendments in the existing laws to create a favourable investment climate.

Securities market in Oman is very small and only market a few stocks to international investors. The Muscat Securities Market had established links with Bahrain Stock Exchange. With the government policy for privatization and the desire to have a considerable portion in the maritime business in the area, the potential of the financial sector is promising.

The banking sector in Qatar comprise 14 banks, 8 of them are foreign owned banks.[79] The total assets of the six big banks of Qatar (five national banks and Qatar International Islamic Bank) represent 86.2 per cent of the total assets, 84.0 per cent of the banks credit, 73.4 per cent of deposits and 98.4 per cent of the equity of all banks. One of Qatar's national banks is ranked among the top 1000 banks of the world.

The Central Bank of Qatar (CBQ) was formally established in 1973, taking over from the Qatar Monetary Agency (QMA). In addition of the usual supervision of banks, CBQ is enhancing the state of competition among banks by freeing interest rates.

The Doha Securities Market established in July 1995 was formally in operation starting May 1997.

Saudi Arabia's banking results for 1995 indicate an increase in net earnings, assets and capital. This improved the banking sector's profit to capital ratio to 15.2 per cent and the return on assets ratio to 1.6 per cent. The capital to asset ratio achieved in 1995 reached to 10.4 per cent. 1996 results was even better for the Saudi Banks as compared to the previous year's results due to the rise in oil prices and the contraction of the government budget deficit. Saudi Monetary Agency (SAMA), the central bank of the country, is expecting better future for the banking sector.[80]

Saudi stock market is not as active as those of the other GCC countries despite the fact that it is the largest in terms of its capitalization in 1995. The number of listed companies was 69 and its value traded was just 4.9 per cent of the Kingdom GDP. Trading is only limited to the GCC nationals.

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[79] Union of Arab Banks Magazine, op. cit.

[80] The Banker, April 1997.

The Syrian FS market is underdeveloped. At the end of 1996, there was only one state owned commercial bank with monopoly over the foreign transactions. The three specialized banks in industry, agriculture and real estate in addition to the popular lending bank are all state owned and operated. The banking sector is much involved in financing the public companies and institutions with preferential treatment as compared to the private business. For that reason, among others, most businessmen use the neighboring countries banking systems specially in Lebanon and Cyprus. Syria has a long way to go if competition is to be achieved.

United Arab Emirates banking sector at the end of 1996 involved 19 national banks with 250 branches, 27 foreign banks running a network of 110 branches, two investment banks and one limited license bank. The network of branches adds up to 360 branch. In addition to the licensed banks, there was 26 representing offices of foreign banks in the country and 13 money brokers. The share of the financial institutions in the GDP was 5 per cent in 1996 down from 6 per cent in 1995.[81]

National banks' share in the Emirates banking market total operations reached 67 per cent in 1996. However, the market is concentrated.[82] The share of the largest 10 banks reached 76 per cent of the total market. Banks are also well capitalized and highly profitable. The banking system is advanced due to the regulation imposed by the central bank specially after the collapse of the BCCI in 1991. Market access is guaranteed and there is no partnership required to establish a foreign bank. 7 banks are ranked among the top 1000 banks of the world in 1996.

Yemen's two national banks and three foreign banks composed the banking sector at the end of 1996.[83]

C. THE STATE OF THE FINANCIAL SECTOR LIBERALIZATION IN ESCWA REGION

In order to assess the degree of financial depth and market openness in the ESCWA region, the measures explained in section II of this paper can be applied to the latest available data of each of the member countries.

1. *Financial depth indicators*

Currency outside the banking sector in addition to demand deposits (M1) can usually be used financing transactions in an economy. In 1995, the ratio of M1 to nominal GDP in some ESCWA member countries was high in Jordan, reasonable in Saudi Arabia, and low in the rest of the countries of the region as shown in chart 1.

81 The UAE Central Bank's Annual Report, 1996.

82 Union of Arab Banks Magazine, June 1997.

83 EIU, Country Profile, 1996-97.

The ratio of M2 to GDP is even higher in some ESCWA countries, including Bahrain, Egypt, Jordan, and Kuwait, than some industrialized countries. Data of GDP for Lebanon, Yemen, Syria and other GCC were not available for 1995 at the time of preparing this paper. As this ratio is the inverse of the income velocity of money, World Development Indicators data on the velocity can be used to calculate M2/GDP. The results show that the ratio was 117.6 per cent in Lebanon, 66.67 per cent in Qatar, and 46.9 per cent in Yemen. This indicates that the financial depth is high in Lebanon, Jordan, Kuwait, Egypt, Bahrain and Qatar as compared to the other ESCWA member countries. Yemen is the lowest among these countries in terms of its financial depth.

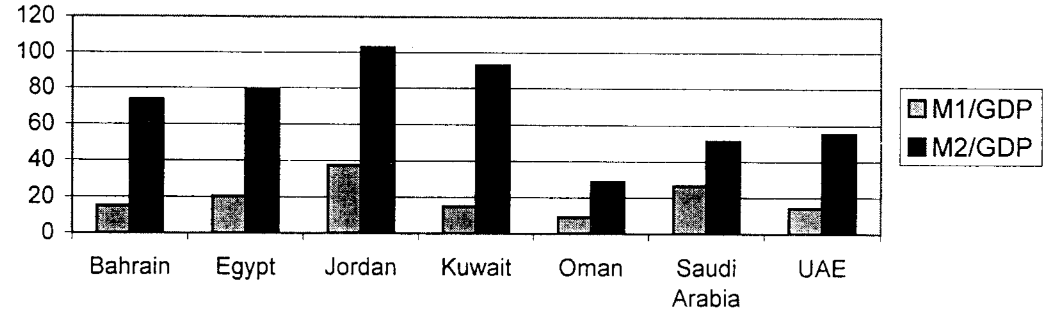

Chart 1. The ratio of M1 and Ms to GDP (%)

Another indicator of the financial depth, the ratio of M3 to GDP, indicates the same results mentioned above for Egypt, Jordan and Lebanon. Table 5 illustrates the above indicators.

As a proxy for the relative share of financial intermediation in the country's GDP, it is argued that the ratio of the domestic credit provided by the banking sector to the GDP may indicate how this sector is helping in the creation of GDP. World Development Indicators database assure the results of the other indicators mentioned above. In 1995, Egypt (103.88 per cent), Lebanon (87.01 per cent), Qatar (65.2 per cent) are the highest among the ESCWA countries and Jordan figures for 1994 indicates the same (93.95 per cent)

It is our understanding that the high nominal values of the GCC member countries' GDP is the reason behind the low financial depth indicators using GDP despite their relatively developed banking and financial systems. This means that the economies of most ESCWA region (except Yemen, and excluding Iraq, Syria and West Bank and Gaza because of the data limitations) relies on its financial sector in financial intermediation.

TABLE 5. FINANCIAL DEPTH AND EFFICIENCY

	Domestic Credit Provided by Banking Sector		Liquid Liabilities		Spread over LIBOR[a/]		Claims on Governments and other public entities		M1/GDP (1)		M2/GDP (1)		Interest Margin (1)		Annual Inflation Rates[b/] (1)		Real Interest Rates[c/] (1)	
	% of GDP		% of GDP		Percentage Points		% of M2		%		%		%		%		%	
Country	1990	1995	1990	1995	1990	1995	1990	1995	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996
Bahrain									14.91	na	73.54	na	6.1		2.69	0.19	3.01	na
Egypt	130.1	103.9	107.1	105.3	10.7	10.5	25.3	2.7	20.26		79.4		5.51	5.04	15.7	7.23	-4.78	3.31
Jordan	117.9	93.9	131.2	105.9	1.7	3.0	1.0	-1.6	37.35	29.78	102.9	89.06	5.75	3.5	2.33	6.5	0.92	-0.5
Kuwait	216.6	58.7	174.5	80.8	4.1	2.4	73.5	0.2	14.9		92.74		1.84	2.72	2.69	3.23	3.84	2.82
Lebanon	132.6	87.0	193.7	126.6	31.6	18.7	18.5	5.1	na	na	Na	na	8.39	9.69				
Oman	16.6	29.2	28.9	32.5	1.4	3.4	-10.9	-2.2	8.9		28.59		2.85	2.38				
Qatar													4.0[1/]					
Saudi Arabia	58.7	37.9	47.9	51.1			4.2	-1.1	26.52		51.16				4.88	1.16		
Syria	56.6	64.2	54.7	69.1			11.4	17.1							7.97	8.26		
UAE	35.2	48.6	47.0	56.7			-4.8	-4.3	14.17	13.59	55.35	53.08			na	na		
Yemen	79.6	50.0	72.3	56.5			10.2	16.7										
Memorandum Items:																		
USA	115.6	132.1	68.7	61.1	1.7	2.8	0.7	0.0	16.83	16.38	58.53	59.43	2.92	2.88			3.42	3.09
UK	123.0	125.7			6.5	0.7					104.25	109.44	2.58	2.91			0.71	0.65
Japan									35.69		114.21		2.61				1.0	
Canada	86.5	95.5	74.8	78.3	5.8	2.6	0.5	-0.1										
France	107.0	102.4	64.6	67.7	2.2	2.1	0.3	5.1										
Germany	110.0	129.9	64.5	68.2	3.3	4.9	2.0	7.1										

Source: World Development Indicators, February, 1997. (1) Source: IFS, July 1997.

a/ Lending rate minus LIBOR; b/ Calculated from the CPI ; c/ Calculated as the difference between deposit rate and the percentage change in CPI.
1/ Second quarter of 1994.

TABLE 6. STOCK MARKETS

Country	Market Capitalization US $ Million		Market Capitalization % of GDP		Value Traded % of GDP		Turnover Ratio* %		Number of listed Domestic Companies	
	1990	1995	1990	1995	1990	1995	1990	1995	1990	1995
Egypt	1.765	8 088	5.0	17.1	0.4	1.4	7.3	11.0	573	746
Jordan	2.001	4 670	49.8	75.2	10.1	10.3	19.6	11.2	105	97
Kuwait	-	13 627	-	51.1	-	24.0	-	52.9	-	52
Oman	945	1 980	9.0	16.4	1.1	1.8	12.3	11.5	55	80
Saudi Arabia	-	40 961	-	32.6	-	4.9	-	15.6	-	69
Memorandum items:										
World	9 393 545	17 781 749							28 918	38 825
USA	3 059 434	6 857 622	55.7	98.6	31.9	73.5	53.4	85.7	6 599	7 671
UK	848 866	1 407 737	87.0	127.3	28.6	92.3	33.3	77.9	1 701	2 078
Canada	241 920	366 344	42.6	64.4	12.5	23.7	26.7	53.9	1 144	1 196
France	314 384	522 053	26.3	34.0	9.8	47.5	34.4	149.8	578	450
Germany	355 073	577 365	22.9	23.9	22.1	47.5	139.3	218.9	413	678

Source: World Development Indicators, February, 1997.

* Value of shares traded as % capitalization.

2. *Policy related indicators*

Comparing the interest rates in ESCWA region with LIBOR will indicate how the financial system is integrated with the international markets. The spread over LIBOR as shown in table 5 indicates how the financial system in both Egypt and Lebanon are not related to the global markets. The available data on other countries indicate that Jordan, Kuwait and Oman are keeping a reasonable spread as compared to the industrializes developed economies. Bahrain data for 1994 indicates that the spread was high, 6.06 per cent.

Inflation rates in 1996 were better than those of 1995 in all ESCWA countries, and kept below 10 per cent. Although this outcome can be attributed in some countries to the economic reforms, inflation is still in some other countries of the region suppressed due to the system of controlling prices and offering subsidies. For these reasons, the level of real interest rates was positive in most of the region countries except for Jordan in 1996 as shown in Chart 2 and table 5.

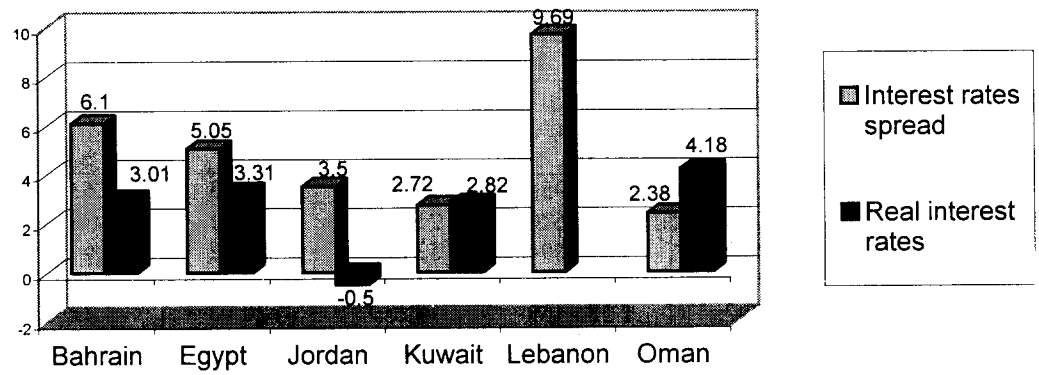

Chart 2. Interest margin and real interest rates (1996)

As the end of 1995, the ratio of claims on governments to GDP indicates the degree of its reliance on the banking sector in financing budget deficits. The ratio was high in Syria, Yemen and Lebanon as compared to the other countries of the region. However, the rise of the oil prices in that year helped most of the GCC countries reduce their budget deficit, while economic reforms in both Egypt and Jordan helped in controlling such deficits considerably.

3. *Contestability and degree of opennness indicators*

As indicated in earlier, the concentration ratios is high in Bahrain, Egypt, Jordan, Qatar, Syria and UAE. A small number of banks is dominating the market and hence, indicates that financial markets are less contestable. Interest margin reflects the basic cost of providing banking services on one hand, and the degree of competition in the banking services markets on the other. It can also reflect the degree of risk associated with banking practices and the desire to achieve high profitability. Despite the large number of banks operating in Lebanon, the margin is the highest among ESCWA countries in 1995 and 1996. That would reflect the risk margin still added to the cost of funds. Bahrain, Egypt and Jordan have a higher margin than the normally accepted margin in industrialized countries and even higher than Kuwait and Oman.

Both the concentration ratios and the interest margin are reflected on the profitability ratios of the ESCWA banking institutions. Based on the Euromoney latest survey of the top 100 Arab banks, of which 85 are located in ESCWA member countries, Return on Equity (ROE) ranged between 20.93 per cent and 8.12 per cent in 1996 as summarized in table 7. Lebanon achieved best performance, particularly it had the highest interest margin, and Jordan achieved the lowest ROE. Return on Assets (ROA) ranged between 2.63 per cent and 0.64 per cent during the same year. Bahrain achieved the highest profits in the region and accordingly it was ranked the first in terms of ROA in the region. Jordan and Egypt banks were ranked last.[84] These result indicate the high profitability of the business of banking in the region.

TABLE 7. AVERAGE PROFITABILITY BY COUNTRY FOR THE TOP 100 ARAB BANKS

	Average Capital $m	Average Assets $m	Average Profits $m	Average ROE %	Average ROA %
Bahrain	355 228	3 190 956	38 742	11.23	2.63
Egypt	200 293	4 107 620	21 628	13.61	0.98
Jordan	442 511	4 810 894	53 629	8.12	0.64
Kuwait	418 978	3 953 725	62 959	12.48	1.49
Lebanon	91 702	1 584 469	19 819	20.93	1.27
Oman	94 840	734 962	16 311	17.85	2.14
Qatar	236 697	1 807 156	31 669	16.27	1.53
Saudi Arabia	866 096	7 978 409	131 983	14.17	1.60
UAE	266 191	1 971 291	38 306	13.35	2.41

Source: Euromoney, September, 1997.

4. *The external openness*

Capital account liberalization is one of the indicators of the external openness of the economies. Accepting Article VIII of the IMF's Articles of Agreement is an indicator of the openness of the economy and its involvement in capital movement

[84] Euromoney, September 1997, pp. 368-382.

around the world. As table 8 shows, Egypt, Iraq and Syria are the only ESCWA countries who did not accept this article.[85]

TABLE 8. RESTRICTIONS ON PAYMENT TRANSFERS

Country	Current Account Restrictions	Capital Account Restrictions	Acceptance of Article VIII
Bahrain	N	..	Y*
Egypt	Y	Y	N
Iraq	Y	..	N
Jordan	N	..	Y*
Kuwait	N	N	Y*
Lebanon	N	..	Y*
Oman	N	N	Y*
Qatar	N	..	Y*
Saudi Arabia	N	..	Y*
Syria	Y	..	N
UAE	N	N	Y*
W. Bank and Gaza	..	..	..
Yemen	N	..	Y*

Source: Sorca (1997), op. cit., p. 48.

Y: There are restrictions or the country accepts Article 8.
N: There are no restrictions or the country did not (up till January, 1997) accept this Article.
* The IFS, July 1997.

Foreign share in total banking assets or liabilities is another measure of the degree of external openness. According to the IMF's International Financial Statistics, the share of foreign assets to the deposit banks foreign assets is high in Bahrain, Saudi Arabia, UAE and Yemen in 1996 as shown in table 9. This means, in addition to the exposure of the banking assets to the problems that may face the currencies or the other foreign banks holding these assets, that these economies are externally open in terms of investing outside their domestic financial markets.

On the other hand, foreign deposits and other foreign liabilities are relatively low in most of the ESCWA region, specially when we compare the share of foreign liabilities to the total balance sheets of the deposit money banks in these countries. One should refer to Syria, Egypt and Kuwait as examples of low foreign liabilities. The firs case can be interpreted by the restrictions on holding foreign currency deposits in 1995, the second case could be due to the dedollarization that resulted form

[85] This does not mean that those countries are blocking their current transfers. Based on Article XIV, Section 2 limited exception to Article VIII, member countries may maintain or adapt the restrictions on payments that were in effect on the date of their membership in the Fund, without seeking its approval.

the economic reforms, and the third is due to the stable exchange rates and the free current account transfers.

TABLE 9. DEPOSIT BANKS' FOREIGN ASSETS AND LIABILITIES TO TOTAL ASSETS (1996)

Country	Foreign Assets/ Total Assets % (1)	Foreign Liabilities/ Total Assets % (2)	(3) =(1)-(2) %
Bahrain	57.848	22.62	35.229
Egypt	15.426	2.65	12.776
Jordan	27.021	29.396	-2.375
Kuwait	20.918	7.339	13.579
Lebanon	18.745	12.944	5.8
Oman	16.535	11.428	5.106
Qatar	26.9	11.524	15.376
Saudi Arabia	32.88	11.970	20.910
Syria	13.482*	0.852*	12.630*
UAE	38.884	20.481	18.403
Yemen	31.702	19.881	11.820

Source: Calculated from IFS, July, 1997.

* 1995 figures.

D. ANALYZING THE TABLES OF COMMITMENTS OF THE WTO, ESCWA MEMBER COUNTRIES

As mentioned earlier, the 5 WTO members among the ESCWA region are the only countries who submitted of specific commitments to the WTO up to September 1997. For these countries, participating in the multilateral efforts to liberalize trade in FS on a global basis it is considered a new era of commitment to liberalize their financial sector. For the other countries in the region, the schedules of specific commitments so far presented are good examples for them to consider if they decide to participate in the future negotiations.

There are two approaches to assess the scheduled, the first approach is to compare the types of limitations on market access and national treatment for each category of FS activities, i.e., 12 banking services and 4 insurance and insurance related services, in all the five schedules. The second is to compare the type of limitations by country without assessing the activities.

In this paper, the first approach for the analysis was adopted only for market access modes of delivery and only for the 12 banking services. As a summary for this time consuming and exhausting approach, an analysis of the overall country's commitments can be an illustrative element in group comparisons.

The GATS opened the door for 6 limitations on market access. However, the schedules include many limitations that can be attributed to the horizontal commitments and prudential measures. Accordingly, this made the analysis of commitments a difficult task.

The methodology used in the analysis, though not without drawbacks, classified the six terms, limitations and conditions on market access listed in the GATS Article XVI and as numbered in Section IV of this paper. If the country is unbound in liberalizing an activity, the analysis uses the letter U as an indicator. If the country has no limitation the letter N to indicate that commitment. The letters UE, NE, H are used to indicate the Unbound Except, no Limitation Except and Horizontal commitment respectively. Tables 10 and 11 summarize the results of the analysis.

From the analysis of the schedule of commitments it is possible to extract the following facts:

1. The most liberal offer in general terms is the Qatar offer which covered 12 activities with no condition on cross border supply, consumption abroad, minimal limitations on commercial presence and unbound with exceptions for opening the temporary movement of natural persons. The offer of the UAE follows.

2. The most rigid offer is that of Kuwait. Although it covered 12 sectors, market access was eliminated by 10 unbound cases for cross border supply, 11 unbound with exceptions for opening the temporary movement of natural persons. The Egyptian offer follows.

3. The most liberalized activity.

4. The most closed activity.

5. The most liberalized mode of supply is consumption abroad with 44 cases of no limitations or conditions on that mode. Cross border supply is the second mode with 24 unconditional cases.

6. The most closed mode of supply is the temporary movement of natural persons with 24 unbound cases and 23 unbound with exceptions allowed, followed by the commercial presence with 30 unbound and unbound with exceptions cases.

7. The most easy to read schedule is the Qatar offer followed by the UAE offer.

8. The most complex schedule is that of Egypt where activities have been reclassified and redefined and redistributed among three types of banks' legal forms

and the stock exchange. It should be mentioned that the activities of the stock exchange have been very much liberalized in the Egyptian offer.

9. The most unwelcome activity to be liberalized is the settlement and clearing services.

TABLE 10. ANALYSIS OF THE TABLES OF SPECIFIC COMMITMENT ACCORDING TO ACTIVITIES

		Types of terms, limitations & conditions on Market Access			
Activity	Country	Cross Border Supply (1)	Consumption Abroad (2)	Commercial Presence (3)	Temp. Movement of N. Persons (4)
1	Bahrain	NE: H	N	U: H, e	U: H
	Egypt	U	U	NE: f, a	NE: d
	Kuwait	U	N	UE: H, f	UE: e, f
	Qatar	N	N	NE: a	U
	UAE	N	N	UE	UE: H
2	Bahrain	NE: H	N	U: H, e, f	U: H
	Egypt	U	U	NE: H, f	NE: d
	Kuwait	UE	N	UE: f	UR: f
	Qatar	N	N	NE: a	U
	UAE	N	N	UE	UE: H
3	Bahrain	NE: H	N	U: H, e, f	U: H
	Egypt	U	U	NE: H	N
	Kuwait	U	N	UE: f	UE: F
	Qatar	N	N	NE: a	U
	UAE	N	N	UE	UE: H
4	Bahrain	NE: H	N	U: H, e, f	U: H
	Egypt	U	U	NE: H, f	NE: d
	Kuwait	U	N	UE: f	UE: f
	Qatar	N	N	NE: a	U
	UAE	N	N	UE	UE: H
5	Bahrain	NE: H	N	U: H, e, f	U: H
	Kuwait	U	N	UE: f	UE: f
	Qatar	N	N	NE: a	U
	UAE	N	N	UE	UE: H
6	Bahrain	UE: H	U	U: H, e, f	U: H
	Egypt	U: H	N	NE: H, f	NE: d
	Kuwait	U	N	UE: f	UE: f, H, e
	Qatar	N	N	NE: a	U
	UAE	N	N	UE	U: H
7	Bahrain	UE: H	U	NE: H, f	U: H
	Egypt	U	U	NE: H, f	NE: d

TABLE 10 (*continued*)

Activity	Country	Types of terms, limitations & conditions on Market Access			
		Cross Border Supply (1)	Consumption Abroad (2)	Commercial Presence (3)	Temp. Movement of N. Persons (4)
	Kuwait	U	N	UE: H, f, e	UE: f, H, e
	Qatar	N	N	NE: a	U
	UAE	N	N	UE	U: H
8	Bahrain	N	N	NE: H, f	U: H
	Egypt	U	N	NE: H, f	NE: d
	Kuwait	U	N	UE: f	UE: f
	Qatar	N	N	NE: f	U
	UAE	N	N	UE	UE: H
9	Bahrain	NE: H	UE	NE: H	U: H
	Egypt*	NE: H	NE: H	NE: H, f	NE: d
	Kuwait	U	N	UE: f	UE: f
	Qatar	N	N	NE: a	U
	UAE	N	N	UE	UE: H
10	Bahrain	U	U	U	U: H
	Kuwait	U	N	UE: f	UE: f
	Qatar	N	N	NE: a	U
11	Bahrain	UE: H	UE: H	U: H	U: H
	Kuwait	UE	N	UE: f	UE: f
	Qatar	N	N	NE: a	U
	UAE	N	N	UE	UE: H
12	Bahrain	NE: H	N	NE: H	U: H
	Egypt	U: H	U: H	NE: H, a, f	NE: d, H
	Kuwait	U	N	UE: f	UE: f
	Qatar	N	N	NE: a	U
	UAE	N	N	UE	UE: H

Source: Schedules of specific commitment of the WTO and ESCWA member Countries.

* Egypt differentiated between banking activities and Stock Exchange activities.

TABLE 11. COMPARISON OF THE SCHEDULES OF SPECIFIC COMMITMENTS BY COUNTRY

Country	Total no. of activities	No. of activities covered	Types of terms, limitations and conditions on Market Access			
			Cross Border Supply (1)	Consumption Abroad (2)	Commercial Presence (3)	Temp. Movement of N. Persons (4)
Bahrain	12	12	1 N 7 NE 1 U 3 UE	7 N 1 U 4 UE	4 NE 2 U 6 UE	12 U
Egypt	12	9	1 NE 6 U 2 UE	2 N 1 NE 6 U	9 NE	1 N 8 NE
Kuwait	12	12	10 U 2 UE	12 N	1 NE 11 UE	12 UE
Qatar	12	12	12 N	12 N	12 NE	12 U
UAE	12	11	14 N	11 N	11 UE	11 UE
Total	60	56	24 N + 8 NE + 17 U + 7 UE	44 N + 1 NE + 7 U + 4 UE	26 NE + 2 U + 28 UE	1 N + 8 NE + 24 U + 23 UE

Source: Table 10.

VI. CONCLUSIONS

ESCWA member countries have a long way to go in terms of external liberalization of their financial systems. Some of them require financial reforms to be done on a gradual basis before even thinking of external liberalization of their financial systems. Some others can easily start liberalizing their financial systems and benefit from the movement of international capital after improving their prudential regulations.

Macroeconomic reforms are essential for Syria, Iraq and Yemen. Financial sector reforms, or completion of the steps already taken according to the concepts developed in this paper, will help most of the GCC countries, Egypt, Jordan and Lebanon reach the stage of having sound and stable financial systems ready for external competition.

Although the schedules of FS commitments offered by the five members of the WTO vary in scope, covering and degree of conditionality, further modifications can be done for better drafting and more transparent policies. If the current negotiations comes to a happy end by December 12, then future negotiations can help, not only WTO members but the other ESCWA countries who applied for membership also, further liberalize their financial markets.

Since Arab banking industry is closely linked to the European and American banking industry since the commencement of the banking industry in the Arab region a decade ago, these links can be a good source of power in the next round of negotiations. Countries that own banks, branches or even representative offices in Europe and the Americas, can also benefit from this in bargaining for better market access conditions. ESCWA banking industry, with their established connections, can also benefit from the risk and cost sharing in addition to benefiting from the banking techniques and know-how provided internationally to develop its capabilities.

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CHALLENGES AND OPPORTUNITIES OF WTO FOR AGRICULTURE WITH A SPECIAL REFERENCE TO EGYPT

by

*Ahmed Humeida**

PREFACE

This paper is part of a multi-sectorial activity titled "Challenges and Opportunities of the new International Trade Agreement (UR) Post Uruguay Preparations and Adjustment in Selected Sectors: Agriculture, Industry, Finance and Science and Technology". This part of the study deals with the agricultural sector in ESCWA member countries with special reference to Egypt.

The study reviews the Agreement on Agriculture in GATT 1994 and the expected impact it may have on trade in agricultural commodities in the region. It covers agricultural policy changes, reform measures undertaken and regional groupings, with a view to analyzing how the member countries in the ESCWA region can meet commitments and benefit from the new arrangements.

The main objective of the study is to assist those ESCWA member countries that have signed the General Agreement on Tariffs and Trade (GATT) and those member countries that are in the process of joining the World Trade Organization (WTO), as well as those that are potential WTO members, by studying how the changes created by the Agreement may be met, and opportunities utilized, as well as to be alert against possible negative effects that may arise from the membership of WTO.

The treatments intended to ease the negative effects of the UR on developing countries are also discussed, including the formation of special committees on agriculture and on the issues of subsidies and countervailing measures.

As an example of major trading partners, the study examines the general and specific commitments for Egypt and the European Communities to illustrate how major issues concerning agriculture in GATT are addressed in the process of trade liberalization. Specific list of commitments by Egypt and the European Communities with regard to certain major importable and exportable agricultural commodities are analyzed in order to determine market accessibility, existing opportunities and

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* This paper is a partial summary of ESCWA study E/ESCWA/AGR/1997/Rev.1 of 9 September 1997.

challenges regarding some major trading partners. The Euro-Mediterranean partnership as a forum for increasing trade liberalization in the region is also reviewed.

The study presents conclusions and recommendations highlighting its main findings, including suggestions for taking action within the GATT's rules and regulations as well as for exploiting the situation for the consideration of the member countries in the region.

I. INTRODUCTION

The General Agreement on Trade and Tariff (GATT) was initiated in 1947 after world war II to liberalize trade in goods. The Uruguay Round (UR) of the GATT negotiations was more comprehensive than the previous seven rounds. The negotiations produced trade liberalization measures for industrial products as well as rules and regulations governing trade in agriculture, services and intellectual property rights.

In previous GATT negotiations, the developing countries were in general exempt from any significant commitments, but they were faced by serious trade restrictions as a result of bilateral trade arrangements in the commodities for which they have comparative advantage. The developing countries played a relatively active role in the Uruguay Round negotiations, enabling them to enjoy the potential benefits of trade liberalization. All ESCWA member countries come under the "developing countries" category except Yemen which is considered to be one of the least developed countries. Egypt played an active part in the UR in order to secure special measures for LDCs and alleviate expected problems from accession to WTO.

The arrangements with regard to agriculture, in the UR final agreements came in two forms: firstly, there is the text of the agreement on agriculture, specifying the rules to be honoured by all participants, and secondly, there are the country and commodity-specific commitments laid down in the country schedules as submitted to the WTO, which form an integral part of the accord reached. Both define or constrain the policies to be adopted by each participating country.

The agricultural provisions of the UR are designed to achieve specific binding commitments in each of the following areas: Market access, domestic support and export subsidies (export competition). The Sanitary and Phytosanitary Agreement supports the Agreement on Agriculture and both are expected to contribute to an expansion in market opportunities and liberalization of trade at the global level. The basic idea of GATT is to exchange tariff reductions and remove non-tariff barriers between member countries in order to liberalize trade.

II. PRE-UR TRADE IN AGRICULTURAL COMMODITIES

Agriculture is the most heavily protected sector of international trade. While tariffs on commercial goods are estimated on average at 10 per cent, that of agricultural goods goes up to 40 per cent. In 1990 farm support cost EC citizens about US$ 133.4 bn. Collectively, the countries of the Organization for Economic Cooperation and Development (OECD) subsidized agriculture to the order of two per cent of GDP1[1] in 1990, while agriculture itself only accounted for 3 per cent of the GDP. The largest producer support was offered in Switzerland, Norway, Finland and Japan, where the net subsidy equivalents (NSE)[2] were 77 per cent, 76 per cent, 67 per cent and 70 per cent respectively. Considerable distortions of farm prices also existed in the agricultural markets of developing countries. But in contrast to the developed countries, price distortions in developing countries tend to be biased against domestic agriculture, whether directly or indirectly exemplified by taxes in produce or the exchange rate. Government purchases and import quota systems are other forms of distortions that greatly affect the free flow of trade.

The rising stocks of the major farm commodities in the developed countries in the 1980s, coupled with stagnating effective demand and increasing budgetary expenditure on agricultural support were among the main reasons for the emphasis given to agriculture in GATT negotiations in the UR[3]. The increasing conflict between the major exporting countries. The EC and the USA, was among the major factors which put agriculture on top of the GATT agenda at the UR in 1986, with the intention to eliminate completely agricultural protection and support in ten years. The EC has increasingly resorted to heavy subsidization of exports in order to prevent the accumulation of unsalable stockpiles of food. These subsidies, which are a tax payer burden, increased from US$ 3 billion in 1970 to over US$ 48 billion in 1992, mostly to subsidize the export of cereals and other primary commodities.

Export subsidies have been used extensively by the EU and the US to support domestic producers and to get rid of the existing excess supply of agricultural products. Subsidization and expansion in EU agricultural production as a result of the application of new technology led to a decline in both total USA exports and market share, which again compelled the USA to seek liberalization of trade in order to be able to maintain its market share.

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[1] The Economist Intelligence Unit (EIU) "The EIU Guide to World Trade Under the WTO", 1995.

[2] NSE is a measure that reflects the total subsidy transfer to the producer expressed in terms of the original price of the good. All measures which supported the domestic sector are included in the NSE whether they are market-price, direct payments, input subsidies, general services, incentives, tax concessions...etc.

[3] For example, the EU stock of butter rose from 200,000 tons to 1.5 million tons in 1986; the average percentage for the producer subsidy equivalent (PSE), which was in the region of 35 per cent during 1979-1981, rose to 52 per cent in 1986 while the world price dropped by almost 50 per cent. The USA aggregate PSE increased from 20 per cent in 1980 to 43 per cent in 1986. From 1980 -87, the PSE for wheat increased from 14 to 63 per cent; for milk, from 57 to 73 per cent; and for beef, from 29 to 38 per cent.

The production of national commodities in developing countries has been suppressed in the past by the cheap subsidized international prices which resulted in severe misallocation of resources, inefficiencies and distortions in agricultural trade and world prices. The liberalization of economies in the developing countries is expected to lead to a reduction of taxes on agriculture and devaluation of the exchange rate which will provide an incentive for increased production and consumption of national based commodities. The above situation also led to the compromise, mainly between the EC and the USA and other OECD and developing countries, to include the Agreement on Agriculture in the GATT 94 final act[4].

The coming paragraphs will examine the impact of the Agreement on Agriculture on trade in agricultural commodities in the developing countries, including the ESCWA member countries; implementation arrangements; and the measures that have been taken to alleviate expected difficulties in implementing the Agreement. Recent policy changes and domestic reforms in the agricultural sector in some ESCWA member countries will also be reviewed as these countries prepare themselves for accession to the WTO. As an example, the implications for Egypt, which is already a full member of the WTO, will be highlighted by studying its specific table is commitments and the expected challenges and opportunities that it will face. The mutual access to the markets of agricultural products by ESCWA member countries and trading partners, especially the EU, will be studied to find the existing opportunities and understand the challenges that will be faced during the coming decade.

III. TRADE IN AGRIGULTURAL COMMODITES IN THE ESCWA REGION

The volume of trade in the agricultural commodities in the ESCWA region is estimated at $17.3 billion, representing about 9 per cent of the region's total trade in 1994. Most of the agricultural imports are food items (82 per cent) such as wheat, rice, oils, barley, meats, milk, sugar, tea and coffee. The value of agricultural exports from the ESCWA region covers about one-fifth of the imports in 1994. Imports of agricultural products in 1995 were estimated at $16.2 billion. The value of imports of agricultural inputs is estimated at $3.5 billion for 1995. The contribution of agriculture to the GDP in 1994 ranges from 4.9 per cent in the Gulf Cooperation Council (GCC) countries to more than 25 per cent in more diversified economies such as those of Syria and Iraq[5].

The USA is considered to be the major exporter of grains, mainly wheat, to the ESCWA region, while the EC is the major exporter for meats, milk and milk products,

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4 The main features of the Agreement on Agriculture and the related issues of sanitary and phytosanitary measures are explained and discussed in Appendix I.

5 See ESCWA, Survey and Economic and Social Development in the ESCWA Region, 1995. E/ESCWA/ED/1996/3, 27 June 1996 advanced copy.

fruit and sugar. Intra regional trade among ESCWA member countries in agricultural products did not exceed 8 per cent at its best. The major extra regional agricultural exports are horticultural products, fibers (especially cotton), fish, fish products and vegetable oils. The self-sufficiency ratio in the ESCWA region for most of the agricultural commodities is far below 1 indicating a heavy dependance on imported food items, e.g. wheat. Except for some countries, the situation of self-sufficiency is expected to deteriorate in the coming two decades. The region will not be able to produce all needed agricultural commodities, either for lack of resources or lack of comparative advantage. FAO, in FAOSTAT (1994), indicated that "the long term prospects in the Near East region (including ESCWA member countries) remain unfavourable. Production of food staples would fall short of meeting demand in the year 2010. From the annual average of only 15 per cent of the total consumption of cereals (13 million tons) in 1970-90, the gap expanded to 24 per cent (30 million tons) in 1981-92 and is expected to reach 29 per cent (68 million tons) in 2010". The gap between agricultural exports and imports is forecasted by FAO to widen considerably from US$ 11 to 17 million by the year 2000. For example wheat imports in Egypt increased from 4524 thousand tons in 1985 to 6597 thousand tons in 1994. In Saudi Arabia barley imports increased from 4600 thousand tons in 1990 to 5140 in thousand tons in 1994.

Out of the total agricultural exports to the world amounting to ECU 3,902,782 thousands form the Mediterranean countries in 1994, about 55 per cent (ECU 2,145,185 thousands) went to the EU; about 35 per cent of Egyptian agricultural exports went to the EU; 3.5 per cent of Jordan: 12.5 per cent of Lebanon, 82 per cent of the Syrian Arab Republic (mainly cotton) and 61.8 per cent of Israel experts, including the occupied territories (table 1). The most important items exported from countries in the ESCWA region are fruit, vegetables (and their preparations) sugar and cotton. These four items are also the most important agricultural exports of Egypt. Important exports from the EU to the Middle East countries, including the ESCWA member countries, constitute about 8 per cent of EU trade with the world in agricultural products. Cereals, sugar, meat, live animal, dairy products, eggs and oils are the major items imported by countries in the region. It is, therefore, very important to study access to EU markets in order to get some insight into the challenges and opportunities existing for countries in the region that have joined the GATT and WTO or that are in the process of acceding to the WTO.

IV. EXPECTED IMPACT OF GATT ON TRADE IN AGRICULTURAL COMMODITIES IN THE ESCWA REGION

The Agreement on Agriculture is expected to affect the rules that govern trade in agricultural commodities. It is therefore expected to affect local production, consumption, the flow of trade and international prices. The extent of the impact of the Agreement on the ESCWA member countries depends on the structure of import/export trade relations and other economic components for the countries concerned. In the long-run, reduction of tariff and non-tariff barriers is expected to have a positive impact on

TABLE 1. COMPOSITION OF EXPORTS FROM THE MEDITERRANEAN COUNTRIES (MC) TO THE EU AND FOR SOME SELECTED PRODUCTS, 1994
(1000 ECU)

	Algeria		Egypt*		Israel		Jordan		Lebanon		Morocco*		Syrian Arab Republic		Tunisia		Total MC	
- Agricultural exports to the	29,317	100%	465,707	100%	993,899	100%	193,130	100%	106,179	100%	1,024,955	100%	588,322	100%	501,253	100%	3,902,762	100%
world - of which to the EU	23,361	79.7%	163,683	35.1%	614,637	61.8%	6,802	3.5%	13,292	12.5%	839,844	81.9%	117,802	81.9%	365,764	73.0%	2,145,185	55.0%
Vegetables	606	2.6%	62,358	0.3%	46,876	7.6%	1,005	14.8%	992	7.5%	162,089	19.3%	3,255	2.8%	2,372	0.6%	279,553	13.0%
Fruit	12,148	52.0%	5,503	38.1%	115,357	18.8%	369	5.4%	51	0.4%	181,402	21.6%	221	0.2%	55,254	15.1%	370,305	17.3%
Sugar	5	0.0%	10,619	3.4%	10,568	1.7%	22	0.3%	298	2.2%	8,750	1.0%	16	0.0%	482	0.1%	30,760	1.4%
Prep. of vegetables & fruit	327	1.4%	546	6.5%	139,794	22.7%	2,413	35.5%	1,012	7.6%	103,608	12.3%	39	0.0%	503	0.1%	248,242	11.6%
Cotton	20	0.1%	45,563	27.8%	28,023	4.6%	190	2.8%	0	0.0%	2,064	0.2%	87,126	74.0%	1,677	0.5%	164,663	7.7%

Sources: Eurostat (various issues) for all exports to the EU except total exports to the EU of Egypt and Morocco, UNCTAD (1996) for the total agricultural exports to the world, FAO (1996) for total agricultural exports of Lebanon and Syria, UN (1995) for total exports to the EU in the cases of Egypt and Morocco.

* In the cases of Egypt and Morocco the total exports to the world and to the EU are 1993 data. The source for the total exports to the EU is UN (1995); this is because of extreme inconsistency of Eurostat data with FAO and UN data.

Adapted from: UNCTAD "Access to EU Markets for Agricultural Products after UR and Export Interest of the Mediterranean Countries, prepared by Stefan Tangermann, Gottingen April 1996.

almost all WTO member countries. The impact will partially be apparent in reduced costs of production and increased competition in exports of agricultural commodities. At the early stages of trade liberalization, developing countries, including the ESCWA member countries, are expected to suffer from new trade arrangements such as the removal of import/export subsidies until such time as they induce export competitiveness.

The impact of the GATT agreement on agricultural exports from the ESCWA member countries depends to a great extent on the border tax reductions adopted by the trading partners and on adjustments adopted in the ESCWA exporting countries to exploit the new arrangements. This paper will examine this possibility in the next sections when referring to Egypt and the EU table of commitments for the GATT.

It is difficult to determine quantitatively, at the present time, the immediate positive or negative effects of GATT on trade in agricultural commodities in the ESCWA region, since the adjustment period for the developing countries extends for ten years starting January, 1995. However, reductions of subsidies to local producers in developed countries and border-tariff reductions will increase the chances for exports of agricultural commodities, especially fruit and vegetables, in which the countries concerned have comparative advantage. Other exportable commodities form ESCWA member countries include live animals, cotton lint, pulses and, for some countries, cereals.

Although no separate assessment had been made for ESCWA member countries concerning the negative effects expected from the UR in the short-run, the FAO preliminary assessment indicates that net losses for the Arab countries will be in the region of US$ 3 billion. These losses are expected to stem mainly from the expected reduction of fibre prices and an increase in food prices, especially those for cereals, meat, sugar and milk products, which are the main imports for countries in the region. Reductions of the margins in the preferential treatment enjoyed by many countries in the region through the Generalized System of Preference (GSP) in EU markets is also expected to add to the net losses that will be experienced. And, since the adjustment of policies and reallocation of resources needs a longer time to show their effects, it will be difficult in the short run to substitute food imports with local production. This will put more stress on the balance of payments for many Arab countries.

In the long run, countries in the ESCWA region will produce and export agricultural products for which they have a comparative advantage and import those products which can be bought at lower prices from the international markets.

Reduction of domestic support and export subsidies in developed countries will reduce the food production surpluses in these countries from which developing countries get their food aid. This is expected to reduce food aid, price reductions and other facilities enjoyed in the past by net-food-importing developing countries. This again will negatively affect the balance of payments due to the increase in imports required to meet the reduction in food aid. The net affect will also depend on how member countries of the WTO implement their commitments. It is expected that through the implementation of the GATT agreement basic rules that govern trade in agricultural commodities will change, and that production will take place in those countries that have a comparative advantage in producing specific commodities.

Toward the end of the decade, the practice of taxing the agricultural production in the region, common until the mid-1980s, changed to a policy of subsidizing an increasing number of products. This was done mostly due to the deterioration in the terms of trade and the administrative prices imposed by many Governments in the ESCWA region to subsidize the consumers' purchasing power. Many import/export restrictions, including licensing, border and quota restrictions, were introduced to protect the national producer and to rationalize the use of scarce foreign currency. However, since the late 1980's and the early 1990's, many countries in the ESCWA region have been moving towards the liberalization of their agricultural sectors by eliminating input subsidies, reducing guaranteed producer prices, reducing the number of subsidized commodities and liberalizing the exchange rate and the trade regime. Except for basic food commodities, such as wheat for bread, consumer subsidies have been reduced or eliminated for a large number of agricultural commodities. Many of these reforms were implemented within the framework of the Structural Adjustment Programme (SAP) in the agricultural sector.

Many countries in the region introduced structural adjustment measures in their economies, even before the Uruguay Round, to liberalize trade in their agricultural products. Some of them formed different groupings, such as the GCC and the Arab Common Market, to facilitate trade between them. In addition, a number of bilateral agreements on trade in agricultural commodities have been signed between the countries in the region. Most countries in the region are also negotiating bilateral agreements with the EU with regard to products of major export interest such as citrus fruits, potatoes and fresh vegetables. All this is expected to lead to more trade liberalization and strengthening of economic reforms in the region, which will facilitate membership in the WTO for the countries of the region.

Countries in the ESCWA region will not be able to take full advantage of the Agreement on Agriculture without addressing pressing problems in the agricultural sector, especially low productivity, the technology gap, low usage of modern inputs and other factors that impede the realization of the sector's full potential. The need is not only to increase productivity but also to diversify cropping patterns, cropping practices and cropping periods as well as improve the quality of the produce. Provisions in the Agreement, especially the "Green Box" policies, can be utilized by ESCWA member countries to effect such changes.

V. SPECIAL TREATMENT OF DEVELOPING COUNTRIES

Articles 15, 16 and 17 of the Final Act on UR specify special and differential treatments for developing and under-developed countries in regard to commitments. While developing countries have the flexibility to implement reduction commitments over a 10 year period, least-developed countries are not required to undertake reduction commitments. To ease the negative effects of the UR, the Marrakesh Ministerial Decision agreed "to establish appropriate mechanisms to ensure that the implementation of the results of the Uruguay Round on trade in agriculture does not adversely affect the availability of food aid at a level which is sufficient to continue to provide assistance in meeting the food needs of developing countries, especially least-developed and net food-importing developing countries".[6]

It was agreed that basic food commodities should be provided for LDCs and net food importing developing countries in full grant form and/or on appropriate concessional terms, as well as technical and financial assistance to improve their agricultural productivity and infrastructure. Often, "best endeavour clauses" such as non-reciprocity have been included in some agreements so as not to tie developing countries to specific commitments. An example of non-reciprocity is that developing countries would not have to open their markets to the same degree as developed countries.

VI. EGYPT'S SPECIFIC COMMITMENTS IN SOME MAJOR AGRICULTURAL PRODUCTS

Before signing the UR Final Act, Egypt's economy had already undergone considerable reform in the area of tariff and non-tariff barriers as part of the structural adjustment programme and policy reform measures. Some of these reforms were tariff reduction, elimination of supplementary import charges and duties, liberalization of domestic prices for most goods, removal of prior approval for certain imports, and suspension of the letter of credit requirements for a large list of goods. Other measures included unification of the exchange rate, which had an anti-export bias in the past, allowing the Egyptian pound to float, encouragement of private and foreign investments[7] through the abolition of licensing requirements and control and progressive privatization of State-owned enterprises. Improved public finance management, has led to control of the growth in money supply through a higher dependence on treasury bills rather than borrowing from the Central Bank to finance the public deficit. In addition, a social fund

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[6] See UNDP/UNCTAD project RAB/95/005 "Implication on the WTO Multilateral Trade Agreements from the view point of developing countries National Seminar on the Implications of the UR for Jordan 22-25 September 1996.

[7] Investment will be restricted on sectors encountered in a negative list which will be reviewed annually for more reductions. This list includes agriculture and irrigation equipment and tractors, tobacco and tobacco products, and investment in Sinai except for exploration of oil, gas and mineral resources.

was created to facilitate the adjustment process. ...etc. In the past trade barriers were enforced as measures for balance of payments purposes, which also reflected a high level of State intervention. The reforms that are being undertaken are directed towards market-oriented growth, predictability and transparency; and towards greater efficiency through competition, which is expected to improve market access opportunities for Egypt's trading partners.

In its GATT schedules (schedule LXIII) Egypt bound about 15 per cent of its tariff lines.[8] The tariff rates published in 1991 by Egypt exceeded its bound rates, sometimes substantially especially for industrial products, effectively reducing the extent of real binding. For agriculture, only 10 per cent of the tariff lines are bound, of which 7 per cent are bound below the effective levels. Hence, only 3 per cent of Egypt's tariff lines on agricultural production are effectively bound.

After full implementation of its UR commitments in 2004/2005, Egypt's final bound tariff will average about 62 per cent in agriculture, 32 per cent in industry and 37 per cent overall. The average bound tariff by 2005 will be greater than the applied tariff by about 5 per cent for both agriculture and industry. Ideally, they should be the same. The current unweighted average tariff is about 27 per cent for industry and 56 per cent in agriculture[9], (32 per cent overall including beverages).

Table 2 depicts Egypt's most favoured nation tariff in some selected agricultural products that dominate export/import trade. Both the base rate of duty and bound rate of duty are shown for potatoes and tomatoes as exportable vegetables, citrus as exportable fruit, wheat, maize, and barley as importable crops, and rice, sugar and cotton as importable/exportable crops. It is clear from the table that the bound rate of duty remains the same as the base rate of duty for wheat and maize for the simple reason that those products have low tariffs of only 5 per cent ad-valorem. The bound rate of duty for the others is almost two-third of the base rate. The bound rate of duty for products for which Egypt has comparative advantages (in production and exports) are maintained somewhat high to induce more protection for internal producers and for exporters. The bound rate of duty for sugar, which is a major revenue earner for Egypt, is also maintained high.

Bound items for tariff reduction have 10 year implementation period that began when the WTO Agreement entered into force. This implies that late comers will have shorter period to manipulate their tariff reductions.

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[8] GATT, Trade Policy Review: Egypt vol. 1, Geneva, February 1993.

[9] The World Bank, Policy Research Working Paper No. 1597 "Egypt and the Uruguay Round", prepared by Bernard Hockman and Arviud Subramanian, May 1996.

TABLE 2. EGYPT: MOST-FAVOURED-NATION TARIFF IN SOME SELECTED AGRICULTURAL PRODUCTS

Tariff item number	Description of product	Base rate of duty %	Bound rate of duty
0701	Potatoes, fresh or chilled		
070110	- Seed	15	10
070190	- Other	30	20
0702	Tomatoes, fresh or chilled	30	20
0805	Citrus fruit, fresh or dried	80	60
1001	Wheat and meslin		
100010	- Durum wheat	5	5
100090	- Other	5	5
1003	Barley	15	10
1005	Maize (corn)		
100510	- Seed	5	5
100590	- Other	5	5
1006	Rice	30	20
1701	Cane or beet sugar in solid form	30	20
5201	Raw cotton carded or combed	10	5

Source: Adapted from Uruguay Round of Multilateral Trade Negotiation: Schedules LXIII-Egypt. Results of the Uruguay Round of Multilateral Trade Negotiations, Marakesh on 15 April 1995.

Direct subsidies are generally not provided for export from Egypt or other ESCWA countries except for the wheat subsidy in Saudi Arabia which was expected to be completely eliminated by the 1996/97 season.

Egypt has substantially reduced agricultural subsidies in the Structural Adjustment process and will be eliminated completely in the near future. With the elimination of the monopoly of input supply from the Principal Bank for Development and Agricultural Credit (PBDAC), agricultural inputs will be supplied by the private sector and traded freely.[10] Subsidies in the exchange rate for the importation of these inputs have also been discontinued, and the PBDAC is now charging the market interest rate for its loans. On the consumption side, all consumer subsidies on non-essential goods have been eliminated and other consumer subsidies have been considerably reduced. Subsidies of wheat and flour for bread making still remain substantial in the government budget. Other price subsidies in effect include sugar and vegetable oils through the family certificate.

[10] Rules and regulations have been revised since the early 90's to replace the PBDAC by the private sector in importation and trade in agricultural input supplies.

VII. ACCESS TO EU MARKETS FOR AGRICULTURAL PRODUCTS BY COUNTRIES IN THE REGION

In the UR negotiations under the GATT, the EU, like other participating countries, accepted specific commitments in agriculture in the areas of market access, domestic support and export competition to liberalize trade and allow for the free flow of goods and services. As a result of the tariffication exercise, the EU had to switch from the variable levies that constituted its typical form of border protection for the core commodities under the Common Agricultural Policy (CAP) to fixed tariffs. For most tariffied items, the EU has introduced specific duties whose level reflects the differences between external and internal prices in the base period (1986-1988). New standard legislation by the EU covering production, packaging, re-use and recycling of packaging and packaging waste will be enforced through new technical regulations.[11]

Table 3 shows the base rates and the bound rates of duty for tariffs specified by the EU under Most-Favoured Nation status for some selected agricultural products of interest to countries in the ESCWA region, especially Egypt. Calculation based on the table reveal a 36 per cent reduction in tariff rates. In general, the EU has tended to reduce most tariff rates by 36[12] per cent except for very low rates, such as those for maize and cotton which were eliminated completely. Tariffs for some sensitive products (all fresh fruit and vegetables fall in this category) will be reduced by only 20 per cent during the period for reduction specified in the GATT Agreement.

A similar picture is evident from chart 1. This chart is drawn from WTO calculations and reproduced from WTO "Trade Policy Review - European Union, (Volume 1, 1995)" where the average tariff rate by its chapter (per cent) shows peaks for sensitive agricultural products such as cereals, meat and meat products, dairy products, sugar and derivatives, and tobacco products. Tariffs on fruit and vegetables categories are low. These products, however, are subject to seasonal fluctuations in tariffs, and low tariffs may be off set in some member States by high excise taxes. With variable levies and non-tariff restrictions converted to tariffs, the new tariff rates on most agricultural products in the EU are expressed in specific ECU amounts or in both ad-valorem and ECU amounts (table 3).

To secure more protection for internal producers, the EU established an entry price for each product which is in line with the old reference prices system.[13] The entry

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[11] See UNCTAD "Access to EU Markets for Agricultural Products after the UR and Export Interests of the Mediterranean Countries" a study prepared by Stefan Tangermann, Gottingen, April, 1996.

[12] Reductions to be implemented in equal annual instalments beginning on 1 July 1995 and ending on 1 July 2000.

[13] A non-tariff border-barrier (similar to a variable levy) used to prevent internal producer prices from falling below certain levels.

prices set are on the whole equivalent to reference prices in the base period expressed in ECUs. To restrict imports during the bulk of production, different tax rates are applied during different periods for the same product, as well as for different forms of the same product in (table 3). Such high countervailing charges, when applied in the past, have sometimes been prohibitive and have led the elimination of all imports from the exporting countries. Application of the entry prices could have similar effects and would make the EU markets difficult to access by ESCWA member countries as well as by others. But entry prices will be reduced during the implementation period of the GATT Agreement, similar to the measure taken from bound tariffs. As a result, the protective effect of the entry prices will be reduced over time. EU legislation allows for the introduction of supplementary tariffs, which are decided on a case-by-case basis in each sector. This is intended to protect internal producers in the EU in the event of a substantial reductions in world market prices or rising imports. The additional tariff is reduced to zero if prescribed entry prices are complied with.

TABLE 3. EUROPEAN UNION (EU): MOST-FAVOURED-NATION TARIFF IN SOME SELECTED AGRICULTURAL PRODUCTS

Tariff item No.	Description of product	Base rate of duty (%)	Bound rate of duty (%)
0701	Potatoes, fresh or chilled		
07011000	- Seed (2)*	7.0	4.5
070190	- Other		
07019010	- - For the Manufacture of starch	9.0	5.8
	- - Other		
	- - - New	15.0	9.6
07019051	- - - - From 1 Jan. to 15 May	21.0	13.4
07019059	- - - - From 16 May to 30 June	18.0	11.5
07019090	- - - Other		
070200	Tomatoes, fresh or chilled		
07020010	- From 1 Nov. to 14 May	11.0% + 372 ECU/T	8.8% + 298 ECU/T
07020090	- From 15 May to 31 Oct.	18.0% + 372 ECU/T	14.4% + 298 ECU/T
07101000	Potatoes	18.0	14.4
080510	Oranges		
	- - Sweet oranges, fresh		
08051016	- - - From 1 to 30 April	13.0% + 89 ECU/T	10.4% + 71 ECU/T
08051026	- - - From 1 to 15 May	6.0% + 89 ECU/T	4.8% + 71 ECU/T
08051036	- - - From 16 to 31 May	4.0% + 89 ECU/T	3.2% + 71 ECU/T
08051040	- - - From 1 June to 15 Oct.	4.0	3.2
08051050	- - - From 16 Oct. to 30 Nov.	20.0	16.0
08051066	- - - From 1 Dec. to 31 March	20.0% + 89 ECU/T	16.0% + 71 ECU/T
	- - Other		
08051070	- - - From 1 April to 15 Oct.	15	12
08051090	- - - From 1 Oct. to 31 March	20	16

TABLE 3. (*continued*)

Tariff item No.	Description of product	Base rate of duty (%)	Bound rate of duty (%)
1001	Wheat and meslin		
10011050	- Durum wheat		
100190	- Other	231 ECU/T	148 ECU/T
10019010	- - Spelt for sowing (2)	20	12.8
10019095	- - Other spelt, common wheat and meslin	149 ECU/T	95 ECU/T
10030050	Barley	139 ECU/T	89 ECU/T
1005	Maize (corn)		
100510	- Seed		
10051014	- - Hybrid	4.0	Free
10051090	- - Other	147 ECU/T	94 ECU/T
1005900	- Other	147 ECU/T	94 ECU/T
1006	Rice		
100610	- Rice in the husk (paddy or rough)		
10061010	- - For sowing (2)		
10062060	- - Other		
10062055	- Husked (bran) rice	12	7.7
10063000	- Semi-milled or wholly milled rice,	330 ECU/T	211 ECU/T
	whether or not polished or glazed	413 ECU/T	264 ECU/T
10064000	- Broken rice	650 ECU/T	416 ECU/T
520100	Cotton, not carded or combed		
5203000	Cotton, carded or combed	200 ECU/T	128 ECU/T
		Free	Free
		1.4	Free

Source: Adopted from: Uruguay Round of Multilateral Negotiations: Schedules L XXX - EUROPEAN COMMUNITY, Marrakesh on 15 April 1994.

* Entry under this subheading is subject to conditions laid down in the relevant community provisions.

With respect to the Agreement on Agriculture the application of sanitary and phytosanitary measures, the EU encourages the use of international standards, guidelines or recommendations by all members and will maintain close contacts with the related international organizations, with the objective of securing the best available scientific and technical advice for the administration of measures having major trade impacts. Agricultural products exported to the EU would be checked either in the country of origin or at the port of entry to ensure the protection of animal, plant and human health in EU. The product would then receive a plant or commodity health passport allowing its free circulation within the Common European Market. Border controls of goods at intra-EU frontiers have been abolished, with veterinary and plant-health checks harmonized and customs procedures and tax formalities at borders eliminated.

The EU countries are also concerned with the type of packaging and waste disposal of packaging. Legislation on these matters specifies that packaging should be manufactured with environmentally-friendly materials, e.g. such as natural wood, that adequately protect the item packed and allowing their proper marketing. If technically possible, the packaging, should be reusable, recyclable or returnable.

VIII. THE EURO-MEDITERRANEAN AGREEMENT

In April 1995 the EU Council of Ministers approved a summary report defining the Euro-Mediterranean Agreement (EMA) objectives with a view to establishing a Euro-Mediterranean partnership. The agreements negotiated provide for cooperation among countries around the Mediterranean (including Egypt, Jordan, Lebanon, The Syrian Arab Republic and the occupied Territories from the ESCWA member countries) in a number of areas: political and security, social and human, and economic and financial. Regarding the movement of goods, the EMA aims at establishing of a free trade area between the EU and the Mediterranean countries over a maximum period of twelve years.[14] However, trade in agricultural products will not be free, but will be subject to preferential conditions. It is worth noting here that EU trade in agricultural products has always been more restrictive than in other sectors.

At present EMAs have been concluded with Israel, Tunisia, Morocco and the occupied territories, while negotiations are still going on with other ESCWA countries, including Egypt. The preferences in the form of tariff reductions granted by the EU under the EMA arrangements are generally limited to fruits and vegetables, flowers, spices, wine, olive oil, durum wheat, bran, fish, specific meats, and certain beverages and processed agricultural products. For many products, these tariff reductions apply only to limited seasons and/or given quantities (tariff rate Quotas-TRQ, or reference quantities-RQ;) (see table 4). And as tariffs are only a small part of the overall level of protection established, EU reductions cannot do very much to improve market access to European Market.

Chart 1 illustrates the average tariff rates by HS[15] chapter (per cent) on agricultural products for 12 countries of the EU (Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and the United Kingdom) for 1995. Again, high tariffs are put on sensitive products such as cereals, cereal preparations, dairy products, meat, sugar and tobacco to protect local producers. Most of these products are of less concern for exporters from the region. ESCWA member countries are more concerned with fruits, vegetables and cotton exports to the EU. EU charges on fruits and vegetables (both bound tariffs and reference prices), as well as quotas, are of paramount importance in accessing the EU market for ESCWA member countries included in the Euro-Mediterranean partnership.

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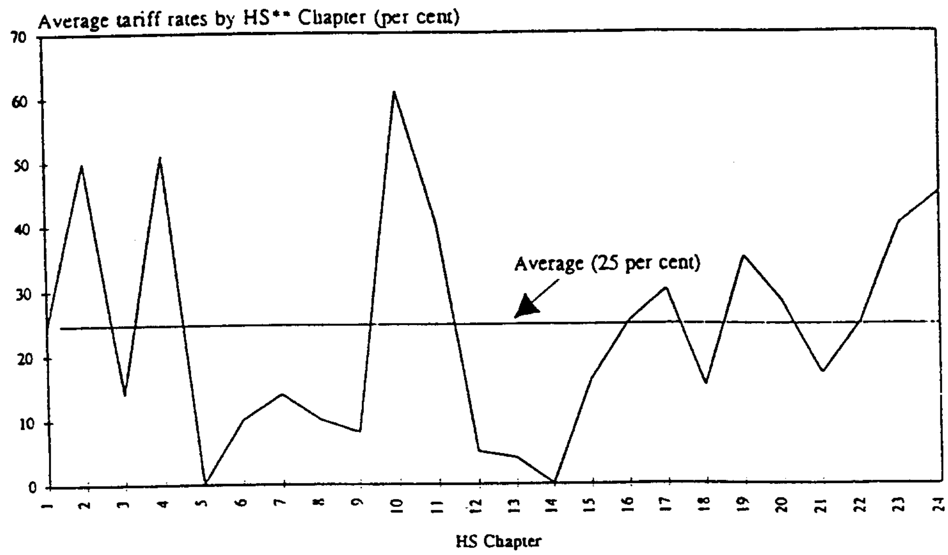
[14] Reference: UNCTAD, Stefan Tangermann, 1996, p. 11.

[15] HS refer to Harmonized Commodity Description and Coding System; counting each sub-division as a separate tariff line.

Chart 1. Tariffs on agricultural products (EU12*), 1995



Chapter	Description
1	Live animals
2	Meat and edible meat offal
3	Fish and crustaceans, molluscs and other aquatic invertebrates
4	Dairy products, bird eggs, natural honey, edible products of animal origin
5	Products of animal origin n.e.s.
6	Live trees and other plants; bulbs, roots and the like; cut flowers
7	Edible vegetables and certain roots and tubers
8	Edible fruits and nuts; peel of citrus fruits or melons
9	Coffee, tea, mate and spices
10	Cereals
11	Products of the milling industry; malt; starches; wheat gluten
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruits
13	Lacs; gums, resins and other vegetable saps and extracts
14	Vegetable plaiting materials, vegetable products n.e.s.
15	Animal or vegetable fats and oils and other cleavage products; prepared edible fats; etc.
16	Preparations of meat or fish, or of crustaceans, molluscs or other aquatic invertebrates
17	Sugars and sugar confectionery
18	Cocoa and cocoa preparations
19	Preparations of cereals, flour, starch or milk; pastry-cooks' products
20	Preparations of vegetables, fruits, nuts or other parts of plants
21	Miscellaneous edible preparations
22	Beverages, spirits and vinegar
23	Residues and waste from the food industries; prepared animal fodder
24	Tobacco and manufactured tobacco substitutes

Source: WTO Secretariat calculations. Reproduced from, WTO *Trade Policy Review*, European Union, vol. 1, p. 53 (1995).

Note: n.e.s. = nowhere else specified.

* EU12 refers to the number of countries in the European Union.

** Harmonized Commodity Description and Coding System (HS); each subdivision is counted as a separate tariff line.

TABLE 4. PREFERENTIAL ENTRY PRICES UNDER THE EMA IN 1995/1996

Country, product	Quantities	MFN entry price (ECU/t)	Reduced entry price (ECU/t)	Reduction rate
Israel[a/]				
Oranges (01.12-31.05)	200,000 t	369	275	25%
Morocco				
Oranges (01.12-31.05)	300,000 t	369	275	25%
Clementines (01.11-28.02)	110,000 t	671	500	25%
Artichokes (01.11-28.02)	500 t	991	600	39%
Cucumbers				
(01.11-10.11)	}	762	500	35%
(11.11-31.12)	}	584	500	14%
(01.01-28.02)	} 5,000 t	754	500	34%
(01.03-30.04)	}	1184	500	58%
(01.05-31.05)	}	560	500	11%
Courgettes				
(01.01-31.01)	}	520	451	13%
(01.04-20.04)	} 5,000 t	724	451	38%
(01.10-31.12)	}	520	451	13%
Tomatoes	(Total 150,676t)[b/]			
(01.10-31.10)	5,000 t	588	500	5%
(01.11-30.11)	18,601 t	688	500	27%
(01.12-30.12)	36,170 t	688/738a[c/]	500	27/32%
(01.01-31.01)	30,749 t	908	500	45%
(01.02-28.02)	33,091 t	908	500	45%
(01.03-31.03)	27,065 t	908	500	45%

Sources: Israel and Morocco EMA, CIMO (1996).

Reproduced from: a study prepared by UNCTAD by Stefan Tangermann titled "Access to EU Markets for Agricultural Products after the UR, and Export Interests of the Mediterranean Countries", Gottingen, April 1996.

a/ For Israel a reduced entry price has not been fixed in Protocol 1 of the EMA, but in a later exchange of letters.

b/ From 1 November to 31 March there is some flexibility in the agreed quantities (the monthly quantities may be exceeded by up to 20 per cent) provided the overall limit is not exceeded (EMA, Protocol No. 1, Art. 1:b).

c/ 688/ECU/t from December 1 to 20,738 ECU/t from December 21 to 31.

IX. CHALLENGES AND OPPORTUNITIES IN THE AGRICULTURAL SECTOR IN EGYPT

While Egypt is a predominantly net importer of food, it exports a variety of horticultural, rice and cotton products. The rise in prices of foodstuffs world-wide give Egypt and the other ESCWA member countries the opportunity to produce more if these higher prices filter down to producers. With the implementation of the UR Agreement, and especially the reduction of subsidized exports, this will result in increased competition, and will induce shifts in production and trade to less subsidizing net importer; primarily the developing countries. It is estimated that about 80 per cent of the increase in wheat production will come from Argentina, China, India and Pakistan.

Wheat production in Egypt is expected to increase through the period 1995-2000 from 4.3 million tons in 1995 to about 5.3 million tons in the year 2000, with an average of 5.1 million tons per year. It is also expected that consumption will increase from 9 million tons to 11 million tons for the same period, with an annual average of 9.8 tons. This will result in wheat import in Egypt of 5.7 million tons in the year 2000.[16] In 1993, local production of wheat covered 50 per cent of consumption, up from a level of 25 per cent in 1982.

As in the case of trade in wheat, a marked shift in the pattern of rice exports is expected throughout the world. More production and shipment is expected to come from developing countries. The EU will import more rice from third world countries, reducing intra-EU trade. The opening of markets previously closed for rice, such as Japan, is expected to stimulate exporting countries to raise production over the base period, the volume of global trade is expected to increase by 1.2 million tons and international prices are expected to rise by 15 per cent. Structural changes are also anticipated, and Thailand, Bangladesh, Indonesia, Vietnam, Pakistan and China are expected to be the main rice exporters.

Because rice is an intensive water user, the horizontal expansion of production in Egypt will be limited in the near future owing to water scarcity. The rice development programme pursued by Egypt, ranks Egypt first world wide in yield per unit area. Exports of rice increased from a level of 16 thousand tons in 1985 to a maximum of 187 thousand tons in 1992. To maintain its market share against new competitors, improvement in quality and reduction in production costs are of paramount importance. Since the EU is expected to reduce its production from rice with the implementation of the Agreement on the Agriculture, opportunity exists to expand exports to EU markets.

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[16] Egypt, Ministry of Agriculture, Economic Affairs Sector, "European Common Market and Agricultural Foreign Trade in Egypt under the GATT Agreement", 1995 (in Arabic).

The UR is expected to lead to an increase in world sugar imports of around 300 thousand tons[17] compared with the base line projection. This amount will mostly be absorbed by developed countries. This expected additional demand is likely to have positive effect on prices that will lead to increase production and exports. Additional production and lower tariffs are expected to offset the increase in the world market price for the developing countries.

Egypt ranks first in the world in sugarcane productivity, reaching 44 tons/feddan[18] in a 12- month period. The total sugar production in Egypt increased progressively from 968,000 tons in 1985 to about 1,130,000 tons in 1995. The gap between production and consumption amounted to about half a million tons in 1993. In recent years, production of sugar beets is expanding, encouraged by the Council for Sugar Products. Sugar extraction from corn is also expanding. The shift in production from sugar cane to sugar beets is influenced mainly by water scarcity and the comparative advantage measure which favours the production of less sugarcane. Again, the opportunity to expand sugar production from beets and corn exists if producers are motivated by expected higher prices. The internal market is expected to absorb any increase in sugar production in the near future, scaping any problem of exports. The above example provide a clear idea of the reallocation and efficient use of resources resulting from the liberalization of international trade in agricultural commodities that has been brought about by the Agreement on Agriculture in the new GATT Agreement.

Before implementing the structural adjustment reform programme in Egypt, production, marketing, and pricing of most of the agricultural products, including cotton, were controlled by the Government. Cotton delivery prices in the 1980s were as low as 17 per cent to 23 per cent of the border prices in 1988. Owing to successful increase in the administered prices, this ratio reached 51 to 68 per cent in 1991.[19] The low prices led to continuous decline in area and productivity of cotton. This in turn, resulted in a shortage in meeting local and international demand. Total cotton production decreased from a level of 447 thousand tons in 1985 to only 291 thousand tons in 1991. This led to a decrease in exports, from about 145 thousand tons to only 13 thousand tons (mainly long-staple) and an increase in imports (short and medium staple) of cotton lint, rising from 21 thousand tons to 62 thousand tons for the above period. With the reinstallation of free marketing of the cotton crop through the stock exchange, local prices were raised to international levels, providing producers with the incentive to produce more. Price incentives progressively reversed the above process, leading more to exports of cotton

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[17] FAO, Impact of the Uruguay Round on Agriculture, Rome, 1995.

[18] Saad Nasar "Expected Results for the New GATT Agreement on Egyptian Agriculture", unpublished paper in Arabic, Seminar on Future Expectation for the Egyptian Agriculture under the GATT, Cairo, 18-19 April 1995.

[19] Egyptian Agricultural Economics Association "Marketing and Foreign Trade for Agricultural Products Under International changes", (in Arabic). The Third Conference for Agricultural Economists, Cairo, 2-3 February 1994.

lint due to increased production, and fewer imports. To maintain this favourable situation, challenges facing cotton producers and marketing agents include reducing losses in marketing channels and improving the competitiveness of the quality produced. Investments and the adoption of new technologies are needed to fulfill these conditions. The involvement of agricultural research and agricultural extension are of great importance in this respect; the responsibility for which rests mainly with the Government owing to the long-term nature of repayments as well as under its investment in the private sector. The UR provisions under the Agreement on Agriculture could be exploited in this respect. The changing conditions of the cotton industry under the new GATT agreement have to be taken into consideration. The phasing out of the MFA and improved world cotton prices will give Egypt an opportunity to increase its exports of raw and processed cotton. Domestic reforms, such as reductions in taxes and tariffs, which will increase production and improve quality, are needed to provide producers and agro-processors with incentives to maximize the benefits accruing from the UR Agreement.

Three market access effects will come to bear upon Egypt's exports of cotton: those from MFN tariff cuts; and those from the liberalization of the MFA; and those from the loss of the preferential margin following MFN tariff cuts. For Egypt the most important impact of the UR will be derived from the liberalization of textiles and clothing quota. The benefits from the MFN tariff reduction will be small because of the limited nature of the tariff cut and the extent of preferential access. It is expected that, excluding textiles and clothing, the loss in exports from the erosion of preference margins is outweighed by the gains from tariff reductions on items subject to MFN trade. Both effects are very small.

Citrus fruits (mainly oranges) and vegetables (mainly potatoes) are among the major agricultural exports of Egypt. The largest export markets for these products are the EU, the countries of Middle East and the former USSR countries. It is expected that international trade liberalization under the GATT Agreement will lead to more exports of fruits and vegetables from Egypt as a result of price increases and the market access provision under the UR. In 1994, the value of fruits and fresh vegetables exported from Egypt amounted to $8.3 million for oranges and to $26.5 million for potatoes. The value of oranges exports has decreased progressively since the early 1990s: $44.5 in 1991; $32.5 in 1992; $17 million in 1993; and only $8.3 million in 1994. A similar trend can be observed for potatoes. The expected expansion of the exportable crops will induce changes in the cropping pattern, increasing those with relatively greater comparative advantages, such as cotton, rice, sugar beets, potatoes and citruses, and reducing others having lesser comparative advantages, such as sugarcane, wheat, and barseem (Egyptian clover). On the consumption side, the demand for most of the locally produced agricultural products, except for meat, is expected to decrease due to prices increases. Prices of some imported items such as milk products are expected to decrease, with the result of some substitution in consumption between locally produced and imported commodities. Such effects should be studied to plan for better allocation of resources.

As mentioned earlier, access to EU markets for fresh fruits and vegetables governed in the past by the reference price system, is now conditioned by the entry price system that resorts to quotas and levies, specified by periods, to maintain acceptable prices for local producers. The challenges and opportunities facing producers and exporters in Egypt are to respect the entry prices and the specified import periods and quotas for certain products (table 3 and 4). Negotiations are taking place between Egypt and the EU within the EMA to increase the quotas allowed for Egypt in the EU market, reduce levies outside the quotas and expand the periods allowed for certain products. The table highlights some of the issues suggested by the Egyptian Government (table 5).

It has also been observed that Egypt has good prospects for food processing that will increase the value added and improve the marketing conditions for agricultural products. However, this has been constrained by high trade barriers for processed materials from EU member countries. Up to now, agreement on agricultural issues continues to form a stumbling block to signing the EU - Egyptian agreement on partnership.

TABLE 5. PROPOSALS TO INCREASE EXPORTS OF AGRICULTURAL COMMODITIES FROM EGYPT TO EU AND EXPAND DURATION

(a) Proposal for quota increase and period expansion for some agricultural commodities

Item	Current quota (1000 ton)	Proposed quota* (1000 ton)	Current period	Proposed period
Potatoes (early)	109.67	750	1/1 - 31/3	15/12 – 15/6
Oranges	7.68	300	No time limit	No time limit or entry price restrictions
Rice	32	475	No time limit	No time limit

* The proposed quotas are expected to increase by 10 per cent annually.

(b) Period expansion for commodities with no Specific quotas

Item	Current period	Proposed period
Tomatoes	1/2 - 31/3	1/11 - 15/5
Grapes	1/12 - 30/6	15/5 - 15/9
Squash	1/12 - 15/3	15/10 - 15/7
Green Peppers	15/11 - 30/4	15/3 - 15/9

TABLE 5. (*continued*)

(c) Additional commodities proposed to be included

Item	Proposed quota* (1000 ton)	Proposed period
Raw Cotton	No specified quota	All year round
Cotton Lint	No specified quota	All year round
Potatoes	15	All year round
Flowers	30	All year round
Vegetables (Dried)	52.5	All year round
Vegetables (Frozen)	60	All year round
Fruit (Dried)	15	All year round
Juices	37.5	All year round
Vegetables (Canned)	37.5	All year round
Fruit (Canned)	60	All year round

* The proposed quotas are expected to increase by 10 per cent annually.

X. LOOKING BEYOND THE YEAR 2000

The first review of the Agreement on Agricultural will take place in the year 1999. Due to "dirty tariffication" and the flexibility that some members would like to give to themselves during the reform period, bound tariffs may be much higher than the base period tariffs for some products. Some other members will succeed through waivers, unbinding of duties or other action in evading obligations in the developing countries that would restrict their freedom to protect and subsidize domestic agricultural production and exports. This is expected to have an adverse effect on developing countries exporters of agricultural products.

It is expected that during the 1999 review, barriers to trade liberalization in agricultural commodities will be more transparent. Contracting parties can then build on more solid ground on additional liberalization and removal of trade barriers. Further commitments necessary to achieve the long-term objectives could be identified. At that time, also, analysis of the effects of trade liberalization could be made and information on compliance could be exchanged.

On concluding the EMA, it is bound to be the same for all south Mediterranean countries, eroding previous preferential treatments and allowing partners to compete on the same footing. Ultimately, the result will be increasing competition and improvement of the resource allocation process as well as the product-mix in both importing and exporting countries.

World integration into the multilateral system through, *inter alia*, the liberalization of trade in agricultural commodities, will hopefully improve growth, create more jobs, improve direct investment, promote agricultural development and strengthen regional arrangements.

In the first Ministerial Conference of the WTO held at Singapore[20] (9-13 December 1996), an agreement was reached on a number of provisions calling for future negotiations on Agriculture, Services and aspects of TRIPS, reviews and other work on Anti-Dumping, Customs Valuation, Dispute Settlement Understanding, Import Licensing, Pre-shipment Inspection, Rules of Origin, Sanitary and Phytosanitary Measures, Safeguards, Subsidies and Countervailing Measures, Technical Barriers to Trade, Textiles and Clothing, Trade Policy Review Mechanism, Trade-Related Aspects of Intellectual Property Rights and Trade-Related Investment Measures. This is intended to allow members to better understand the issues involved and identify their interests before taking negotiations and reviews.

XI. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

1. The UR Agreement on Agriculture provides a general framework of rules and regulations to govern trade in agriculture as well as to provide incentives for future reform through substantial and progressive reductions in agricultural support and protection over an agreed period of time. The actual effect the Agreement on Agriculture has on markets and trade will depend on the way in which implementation of the commitments accepted by the different trading partners proceeds.

2. Agriculture is the most protected sector in the international trade, whether through subsidies, taxes or other means that lead to price distortions. Both developed (mainly the EC and the USA) and developing countries placed a high emphasis on including agriculture in the GATT 94 Agreements in order to deal with distortions and liberalize trade in agricultural commodities.

3. Based on the agricultural provisions of the UR, specific binding commitments are expected to be achieved in each of the following areas: Market access, domestic support and export subsidies (export competition). Market access will be achieved through tariff binding and reduction of tariffs by certain percentages over a specified period of time, as well as by transferring non-tariff restrictions to tariffs (tariffication); Domestic subsidies in the agriculture sector and export subsidies are also to be reduced by certain percentages from the level of a base period over a specified period of time. The

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20 WTO, "Draft Singapore Ministerial Declaration", Ministerial Conference, Singapore, 9-13 December 1996. WT/MIN (96) DEC/W, 13 December 1996.

magnitude of reduction is less for developing countries than for developed countries and the period is longer.

4. The GATT Agreement permits internal support for some activities that are believed not to affect trade liberalization or free competition. Such support includes institutional and infrastructural services for production and marketing, food aid programmes and public stockholdings of food for security purposes, income safety-net schemes, disaster relief programmes and farmer income supports provided such income aid is not related in any way to production. In addition, certain types of non-exempt aid policy will be exempted in the case of developing countries. These would include rural development programmes, investment and agricultural input subsidies, and support to encourage diversification from growing illicit narcotic crops.

5. Circumstances do exist under the Agreement on Agriculture in which countries have been permitted to exempt certain products from tariffication commitments if that is mentioned in their country schedules. Special safeguard provisions, such as variable levies can also be applied to avoid a depressing effect on domestic prices resulting from a large surge in the volume of imports. *Green Box* policies and the *Blue Box* provision deemed to have non - or minimal trade distorting effect or effects on production can be excluded from the calculations of the AMS and hence from reduction commitments.

6. The main objectives of the Sanitary and phytosanitary measures is to prevent member countries from using health measures as a barrier to trade, while at the same time allowing members to maintain their current standards to protect human, animal and plant life or health.

7. At the early stages of trade liberalization, developing countries, including the ESCWA member countries, are expected to suffer from the new trade arrangements as a consequence of the increase in international prices and import bills and the resulting negative effects on their balance of payments.

8. Reductions of domestic support subsidies to local producers in developed countries and tariff reductions will increase the chances for exports of agricultural commodities from the ESCWA region, especially for fruits and vegetables, for which the region have a comparative advantage in their production. Other exportable commodities include live animals, cotton lint, pulses, rice and for some countries cereals. It is expected that the margins enjoyed by these products in the EU markets through the Generalized System of Preference (GSP) will be reduced, exposing countries in the ESCWA region to competition with other participants in the EU markets.

9. It is also expected that countries in the ESCWA region will benefit from the GATT mechanism to combat negative trade practices. Nevertheless, countries in the region will not be able to manipulate the new agreements to their benefit without addressing pressing problems in the agricultural sector, especially low productivity, the

technology gap, the low usage of modern inputs and other factors that impede the realization of the sector's full potential. he need is not only to increase productivity but also to diversify cropping patterns, cropping practices and cropping periods as well as improve the quality of the produce.

10. Trade liberalization in the ESCWA region resulting from the Euro-Mediterranean Agreement (EMA) is expected to offer the opportunity for future gains in efficiency and productivity for local producers. It is also expected to induce competitive pressures that will trigger a reallocation of resources to the most productive sectors. However, short-term benefits from the progressive tariff reductions will be limited since most of the Southern Mediterranean countries, including some ESCWA member countries, already have preferential trade agreements with the EU. Also, the EU custom union could lead to trade diversion, where production could shift from the more efficient producers outside the union to the less efficient producer inside it.

11. Application of the entry prices could make the EU markets difficult to access. The EU legislation allows for the introduction of supplementary tariffs, which are decided on a case-by-case basis in each sector. The EU level of charges on fruits and vegetables (both bound tariffs and entry prices) as well as quotas are factors essential to access to trade in the EU markets and need to be thoroughly understood by countries in the ESCWA region.

12. Egypt's advanced implementation of the agricultural reform programmes in the areas of liberalization of prices, abolishment of the compulsory delivery of produce to state agencies, removal of subsidies of agricultural inputs and privatization of the State Owned enterprises is expected to reduce the burden that Egypt may incur in joining the WTO.

13. In Egypt rice, vegetables (mainly tomatoes, potatoes and onions), fruits (mainly citruses) are important cash crops and as foreign currency earners. Egypt is most competitive in the production of these crops, which are exported to other countries in the Middle East (mainly to the Gulf States) and to EU markets. Fruits and vegetables now occupy about 16 per cent of cropped land in Egypt. They are increasingly important exports capable of more expansion, but face tough competition and constraints in the EU markets.

14. Egypt is the world's biggest consumer of wheat per captia. Despite its improved local production, wheat imports have stayed high because of Egypt's large and rapidly growing population. Egypt's wheat bill was expected to increase substationally due to soaring world prices following the lifting of USA wheat export subsidies and, the increase transport costs.

15. Privatization represents a major strategic objective. The private sector is encouraged to take an active role in all productive and marketing activities. With the implementation of Egypt's overall reform programme of the structural adjustment

programme and the improvement of the investment environment, a large group of foreign and local investors have been attracted to in Egypt, establishing businesses in the different sectors. Privatization is expected to sustain competition by breaking up State monopolies.

16. In its GATT schedules (schedule XIII) Egypt bound about 15 per cent of its tariff lines, of which 7 per cent are bound below the effective level. The bound rate of duty for products for which Egypt has comparative advantage is maintained somewhat high to provide more protection for internal producers and exporters. Direct subsidies are generally not provided for exports from Egypt or other ESCWA countries. Production subsidies in Egypt and other ESCWA member countries are being phased out in the structural adjustment process that is taking place, and will be eliminated completely in the near future.

17. Out of the total agricultural exports to the world from the Mediterranean countries, about 55 per cent went to the EU in 1994. By country, about 35 per cent of Egypt's agricultural exports went to the EU; 3.5 per cent from Jordan; 12.5 per cent from Lebanon; 82 per cent from the Syrian Arab Republic and 62 per cent from Israel including the occupied territories. Important exports of EU to countries in the region constituted about 8 per cent of the EU trade with the world in agricultural products. Cereals, sugar, meat and live animals, dairy products, eggs and oils are the major items imported by the region.

18. While Egypt is predominantly a net importer of food, it exports a variety of horticultural, rice and cotton products. The rise in prices of foodstuffs worldwide will give Egypt and other countries in the ESCWA region the chance to produce more if these higher prices filter down to producers. The implementation of the UR Agreement, especially the reduction of subsidized exports, will result in increased competition in production and in exports and will bring about a shift in production and trade to less subsidizing, net importers, primarily the developing countries. As a result of the implementation of the GATT Agreement, wheat production in Egypt is expected to increase during the period 1995-2000 from 4.3 million tons to 5.3 million tons; horizontal expansion of rice production will be limited by water availability and economics of it use; vegetables and fruit production will expand; as a result of re-installation of the stock exchange and higher prices, production of cotton will increase; and sugar beet production will expand at the expense of sugarcane production, on a comparative advantage basis for limited resources (water).

19. Egypt will benefit from the EMA in a number of ways that include financial transfer and technical assistance and enhancement of The EMA can also compensate for some WTO shortcomings, and in the process facilitate expansion of Egypt's commitment to the WTO to liberalize trade policies to a greater extent.

B. RECOMMENDATIONS

It may be useful before presenting the recommendation of the study to recall briefly few important points outlined in the text. It was emphasized that ESCWA member countries should seek or expedite the process of accession to the WTO, as non-member countries will face a disadvantage in international trade because the provisions and benefits of the GATT agreements will not apply to them. These include minimum access opportunities, transparency, predictability and certainty of trade with WTO members, and access to the WTO dispute mechanism. Exports of agricultural products from non-WTO member countries will be subject to high tariff rates as a result of the tariffication process undertaken by WTO members. In addition non-member countries will be subject to the imposition of quantitative restrictions and will not benefit from countervailing measures and safeguard measures available for members.

To act within the GATT rules and regulations and to exploit the existing situation, Egypt as well as other ESCWA countries will have to respect the specifications set out by the EU and the other major trading partners in agricultural commodities. Rues and regulations, institutions, practices, the product-mix: all have to be adjusted to facilitate the absorption of ESCWA countries in the globalized world economy that has resulted from the GATT agreements.

As a traditional as well as potential market for exports of fruits and vegetables, the EU market will have a great impact on the efforts undertaken by countries in the region to promote their exports. The entry price will be the most important single element affecting market access of ESCWA countries to EU markets; especially for fruits and vegetables. Countries of the region should understand and carefully examine the tools and mechanisms of the policies adopted by the EU, especially the CAP now in effect.

Specific recommendations are as follows:

1. Accession to the WTO poses serious challenges to the agricultural trade sectors in the ESCWA region by exposing them to the competitive international environment. The policy options available to the ESCWA member countries both in Pre and Post UR remain very limited, primarily because of the region's narrow base in agricultural production and export-oriented products. For this reason, the ESCWA countries should make their exports competitive by producing crops with a high comparative advantage in using the region's scarce resources, especially land and water, and by using labour-intensive techniques that utilize the available labour force, producing crops such as cotton, potatoes, tomatoes and citrus.

2. Exporting countries in the ESCWA region should strengthen the extension and training services in production and marketing fields in order to meet the importing countries' requirements. It is also important that Governments in the ESCWA region

promote exporters' associations and provide adequate support services to promote marketing regulations.

3. Countries in the ESCWA region should concentrate on increasing export values and not merely quantities. They should also strengthen market research and information capabilities. This will allow them to better plan production and marketing for exports by producing the required commodity at the optimum time for traditional and potential markets.

4. According to certain measures in the WTO Agreement on Agriculture, countries of less than $1000 per capita income as well as developing net food importing countries are entitled to food aids and technical and financial assistance from developed countries and global institutions, with the objective of improving productivity and institutions in the agricultural sector. Egypt and other ESCWA member countries are eligible to use these facilities during the adjustment period, so they should take advantage of that.

5. Actual tariff reductions are expected to be small, mainly because tariffs in the base period were high. New bound tariffs are well above current rates in many cases. Furthermore, tariffs bound during the process of tariffication seem to be higher than the tariff equivalents of the quantitative restrictions being eliminated. For this reason it may be advisable to negotiate large quotas to improve market access and increase revenues from exports especially for the export of fruits and vegetables to the EU market.

6. Regional and economic groupings, as long as they do not restrict trade, are recognized by the WTO. Countries in the ESCWA region should strengthen the available groupings that will entail free movement of commodities according to economic laws within the region and enhance the bargaining power with other groupings. The collective power of such groupings should be able to stand against others of such nature to prevent deterioration of the term-of-trade for the agricultural products in the region.

The following recommendations apply to the case of Egypt. They are suggestions which would exploit existing opportunities in the GATT 94 Agreement and mitigate possible negative effects that may arise:

(a) Legislative and institutional adjustments are needed in the agricultural sector to regulate the relationships among the different parties involved in agricultural activities (legislators, producers, marketing agents, consumers) in order to fall in line with GATT rules and regulations;

(b) The emerging new role of the Government should be to promote investments in marketing infrastructure, agricultural research and extension, and in production and marketing finance. This would facilitate the role of private sector investments in agricultural production. More room should be given to the interaction of market forces, with less Government intervention, for better allocation of resources;

(c) It is necessary to strengthen technical services in the areas of sanitary and phytosanitary measures by upgrading Egyptian testing laboratories. This would reduce the differences in standardization and in conformity assessments. Conflicting product standards are often cited as one of the main barriers to exports and to foreign direct investment;

(d) To create a stable and favourable environment for national and international investments, reassess of export development constraints resulting from the high cost of production, including charges and the high cost of inland and sea transport;

(e) Study the specific commitments of trading partners and competitors to identify export targets for Egyptian products having comparative advantages, which can compete in the international markets. Export-oriented production should be considered;

(f) Strike a balance in the adjustment period between tariffs and reduction commitments to protect local producers from unfair competition and to enable gradual reallocation of resource and production capacities in favour of competitive export products and/or import substitution products;

(g) Because production potentials in Egypt cannot be increased significantly, and because of limited endowments especially water, Egypt should concentrate on the production of good quality, high value, agricultural products that demand the least resources, such as fruits, vegetables, flowers and medical plants.

(h) Markets less restricted in quality requirements and sanitary and phytosanitary measures should be explored as alternatives to the EU markets, such as Africa, Central Asia and the countries of the former USSR. Lower prices may be more attractive for these markets than standard quality;

(i) The way in which the entry price system is operated in the EU markets implicitly extends an invitation to the exporting countries from the ESCWA region to form monopoly export agencies which could ensure that the EU entry price is not undercut. Egypt could play a leading role, not only in exports, but also in bargaining for collective purchases for countries in the ESCWA region for sensitive imports, such as wheat;

(j) Egypt should take full advantage of the provisions allowed for developing countries in the adjustment period, including financial and technical assistance, training, food aids, investment in research infrastructure and marketing promotions. This would serve to mitigate the negative effects of the GATT agreements. Selected teams are needed to look into the specifics of such issues and monitor developments for dynamic re-adjustments;

(k) Accelerated measures are needed in the process of transforming State-owned enterprises in Egypt to the private sector to enhance the elimination of distortions in the market mechanism, in the balance of payments and competition. The private sector should have a full hand in import-export activities. Unfair competition that may develop in this process should be restricted;

(l) Liberalization measures in Egypt should be assisted by a more supportive international environment. This would include liberalization of labour services, a quick phase-out of import restrictions on textiles in major markets and removal of distortions as well as improved market access with major trading partners for agricultural products.

Annex I

THE MAIN FEATURES OF THE AGREEMENT ON AGRICULTURE IN GATT "1994" AND RELATED ISSUES

A. THE AGREEMENT ON AGRICULTURE

The UR Agreement on Agriculture provides a general framework of rules and disciplines to govern trade in agricultural commodities.[21] It also provides for future reform through substantial and progressive reductions in agricultural support and protection over an agreed period of time. Developed countries have six years (ending in the year 2000/2001) and developing countries have 10 years (ending in the year 2004/2005) to implement their agreements. Negotiations to continue the reform on agriculture will begin in 1999 as indicated in the UR Final Act. The arrangements in the Agreement on Agriculture are specified in two forms: first, through the text of the Agreement on Agriculture which specifies the rules to be honoured by all participants; and second, through the country commodity specific commitments laid down in the country schedules as submitted to the WTO during the accession process. Both forms define or constrain the policies to be adopted by each participating country. The effect on market and trade for each member country will depend on the way in which implementation of the accepted commitments proceeds. Thus one needs to look at each individual country's schedule to determine the precise nature of the commitments that the country has accepted. This will make it possible to understand the way in which the fundamental agreement (to bind and to reduce levels of protection and support) will be implemented.

As said before the agricultural provision of the UR will lead to specific binding commitments in each of the following areas: market access, domestic support, export competition. This is expected to contribute to an expansion in market opportunities and trade liberalization in agricultural commodities at the global level. Following are some clarifications of these issues:

1. *Market access*

Market access is the way by which a trading partner can reach the others' markets and sell his products in that market. The intention in the UR agreement is to achieve this through tariff binding and reduction of tariffs by certain percentages over specified period of time and through transferring non-tariff restrictions[22] to tariffs

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[21] The commodities included are most of the products normally considered as part of agriculture. It excluded fishery and forest products. It also excluded rubber, jute, sisal, abaca and coir which were covered in the normal GATT tariff negotiations on goods.

[22] Non-tariff restrictions for agricultural products include quotas, state trading restrictions, voluntary export restraints, variable levies, minimum price systems, countervailing duties and taxes, discretionary import licensing, as well as technical and health standards.

(tariffication).[23] In other words all border protection measures are to be changed to tariffs. This is the first stage needed in order to reduce border protection. The rationale behind tariffication is to convert non-tariff barriers (base rate of duty) into tariff that provides an equivalent level of protection to that existing by virtue of non-tariff barriers. The process of tariffication will provide a ceiling beyond which protection may not rise. Previously this ceiling did not exist. The new established level of tariff will be the starting point from which reduction will start. It is expected that in the long run tariffication of agricultural trade barriers could act as a foundation for much deeper cuts in agricultural protection and in a transparent way. Tariffs are more predictable than non-tariff barriers and are non-discriminatory and less open to corruption and manipulation. Once tariffs for agricultural commodities are established, they are reduced by 36 percent over six year for developed countries and by 24 per cent over 10 years for developing countries. The base period used for the calculations is 1986-1988. The reduction may differ between products but should not be less than 15 per cent for developed countries[24] and 10 per cent for developing countries for any specific product. It is thus at the member's discretion to reduce some tariffs more than others, provided that the overall average reductions are within the agreed amount. Introduction of new export subsidies in agriculture is now prohibited; for example, at present Japan is not subsidizing its exports, so it will not be able to do that in the future.

Tariffs are believed to have the advantage of being measurable and comparable at the international level; that will result in a more transparent, predictable and stable environment for world trade. Special arrangements, such as import quotas or voluntary restraint agreements, must be converted into tariffs according to a formula reflecting the tariff equivalent of the old quantitative restrictions. By this, agriculture has moved to a state where reasonably well-defined constraints on national policies have been agreed

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[23] The term "dirty tariffication" is used where tariff bounds contain "dirt" in the sense that they are higher than what would have been exact equivalents of the non-tariff barriers existing in the base period. This may result from not following rules of modalities of tariffication. Yet, once the results are entered into schedules they become legally binding, irrespective of how the calculations were made. "Dirty tariffication" may affect the process of establishing domestic support commitments, i.e the Aggregate Measure of Support calculated by countries would be higher than what would be truly representative of their level of domestic support. This high level of the base rate of duty will minimize the effect of the cuts agreed in UR. However, in many cases actual tariff rates in some developing countries are currently lower than base rate duty. This has been the result of structural adjustment programmes that exist independent of the WTO agreement.

[24] There must be a minimum increase of 3 per cent in import access for any product rising to 5 per cent over six years ending 1999. This is the agreed minimum for access opportunities to developed countries' markets. This will improve market access specially when tariffication is set very high. Notification is required by WTO on the planned implementation of the Tariff Rate Quotas (TRQs) with respect to the incremental imports to discourage misuse. The TRQ is defined as the quota of imports permitted to enter the country at below the normal tariff rate. Transparent mechanisms should be used for allocating licenses for imports. Auctioning of licenses should be considered when appropriate.

upon at the international level. This will improve the basis for future international negotiation for further reductions.

Under the Agreement on Agriculture, and in certain cases, countries have been permitted to exempt certain products from tariffication commitments. This concession or special treatment is only allowed for products that have been specifically mentioned in the country schedules as deserving such treatment. Certain criteria have to be met for a product to receive special treatment.[25] Additional provisions under which developing countries may apply for special treatments for certain products such as a primary agricultural product that is the predominant staple in the traditional diet of a developing member country. Such provisions will allow greater protection for developing countries wishing to protect sensitive agricultural commodities. The special treatment can be extended beyond the implementation period, but needs to be negotiated before the end of the period (before the end of 1999).

Another important exemption from the usual market access commitments is the inclusion of Special Safeguard Provision (SSP) that can be applied in order to prevent a large surge in the volume of imports and avoid a depressing effect on domestic prices. In this case, normal tariffs may be supplemented by levying additional duties when actual imports rise above the specific trigger level or when import prices (denominated in domestic currency) fall below a certain level. To a certain extent, this acts as a variable levy, in that as these import prices fall, the levy can be increased to protect domestic markets.

2. *Domestic support*

Domestic support in the GATT agreement is the level of support, either direct or indirect, provided for the domestic producer of an agricultural product not exempted in the agreement. Domestic subsidies are to be reduced by 20 per cent over six years for developed countries and by 13.3 per cent over ten years for developing countries (base period 1986-88).[26] The calculation is based on the Aggregate Measure of Support (AMS)[27] method which takes all products globally; reduction commitments are not product specific but sector-wide. It is not possible to predict how the implementation of this commitment will affect domestic support, and hence domestic supply of a specific

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[25] See "The Implication of the UR Agreement on Agriculture for Developing Countries" a draft manual prepared by R. Pearce, S. Healy and M. Stockbridge for the External Programme, Wye College, University of London, PP36, March 1996.

[26] Quantitative reduction commitments can only be specified where a starting period is defined. The base period chosen (1986-1988) was the period around the beginning of the UR.

[27] The AMS is a measure that quantifies, in manetary terms, the support provided by agricultural support policies. The essence of the AMS calculations is to include within it all domestic support policies that can have a significant effect on the volume of production. The total AMS is the total value of all non-exempted domestic support provided to producers.

product. Shift of domestic support is possible among different products. This allows more flexibility to meet the over all level of reductions. The AMS is expressed in monetary terms and it represents the average difference between the internal administered price and a world reference price, multiplied by the volume of production in the reference period. The unweighted average of all tariffs is used to calculate domestic support; commodities in which the volume of production and trade is large are not provided with an additional weight as far as tariff cuts are concerned.

The Agreement on Agriculture in GATT 1994 permits internal support to implement certain policies which were called the "Green Box" policies (box 1) and the "Blue Box" policies (box 2).

3. *Export competition or export subsidy commitments*

The market opportunities provided by the commitments on export subsidies will arise from the fact that there will be fewer subsidized exports on the world market, thus providing opportunities for the more efficient non-subsidized exporters.

The export subsidies' provision of the Agreement on Agriculture specifies a 21 per cent reduction in the volume of subsidized exports and a 36 per cent contraction in the associated budgetary transfer for developed countries.[28] The percentages are 14 per cent and 24 per cent, respectively, for developing countries. The base period for export-support reductions is 1986-1990. Products are grouped together in the commitments, which makes it difficult to single out the effect on a single product; as an example coarse grains covers 46 items.[29] Products not subsidized in the base period can not be included in the list.

Article 9 of the Agreement on Agriculture specifies the export subsidy commitments subject to reduction commitments as follows:

(a) The provision by Governments or their agencies of direct subsidies, including payments-in-kind, to a firm, to an industry, to producers of an agricultural product, to a cooperative or other association of such producers, or to a marketing board, contingent on export performance;

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[28] The immediate effect of this may be mitigated by the front loading provision in the Agreement on Agriculture as a leeway used by Governments some countries have taken advantage of the option to start making reductions from their high subsidized level of 1991-92 rather than the 1986-90 base (front loading).

[29] See UNCTAD, "An analysis of trading opportunities resulting from the UR in selected sectors: agriculture, textiles and clothing, and other industrial products". TD/B/WG.8/2, 19 June 1995.

Box 1. The Green Box Policies

Policies deemed to have no, or at most a minimal trade-distorting effect or effects on production can be excluded from the calculation of the AMS, and hence from reduction commitments. For this to be the case, the Agricultural Agreement states that the following two criteria have to be met:

(a) The support in question should be provided through a publicly-funded Government programme (including Government revenue foregone) not involving transfers from consumers; and

(b) The support in question shall not have the effect of providing price support to producers.

Policies that can be included in the Green Box include the following:

(a) General services policies such as research programmes, training and extension facilities and services, inspection, marketing and infrastructural services, pest and disease control measures that provide services or benefits to agriculture or the rural community, but which do not involve direct payments to producers or processors;

(b) Expenditures (or revenues foregone) in relation to public stockholding for food security purposes which forms an integral part of a food security programme identified in national legislation. The process of accumulation and disposal of such stocks should be financially transparent and be made at domestic current market prices, except in the case of subsidized food provision to the rural and urban poor of developing countries;

(c) Policies aimed at providing domestic food aid to vulnerable sections of the community. Government purchases for this should be at current domestic market prices. Eligible recipients can be directly provided with food (subject to clearly-defined criteria related to nutritional objectives) or the means to buy food at market or subsidized prices;

(d) Certain types of payments to producers may be placed in the "green box" provided that they meet certain conditions. This includes: (i) decoupling of income support of producers that do not influence production decisions; no production should be required to receive such payments; (ii) Government financial participation in income insurance and income safely-net programmes; (iii) payments for relief from natural disasters, structural adjustment programmes (SAP) through producer retirement or resource retirement programmes. Also for SAP provided through investment aids designed by governments to assist the financial or physical restructuring of a producer's operations in response to objectively demonstrated structural disadvantages. Payment to compensate for financial losses incurred as a result of government environmental programmes, e.g. use of certain inputs for the purpose of achieving environmental objective, is allowed. Also payment for disadvantaged regions under the regional assistance programme; and (iv) the support of a particular product that constitutes less than 10 per cent (5 per cent for developed countries) of the total value of production of that commodity is exempted from the calculation of the total AMS. The same percentages also apply to non-product specific support of the value of the member's total agricultural production (not the total marketable production), this is called the de minimis provisions.

Box 2. The Blue Box Policies

The blue box provision that exempts direct payments made in conjunction with production limiting programmes, is of direct relevance to support policies in developed countries (e.g. EU and USA set-aside payments), but less important to those of developing countries where production limiting programmes are not at all widespread. Payments made under the production limiting programmes are exempted from AMS reductions if:

(a) Such payments are based on fixed area or yield; or
(b) Such payments are made on 85 per cent or less of the base level of production; and
(c) Livestock payments are made on a fixed number of heads.

(b) The sale or disposal of export by Governments or their agencies of non-commercial stocks of agricultural products at a price lower than the comparable price charged for the similar product to buyers in the domestic market;

(c) Payments on the export of an agricultural product that are financed by virtue of Governmental action, whether or not a charge on the public account is involved, including payments that are financed from the proceeds of a levy imposed on the agricultural product concerned or on an agricultural product from which the exported product is derived;

(d) The provision of subsidies to reduce the costs of marketing exports of agricultural products (other than widely available export promotion and advisory services) including handling, upgrading and other processing cost, and the costs of international transport and freight;

(e) Internal transport and freight charges on export shipments;

(f) Subsidies on agricultural products contingent on their incorporation in export products.

During the implementation period, developing member countries shall not be required to undertake commitments for the export subsidies listed in subparagraphs (d) above, provided that these are not applied in a manner that would circumvent reduction commitments.

To ease the negative effect that the reform programme may have on least-developed and net food importing countries, donors of international food aid agreed to provide food aid in such a way:

(a) That the provision of international food aid is not tied directly or indirectly to commercial exports of agricultural products to recipient countries;

(b) That international food aid transactions, including bilateral food aid which is monetized, shall be carried out in accordance with the FAO Principles of Surplus Disposal including, where appropriate, the system of usual marketing requirements; and

(c) That such aid shall be provided to the extent possible in full grant form or on terms no less concessional than those provided for in Article IV of the Food Aid Convention 1986.

The constraints on subsidized exports are likely to be the most binding elements among all principles established under the Agreement on Agriculture. This is partly due to the fact that there was probably very little "dirt" in the figures used for establishing commitments.[30] To reduce quantities and values of subsidized exports, policies have to be adjusted. But the nature of change will vary from case to case. The tariffs bound under the Agreement on Agriculture are maximum tariffs. Countries can choose to apply tariffs below the maximum[31] or vary tariffs from time to time within specified rules and regulations as long as they do not exceed the bound level. This may come close to the variable levy system used by the EU before.

B. THE SANITARY AND PHYTOSANITARY MEASURES

The Sanitary and Phytosanitary Agreement is an integral part of the Agreement on Agriculture. Measures adopted in this Agreement are essentially intended not to act as barrier to trade. The sanitary and phytosanitary measures include all relevant laws, decrees, regulations, requirements and procedures including, *inter alia*, end product criteria; processes and production methods; testing, inspection, certification and approval procedures; quarantine treatments (including relevant requirements associated with the transport of animals or plants, or with the materials necessary for their survival during transport); provisions on relevant statistical methods, sampling procedures and methods of risk assessment; and packaging and labelling requirements directly related to food safety. These measures are applied.

(a) To protect animal or plant life or health within the territory of the member country from risks arising form the entry, establishment or spread of pests; or to prevent or limit other damage from the entry, establishment or spread of pests;

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[30] See "Implementation of the UR Agreement on Agriculture by Major Developed Countries" prepared by S. Tagerman, UNCTAD/ITD/16, 3 October 1995.

[31] This is possible in cases where a significant amount of "policy water" is included in the bound tariffs, i.e. unrealistic calculation of tariff equivalents in establishing schedule binding.

(b) To protect human or animal life or health within the territory of the member country from risks arising from additives, contaminants, toxins, and disease-causing bacteria, or organisms in foods, beverages or feed stuffs;

(c) To protect human life or health within the territory of the member country from risks arising from diseases carried by animals, plants or products thereof, or from the entry, establishment or spread of pests; or to prevent or limit other damage within the territory of the member country from the entry, establishment or spread of pests.

The main objective of these measures is to prevent member countries from using health measures as a barrier to trade. At the same time they allow members to maintain their current standards to protect human, animal and plant life or health. The Agreement applies to all measures which may directly or indirectly affect international trade and it also promotes the use of existing international standards, guidelines or recommendations such as the International Plant Protection Convention. Measures applied should not arbitrarily or unjustifiably discriminate between members where identical or similar conditions prevail.

In regard to equivalence, the Agreement state: "Members shall accept the sanitary or phytosanitary measures of other members as equivalent, even if these measures differ from their own or from those used by other Members trading in the same product, if the exporting Member objectively demonstrates to the importing Member that its measures achieve the importing Member's appropriate level of sanitary or phytosanitary protection". For this purpose, reasonable access shall be given, upon request, to the importing Member for inspection, testing and other relevant procedures.

In applying sanitary and phytosanitary measures, members must take account of the special needs of developing countries and in particular the least developed ones, such as longer time frames for compliance so as to maintain opportunities for their exports.

A Committee on sanitary and phytosanitary measures was established to provide a regular forum for consultation and dispute settlements and to carry out the functions necessary for the implementation of the Agreement. The Committee is to encourage consultation or negotiation among members, and the use of international standards, guidelines and recommendations, as well as to establish lists of National Enquiry Points and of National Notification Authorities. It is also expected to review notification and review the Agreement itself three years after its entry into force. Under the provisions of the agreement, all members (except LDCs, delayed till 2000) are required to give notification of new or modified sanitary and phytosanitary regulations that may have a significant effect on international trade.

The Committee on sanitary and phytosanitary measures is mandated to develop guidelines to further the practical implementation of the Agreement. In order to avoid disguised restrictions or international trade it is charged with developing procedure to monitor the process of international harmonization and the use of international standards, guidelines and recommendation. Member countries should ensure that measures adopted such as laws, decrees or ordinances be published promptly to inform interested parties. Explanations for changes should be brought to the attention of the Committee. Any member of the Committee can consult the international organizations concerned to examine any specific matter with respect to the sanitary and phytosanitary measures. The WTO secretariat, members, regional and international organizations provide technical assistance to assist members to implement the Agreement. Members in need of specific technical assistant are encouraged to make those known to the Committee.[32]

[32] WTO, Reports of the Subsidiary Bodies to the Council for Trade in Goods. Vol. II, WT/GC/W/46, 7 November 1996.

IMPACT OF WTO AGREEMENTS ON TEXTILES AND CLOTHING: AN INTERNATIONAL PERSPECTIVE

by

*Wenguo Cai**

I. INTRODUCTION

International trade in textiles and clothing occupies an important position in the economies of developing countries, including some countries in the ESCWA region.[1] As one of important sources of export earnings in developing countries, textiles and clothing accounted for approximately 26 per cent of developing countries' total exports of manufactures and 15.5 per cent of their total merchandise exports in 1992.[2] As an important economic sector in developing countries, textiles and clothing also generate substantial employment and income for the population in developing countries. In 1996, developing countries share in world total textiles exports was 59 per cent, while the share of clothing exports was 73 per cent of the world's total.[3] This indicates that developing countries enjoy a comparative advantage in this sector. Therefore, any change in the international textiles trade regime will have a great impact on developing countries, including ESCWA members.

However, international trade in textiles and clothing was governed by a special discriminatory trade regime against developing countries over the last several decades. Until recently, protectionism in this sector was legitimized by multilateral and bilateral textiles trade agreements. The discriminatory regime began with restraints on trade in cotton textiles in the early 1960s, and eventually extended its coverage to synthetic fibres and wool. In 1973, the Multifibre Arrangement (MFA) was negotiated under the auspices of the General Agreement on Tariffs and Trade (GATT), and by 1986, when the Uruguay Round of multilateral trade negotiations was launched, the MFA covered nearly all fibres. The MFA was extended four times in its history until 1994 when the Uruguay Round was concluded. As a result of the discriminatory nature of the regime,

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[1] ESCWA is the acronym for the United Nations Economic and Social Commission for Western Asia, a UN regional organization which currently consists of 12 member states, namely, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates, and Yemen Republic.

[2] UNCTAD/ITD/17, p. 4.

[3] WTO, G/L/184, p. 5 and p. 31.

the opportunities for growth of developing countries' exports of textiles and clothing were seriously restricted.

One of the major objectives of developing countries during the Uruguay Round multilateral trade negotiations was to dismantle the long-standing discriminatory regime of the MFA and to integrate the textile sector into the multilateral trading system. In the end, the Agreement on Textiles and Clothing (ATC) was reached to provide a legal framework for the phasing out of the MFA and the integration of this sector into the GAT trading system after the 10-year transition period from 1995 to 2005. By that time, international trade in textiles and clothing will be governed by the same trade rules that apply to other industrial products. Therefore, the inclusion of the ATC in the single undertaking of the Uruguay Round Agreements of the World Trade Organization (WTO) was regarded as one of the major achievements of developing countries in the Uruguay Round multilateral trade negotiations.

Textiles and clothing products in the ESCWA region contribute significantly to total manufactured exports in some ESCWA member countries, such as Egypt and the Syrian Arab Republic. Although most of the ESCWA countries are relatively small traders of textiles and clothing in the world market, ESCWA members are strong supporters of the integration of the textiles sector into the world trading system. Since all the ESCWA countries are developing countries, it was natural to support other developing countries for the dismantling of the MFA and the integration of textiles trade into the GATT. On the other hand, the trade liberalization process in the textiles sector governed by the ATC, as well as other trade agreements embodied in the WTO, may also create more trade opportunities for the ESCWA countries. For example, as small suppliers, ESCWA countries may be able to make use of the special provisions in the ATC to expand the market potential of their textile and clothing products.

This paper intends to analyze the situation of textiles trade after the Uruguay Round in its implications for ESCWA member countries. Following the introduction, the paper reviews the textiles trade situation in the ESCWA countries. The third section of the paper summarized the key elements of the ATC concluded in the Uruguay Round. The fourth section of the paper examines the implementation of the ATC during the first and second stages of the integration process. In particular, it reviews the integration process of the ATC in major developed importing, and its impact on different groups of countries. Finally, the paper identifies expanded trading opportunities and associated challenges arising from the implementation of the textile agreement for developing countries, with particular reference to the countries in the ESCWA region.

II. TEXTILES TRADE SITUATION IN THE COUNTRIES OF THE ESCWA REGION

In order to analyze the textiles trade situation of the ESCWA countries, it will be important to first examine the overall performance of the merchandise trade in the region, in particular, the non-crude oil exports and imports of individual ESCWA countries. By doing so, a broad picture of the trade situation in the region can be obtained for further analysis.

In the last decade, the share of the ESCWA region in the world trade continues to decline due to low oil prices, slow-down activities in the region, and continued United Nations economic sanctions against Iraq. Table 1 indicates that total exports of the ESCWA region reached US$ 106 billion in 1995 which accounted for only 2.2 per cent of the total world trade. Since the bulk of the export earnings came from the exports of crude oil and oil products of six major oil exporters in the region (1.9 per cent of the world trade),[4] the merchandise exports of the other six ESCWA countries only accounted for 0.3 per cent of the total world trade. From 1985 to 1995, the share of the ESCWA region in total world trade declined from 7.7 per cent to 4.1 per cent. Of which the share of exports declined from 4.1 per cent to 2.2 per cent while the import share declined from 3.6 per cent to 1.9 per cent.[5]

The latest data also indicate that, after a slight drop in 1993 of both exports and imports in the region from the previous year, the exports and imports both increased steadily in 1994 and 1995. The annual growth rate of trade for the region registered a 10.9 per cent increase in exports, and a 5.8 per cent increase in imports during the year of 1994-95, which was quite impressive for the region.[6] Of course, the growth rate of exports in the ESCWA region is still lagging behind East and South Asian countries. This explains why the relative share of the region to the total world exports continues to decline in 1994 and 1995.

Since some of the ESCWA economies are dominated by crude oil exports, it is useful to examine the non-crude oil trade situation of the countries in the ESCWA region in order to further analyze the textiles trade of the region. Table 2 provides a detailed breakdown of non-crude oil imports and exports of individual ESCWA countries during the period of 1985-1995. The table indicates that if crude oil exports are dropped out, almost all the ESCWA countries are running trade deficits for their non-crude oil exports and imports from 1985 to 1995. The total deficits for the region of non-crude oil exports and imports reached US$ 64,269 million in 1994. On the other hand, the table also indicates that in some ESCWA countries, non-crude oil exports, including textiles and clothing products, increased substantially from 1985 to 1995.

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[4] The six major oil exporters are Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates.

[5] ESCWA. External Trade bulletin of the ESCWA Region, Eighth Issue, 1996, pp. 3-5.

[6] Ibid., pp. 10-11.

TABLE 1. SHARE OF ESCWA REGION IN TOTAL WORLD TRADE (1985-1995)
(Million dollars and percentage)

	1985	1988	1990	1991	1992	1993	1994	1995
Total World Exports	1932387	2814160	3434995	3411349	3648119	3639647	4152527	4884123
Total ESCWA Exports	79045	67615	107929	93754	104305	93473	95706	106145
ESCWA Share	4.1	2.4	3.1	2.7	2.9	2.6	2.3	2.2
Of which: Major oil exporters	3.6	2.1	2.7	2.4	2.5	2.2	2.0	1.9
Others	0.5	0.3	0.4	0.3	0.4	0.4	0.3	0.3
Total World Imports	2028512	2908789	3563908	3507575	3786726	3721253	4230640	4959247
Total ESCWA Imports	72206	66587	70855	74863	97023	88342	87384	92450
ESCWA Share	3.6	2.3	2.0	2.1	2.6	2.4	2.1	1.9
Of which: Major oil exporters	2.4	1.6	1.4	1.5	1.9	1.7	1.4	1.2
Others	1.2	0.7	0.6	0.6	0.7	0.7	0.7	0.7

Source: ESCWA. External Trade Bulletin of the ESCWA Region, Eighth Issue (New York: United Nations, 1996), pp. 4-5.

Note: (1) Crude oil and oil products are included in this table: (2) Major oil exporters in the ESCWA region include Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.

TABLE 2 . NON-CRUDE OIL EXPORTS AND IMPORTS OF ESCWA COUNTRIES
(1985-1995)
(Million dollars)

Exports								
Country	1985	1988	1990	1991	1992	1993	1994	1995
Bahrain	344.5	581.0	766.5	785.6	811.6	1206.9	1229.2	1548.9
Egypt	1711.5	1659.7	2103.0	1994.6	1892.2	1793.3	2113.6	2215.2
Iraq	150.8	219.4	392.0	71.2	220.4	-	-	-
Jordan	649.0	884.8	921.8	922.6	944.3	1019.8	1136.2	1433.5

TABLE 2 (*continued*)

Country	1985	1988	1990	1991	1992	1993	1994	1995
				Exports				
Kuwait	7063.1	923.4	549.3	214.1	361.1	533.0	767.5	732.9
Lebanon*	399.7	628.5	493.8	539.1	559.5	451.9	572.0	823.5
Oman	348.1	403.0	458.3	633.5	910.5	1151.5	1310.6	1310.8
Qatar	575.0	-	746.0	871.5	1250.0	1151.7	1228.9	-
Saudi Arabia	6594.7	9674.9	11497.5	10451.0	10684.6	10377.4	10513.9	-
Syria	842.8	1015.4	2743.4	1896.4	1242.4	1277.8	1752.6	1768.7
UAE	1553.3	2893.9	945.0	1205.5	-	1534.0	-	-
Yemen	-	-	88.0	49.3	329.4	373.8	932.9	836.4
Total	20288.3	18884.0	21704.6	19634.4	19206.0	20871.1	21557.4	-
				Imports				
Country	1985	1988	1990	1991	1992	1993	1994	1995
Bahrain	1683.4	1531.7	1924.5	2748.4	2836.1	2487.5	2489.9	2385.7
Egypt	9956.4	8657.2	9202.5	7914.4	8293.0	8187.8	9592.1	11738.9
Iraq	7615.2	5957.2	4833.9	426.0	647.0	700.0	650.0	-
Jordan	2243.1	2439.5	2246.7	2227.7	2920.0	3266.1	3049.8	3340.5
Kuwait	5933.6	6045.6	4042.0	3490.6	7259.1	7042.1	6680.0	7839.6
Lebanon*	2054.8	2366.5	2525.1	3743.2	4202.3	4821.4	5990.4	7292.1
Oman	3152.7	2200.6	2681.3	3190.0	3772.7	4114.0	3914.5	4248.4
Qatar	1139.2	1267.4	1695.3	1720.4	2016.1	2045.9	2085.6	2050.0
Saudi Arabia	23622.4	21783.9	24068.8	29073.2	37933.0	28201.9	23338.0	22800.0
Syria	2905.0	2170.9	2367.1	2767.7	3490.1	4130.6	5455.5	4698.3
UAE	6744.6	8659.6	11472.7	13881.9	20214.0	19744.7	21024.1	23000.0
Yemen	-	-	1611.5	2024.5	1724.6	1882.4	1556.7	1537.4
Total	69205.2	63080.1	68671.4	73208.0	95308.0	86624.4	85826.6	90930.9

Source: ESCWA. External Trade Bulleting of the ESCWA Region, Eighth Issue (New York: United Nations, 1996), pp. 56-57.

* Including Crude Oil and Oil Products.

International trade in textiles and clothing has been playing an increasingly important role in total manufactured exports in many ESCWA countries. In the case of Egypt, textiles and clothing exports are particularly significant. According to the latest data obtained from the WTO Secretariat, total textiles exports of the country reached US$ 426 billion in 1996, which accounted for 12.1 per cent of the country's total merchandise exports. Total clothing exports reached US$ 239 billion, which was 6.8 per cent of total merchandise exports of the country in 1996. Therefore, total textiles and clothing exports in Egypt accounted for almost 19 per cent of total merchandise exports in 1996. Textiles and clothing exports also constitute a significant part of manufacturing trade in the United Arab Emirates (see tables 3 and 4). Although the recent WTO data do not include figures from some ESCWA countries, it was reported that the share of exports of textiles and clothing in total non-oil exports averaged around 21 per cent in the Syrian Arab Republic and 23 per cent in Lebanon.[7]

On the import side, Kuwait, Saudi Arabia, and UAE are the largest importers of textiles and clothing products in the region. In 1995, the three countries' combined imports of textiles and clothing reached US$ 3,472 million. Textiles and clothing imports accounted for 7.5 per cent for Kuwait, 7.6 per cent for Saudi Arabia, and 13.3 per cent for UAE (see tables 3 and 4). Egypt and Jordan also imported a significant amount of textiles products into the two countries in order to feed their developing clothing industries.

TABLE 3. TEXTILES EXPORTS AND IMPORTS: SELECTED ESCWA COUNTRIES (1993-1996)

(Million dollars and percentage)

Exports	Value				Share in economy's total merchandise exports
Country	1993	1994	1995	1996	(Percentage)
Bahrain	1	3	-	-	0.1
Egypt	395	619	570	426	12.1
Jordan	35	38	44	-	2.5
Kuwait	7	10	8	-	0.1
Oman	4	3	8	-	0.1
Qatar	2	5	-	-	0.2
Saudi Arabia	25	-	-	-	0.1
UAE	9	-	-	-	0.0
Imports	Value				Share in economy's total merchandise exports
Country	1993	1994	1995	1996	(Percentage)
Bahrain	109	112	-	-	3.0
Egypt	211	242	280	289	2.3
Jordan	138	126	128	130	2.9
Kuwait	254	244	262	-	3.4
Oman	131	129	162	-	3.8
Qatar	83	98	-	-	5.1
Saudi Arabia	1341	1041	1220	-	4.4
UAE	1765	1790	1990	-	8.5

Source: WTO Secretariat, G/L/184, 30 September 1997.

[7] Information provided by the ESCWA Secretariat.

TABLE 4. CLOTHING EXPORTS AND IMPORTS: SELECTED ESCWA COUNTRIES
(1993-1996)
(Million dollars and percentage)

Exports	Value				Share in economy's total merchandise exports
Country	1993	1994	1995	1996	(Percentage)
Bahrain	67	80	-	-	2.2
Egypt	181	231	253	239	6.8
Jordan	21	20	29	-	1.6
Kuwait	10	10	7	-	0.1
Oman	59	73	89	-	1.6
Qatar	36	58	-	-	1.9
Saudi Arabia	3	-	-	-	0.0
UAE	227	-	-	-	1.2
Imports	**Value**				**Share in economy's total merchandise exports**
Country	1993	1994	1995	1996	(Percentange)
Bahrain	60	61	-	-	1.6
Egypt	3	10	7	7	0.1
Jordan	54	53	56	-	1.5
Kuwait	288	291	319	-	4.1
Oman	30	28	31	-	0.7
Qatar	39	38	-	-	2.0
Saudi Arabia	853	646	875	-	3.2
UAE	783	850	1120	-	4.8

Source: WTO Secretariat, G/L/184, 30 September 1997.

TABLE 5. EXPORTS OF TEXTILES FROM SELECTED ESCWA COUNTRIES
TO CANADA, US, AND EU
(Million dollars and percentage)

Country	Value				Rank		Share	
To Canada	**1993**	**1994**	**1995**	**1996**	**1993**	**1996**	**1993**	**1996**
Bahrain	0.00	0.02	0.00	0.02	-	68	0.01	0.00
Egypt	2.21	2.92	5.48	2.76	29	29	0.08	0.08
Iran	18.67	23.68	12.40	9.69	15	16	0.69	0.29
Kuwait	0.00	0.00	0.01	0.01	-	70	0.01	0.00
UAE	0.29	0.47	0.44	0.08	47	58	0.01	0.00
To US	**1993**	**1994**	**1995**	**1996**	**1993**	**1996**	**1993**	**1996**
Bahrain	0.02	0.02	2.20	0.32	92	80	0.00	0.00
Egypt	50.19	67.71	88.94	59.78	19	21	0.57	0.56

TABLE 5 (*continued*)

Country	Value				Rank		Share	
To Canada	**1993**	**1994**	**1995**	**1996**	**1993**	**1996**	**1993**	**1996**
Qatar	0.00	0.00	0.00	0.00	-	107	0.00	0.00
Jordan	1.74	1.63	1.44	1.94	60	55	0.02	0.02
Kuwait	0.01	0.00	0.00	0.00	95	103	0.00	0.00
Saudi Arabia	3.76	3.24	4.65	5.46	49	44	0.04	0.05
UAE	42.13	26.63	22.38	17.54	21	30	0.48	0.16
Yemen	0.01	0.00	0.39	0.46	96	75	0.00	0.00
To EU	**1993**	**1994**	**1995**	**1996**	**1993**	**1996**	**1993**	**1996**
Bahrain	0.33	0.18	5.99	13.22	98	55	0.00	0.18
Egypt	234.48	406.41	389.38	308.21	14	15	1.73	1.79
Qatar	0.32	0.25	0.63	0.67	101	97	0.00	0.00
Iran	502.20	609.66	548.72	489.56	9	11	3.71	2.84
Jordan	2.30	4.11	3.18	1.76	75	90	0.02	0.01
Kuwait	0.87	0.64	1.17	0.40	88	105	0.01	0.00
Lebanon	3.26	3.35	3.80	3.92	68	73	0.02	0.02
Oman	1.60	0.57	1.47	1.63	81	91	0.01	0.01
Saudi Arabia	3.18	2.95	3.79	8.28	70	60	0.02	0.05
Syria	7.18	10.95	12.61	6.08	61	65	0.05	0.04
UAE	18.27	24.84	41.04	48.47	44	39	0.13	0.28

Source: WTO Secretariat, G/L/184, 30 September 1997.

TABLE 6. EXPORTS OF CLOTHING FROM SELECTED ESCWA COUNTRIES TO CANADA, US, AND EU
(*Million dollars and percentage*)

Country	Value				Rank		Share	
To Canada	**1993**	**1994**	**1995**	**1996**	**1993**	**1996**	**1993**	**1996**
Bahrain	0.73	0.46	0.74	0.78	53	56	0.03	0.03
Egypt	3.10	3.80	4.29	4.77	36	33	0.12	0.19
Iran	0.02	0.13	0.35	0.26	75	72	0.00	0.01
Jordan	0.00	0.30	0.44	0.59	-	62	0.00	0.02
Kuwait	1.79	1.11	0.01	0.12	46	81	0.07	0.00
Syria	0.56	0.12	0.20	0.46	55	68	0.02	0.02
UAE	0.67	0.90	1.91	2.87	54	40	0.03	0.11
To US	**1993**	**1994**	**1995**	**1996**	**1993**	**1996**	**1993**	**1996**
Bahrain	53.00	70.61	72.04	72.14	39	40	0.15	0.17

TABLE 6 (*continued*)

Country	Value				Rank		Share	
To Canada	**1993**	**1994**	**1995**	**1996**	**1993**	**1996**	**1993**	**1996**
Egypt	159.34	203.40	249.16	270.20	29	27	0.45	0.62
Qatar	52.89	62.73	68.57	83.93	40	39	0.15	0.19
Jordan	13.05	20.60	16.49	10.90	64	70	0.04	0.03
Kuwait	49.13	26.06	5.07	5.66	43	80	0.14	0.01
Lebanon	1.47	0.94	0.85	0.51	91	102	0.00	0.00
Oman	83.57	109.23	140.21	125.66	35	33	0.23	0.29
Saudi Arabia	0.45	3.47	9.73	8.98	97	74	0.00	0.02
Syria	2.82	3.94	9.37	8.11	82	77	0.01	0.02
UAE	145.75	172.30	206.84	220.50	30	28	0.41	0.51
To EU	**1993**	**1994**	**1995**	**1996**	**1993**	**1996**	**1993**	**1996**
Bahrain	2.25	0.89	2.31	2.16	87	88	0.01	0.00
Egypt	145.15	154.51	186.19	214.12	34	33	0.40	0.47
Qatar	0.83	0.85	0.35	0.30	97	113	0.00	0.00
Iran	9.71	10.85	10.68	8.04	65	74	0.03	0.02
Jordan	7.57	11.70	13.56	13.39	74	68	0.02	0.03
Kuwait	0.34	0.81	0.42	0.48	105	109	0.00	0.00
Lebanon	25.09	20.00	22.27	21.29	57	63	0.07	0.05
Oman	2.77	4.21	1.15	0.70	84	102	0.01	0.00
Saudi Arabia	0.00	0.00	0.41	2.40	-	84	0.00	0.01
Syria	57.95	66.99	92.45	89.16	44	46	0.16	0.20
UAE	282.52	244.34	239.44	257.50	28	31	0.77	0.57

Source: WTO Secretariat, G/L/184, 30 September 1997.

The European Union and the United States are the two major export markets for textiles and clothing exports of the countries in the ESCWA region. For example, the European Union accounted for about 40 per cent of Egyptian exports of textiles and clothing. The United States accounts for less than 10 per cent, and Canada accounted for less than 1 per cent. In 1996, the shares of Egyptian textiles products in the three markets are 1.79 per cent in the European Union, 0.56 per cent in the United States, and 0.08 per cent in Canada. The shares of Egyptian clothing products in the EU, the US, and Canada are 0.47 per cent 0.62 per cent, and 0.19 per cent respectively (see tables 5 and 6).

III. MANAGED TRADE IN TEXTILES AND CLOTHING: FROM THE MFA TO THE ATC

International trade in textiles and clothing slipped out of the GATT in the early 1960s when the United States and other developed countries were under pressure to protect their domestic textiles industries. Led by the United States, developed countries negotiated a separate instrument to allow developed textiles importing countries to impose quantitative restrictions on imports from textiles exporting countries. The textile trade arrangements severely deviated from the GATT principles. The first Short-Term Arrangement on Cotton Textiles was negotiated in 1961 and replaced by the Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA) in 1962. The LTA lasted for more than 10 years and was succeeded by the Multifibre Arrangement (MFA) in 1974.

A. THE MULTIFIBRE ARRANGEMENT (MFA)

The MFA is a separate agreement on international trade of textiles and clothing negotiated under the auspices of the GATT in 1974. The MFA was intended to provide a "temporary" protection to domestic textiles and clothing producers in developed countries from the increased competition of developing exporting countries and, in the meantime, to make "orderly" arrangements for developing country exporters to enter the markets of developed importing countries. The MFA was renewed four times in its history: MFA I (1974-77), MFA II (1978-81), MFA III (1982-86), and MFA IV (1986-1991) which was extended three times before the ATC entered into force on January 1, 1995.

At the end of 1994, the MFA stood at about 40 members, including some non-GATT countries, such as China. The MFA covered more that 80 per cent of international trade in textiles and clothing. The participating developed importing countries and developing exporting countries signed more than 100 bilateral textiles agreements that governed their trade relations of textiles and clothing products. The MFA imposes quotas of textiles and clothing products to developing exporting countries that restrict their market access to the developed country market. In the meantime, restrictions on trade in textiles and clothing have taken the form of high tariffs, tariff escalation, and other restrictions. Under the MFA regime, the most efficient producers of textiles and clothing experienced most severe restrictions. (See Box 1 for a chronology of managed trade in textiles and clothing).

Since some exporting countries were not participating in the MFA and some products were not covered by the MFA, developed importing countries also negotiated some bilateral agreements to cover these countries and products. Therefore, the combined MFA and non-MFA made textiles and clothing the most protective sector in developed countries. As the MFA derogated from the fundamental GATT principle of nondiscrimination and was designed to discriminate against developing countries, textile and clothing trade became a big battle between developing and developed countries during the Uruguay Round multilateral trade negotiations. Developing countries were very united and demanded the end of the MFA and the full integration of the textiles sector into the normal GATT trading system.

Box 1. A Chronology of managed trade in textiles and clothing

1955 Japan introduced "voluntary export restraints" on cotton textiles to the USA. At the request of the USA, the restraints continued to 1956.

1959-60 UK introduced "voluntary" restrictions on import of cotton textiles from Hong Kong, India, and Pakistan.

1960-61 The concept of "Market Disruption" was introduced to the GATT. The Short-Term Arrangement on Cotton Textiles was negotiated in July 1961.

1962 The Long Term Arrangement Regarding International Trade in Cotton Textiles (LTA) was negotiated and a 5 per cent growth limit on imports of cotton products was imposed under the managed trade regime.

1967 The LTA was extended for the next three years.

1970 The LTA was extended for another three years.

1973 In order to win the support of the textile industry for the 1974 Trade Act, the US Administration proposed to negotiate a Multifibre Arrangement (MFA) under the GATT.

1974 The MFA was negotiated. Under the arrangement, the growth of textile and clothing imports was limited to 6 per cent per annum.

1977 The MFA II was negotiated to include a provision for "jointly agreed reasonable departures" from MFA rules under special circumstances. The MFA II lasted for five years.

1982 MFA II was negotiated, extending the textile arrangement for five more years. The "reasonable departure" clause is dropped.

1985 Exporting developing countries covered by the MFA establish an International textile and Clothing Bureau (ITCB) to promote the elimination of the MFA and the integration of textiles trade into the GATT.

1986 The MFA IV was negotiated, extending the arrangement until 1991. It covered almost all the fibres.

1991 The MFA IV was extended to 1994 when the UR was concluded.

1995 The WTO, of which the ATC is an integral part, entered into force.

Due partly to the firm position of developing countries on textiles trade from the beginning to the end of the Uruguay Round negotiations, and partly to the trade-off by developing countries' acceptance of so-called "new issues" (services, and intellectual property rights) in the negotiations, the Agreement on Textiles and Clothing (ATC) was finally reached at the end of the Uruguay Round as one of many agreements under the WTO that cover trade in goods and services, and intellectual property rights protection. Like other agreements under the WTO, the ATC entered into force on 1 January 1995.

B. THE AGREEMENT ON TEXTILES AND CLOTHING (ATC)

Unlike other WTO agreements, the ATC is a transitional arrangement with a definite lifespan of 10 years. By the end of the 10-year transition period, the ATC will be terminated. There shall be no extension of the ATC (Article 9). The ATC provides for progressive phasing out of all MFA quotas and other non-MFA restrictions and integration of the textiles sector into the GATT 1994 in four stages starting from 1 January 1995. It should be emphasized that the ATC is not merely a plan for the phasing out of the MFA, but is an integral part of the single undertaking of the WTO Agreement. It applies to all WTO members whether or not they are MFA signatories, but not to those MFA signatories that are not members of the WTO. For example, the ATC applies to UAE which recently joined the WTO but was not a signatory to the MFA, and does not apply to China which was a signatory to the MFA but not a member in the WTO. In this regard, unlike the MFA that had approximately only 40 signatories, the ATC applies to all 132 WTO members. The major elements of the ATC can be summarized as follows:

First, the ATC requires that products covered by Annex to the Agreement, including those subject to MFA restrictions, shall be integrated into GATT 1994 in four stages based on certain percentages of the total volume of the country's 1990 imports of the products covered by the Annex. In Stage One, at least 16 per cent of the total import volumes in 1990 had to be integrated by 1 January 1995. In stage two, a further minimum 17 per cent shall be integrated on 1 January 1998. In stage three, another 18 per cent shall be integrated on 1 January 2002. Finally, in stage four, all remaining-potentially a maximum 49 per cent of the total 1990 import volumes-must be integrated into GATT 1994 on 1 January 2005. By that time, textiles and clothing shall be treated equally as other industrial sectors under GATT 1994. The ATC shall be terminated by the year 2005.

It is noted that the above integration ratios are the minimum obligations. Nothing in the ATC shall prevent members from completing the integration program at an earlier date or integrating products at higher rates. However, it is up to the importing country, rather than the exporting country, to decide which products shall be integrated, although the ATC requires that the integration in each stage must include products from each of the four product groups, namely tops and yarns; fabrics; made-up textile products; and clothing. One of the principal criticisms of the ATC is the "back-loading" of the integration program. For example, almost half of the products (49 per cent) would not be integrated until the end of the 10-year transition period.

The integration process of the ATC also involves the obligation of WTO members to increase the growth rates for MFA quotas during the transition period. The quota restraints under the previous MFA are to be phased out through their gradual expansion and ultimate elimination of quotas. During the first stage from 1 January 1995 to 31 December 1997, the annual growth rate will be 16 per cent of the quota growth rate that prevailed the 1994 before the entry into force of the ATC. During the second stage from1 January 1998 to 31 December 2001, the growth rate will be increased by 25 per cent of the quota growth rate prevailing in 1997. By the same token, during the third stage from 1 January 2002 to 31 December 2004, the growth rate will be increased to at least 27 per cent of the quota growth rate in 2001. All quotas shall end on 1 January 2005.

The quota expansion scheme under the ATC can be illustrated by the following example. If the annual growth rate for a quota product on December 31, 1994, was set at 6 per cent, the growth rate would be increased by 16 per cent in 1995 to 6.96 per cent and applied at that rate through 1997. It shall then be increased a further 25 per cent in 1998 to 8.70 per cent and applied at this higher rate through 2001. In 2002, it shall further increase the growth rate by another 27 per cent to 11.05 per cent, which would be applied until quotas were removed at the beginning of 2005. In this example, one million pieces of a quota product in 1994 would increase to almost 2.34 million pieces by 2004. Box 2 summarizes both production integration and quota expansion under the ATC integration program during the 10-year transition period.

Box 2. Integration program for textiles and clothing under the ATC

	Product Integration (Base: 1990 import volume of the products listed in the annex of the ATC)	Quota Expansion (Base: previously agreed MFA growth rates of quotas)
Stage One (January 1, 1995)	Minimum 16 per cent	16 per cent higher annual growth rate than the previous quota growth rate (for example, from 6 per cent in 1994 to 6.96 per cent in 1995, 1996, and 1997)
Stage Two (January 1, 1998)	Further 17 per cent (total 33 per cent)	25 per cent increase of quota growth rate (for example, from 6.96 per cent in 1997 to 8.70 per cent in 1998, 1999, 2000, and 2001)
Stage Three (January 1, 2002)	Another 18 per cent (total 51 per cent)	27 per cent increase of quota growth rate (for example, from 8.70 per cent in 2001 to 11.05 per cent in 2002, 2003 and 2004.
Stage Four (January 1, 2005)	Remaining 49 per cent (total 100 per cent)	All the quotas will be removed.

The ATC also addresses other non-MFA restrictions on textiles and clothing products, including unilateral restrictions, bilateral arrangements, and other restrictive measures. By the end of 1994, there were 29 non-MFA restraint agreements or unilateral measures in place restricting textiles imports to developed countries. The ATC requires that all GATT-inconsistent non-MFA restrictions must either be brought into conformity with GATT 1994 within one year following the entry into force of the WTO Agreement or phased out progressively under a program before 2005.

Although all WTO members are required to phase out progressively both MFA and non-MFA restrictions in ten years, they are also permitted to impose new quantitative restrictions on products of other members on a discriminatory basis in the first three years after the entry into force of the ATC. The application of this so-called "transitional safeguards" mechanism is available to all WTO members. Even those WTO members, which previously did not maintain MFA restrictions, may use the transitional safeguards if they formally notify the Textiles Monitoring Body of their intention to retain their rights. If they choose not to do so, their textiles trade will be deemed to have been already integrated into GATT 1994. The normal trade rules will apply to their textiles sector. If they decide to retain their rights, their textiles trade will be deemed completely outside of GATT 1994, and, thus, will have to be integrated into GATT 1994 under the 10-year integration program. The ATC also sets up detailed procedures and disciplines for the invocation of the transitional safeguards.

As a result of a single undertaking of the WTO agreements, WTO members are required to fulfil their commitments under other Uruguay Round agreements relating to textiles trade. In particular, WTO members are required to: (1) achieve improved market access for textile and clothing products through tariff reductions and bindings, or through removal of other non-tariff barriers; (2) strengthen the rules and disciplines with respect to antidumping practices, subsidies, and countervailing measures, and protection of intellectual property rights; and (3) to avoid discrimination against textiles and clothing imports when taking general trade policy measures.[8]

The ATC also deals with the problems of "circumvention" of the quotas such as transshipment, rerouting, false declaration of place of origin, and falsification of official documents. The ATC requires the establishment of a national legal framework for dealing with circumvention. WTO members are obliged to take appropriate and cooperative actions against circumvention.[9]

The ATC also provides special treatment to certain categories of WTO members. For example, small suppliers, whose quotas represented 1.2 per cent or less of the total quotas applied as of December 31, 1991, shall be advanced by one stage of the growth rates. That means that their growth rates will be increased at the beginning of each stage by 24, 27, and 27 per cent respectively. The ATC further states that least

[8] See Article 7 of the ATC.

[9] See Article 5 of the ATC.

developed countries, wool producing developing countries, and countries relying on outward processing trade shall be provided with special treatment.[10]

In order to supervise the implementation of the ATC, a Textiles Monitoring body (TMB) is established to report directly to the Council for Trade in Goods in the WTO.

The main functions of the TMB consist of examining all measures taken under the ATC and making observations and recommendations to members concerned. Five months before the end of each stage of the integration process, the TMB will prepare a comprehensive report on the implementation of the ATC.[11] The overall responsibilities of the TMB are more or less similar to those in the Textiles Surveillance Body (TSB) under the MFA.

The decision to dismantle the MFA and the implementation of the ATC after the Uruguay Round presents encouraging trade liberalization progress after more than three decades of managed trade in the textiles and clothing sector under the MFA and other discriminatory trade regimes. The eventual restoration of market principles to trade in textiles and clothing will enhance specialization of production based on the relative comparative advantage. Therefore, developing country producers and exporters will benefit greatly from the liberalization process. In the meantime, consumers from both developed and developing countries will also benefit through reduced prices and wide product selections.

Although the economic impacts associated with the elimination of the MFA have been extensively reviewed in recent years, it seems that it is still difficult, if not impossible, to quantify the net welfare gains of the liberalization, especially the detailed allocations of the gains to individual economic groups or countries.

The overall assessment of the welfare gains of textile trade liberalization under the ATC depends on several factors, including the extent of the implementation of the ATC, the effects on production and investment decisions, and tariff reductions on textiles and clothing products. Many of these factors are still unknown. At the first WTO Ministerial Conference held in Singapore in December 1996, many developing countries expressed their concern whether developed countries would faithfully implement the ATC during the 10-year transition period.[12] They worried that, if

[10] See Articles 2 and 6 of the ATC.

[11] On July 31, 1997, the TMB transmitted its first comprehensive report to the Council for Trade in Goods on the Implementation of the Agreement on Textiles and Clothing during the First Stage of the Integration process. WTO Document G/L/179.

[12] The Ministerial Conference is the highest decision-making authority of theWTO. It normally meets every two years. The first WTO Ministerial Conference was held in Singapore on December 9-13, 1996. The second Ministerial Conference will be held in Geneva on May 16-18, 1998.

pressures build up from domestic producers and textiles workers, developed countries may change the course of the trade liberalization process in the sector. Therefore, they are watching very carefully the first-stage integration process of the ATC implementation, particularly full implementation of their commitments by major developed importing countries.

IV. THE IMPLEMENTATION OF THE ATC: PRELIMINARY ASSESSMENT AND IMPACT ANALYSIS

The ATC sets out provisions to be applied by WTO members to fully integrate the textiles and clothing sector into GATT 1994 during a transitional period of 10 years. The 10-year transition period is further divided into three stages before a full integration of this sector into the GATT by 2005. The years from 1995 to 1997 consist of the first stage of the integration process. As the first stage of the integration comes to an end, it is important at this moment to conduct a review of the implementation of the ATC.

The Textiles Monitoring Body (TMB) prepared its first Comprehensive Report on the Implementation of the Agreement on Textiles and Clothing during the First Stage of the Integration Process and submitted it to the Council for Trade in Goods for review on July 31, 1997.[13] This report addresses all of the operational provisions of the ATC with a focus on the integration process and the application of the transitional safeguard mechanism. Since the information about the integration programs of major importers for Stage Two is available, the report also covers that period and analyzes future prospects of the implementation of the ATC. The following summary is obtained primarily from the report.

A. First Stage of Integration, 1995-1997

According to the TMB's report, the four major developed importers with MFA restrictions-Canada, the United States, the European Union, and Norway-amounted to at least 16 per cent of the respective members' 1990 total import volumes of the products falling under the ATC. Canada integrated 16.36 per cent of the volume of its 1990 imports of the products in the Annex, of which 59 per cent were tops and yarns, 26 per cent fabrics, 8 per cent made-ups, and 7 per cent clothing products. The United States integrated 16.21 per cent of the volume of its 1990 imports of the products in the Annex, of which 52 per cent were tops and yarn, 15 per cent fabrics, 20 per cent made-ups, and 13 per cent clothing products. The European Union integrated 16.4 per cent of the volume of its 1990 imports of the products in the Annex, of which 27 per cent were tops and yarns, 49 per cent fabrics, 22 per cent made-ups, and 2 per cent

[13] WTO Document G/L/179.

clothing products.[14] Norway integrated 16.26 per cent of the volume of its 1990 imports of the products in the Annex, of which 22 per cent were tops and yarns, 73 per cent fabrics, 4 per cent made-ups, and 1 per cent clothing products.

Nine WTO members notified that they did not wish to retain the right to use the provisions of Article 6. As explained earlier, the textiles sectors of these economies are deemed to have integrated immediately into GATT 1994 without a transition period. These members are Australia, Brunel Darussalam, Chile, Cuba, Hong Kong, Iceland, Macau, New Zealand, and Singapore.

Fifty-five WTO members, which did not maintain restrictions on textiles imports, notified that they wish to retain their right to use the provisions of Article 6. Most of these countries are developing countries except a few developed countries which include Japan and Switzerland, Egypt and United Arab Emirates from the ESCWA region are also on the list. As required by the ATC, these countries will have to submit notifications to the TMB to integrate their textiles trade into GATT 1994. The TMB received 45 notifications from these countries, including Egypt in the ESCWA region, and completed the review of 42 of them. The TMB concluded that in all cases the products integrated amounted to at least 16 per cent of the respective members' total imports of the products falling under the coverage of the ATC. The TMB also noted that all of the above WTO members met the requirements to integrate products from each of the four product groups: tops and yarns, fabrics, made-up textile products, and clothing.

B. SECOND STAGE OF INTEGRATION, TO BE IMPLEMENTED ON 1 JANUARY 1998

In Stage Two, WTO members are required to integrate products that accounted for not less than 17 per cent of the total volume of the member's 1990 imports of the products in the Annex by 1 January 1998. WTO members are further required to submit their respective integration programs for Stage Two a year before January 1, 1998. Therefore, the TMB is currently in the position to review their notifications.

According to their notifications, Canada, the United States, the European Union, and Norway would integrate at least 17 per cent of the total volume of their 1990 imports of the products falling under the coverage of the ATC. Canada would integrate 18.61 per cent of the volume of its 1990 imports of products under the ATC, of which 3.5 per cent would be tops and yarns, 11.3 per cent fabrics, 76.4 per cent made-up textile products, and 8.8 per cent clothing products. Canada would integrate 30 products-five of tops and yarns, three of fabrics, 16 of made-ups, and six of clothing. The TMB further noted that all the restrictions on two products (handbags of

[14] At the time notification was made, the European Community was comprised of 12 member states. These percentages may have to be revised due to the enlargement of the EU.

textiles materials and tailored-collar shirts) would be eliminated on 1 January 1998. Restraints on these two products affected 22 WTO members overall.

The United States would integrate 17.03 per cent of the total volume of its 1990 imports of the products under the ATC, of which 47 per cent would be tops and yarns, 14.7 per cent fabrics, 26.7 per cent made-ups, and 11.6 per cent clothing products. The United States would integrate 38 US product categories in their entirety (one of fabric, three of made-ups and 34 of clothing), and 12 US product categories partially (one of yarns, six of made-ups, and five of clothing). The TMB further noted that 24 US categories or parts of categories had been included in the integration program and, therefore, that such restrictions would be eliminated on 1 January 1998. Restraints on these 24 US categories and part of categories affected 14 WTO members overall. The European Community would integrate 17.99 per cent of the total volume of its 1990 imports of the products under the ATC, of which 65 per cent would be tops and yarns, 12 per cent fabrics, 11 per cent made-ups, and 12 per cent clothing products. The European Union would integrate 23 EC product categories-four of tops and yarns, four of fabrics, six of made-ups, and nine of clothing. The TMB further noted that 12 EC categories had been included in the integration program, and, therefore, that such restrictions would be eliminated on 1 January 1998. Restraints on these 12 EC categories affected five WTO members overall.

Norway would integrate 24.26 per cent of the total volume of its 1990 imports of the products under the ATC, of which 27 per cent would be tops and yarns, 10 per cent fabrics, 46 per cent made-ups, and 17 per cent clothing products. It is noted that Norway's notification contained no product for which restrictions were currently maintained by Norway.

Among the 55 members which retained the right to use the provisions of Article 6, 45 submitted their integration programs for Stage One. Thirty-six members, including Egypt, further notified their second-stage integration programs. The TMB competed the review of 17 of the notifications received, and concluded in all cases that products integrated amounted to at least 17 per cent of the respective members' total imports of the products under the ATC. The TMB noted that Turkey would integrate some products on 1 January 1998 to form part of Turkey's third stage of integration.

Table 7 briefly summaries the first and second stages' integrated volume under the ATC Integration Program by the four major importers discussed above and their value equivalent estimated by UNCTAD.

Table 8 further identifies the United States integration program under the ATC which includes the products of which MFA restrictions will be phased out and a list of countries which will benefit from the removal of the MFA quotas in the three stages of the integration.

TABLE 7. THE FIRST AND SECOND STAGES OF ATC INTEGRATION PROGRAM BY CANADA, US, EU, AND NORWAY
(Percentage)

		In volume (Percentage of total 1990 imports)					In value*
	Integration stages	Yarns	Fabrics	Made-ups	Clothing	Total	Total
Canada	1	9.60	4.33	1.28	1.14	16.36	13.04
	2	0.64	2.09	14.30	0.24	18.61	16.70
	Total	10.24	6.42	15.58	1.38	34.97	29.74
USA	1	8.46	1.65	4.19	1.92	16.21	6.62
	2	8.00	2.51	4.54	1.98	17.03	10.73
	Total	16.46	4.15	8.73	3.90	33.24	17.35
EU	1	4.39	8.14	3.48	0.38	16.40	8.7
	2	11.63	2.22	2.06	2.09	17.99	12.92
	Total	16.01	10.36	5.54	2.47	34.39	21.62
Norway	1	3.51	11.95	0.65	0.15	16.26	7.40
	2	6.58	2.38	11.14	4.16	24.26	16.55
	Total	10.09	14.33	11.80	4.31	40.52	23.95

* UNCTAD Secretariat estimates.

TABLE 8. UNITED STATES INTEGRATION PROGRAM UNDER THE ATC

Stages	Products of which MFA restrictions will be phased out	Beneficiaries
I	None	None
II	Baby garments and parts (except cotton diapers) down-filled coats hoslery	China (if it joins the WTO) Hong Kong Republic of Korea Pakistan Philippines Singapore Taiwan (if it joins the WTO)

TABLE 8 (*continued*)

Stages	Products of which MFA restrictions will be phased out	Beneficiaries
III	Kit fabrics	Bangladesh
	Gloves and mittens (export non-unit)	Brazil
	Dressing gowns	China (if it joins the WTO)
	Headwear	Haiti
	Dish towel	Hong Kong
	Handbags	India
	Luggage	Indonesia
	Bar mop	Jamaica
	Other staple fibre yarn	Republic of Korea
	Brassieres	Macau
	Poly bags	Malaysia
	WG coats	Mauritius
	MB suit-type coats	Myanmar
	Dresses	Pakistan
	Skirts and gloves not knit	Philippines
	Skirts	Romania
	MB suits	Singapore
	Trousers	Sri Lanka
	Breeches and shorts	Taiwan (if it joins the WTO)
	Nightwear	Thailand
	Etc.	Turkey
		United Arab Emirates

Source: UNCTAD, Preliminary Analysis of Opportunities and Challenges Resulting from the Uruguay Round Agreement on Textiles and Clothing, UNCTAD/ITD/17, p. 49.

C. PRELIMINARY ASSESSMENT OF THE INTEGRATION PROGRAMS OF MAJOR IMPORTERS

Although the TMB reports that the four major importers-Canada, the United States, the European Union and Norway- have basically met their commitments in the first stage of the ATC, and promised to continue to fulfil their commitments in the second stage, a careful examination of their integration programs indicates that the integration process may not bring any immediate trade liberalization in the sector. This mainly reflects the inherent deficiency of the integration program of the ATC which was a compromise of the Uruguay Round negotiations. The following observations explain why trade liberalization in the textiles sector has a slow start under the ATC.

First of all, the integration program of the ATC is heavily back-loaded. According to the integration ration in volume terms, only 51 per cent of the products covered in the Annex will be integrated into GATT 1994 over the 10-year transition period in three stages. This effectively leaves the balance of 49 per cent to be integrated on the very last day of the integration period. Therefore, major import restraining countries were able to make use of the provisions to delay the integration process and economic adjustment for the textiles and clothing industries in their economies.

Second, the use of the 1990 import volume of the products in the Annex of the ATC makes it very easy for the import restraining countries to meet the targets for the first and second stages of the integration. In fact, the Annex of the ATC contains many HS lines that have never been restricted in any country. Such lines, as one estimate puts it, account for 47 per cent in Canada, 37 per cent in the US, and 34 per cent in the EU, of total imports in 1990.[15] Because of the above situation, the major import restraining countries can, in fact, fulfill their obligations under the ATC in the first two stages without touching the MFA quotas.

Therefore, it was not a surprise that Canada, the US, the EU, and Norway could easily fulfil their commitments in the first stage.

Third, the first two stage of the integration programs of major import restraining countries have shown that the products integrated were high in volume and low in value in order to simply meet the integration targets (see table 7). For example, the United States integrated 16.21 per cent of its 1990 import volume but only accounted for 6.62 per cent of its 1990 import value. The European Union integrated 16.40 per cent of its 1990 import volume but only accounted for 8.70 per cent of its 1990 import value.

Finally, the integration of clothing categories was given minimal attention in the integration programs of major restraining countries because developing countries are major exporters of clothing products. It is noted that tops and yarns accounted for more than 50 per cent of their integration items in the integration programs of Canada and the United States. The European Union obviously gave priority to the fabric group that accounted for 49 per cent of its integration items (see table 7).

The International Textiles and Clothing Bureau (ITCB) concluded that in the first stage integration programs of Canada, the US and the EU had not provided meaningful market access opportunities for developing countries.[16]

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[15] See Sanjoy Bagchi, "The Integration of the Textile Trade into GATT," Journal of World Trade 28, no. 6 (December 1994), p. 36.

[16] See ITCB Document, The Textile Integration Programme of the First Stage (IC/E/88), 14 October 1994.

D. IMPACT OF THE ATC ON DEVELOPING COUNTRIES, INCLUDING ESCWA COUNTRIES

The phase out of the MFA and the full implementation of the ATC will no doubt benefit developing countries on the whole. The impact on individual countries or country groups varies, depending on the extent of the previous restraint regime, the selection of the product mix by major restraining importers during the liberalization process, and trade flows of the countries (or country groups) in question. Generally speaking, the exporting countries with the most severe restraints under the MFA and other restrictions will benefit the most from the liberalization process. The countries with little or no constraints may experience a negative impact due to the severe competition in the world market following the removal of the textile quotas from the major developing exporting countries, particularly those in East Asia, Southeast Asia, and South Asia.

If China and Chinese Taipei join the World Trade Organization soon, they will become major competitors in the world market. The two economies have already become leading exporters of textile and clothing products in the world market. Since they are not members of the WTO, the ATC does not apply to them at this moment. Their exports continue to be regulated and restricted by bilateral textile agreements with developed importing countries. As soon as they join the WTO, the ATC will immediately apply to them.[17] Southeast and South Asian countries are also major suppliers of textile and clothing products in the world market, and many of the countries are participants of the MFA. Since most of them are WTO members, the ATC applies to them immediately after its entry into force in 1995.

Regional trade arrangement also play an important role in the textile liberalization process. The North American Free Trade Agreement (NAFTA) and the enlargement of the European Union obviously have a diversion effect on the textiles trade from other developing countries to their regional partners. For example, US imports of MFA goods from Mexico grew by 42 per cent to $ 4.2 billion in 1996, and have tripled since the enactment of the NAFTA in 1994. As a result, Mexico has surpassed all major Asian exporters in the US market to become the largest supplier by quantity (11.6 per cent of the total) and the second largest by value (9.2 per cent) after China. Canada's shipment have also increased annually since 1989 when the Canada-United States Free Trade Agreement entered into force, rising overall by 179 per cent. US imports of MFA goods from Canada rose by 15 per cent in 1996 to nearly $ 2.0 billion.[18]

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[17] Both China and Chinese Taipei are in the process of acceding to the WTO. For more details on China's WTO accession process, see Wenguo Cai, Murray Smith, and Xu Xianquan, China and the World Trade Organization: Requirements, Realities, and Resolution (Ottawa: Centre for Trade Policy and Law), 1996.

[18] USITC. Annual Statistical Report on US Imports of Textiles and Apparel, 1996, USITC Publication 3038, April 1997.

Table 9 provides the latest data on US imports of textiles and clothing from selected country groups, including NAFTA partners, major Asian suppliers, and some ESCWA member countries. The table indicates US imports of MFA products in 1996 reached a record $ 19.1 billion equivalent square meters (SMEs) valued at $ 45.9 billion, representing an increase of 4.1 per cent, or 757 million SMEs, over the 1995 level.

TABLE 9. TEXTILES AND APPAREL: US GENERAL IMPORTS BY SELECTED SOURCES, 1993-1996

Source	Quantity (million square meters)				Value (million dollars)			
	1993	1994	1995	1996	1993	1994	1995	1996
NAFTA Countries								
Mexico	746	977	1,550	2,207	1,372	1,894	3,037	4,232
Canada	1,120	1,318	1,559	1,797	1,029	1,317	1,652	1,995
East Asian Suppliers								
China	2,112	2,042	1,772	1,645	4,767	4,931	4,803	4,892
Hong Kong	935	1,022	981	892	3,957	4,406	4,391	4,031
Taiwan	1,230	1,237	1,174	1,203	2,861	2,830	2,757	2,733
Korea	872	864	798	729	2,477	2,449	2,271	2,049
Macao	85	112	158	155	483	607	764	761
Japan	310	324	252	247	583	584	481	451
Southeast Asian Suppliers								
Philippines	749	534	611	622	1,337	1,457	1,704	1,706
Indonesia	478	516	540	605	1,111	1,170	1,336	1,493
Thailand	672	662	665	631	1,131	1,234	1,420	1,402
Malaysia	245	251	251	229	678	704	745	707
Singapore	124	103	85	72	522	474	425	328
South Asian Suppliers								
India	641	677	751	870	1,286	1,520	1,615	1,737
Bangladesh	399	487	603	625	766	927	1,115	1,178
Sri Lanka	286	328	398	427	840	892	1,025	1,139
Pakistan	622	678	749	815	652	768	965	1,011
Selected ESCWA Countries								
Egypt	144	185	210	149	196	254	319	312
UAE	107	93	93	87	174	184	215	222
Oman	27	34	44	37	78	102	131	116
Qatar	15	18	20	24	48	58	64	78
Bahrain	21	25	28	23	49	66	69	68
Saudi Arabia	11	6	13	7	4	6	13	14
Jordan	6	9	9	7	14	20	16	12
All Countries	15,848	17,278	18,314	19,071	36,079	39,981	43,974	45,933

Source: USITC. Annual Statistic Report on US Imports of Textiles and Apparel, 1996.

The table further indicates that Mexico and Canada surpassed China in 1996, becoming the first and second largest volume suppliers of MFA products due to the NAFTA arrangements among the three countries.

On the other hand, most of the big Eastern Asian suppliers, including China, Hong Kong, and Taiwan, all experienced decline in the volume of their shipments to the United States from 1993 to 1996. The decline partly reflected limited quota growth in these economies. In the case of China, under the 1994 US-China bilateral textile agreement, the quota growth rate for China was zero in 1994 and 1 per cent on average in 1995 and 1996. In February 1997, the United States and China reached a new textile agreement that effectively extended current quota arrangements for another four years, but reduced quotas in areas of repeated transshipment violations.[19]

Comparatively, South Asian countries have shown significant growth in their textile and clothing shipments to the United States in the last five years. In 1996, US imports of MFA products from four South Asian countries-India, Pakistan, Bangladesh, and Sri Lanka-which are among the lowest cost suppliers in Asia, grew by a combined 9.4 per cent in 1996 to US $ 5.1 billion from US $ 3.5 billion in 1993. The strong export growth of textiles and clothing in the region can be partly attributed to the economic liberalization programs of the four countries. It also reflected partly the positive development of trade liberalization under the ATC in the region since all four countries are WTO members.

Compared to other Asian countries, ESCWA members are relatively small suppliers in the US market. The total exports of textiles and clothing products from seven ESCWA countries to the US market reached US $ 822 million in 1996, resulting in a 46 per cent increase from 1993. Egypt and United Arab Emirates were the two biggest suppliers in the US market from the region in 1996.

Although Egypt maintained almost the same export value in the US market in 1996 and 1995, the export volume declined sharply, resulting in a drop of more than 40 per cent of the export volume. The other small suppliers from the ESCWA region play only a very minor role in the US textile and clothing market.

The above is a description of the impact of recent US textiles and clothing imports on various developing countries, including ESCWA members. As to the impact of the ATC implementation on ESCWA countries, its seems that the liberalization of the textiles trade is unlikely to have a significant impact on the economies in the region with the exception of Egypt. In most cases, ESCWA countries are relatively small exporters and importers of textiles and clothing. Most of the ESCWA countries will be affected positively by the liberalization in developed

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[19] USTR. "US and China reach four-year textile trade agreement-US Gains market access in China and targets areas of Transshipment violations for Cutbacks," Press Release No. 97-07, February 2, 1997.

country markets, but possibly negatively by the erosion of their preferential margins and by increased competition from other developing country exporters. The net impact will depend largely on their ability to improve their competitiveness relative to other textiles exporting countries and their economic reform programs which should be adjusted to fit into the new trading environment.

In the ESCWA region, Bahrain, Egypt, Kuwait, Qatar, and United Arab Emirates are WTO members. Jordan, Oman, and Saudi Arabia are in the process of negotiating membership in the WTO. Lebanon and the Syrian Arab Republic are still examining the pros and cons of joining the trade club. It is expected that participation of the ESCWA members in the WTO presents a big challenge for the countries in the region. At the same time, the integration of the region in the world trading system will also create potential export opportunities for the region, including in the textiles and clothing sector.

V. OPPORTUNITIES AND CHALLENGES ARISING FROM THE IMPLEMENTATION OF THE ATC, WITH PARTICULAR REFERENCE TO THE ESCWA COUNTRIES

With the full implementation of the ATC and other Uruguay Round Agreements, it is expected that more market access opportunities will arise in the textiles sector, particularly for those developing exporters with severe export restraints under the previous MFA and non-MFA restrictions. The elimination of the MFA, the expansion of textiles quotas, and tariff reductions for textiles and clothing products will enhance export potentials for developing countries if the ATC is fully and faithfully implemented. On the other hand, the integration process of the ATC, the associated transitional safeguard mechanism, and the increased market competition in the textiles sector will also provide enormous challenges to developing countries, including those in the ESCWA region.

Although the implementation experience of the ATC so far is not completely satisfactory, as discussed above, there is at least an encouraging sign that most WTO members, including the four major import restraining economies, have met their integration obligations in the first stage under the ATC. Because of the backloading nature of the integration program of the ATC, it is expected that more MFA-restricted products will be liberalized in the third stage and again at the end of the 10-year transition period. Since there is no extension of the ATC after the transition period, it is anticipated that more export opportunities will be created in the textiles sector for developing countries after the 10-year transition period. As small suppliers of textiles and clothing products in the world market, ESCWA countries are unlikely to enjoy the same gains from the elimination of the MFA as expected by other developing countries, such as those in East and South Asia. However, it is important to consider strategically the future position of the textiles sector in their respective economies and develop practical plans in order to realize the export potentials arising from the full implementation of the ATC in ten years. This is particularly true for major textiles importing countries in the ESCWA region, notably Egypt, Syrian Arab Republic and the United Arab Emirates.

It is expected that the quota expansion scheme under the ATC will result in substantial improvements of market access conditions in the textiles and clothing sector for developing countries during the transition period, particularly for the small suppliers due to their entitlement to the advancement by one stage of the growth rates under the quota expansion program. As estimated by the ITCB, the total volume of quotas would increase by 102 per cent in Canada, 89 per cent in the US and 64 per cent in the EU at the end of the transition period.[20] For specific developing exporters, for example, Bangladesh enjoyed 7 per cent growth rate in the US market in 1994, therefore, its MFA quotas would increase from 255 million SME in 1994 to 682 million SME in 2004, almost tripled after the 10-year transition. On the other hand, major suppliers, whose quota growth rates have been cut back, would experience a little or no increase of their quota growth. For instance, the Republic of Korea had the quota growth rate with the US at around 1 per cent, therefore, its total MFA quotas could only increase 1.84 per cent in the US market during the ten years.[21] This situation has obviously created opportunities for countries with small supplies of textiles products and high quota growth rates to developed importing countries. Most of the ESCWA countries fall into this privileged category of textiles exporters. Some ESCWA countries may also consider making use of such provisions of the ATC on special treatment for small suppliers.

After the 10-year transition period of the ATC, tariffs would become the main instrument of border protection in the textiles trade. Therefore, tariff reductions in developed importing countries in the sector would eventually improve the market access conditions for developing country exporters. Historically the average tariff level in the textiles and clothing sector was higher than other industrial products in developed countries. As a result of the Uruguay Round, tariffs on textiles and clothing have been cut, on average, by 22 per cent compared to a 40 per cent cut for all industrial products. However, as far as some ESCWA countries are concerned, this situation may in fact improve their market access conditions relative to other textiles exporters. For example, US tariff reductions would increase Egypt's exports of textiles products to the US market as Egyptian products were charged relatively high tariffs before the Uruguay Round. On the other hand, the slow pace of tariff reductions in the textiles sector will also slow down the erosion of the duty-free status that Egypt is currently enjoying with the European Union.

In the last decade, most developing countries in the world are engaged in trade liberalization programs for the purpose of their countries' economic development. Some of the countries have emerged as important new markets for import products,

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[20] UNCTAD, p. 51.

[21] Ibid., p. 15.

including textiles and clothing. In the past, many developing countries protected their domestic textile markets from foreign competition. During the Uruguay Round negotiations, developed countries pressed developing countries to open their own textiles and clothing markets. In the end, developing countries made significant contributions by undertaking tariff reductions, tariff bindings, and the elimination of non-tariff measures in the area of the textiles trade. For example, India, Pakistan, Brazil, and Indonesia all agreed to significantly liberalize their markets for imported textiles and clothing products. Even under the pressure of the United States during the negotiations of the latest US-China bilateral textiles agreement in February 1997, China agreed to further open its textiles and clothing market for foreign competition. These big emerging markets in developing countries have brought enormous potential opportunities for all textiles producers and exporters around the world, including those in the ESCWA region. Since all ESCWA countries are developing countries, it may also be possible for ESCWA members to include the textiles trade in their special arrangement with other developing countries through the Global system of Trade Preferences (GSTP)[22] so that developing countries would enjoy preferential treatments among themselves.

Obviously developing countries, including the countries in the ESCWA region, will face tremendous challenges in the process of integration of the textiles sector into the world trading system. First of all, it appeared that there was an intensive use of the transitional safeguard mechanism under the ATC by the United States. During the period of 1 January 1995 to 24 July 1997, a total of 33 cases of transitional safeguards were brought to the WTO. The United States alone initiated 26 cases which involved 14 WTO members. In particular, 24 cases were initiated in the first six months of 1995. The frequent US safeguard actions have been challenged by several developing countries. For example, India and Costa Rica brought their cases to the WTO Dispute Settlement Body. The rulings of the WTO panels as well as the confirmation of the Appellate Body have reinforced the view that the criteria for use of the transitional safeguard provisions in the ATC must be strictly complied with by the importing countries. Thus, both India and Costa Rica won their cases against the United States. This has proven that developing WTO members, even small players like Costa Rica, can make use of the strengthened rules and procedures in the WTO dispute settlement mechanism to challenge big trading powers like the United States.

It has become clear from the early experience of the ATC implementation that the elimination of the MFA would lead to a shift towards increased use of other trade policy instruments against developing countries. One of the instruments which has been used increasingly in recent years is the initiation of antidumping cases against textile exporters from developing countries. For example, as of April 1, 1997, the EU has seven antidumping cases in force against 12 WTO members in the textiles sector.

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[22] The Global system of trade preferences among developing countries (GSTP) was created under the enabling clause of the GATT to allow developing countries to grand preferential trade treatment among each other without granting to developed countries.

There are also another eight on-going antidumping investigations against 17 WTO members in the textiles sector, of which the EU initiated two antidumping cases against Egypt in 1996 with regard to imports of bed linen (initiation date: 13.9.96) and cotton fabric (grey) (initiation date: 21.2.96) products from Egypt.[23] It is expected that after the elimination of the MFA, developed importing countries will increasingly use antidumping investigations as one of the important trade policy instruments to protect their declining textiles industries. The exporters from developing countries, including those in the ESCWA region should be prepared to meet the challenges if antidumping cases are brought by developed country producers against their products from their region.

Since some ESCWA members are small suppliers of textiles and clothing products in the world market, the elimination of the MFA may have negative impact on them. As a result of the quota arrangements under the MFA, some ESCWA countries with high labour costs and low productivity in the sector could continue exporting their textiles and clothing products under the quotas. However, when the MFA and other restrictions are phased out, textiles and clothing trade will be subject to intense international competition. Under the new trading environment, many non-competitive textiles and clothing producers from the countries in the ESCWA region would find their exports quickly displaced by more efficient producers whose trade was previously restrained by the MFA. Therefore, some ESCWA countries may have to give a high priority to restructuring their industries, reducing costs and improving their economic efficiency. After having re-examined their comparative advantage in the new trade environment, some oil-producing ESCWA countries might consider upgrading from the textiles sector to other industrial sectors where they enjoy a comparative advantage.

With well-developed petrochemical industries but high labour costs and scarce water resources, the Gulf Cooperation Council (GCC)[24] countries may develop a comparative advantage in the production of synthetic fibre. On the whole, textile producers in the ESCWA region should improve their product qualities, invest or import new technology in the sector, and increase flexibility in production and export marketing in order to meet the changing tastes of dynamic consumers in the world market. One shortcut towards realizing this is to engage in joint ventures in textiles and clothing production with partners from other countries or regions that have the necessary product knowledge and extensive distribution networks. Joint ventures may also make it possible to obtain new technologies and new designs from foreign

[23] Commission of the European Communities, Report from the Commission to the Council on the respect of market access commitments by WTO members in the textiles and clothing sectors, Brussels, 15.05.1997, COM (97) 219 final.

[24] Also known as the Cooperation Council for the Arab States of the Gulf, which consists of six members: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates. The objective of the organization is to promote regional cooperation in economic, social political and military affairs. The organization is headquartered in Riyadh, Saudi Arabia.

partners. Consequently it will substantially improve the productivity of the textiles sector in the region and increase export potentials for the textiles and clothing products made in the region.

Another challenge is the rapid development of preferential trade arrangements that may have a negative impact on the textiles trade of the ESCWA countries. As previously discussed, the NAFTA has already shown a trade diversion effect in favour of Mexico and Canada in the US market. The United States also has trade initiatives in place with Caribbean and Central American countries whose textiles exports to the US market also enjoy preferential treatment. In addition, the United States is moving towards granting duty-free treatment to the textile and clothing imports from Sub-Saharan African countries. As well, the EU reduced the time for dismantling the MFA from ten years to five years for the Central and Eastern European countries. This will give these countries a great advantage over other textile suppliers, including those in the ESCWA region. There is no doubt that EU will divert trade from ESCWA region and other developing countries to its neighboring Eastern European and Mediterranean countries. The response of the ESCWA countries to the challenge may be to negotiate preferential trade arrangements with major trade partners, such as the EU and the US, in order to stay competitive in those markets.

Finally, in order to avail of the opportunities arising from the implementation of the Uruguay Round Agreements, including the ATC, and to meet the challenges that lie ahead, the ESCWA countries should obtain technical assistance from international sources to organize WTO training and research programs for the region. In addition, trade intelligence also plays an important role in the modern information age. More specifically, training programs could be organized to focus on two groups of countries in the ESCWA region. The first group consists of the existing WTO members in the region (Bahrain, Egypt, Kuwait, Qatar, and UAE). The focus of this targeted training program should be on the implementation of commitments under the WTO, including WTO requirements and obligations, legal and policy adjustments, trade liberalization programs in goods and services, and intellectual property protection. The experiences of other WTO members in their implementation of WTO obligations will be directly relevant to the group. The second group is composed of those WTO acceding countries and potential applicants for the WTO membership (Jordan, Oman, Saudi Arabia, Lebanon, and the Syrian Arab Republic). The purpose of the second training program is to provide the trade negotiators, senior policy and law makers, and business executives with in-depth training on the WTO accession process and WTO rules and requirements, and to develop institutional and human capacity in trade policy formulation and multilateral trade negotiations for these countries. On the research side, the impact studies of the participation of the ESCWA countries in the world trading system should be carried out on a country-by-country and sector-by-sector basis. For example, since the textiles sector plays a key role in Egypt's economy, it will be fundamentally important to examine the textiles liberalization process under the ATC and its implications for Egypt in order to formulate the national strategy for the country.

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IMPLICATIONS OF WTO TECHNOLOGY TRANSFER IN THE PHARMACEUTICAL INDUSTRY IN THE ESCWA MEMBER COUNTRIES*

Mr. C.M. Correa, B. E. Fayez and Z. Fadloun

Presented by

Omar Bizri

I. THE WORLD PHARMACEUTICAL INDUSTRY

A. THE GLOBAL INDUSTRY: ITS SIZE, GROWTH RATE AND MAIN ACTORS

Production of pharmaceuticals is a sizeable global industry. It is largely concentrated in a relatively small number of countries. In 1994, companies based in only seven industrialized countries[1], supplied the global pharmaceuticals market with more than 84 per cent of its total value, estimated at US$ 237 billion.[2]

The global pharmaceutical industry has been growing at an annual rate of around 10 per cent. On the basis of available figures for 1994, its value must now exceed the US$ 300 billion mark.

Multinational companies (MNCs), operating mostly in the developed countries, play a predominant role in the production of pharmaceuticals.

Consumption of pharmaceuticals is also largely concentrated in the developed countries. These countries, including the countries of Eastern Europe and Russia,

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* This paper is based on studies conducted within an activity carried out by ESCWA with the aim of assessing the implications of WTO rules and related agreements on intellectual property rights (IPRs) for selected sectors in the ESCWA member countries. Part of the afore-mentioned activity was directly concerned with the pharmaceuticals industry in these countries. In particular, contributions made by an international consultant, C. M. Correa and two experts from the region, B. E. Fayez, from Egypt and Z. Fadloun, from Syria, constitute the basis for what was written about the pharmaceuticals sector within the above-mentioned activity. The technological needs of this sector in the ESCWA member countries were paramount in all three studies. Highlights of the conclusions reached by these studies concerning technology transfer, R & D and generally, technological capacity building measures in this industry are briefly discussed below.

[1] France, Germany, Japan, Sweden, Switzerland, the United Kingdom and the United States.

[2] The figure for 1995 was US$ 286 billion.

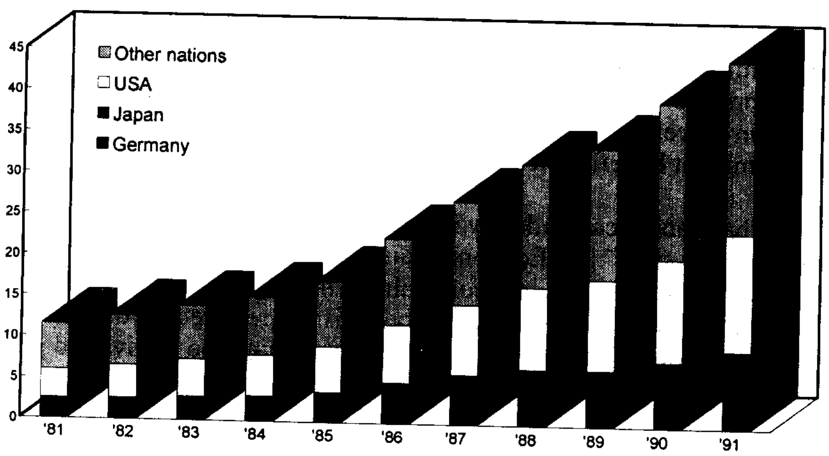
accounted for 81.1 per cent of the world's consumption. Production and consumption, in the developing counties are estimated around 18 and 19 per cent respectively.[3]

B. INNOVATION IN THE WORLD PHARMACEUTICALS INDUSTRY

Pharmaceuticals production is a science and technology (S and T) intensive industry, comparing well to aerospace, computers and electronics in terms of research and development (R and D) expenditure. Information on R and D spending in a number of leading countries in the field is provided by figure (1). World R and D expenditure on pharmaceuticals was estimated to be around US$ 30 billion in 1991. R and D expenditure in the OECD countries alone is reported at around 9 per cent of the industry's output in these countries.

R and D expenditure in the pharmaceutical industry is highest in a small number of developed countries. Innovation in pharmaceuticals is largely dependent upon the discovery and the introduction of new chemical entities (NCEs) that emanate directly from formal R and D efforts. High R and D expenditure is reflected in a country's contribution to NCE development. Thus the development of around two thousands NCEs, between 1950 and 1989, was carried out in only thirteen industrialized countries, with the United States alone accounting for 40 per cent of all NCEs developed during this period.

Figure 1. Annual pharmaceutical R and D expenditure in 11 leading nations, 1981-1991, United States $ billions[6]



Other nations are: Belgium, Denmark, France, Italy, the Netherlands, Spain, Switzerland, and the UK.

New discoveries in microbiology and genetics are constantly being investigated with a view to providing the industry with routes for synthesizing new drugs. Innovations in computer technology has also been instrumental in providing pharmaceuticals research with powerful new tools for molecular modeling, the design of complex synthetic routes as well as the simulation of drug interactions.

While the acquisition of powerful computer facilities and other prerequisites for effective R and D capabilities are certainly quite expensive, it should be mentioned that emerging drug development paradigms based on novel discoveries in the life sciences will eventually render the activity of drug design and interaction less costly and thus more accessible.

MNCs dominate innovative activity in the industry. Nevertheless, innovative activity by small research-based firms has been on the increase in selected areas, such as biotechnology and genetic engineering.

A strong relationship appears to exist between firm size and R and D capabilities. Schwartzman states that "the costs of drug research are so large...that they exclude small firms from engaging in R and D in a sufficiently large scale to expect success".[1]

The fact that the costs of developing an entirely new drug are estimated as exceeding US$ 300 million, renders this relationship self-evident. According to Raggett, some pharmaceutical companies concentrate on research projects that are likely to result in revenues of over US$ 500.

Little "globalization" of R and D appears to have taken place in the pharmaceuticals industry. Although the industry tends to engage in foreign R and D to a larger extent than other sectors, pharmaceutical firms conduct very little research and basic clinical evaluation outside their home countries. Only around 3 per cent of R and D expenditure by U.S. pharmaceutical companies abroad is reported as being carried out in developing countries. Several Latin American countries may be among the more prominent beneficiaries.

The Pharmaceuticals industry is, thus, characterized by high costs at "both ends of the business system".[1] Economic and regulatory pressures faced by the global industry, are reported as having constrained their growth and as having provoked increasing merger and acquisition activity. This has resulted, in the smaller producers becoming more vulnerable and less capable of matching the innovative prowess of the industry's giants.

For several reasons, which fall beyond the scope of this paper, the rate of discovery of NCEs experienced considerable reductions during the past two decades. This has tended to slow down the rate of new drug entry into the market. Further, increasingly stringent preclinical and clinical testing of NCEs before allowing them onto the market, has resulted in reduced effective patent lives and, hence, profitability.

On the other hand, innovations in targeted delivery/packaging systems and in the development of entities that embody modifications to previously successful chemical entities have been in ascendance.

C. GOVERNMENTS AND THE PHARMACEUTICALS INDUSTRY

In discussing the pharmaceutical industry, it is essential to appreciate the important role played by governments in determining the status and future prospects of this sector. Thus, governments, particularly in the developed countries, play an important role in the operations of pharmaceutical firms and hence in their ultimate profitability. Products need approval prior to commercialization. Governments in most countries are involved in specifying laboratory testing procedures and protocols for conducting clinical trials leading to the certification of the use of drugs in human and veterinary applications. Many governments are also involved in setting maximum consumer and public sector prices in order to keep treatment costs under control.

Government's role in pharmaceuticals, however, is not only regulatory. In some countries, governments play an important role in providing a variety of incentives for R and D and facilitate the transfer of knowledge from academia to private companies. More importantly, for the purposes of the present study, governments are also important actors in the sphere of intellectual property rights.

D. SUMMARY

The world of pharmaceutical industry is going through what might be termed a rough period on account of reduced profitability, declining rate of NCE discoveries.

Targeting innovative drug delivery, formulation and packaging systems of both new drugs, as well as generics, are among survival strategies being sought by the industry. Smaller producers have tended to adopt niche positions, focusing on a more limited set of therapeutic classes or methods of drug delivery.

Tighter protection of patents and intellectual property rights, at the global level, are among measures sought by multinationals with overt support from their home governments to derive maximum benefits from their established positions of technological superiority.

II. THE PHARMACEUTICALS INDUSTRY IN THE ESCWA MEMBER COUNTRIES

Pharmaceuticals production in the ESCWA member countries is young and a dynamic industry. Thus, with the exception of Egypt's pharmaceuticals industry, most other countries in the region initiated their own pharmaceuticals operations during the sixties and seventies. The pharmaceuticals industry in the region has recently exhibited and continues to show considerable growth rates.

A. PHARMACEUTICALS PRODUCTION IN THE ESCWA MEMBER COUNTRIES

Over 120 pharmaceutical factories are presently reported as being in operation throughout the region, thirty new factories are under construction in only twelve countries. See figure (2). The Saudi, Syrian, and Jordanian industries appear to have undergone remarkable expansion during the past few years. Around 27 pharmaceuticals factories have been set up in Syria since 1990. In Jordan, the first pharmaceuticals producer, the Arab Pharmaceuticals Manufacturing Company Limited, set up business in the early sixties. Three companies followed suit in the seventies. Five more producers were established in the eighties and early nineties and a further five should start production in 1997.

In Egypt, the share of the principal private sector producers of local production capacity has witnessed a dramatic increase. Private sector producers have also been responsible for a good deal of advanced inputs into the industry, particularly in terms of manufacturing and management systems.

ESCWA pharmaceuticals producers are for the most part small- to medium-sized firms that specialize principally in packaging and distribution. Formulation activity, largely based on imported active ingredients, is carried out by an increasing number of producers, particularly in Egypt, Jordan and Syria.[1] The spectrum of pharmaceuticals produced by local industry in the Arab countries tends to be largely confined to generics. Egypt's pharmaceuticals producers, in particular appear to cover a more comprehensive range of products.

The number of locally produced pharmaceuticals has grown considerably throughout the region. The number of brands manufactured in Syria, for example, grew from around 350 in 1983 to about 600 in 1990. An even higher rate of growth was witnessed during 1995 and 1996,[3] so that nearly 2,500 brands are now produced by Syria's pharmaceutical industry which covers an estimated 75[4] per cent of this country's needs.[4] Nearly 260 production lines are said to be in operation in a total of 44 plants belonging to both the public and private sectors.[3] Established Jordanian pharmaceuticals manufacturers produce around 345 brands.

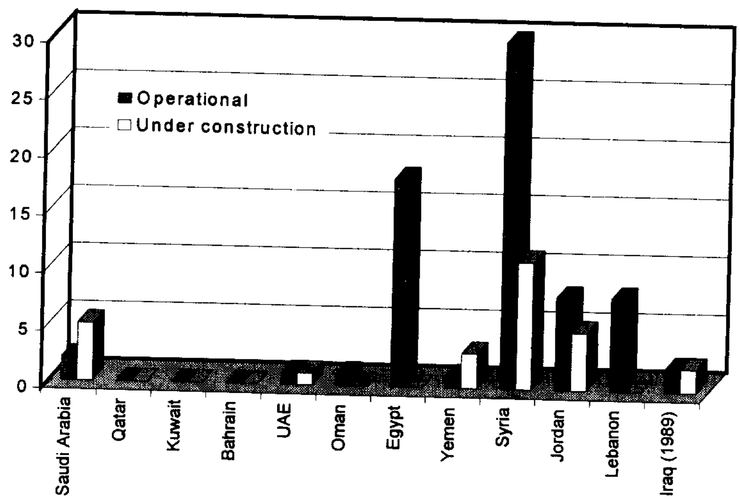
The combined local pharmaceutical industries in the Arab countries are valued at an estimated US$ 1.8 billion. Taken together, the national industries of Egypt,

[3] The number of drugs registered with health authorities in Syria exceeded 20,000 in 1963. These drugs were imported from producers all over the world. This figure was brought down to about 3,800 by 1973.

[4] Higher estimates have been reported, for example, by Fadloun[3].

Morocco, Iraq, Syria and Jordan comprise more that 80 per cent of the overall size of local Arab pharmaceuticals industries.

Figure 2. Pharmaceuticals production facilities in operation and under construction in ESCWA member countries, 1994[1]



The relative size of the industry in comparison to other sectors of the economy in some of the countries of the region, particularly Jordan, is considerable. Thus, the combined capital of all fourteen registered companies in Jordan is estimated at around US$ 150 million. Furthermore, the pharmaceuticals industry in Jordan has become an important source of export earnings with revenues amounting to US$ 125 million in 1995.[1]

Value added by local producers is considered to be on the low side. In the case of the Egyptian industry, for example, it is limited to be about 35 per cent. This is primarily due to the fact that little if any of the industry's raw materials are produced locally and that the majority of production and packaging equipment, indeed a large proportion of packaging and auxiliary materials as well, are imported.

On the issue of technology acquisition through operations by MNCs with specific reference to Egypt, the opinion is that these enterprises generally[2] failed to transfer production technologies pertaining to the manufacture of basic chemicals for pharmaceuticals. The argument put forward by MNCs is that pricing regulations and economies of scale render such activities of little interest.

B. CONSUMPTION LEVELS AND LOCAL INDUSTRY SIZES

Consumption levels and local industry sizes in some of the Arab countries of the Middle East and North Africa are presented in figure (3).

Total consumption of pharmaceuticals in the Arab countries is estimated at US$ 3.8 billion. The 1994 market figures quoted by Correa for the countries of the Middle East and the Gulf countries amount to around US$ 3 billion or 1.5 per cent of the world market.[5] Consumption in only six of these countries, namely, Saudi Arabia, Egypt, Iraq, Morocco, Algeria and Syria, amounts to nearly three-quarters of the total. The cost of Syria's pharmaceuticals import bill is estimated to be close to US$ 600 million.[3] On per capita basis, consumption ranges from US$ 50 in Saudi Arabia to around US$ 12 in Egypt.[2]

The public sector represents more than 60 per cent of the total market in a number of Gulf countries, e.g. Kuwait, Oman, and Qatar. The share of this sector is, however, much smaller in other countries such as Egypt and Syria, where it is close to 20 per cent. The public sector and the large private sector hospitals in Jordan account for 30 per cent of the pharmaceuticals market.

C. OWNERSHIP PATTERNS

Different patterns of ownership of production enterprises may be observed in the countries of the region. Public and private sector enterprises predominate with the share of the latter generally expanding in favor of the latter. Multinational producers (MNCs) also operate in the region. In Egypt the market share of public sector producers was around 41 per cent of market needs. Joint-venture production with MNCs constituted around 20 per cent of the local pharmaceuticals market.[6] Eight public-sector manufacturing enterprises are in operation, some established as early as the thirties.[7] Seven companies manufacture a variety of pharmaceuticals while the eighth produces bulk chemicals for the industry.[8] In all, locally produced pharmaceuticals in Egypt account for nearly 94 per cent of local consumption in terms of value.

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[5] The value of the Saudi market quoted by this author, US$ 974 million, is considerably higher than that quoted by a recent study of Jordan's Industrial Development Bank[4]: US$ 800 million[4].

[6] Six firms in this group operate production plants based on foreign-sourced bulk material.

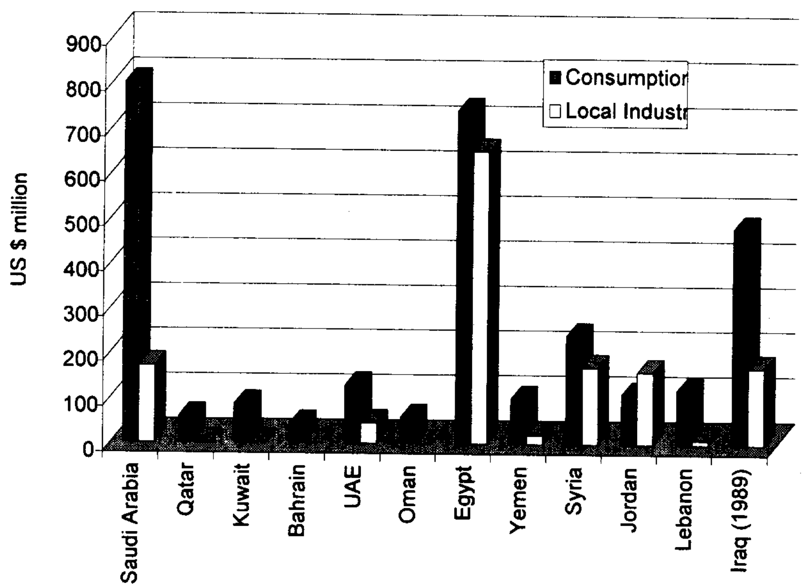
[7] Additionally, two public sector firms in Egypt specialize in trade, presumably mainly in the importation of pharmaceuticals.

[8] Local production of pharmaceuticals in Egypt is largely based on imported chemical ingredients. However, a recent report[Aboulenein 1996, quoted by Correa 1997] states that around 10 per cent of bulk chemicals used by the industry is produced locally by two local firms.

In Syria, prior to 1988, two public-sector factories covered around 6 per cent of the needs of the local market, eight private-sector firms covered an additional 2 per cent while remaining demand was met by imports. Today, the pharmaceuticals industry in Syria is largely dominated by private sector enterprises, whose number was estimated as exceeding 40 in 1996.[3] Jordan's pharmaceuticals industry, on the other hand, is totally dominated by private sector enterprise.[4]

The pharmaceuticals sector has received significant support from respective governments. Examples of this may readily be found in Syria and Egypt. Privatization of public sector enterprises has actually taken place in the latter country. Efforts aimed at liberalization, particularly with respect to price controls and the ending of state subsidies are faced with resistance on several fronts. State protectionism as applied to the pharmaceutical sector in Egypt, for example, is rooted in the fact that the industry is the sole source of inexpensive drugs for large segments of limited-income populations.[2]

Figure 3. Consumption and local industry production in pharmaceuticals for member countries, 1994 [4]



D. EXPORT VERSUS LOCAL MARKET ORIENTATIONS

Production of pharmaceuticals in most countries of the region is geared principally towards local market needs. Jordan is the notable exception with export sales approximating 75 per cent of total sales. In Egypt, exports of pharmaceuticals, led mainly by private-sector producers[9] are said to have grown rapidly from very low initial proportions. Export sales include generic products such as acetyl salicylic acid preparations (aspirin), antibiotics, dermatologicals, geriatrics, cough preparations, among others. Prospects exist, however, for expanding sales of both generic and licensed drugs in Arab and the African countries as well as the East European and the former Soviet states.

E. LICENSED PRODUCTION OF PHARMACEUTICALS

Licensing in the pharmaceuticals industry is generally sought in order to:

1. Produce drugs still under patency protection.

2. Ensure know-how for high-quality production of drugs which may be no longer protected by patents.[10]

3. Establish reliable links to sources of high-quality raw materials.

Detailed information on licensing arrangements made by manufacturers in the region is generally not available. Yet it appears that all of the above-mentioned objectives are sought in the variety of licensing arrangements concluded by producers in the region.

Variations apparently exist with regard to the degree of dependence upon licensing in the manufacture of pharmaceuticals from one country in the region to another.[11] There is also evidence to suggest that variations do exist at the national and the regional levels with regard to technology transfer provisions included in licensing agreements. Some licensing agreements concluded in the early nineties stipulated sharing responsibility for production quality, e.g. Eli Lily and Alpha, in Syria. Other cases, such as the ferrous preparation produced by Shifa, also in Syria, did not reflect such arrangements.[3] In other cases, licensing arrangements were merely aimed at acquiring the brand name by the recipient company. Examples of comprehensive technology and human skill transfer may, nevertheless, be found in some of the new production plants, e.g. in Syria, Jordan and Egypt.

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9 More than two-thirds of total pharmaceutical exports are estimated to be due to the private sector.

10 Examples of such arrangements do exist in which the licensee seeks to produce a well-known drug under the same name of the original maker with clear economic benefits in mind.

11 Only 2 per cent of all drugs produced in Jordan, for example, are licensed.[4] In Egypt, on the other hand, around 54 per cent of drugs are produced under license. Reference: Aboulenein 1996, as quoted by Correa[1].

Analysis of the spectrum of products manufactured under license in some countries with respect to their therapeutic applications indicates that product groups are targeted on the basis of economic considerations. Furthermore, a considerable number of drugs are produced by more than one firm in a given country with consequent profitability losses for the national industry at large.

In some countries, a trend is observed towards initiating licensed production of drugs for which manufacturing capabilities were already in place without the benefits of licensing. This reflects the wish to capitalize on an existing need in the local market, which was not being adequately met in terms of product quality. Instances are also met where licenses have been obtained for products which were nearing the end of their patent lives.

Examination of the spectrum of licenses drugs produced in Syria at the moment, for example, indicates that none of these drugs will be under protection in late 1997 or early 1998. Thus, licensed in these instances were not in fact sought in order to acquire a foothold in a new field. In certain instances, Syrian producers appear to have acquired licenses to produce the very drugs which the public-sector pharmaceuticals importing organization imported for the Syrian market. While this must have made extremely good economic sense [12] it has not helped guide producers towards acquiring some of the more advanced production techniques.[3]

Generally, licensing by the pharmaceuticals industry in some countries of the Middle East and North Africa may have been of limited benefits on account of the following:

1. Technology transfer has not been extensive and has tended to concentrate in traditional areas of production technologies.

2. A combination of regulatory measures and licensing arrangements governing raw materials sourcing practices and prices has negatively affected drug pricing and may also have indirectly impacted export possibilities.

3. Licensing arrangements concluded in the past have been devoid of provisions for significant research and development activity.[13]

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[12] Syria's general practitioners were by and large accustomed to prescribing these drugs and demand for them had reached a mature stage.

[13] Industrial operations covered by such licensing arragements generally involve traditional operations within mature production environments.

F. QUALITY CONSIDERATIONS

One of the positive effects of licensing in the pharmaceuticals industry may have been to accelerate the adoption of good manufacturing practices (GMP) at the national level. Stipulations put forward by foreign companies, concerning the production environment and methods used to guarantee quality, as part of licensing arrangements, may have catalyzed moves on the part of the health authorities to develop, adopt and enforce national GMP codes.

Quality assurance in the pharmaceuticals industry throughout the region a re reported as having undergone significant improvements during the early nineties. Producers in several countries in the region are reported as having made commitments towards obtaining ISO certification. Some have already acquired ISO 9002 certification. This will, however, reflect on performance rather than technology standards.

G. RESEARCH AND DEVELOPMENT ACTIVITY IN THE ESCWA PHARMACEUTICALS INDUSTRY

With the exception of reports on R and D activities in Egypt, mostly targeting the extraction and packaging of active material extracts from naturally occurring substances in endogenous plants, little or no R and D appears to take place in the region that is of direct benefit to the industry.

H. SUMMARY

Box 1 summarizes some of the main difficulties encountered by local manufacturers in the region. In summary, although the pharmaceuticals industry in the ESCWA member countries may be said to have performed an important socio-economic function, small and fragmented markets as well as lack of synergy both within the industry and with governments exert limits on its mastery of underlying technologies and innovative capabilities.

Box 1. Difficulties encountered by local pharmaceuticals manufacturers in the region

- High levels of local competition and replication within confined therapeutic categories;
- Lack of cooperative activity among pharmaceuticals producers in strategic production planning and marketing;
- Emphasis on short-term investment based on law-barrier products with limited technology inputs targeting low-income consumer groups;
- Government regulations that rightly target pricing with welfare considerations in mind but do not accord sufficient attention to securing long-term technology needs of the industry;

Box 1 (*continued*)

- Lack or weakness of intellectual property regimes in the region may have discouraged greater involvement by MNCs with consequent long-term impacts on product quality;
- Difficulties due to limited market sizes, further deepened by lack of national and regional coordination, have resulted in excess capacity and low profitability;
- Although significant efforts have been made towards the adoption and application of GMP standards in many countries in the region a good deal of efforts is still needed in order to achieve internationally acceptable standards.

III. WTO/TRIPS AND THE PHARMACEUTICALS INDUSTRY

The World Trade Organization (WTO) which evolved from the General Agreement for Tariffs and Trade (GATT) came into being in January 1, 1995. WTO reduces tariffs and does away with import restrictions.[14]

WTO applies the most-favored-nation principle in accordance with which signatories may not discriminate among members on the basis of tariffs. The WTO simplifies or eliminates licensing rules and customs procedures and converts non-tariff barriers into tariffs which are earmarked for downward revision. Developing countries are allowed grace periods as well as more leeway in the extent of tariff liberalization.

WTO, which monitors trade relations among some 120 signatories, further incorporates agreements covering trade in services, trade related investment and intellectual property rights (IPR). It is principally with the latter issue, which constitute the focus of the agreement on Trade Related Aspects Of Intellectual Property Rights (TRIPS), frequently referred hereafter as the "Agreement", that we are concerned.

A. WTO AND TRADE IN PHARMACEUTICALS

The following sections briefly discuss the main outcome of the Uruguay Round with regard to trade, investment and technology in relation to the pharmaceutical industry.

The multilateral rules that constitute the outcome of the Uruguay Round will have wide-reaching impact on trade throughout the world. The effects of these rules on developing countries will vary from one sector to another. The direction and the severity of the impact on developing countries will depend on a number of factors

[14] Thus, 44 per cent of goods being traded on the international market, including pharmaceuticals, construction equipment, toys, wood and iron, will have their tariffs rescinded.

including the degrees of trade liberalization; the kind of products and services involved and; in particular, the comparative advantage possessed by a given country, or group of countries in terms of access and capacity to use up-to-date technologies.

In pharmaceuticals production the main impact is not likely to stem from tariff-related considerations. Rather they will be firmly related to rules relating to the industry's technological capacity, quality standards and investment flows.

Globally, pharmaceuticals exports approximated US$ 40 billion in 1991. Only North America, China and Japan are effectively self-sufficient. The rest of the world, notably the developing countries, depends more or less heavily on imports.[1]

The following categories of products are involved in pharmaceuticals trade:

1. Primary materials and intermediates for the production of active ingredients. These are mostly produced by the world chemical industry and include commodities such as chlorine, nitric acid, aromatic hydrocarbons, etc.

2. Active ingredients including, for example, antibiotics, vitamins, etc., which are produced in large quantities and sold on the open market.

3. Specialty active ingredients, not covered by patents, generally produced in relatively small quantities and more or less accessible on the market.

4. Specialty active ingredients, covered by patents, produced by specialized pharmaceutical firms and commercialized through subsidiaries or under exclusive agreements.

5. Finished, i.e. formulated and packaged pharmaceuticals.

Trade in pharmaceutical primary materials, intermediates, active ingredients and finished products have generally undergone significant liberalization. Nevertheless, significant variations still exist in the average rates applied by different countries.[15]

Additionally, as a result of the Uruguay Round, tariff rates on raw materials and chemicals have been considerably reduced. For example, reductions reached, 48.4 per cent in the case of Canada, 60.9 per cent in Japan, and 39.7 per cent in the United States.

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[15] A number of mostly OECD countries agreed during the Uruguay Round to eliminate customs and all other duties and charges on imports of certain pharmaceutical products from any origin, such as all pharmaceutical active ingredients bearing a World Health Organization (WHO) international nonproprietary name. The zero tariff list includes around 7,500 pharmaceutical products and chemical intermediates. 17 countries agreed during the Uruguay Round to conduct a review of the list once every three years to identify products to be added to the list.

In general, however, it is difficult to estimate the impact of tariff reductions resulting from the Uruguay Round, on trade in pharmaceutical-related products.

In a recent study carried out for ESCWA, Correa[1] discusses a number of economic models that have been used more or less effectively to predict the impact of the WTO rules on trade in pharmaceuticals. Box 2 includes a summary account excerpted from this study.

In summary, it may be said that trade in pharmaceuticals and pharmaceutical-related products may benefit more from the application of internationally agreed standards that facilitate trade, such as the WTO "good manufacturing practices (GMP)" and the elimination of obstacles created by registration procedures for the commercialization of pharmaceutical products, than from any tariff reductions obtained as a result of the Uruguay Round.

Box 2. Economic models proposed/used in the analysis of the implications of WTO on trade in pharmaceuticals [1]

The general implications of the Round on trade may be examined under various types of econometric models. Applied general equilibrium models, in particular, will permit estimates of the likely quantitative effects of trade liberalization on wages, employment, welfare and other important variables. In most of these models, premised on perfect competition of a static nature, technology is assumed as providing constant returns to scale. Dynamic models have also been developed and applied, however.

Modeling the implications of trade liberalization is based on quite straightforward assumptions. Exporters widen their access to foreign markets and may exploit economies of scale; consumers widen their range of options and may get lower prices. In exchange, governments loose some tariff revenues (but may benefit from increases in domestic activity) and previously protected producers may loose market share due to enhanced competition.

The models applied to forecast the effects of the Uruguay Round indicate a gradual increase in international trade and world GDP, but their findings differ considerably regarding the extent of this increase and the distribution of their resulting gains within and among countries. In addition to a number of conceptual and methodological limitations, most modeling studies analyze trade at a very broad level of aggregation, which precludes any meaningful sector-specific analysis.

The impact of the Uruguay Round on trade in pharmaceuticals might be estimated on the basis of models as noted above. It should be added, however, that the main obstacles to trade in pharmaceutical-related products are likely to emerge from the wide array of regulations (such as, registration procedures, quality and manufacturing standards, technical barriers, etc.,) that are applied for the commercialization of pharmaceuticals, rather than from tariff barriers. It should also be noted that an important portion of trade in pharmaceuticals essentially involves intra-firm activities, i.e., trade between parent companies and their subsidiaries.

B. WTO AND FOREIGN INVESTMENT IN PHARMACEUTICALS PRODUCTION

Foreign direct investment (FDI) is an important channel of internationalization in the pharmaceutical industry. The larger pharmaceutical companies appear to opt more for FDI than for straightforward exporting. This is attributable to two factors:

1. Differences that exist in medical practices and consumption patterns.

2. The importance of maintaining a local presence for successful pharmaceuticals marketing and distribution.

FDI flows in pharmaceuticals have been extensive in developed countries. FDIs flowing into the developing countries have been less significant in volume terms. Nevertheless, an important amount of FDI in pharmaceuticals has also taken place in these countries. Thus, foreign-owned firms account, on average, for about two-thirds of all pharmaceuticals produced in developing countries.[1]

The agreement on Trade Related Investment Measures (TRIMS), one of the outcomes of the Uruguay Round, aims at preventing the adoption and utilization of investment measures (legislative or otherwise) with the purpose of causing "trade restrictive and distortive effects". TRIMS, therefore, should have the effect of facilitating FDI by limiting the freedom of the host country to impose "trade-related investment measures such as performance requirements." The TRIMS Agreement does not include precise definitions or criteria that determine the admissibility of certain TRIMS articles under the substantive obligations.[1]

The possibility of establishing foreign subsidiaries or other forms of affiliated companies is, thus, of special importance in the pharmaceutical industry. FDI in pharmaceuticals generally takes place on the basis of the establishment of wholly-owned subsidiaries. Less commonly, in some countries, joint-ventures with local companies are also established.

Box 3. Modeling the impact of TRIMS on FDI in pharmaceuticals [1]

The possible impact of TRIMS (and of the relate limitations imposed by the Uruguay Round) may be estimated drawing on a model from P. Krugman that illustrates a public perspective for oligopolistic industries with increasing returns to scale.

The model may be used to demonstrate that there is a substantial dimension of rent-and-producer surplus (gains for infra-marginal workers and suppliers) which any given host and all other potential hosts have an interest in procuring for themselves. To pursue a development strategy to capture this rent-and-producer surplus, domestic content and export-performance TRIMS are probably not the first and best tools. However, an approach using TRIMS may have special advantages when dealing with international investors with high exit costs in the home country.

In general, TRIMS have not been as common in pharmaceuticals as in other industries, such as electronics and automobiles. The Uruguay Round, hence, may contribute to a consolidation of current patterns of FDI in pharmaceuticals, but it is generally judged by as "unlikely to substantially alter such patterns in any significant way."[1]

C. WTO AND TECHNOLOGY TRANSFER IN THE PHARMACEUTICALS INDUSTRY

In the pharmaceutical industry, and particularly insofar as the developing countries are concerned, WTO rules are likely to exert profound influences through technology-related considerations.

This is essentially due to the central role of patents and patenting in pharmaceuticals production. The importance of patent protection to the pharmaceutical industry is self-evident. The implications of the Uruguay Round with respect to technology access and use, must, therefore, focus in large measure on the "likely impact of the introduction of strengthening of patent protection in developing countries."[1]

Patents and patent protection in pharmaceuticals has been the subject of a large number of recent studies (see box 3). Nevertheless, drawing general conclusions from these studies is fraught with difficulties due to their varying perspectives, underlying assumptions and methodologies.[16]

Correa concludes, that the impact of technology-related rules of the Uruguay Round in pharmaceuticals, and particularly of the new standards on IPRs, will have to be assessed on the basis of a "variety of approaches and models, depending on the objectives of the research" in mind.[1]

D. THE TRIPS AGREEMENT

The TRIPS Agreement is the most ambitious international instrument to date on IPRS. It is widely expected to influence global developments in this field. Reforms introduced in the US, Japan, and other developed countries, serve as an indication of the extensive impact of the Agreement on IPRs standards.

Through the transitional periods provided for in the Agreement the developing countries may be able to gain the time needed for adjusting relevant national legislation and enforcement measures.

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[16] A comprehensive literature review on the matter was produced by the World Bank.

Strengthening of intellectual property protection in pharmaceuticals was one important issue in the negotiation of the TRIPS Agreement. Several provisions in various parts and sections of the Agreement are relevant for the consideration of this issue.

Box 4. A literature survey of the implications of WTO/TRIPS on the pharmaceutical industry [1]

In examining the "welfare economics of patent protection" in a trading environment, Chin and Grossman conclude that "IPRs do enhance global efficiency at least for substantial innovations, but the South would incur losses that the North should be able and willing to compensate." [1]

Other studies relate the impact of patent protection measures stipulated by WTO/TRIPS to the levels of development of the countries where they are being applied. Thus, Deardoff has found that, the poorest countries could not be expected to gain from protection, On this basis, he has advocated that they be exempted from any new agreement that is made to extend patent protection.[1] The "small country" case was considered by Subramanian. He found that "in welfare terms, the individual country will be worse off, because there are no dynamic benefits (such as an appreciable effect on R and D) to offset static efficiency losses." [1]

Evenson, however, argues that stronger IPRs "can aid poor countries to move forward in the technology draft" and that the case for these countries is "actually stronger than for the drafting (pirating) countries". He stressed the need to "address the balance between IPR protection for mainline and derivative inventions" and that "utility model protection and possible design patent protection, could be used to stimulate adaptive invention".[1]

Primo Braga has addressed the impact on the larger developing countries with particular reference to newly industrializing countries (NICs). He argues for the existence of a "development threshold" after which protection of IPRs will generate net welfare gains.[1]

"Global gains as well as benefits for individual countries" are predicted by Diwan and Rodrik, on the other hand, when R and D promotion induced by IPRs is sufficiently strong.[1]

In more general terms, Noques concluded that lower R and D productivity pertaining in the developing countries suggest that "patent protection should not necessarily be as strong as in high productivity competitive economies". He concluded that "patents should be strengthened once economies have stabilized and restructured".[1]

The likely implications of IPR protection on trade have also been investigated. The effects found by Maskus and Penaburti, applying a model developed by Helpman and Krugman, are ambivalent. The net effect is the result of the interplay of two conflicting factors: "the reduction of elasticity following the enhancement of IPRs holder's market power, and the displacement of imitators." [1]

In general, the studies referred to above suggest that patents will inter-alia limit access to technology and generate price increases in developing countries. Price, and hence welfare, effects are found to be negative, essentially for small developing countries, though given the transitional periods provided for by the Agreement and the extensive time required for the approval of a medicine, those effects would not be felt some years hence.[1]

E. Objectives and principles of TRIPS

Article 7 indicates that "The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations".

This Article provides a general framework for the interpretation of the TRIPS provisions. It aims at balancing the interests of the various stakeholders, including innovators, producers and consumers in a manner that enhances "social and economic welfare".[1]

Article 8, which outlines the "Principles" of the Agreement specifically refers to the protection of "public health". This is regarded as an essential element for consideration in the formulation and amendment of national legislation and the design of enforcement measures in accordance with the provisions of the Agreement. The same Article also addresses the adoption of measures to prevent the abuse of IPRs or resorting to practices that may "unreasonably restrain trade or adversely affect the international transfer of technology".

Section 5, Part II, of the TRIPS Agreement addresses minimum national standards in regard to patents (see box 5).

More specifically, Article 27.1, stipulates that Member countries are bound to grant patent protection for pharmaceutical processes and products alike. In this respect, it is useful to recall that, at the beginning of the Uruguay Round, legislation in at least fifty countries did not grant protection to pharmaceutical products, and that some, e.g. Brazil, excluded pharmaceutical processes from protection altogether.

It may also be noted that article 27 contains two possible health-related exceptions to patentability. Thus, under article 27.2, members were allowed to exclude from patentability inventions the "prevention within their territory of which is necessary to protect health". Article 27.3.b, on the other hand, allows the exclusion of diagnostic, therapeutic and surgical procedures for the treatment of humans. None of these provisions, however, authorize prevention of patentability in relation to pharmaceutical processes or products, nor of medical devices and other products for use in diagnostics, therapeutical and surgical applications.

In addition to extending protection to pharmaceuticals products, the TRIPS Agreement strengthens the rights conferred to the title-holder. In the case of product patents, Article 28.1.a of the Agreement stipulates that patents be applied in a manner that would prevent third parties not having the patentee's consent from "making, using, offering for sale or importing for those purposes the product" in question.[17]

Box 5. TRIPs Provisions on patent rights[1]

- Definition of subject matter, including criteria for granting patents and possible exceptions. Patents shall be granted in all fields of technology. No discrimination is allowed with respect to the place of the invention or based on whether the products are locally produced or imported (article 27).
- Rights conferred in the case of product and process patents (article 28), subject in the case of imports to the principle of exhaustion (article 6).
- Conditions for the granting of patents, particularly disclosure (article 29).
- Exceptions to the exclusive rights (article 30).
- Conditions for granting other uses without the authorization (compulsory licenses) of the patent holder (article 31).
- Revocation / forfeiture (article 32).
- Term of protection, which shall be at least twenty years from the date of application (article 33).
- Reversal of the burden of proof in civil proceedings relating to infringement of process patents (article 34).

As for process patents, Article 28.2.b provides for the extension of the protection conferred on a process to the product "obtained directly by that process". This must be viewed in relation to the principle regarding the reversal of burden of proof.[18] When thus combined this Article imparts considerable strength to patent rights derived from process inventions.

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[17] Some ambiguity pertains with regard to the right to import a pharmaceutical product. Thus, while Article 28.1.a considers importation an exclusive right of the patent holder, a footnote to the same article refers to article 6 of the Agreement, which allows Members to provide for "parallel imports" under the principle of "international exhaustion of rights", subject to the national and most-favored-nation treatment.

[18] Article 34 provides for the reversal of burden of proof in civil litigation involving process patents. This significantly increases the legal powers inherent in process patents. This significantly increases the legal powers inherent in process patents. Authorities may "order the defendant to prove that the process to obtain an identical product is different from the patented process". A similar faculty is allowed under article 43 of the Agreement, Part III on "enforcement". Article 34, further stipulates that "any identical product when produced without the consent of the patent owner shall, in the absence of proof to the contrary, be deemed to have been obtained by the patented process".

F. UNDISCLOSED INFORMATION

Article 39.3 specifically refers to pharmaceutical products, in dealing with the approval of their commercialization. It requires that data provided as a precondition for approving the marketing of pharmaceuticals including NCEs be protected by the Members against unfair commercial use.[19]

G. ANTI-COMPETITIVE PRACTICES IN CONTRACTUAL LICENSES

Anti-competitive practices are dealt with in Section 8 of the Agreement. Article 40.1 recognizes that certain licensing practices pertaining to intellectual property rights would restrain competition and "may have adverse effects on trade and impede the transfer and dissemination of technology".

Article 40.2 allows the adoption of measures that effectively limit or eliminate such licensing practices. While doing so, however, it establishes limits for national action. Three questions must be considered in establishing whether a particular practice is restrictive, in the sense alluded to above, essentially the practice in question must:

1. Be assessed in reference to particular cases.
2. Constitute an "abuse" of IPRs.
3. Have an "adverse effect on competition in the relevant market".

H. TRANSITIONAL PERIODS

Article 65 discusses transitional periods to which developing countries may avail themselves thereby delaying recognition of pharmaceutical patents for up to ten years from the date of entry into force of the TRIPS Agreement (i.e. 1.1.1995). Least developed countries, are allowed transitional periods of up to eleven years (until year 2006), which may be extended upon application to the Council of TRIPS.

Articles 70.8 and 70.9 discuss with specific reference to pharmaceutical products the procedures to be followed by Members applying for transitional period under article 65 of the Agreement.

According to these Articles the transitional periods are applicable once decision by the Member is taken in this regard. Thus, no notification or declaration by the concerned Member country is needed. Members applying transition periods are, however, bound to recognize "exclusive marketing rights" under the conditions established by article 70.9. A source of difficulty in this respect is that the Agreement does not specify the scope and extent of such rights.

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[19] Exceptions are provided which allow members to disclose such information in cases where it may be necessary to protect the public.

I. IMPLICATIONS OF THE TRIPS AGREEMENT FOR ESCWA MEMBER COUNTRIES

The TRIPS Agreement will most significantly impact the pharmaceutical industry in the ESCWA region through patent protection regimes for medicaments.

In accordance with TRIPs, countries applying for transitional periods can delay the introduction of pharmaceutical patents as indicated by articles 65.4 and 66. They are, however, then obliged to accept, since the general date of entry into force of the Agreement (1.1.95), the filing of new applications relating to pharmaceutical product patents, and to eventually grant exclusive marketing rights (EMRs).[20]

In general, the impact of introducing pharmaceutical patents will vary on account of:

1. The length of the transitional period applied.

2. The date of granting a patent and the scope of EMRs eventually conferred.[1]

The implementation of the TRIPS Agreement will require changes in the accepted durations of patents in the countries acceding to the agreement.

Exceptions to the exclusive grants should be consistent with Article 30 of the Agreement. This Article allows Members limited exceptions under a set of specific conditions. These include, for instance, the need to infringe patents with the aim of carrying out research and experimentation.

Changes are also expected in national legislation dealing with compulsory licensing. Conditions for the granting of compulsory licenses, rather than the grounds on which such licenses are granted are expected to be the focus of such changes. TRIPs does not constrain national legislation with regard to these grounds, provided that conditions set forth in Article 31 are met. In particular, TRIPs allows compulsory licenses in cases of "refusal to deal" and to avoid anticompetitive practices.[1]

J. IMPACT OF PHARMACEUTICAL PATENTS

Assessing the likely impact of changes in patent law on pharmaceuticals as a result of TRIPs is constrained by a number of issues. Firstly, there is the difficulty in estimating the market share corresponding to products that would be under patents had the latter been recognized.[1]

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[20] One of the difficulties which may arise in this respect is that the agreement does not clearly spell out issues relating to EMRs.

Second, the dearth of information on price elasticity of medicaments will tend to hinder estimates on welfare effects.[21]

Third, assumptions about the homogeneity and stability of products which would be essential for building adequate models may only be applicable under a limited set of conditions.

Fourth, the characterization of pre-TRIPs market structure, as essentially competitive or duopolistic, and post-TRIPS period, as basically monopolistic, may be a gross oversimplification. This is particularly the case where substitutes to patented medicaments are available.

Fifth, as mentioned above, TRIPs provides for the possibility of compulsory licensing. This may well favor access to technology by local firms, and would thus lead to lower prices in comparison to situations of full monopoly by the patent-holder.

It is ultimately difficult to single out the effects of patents from those due to other variables, such as changes in living standards altered income distributions, impact of new health policies and consumption patterns, e.g. due to demographic changes, among others.

K. IMPACT ON TECHNOLOGY TRANSFER

A definitive assessment of the implications of patent protection on technology transfer is curtailed by a rather meager body of information on the subject. An essential argument is that protection of IPRs will encourage product and process innovators to license the results of their travails. An issue that is still in need of closer consideration is whether the IPR protection would increase international technology flows. On this score, it may be argued that patent holders may prefer to directly exploit their invention, in which case technology flows would be greatly restricted.

Factors which may favor a more restrictive stance with respect to technology transfer include the following:

1. Developments in information technologies facilitate and cheapen the cost of intra-firm communications, coordination and management control and are thus widely predicted to enhance the advantages of internationalization by MNCs.

2. Policy changes in a number of developing countries aimed at encouraging FDI will tend to reduce the cost of international operations by technology holders.

[21] Medicaments are generally considered to possess relatively low demand elasticity.

3. High development costs and short life cycles constitute further inducements for innovator firms to secure rapid returns through simultaneous international operations.

At any rate, it is expected that should technology be transferred, the improved bargaining position of the technology holders is likely to lead to high royalty rates[22].[1]

In addition, it should be mentioned that access to scientific knowledge is probably becoming increasingly difficult. The growing economic relevance of scientific research "increases pressures to limit the free dissemination of research results and to constrain the traditional openness of university laboratories where most basic research is performed in Western countries".

L. IMPACT ON INNOVATION

Domestic R and D efforts in pharmaceuticals are not expected to be enhanced due to the recognition of product patents.[1]

A general assumption is that the development of new chemical entities (NCEs) will be out of the reach of pharmaceuticals producers in al but a few developing countries.

The impact of the extension of patents protection on R and D undertaken by multinational drug companies has recently been analyzed by Scherer who found that developing countries might be better off if extra profits conveyed to drug firms led to the development of more new, and hence more effective drugs. Scherer's observes that multinational drug companies already have substantial operations in least developing countries LDCs[23], yielding profits, despite weak IPR protection. Scherer further concludes that, a three-fold increase in the development of new drugs would be needed before citizens in the developing countries can feel the positive effects of introducing patent protection in terms of improved medicaments. Considering this increase rather unlikely, Scherer concludes that the developing countries are unlikely to benefit.[24]

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[22] This effect will be strongly dependent, however, on patent granting modalities, the availability of measures to combat restrictive practices in licensing agreements, and of use without the authorization of the right holder, for instance, in cases of refusal to deal.

[23] Developing countries account for around 20 per cent of world consumption. Additionally, many of them already recognize patent protection. Thus, further expansion of patent protection under TRIPS in these countries is likely to provide patent owners with only limited returns.

[24] According to Scherer, the increase in the number of new drugs would more likely be of the order of only of 20 per cent, assuming diminishing returns in either the production function or the quasi-rent function or both.

To sum up, the introduction of patent protection is unlikely by itself to lead to substantial changes in pharmaceutical R and D activities in the ESCWA region. Other policies should be devised if local R and D capabilities are to be established or reinforced.

A possible model may be the programme initiated last decade in Spain. Thus, in order to strengthen the Spanish pharmaceutical industry before the introduction of product patents (decided in 1986 but effective as of 1992), subsidies for R and D were granted, particularly to co-finance the development of new chemical entities. In addition, participating firms received a special treatment for the registration of products and the determination of their prices subject to government's control. More than 30 patents had been obtained in 1990 as a result of the programme.[1]

M. ENFORCEMENT

The TRIPS Agreement includes detailed consideration of the "enforcement" of IPRs. This can be particularly relevant for the pharmaceuticals sector.

N. SUMMARY

In conclusion, strengthening intellectual property protection in pharmaceuticals was a principal concern in negotiations of the TRIPS agreement during the Uruguay Round, it continues to be the object of many post-TRIPS multilateral and bilateral discussions.

Anxiety, in the pharmaceuticals industry circles in the developing countries, is often expressed regarding:

1. Pressure exerted by some MNCs supported by their home governments for the immediate introduction of the TRIPS standards.

2. Frequent calls for the application of the TRIPS standards retroactively and for the prolongation of the term of protection, beyond the 20 years required by the Agreement in relation to certain pharmaceutical products.

3. The need to attract FDI and encourage effective technology transfer in particular areas of the pharmaceutical industry with the aim of import-substituting as well as export-oriented manufacturing.

By and large, the stance taken by the industrialised countries in relation to IPR protection strongly supports powerful local pharmaceuticals manufacturers as well as multinationals based within their boundaries. Critics of the position taken by these countries argue that it will ultimately be detrimental to public health and to industrial development in other countries. Thus, in negotiations over GATT and in bilateral trade negotiations, the United States, for example, has supported policies which would lead to considerable enhancement of the level of protection for intellectual property rights enjoyed by pharmaceutical producers. It is noteworthy that the position taken by the developed countries *vis-a-vis* IPR protection does not enjoy unanimous support even within these countries. Several consumer groups and NGOs concerned with development issues have voiced strong criticism of the industrialised countries' policies in relation to WTO and IPR protection measures. Constant debate over a number of important intellectual property rights issues goes on. Protests by agricultural experts over an excessively broad patent awarded for genetically altered cotton are just one example. The US Patent and Trademark Office's (PTO) decision to grant patents for new life forms created by genetic engineering has engendered, and continues to create, heated controversy revolving around the ethics owning life.[Nader]

At any rate the pharmaceuticals industry in the Arab countries, in deed in most developing countries, have been unanimous in demanding maximum possible delays in the application of TRIPS provisions to the production of pharmaceuticals.

Compliance with TRIPS provisions entails drastic revision of intellectual property rights legislation in the Arab countries. While appearing to be biased towards immediate concerns of the industrialised countries, this may be in the long-term interest of all operators. On the other hand, joining the TRIPS agreement and the development of reliable means for the enforcement of its provisions will, naturally, not be sufficient to guarantee a rosy future for the industry. It will additionally be essential to synchronise such activities with measures aimed at reviewing technology transfer and development policies and practices.

Several Arab countries are in the process of developing or revising legislation aimed at the protection of intellectual property rights (IPR).

The oldest system of patent laws in the region is probably that applied in Egypt. It dates back to 1949 and excludes from patentability chemically prepared substances designed for use in food or medicine. The current patent law in Jordan does not allow patentability of pharmaceuticals products but extends protection to processes used in the manufacture of pharmaceuticals. The GCC Secretariats has pledged priority attention to the issue of intellectual property rights. A new patent law was passed in 1989 in Saudi Arabia. IPR laws in the UAE do not provide cover for pharmaceuticals products but grants production processes a 10 year protection term. The situation in Kuwait is rather similar to that in Egypt in that its patent law excludes certain chemicals used in food and medicine from patenting. Protection terms of 15 years are, however, generally granted. Apart from the state of IPR legislation, it may confidently be stated that measures designed to enforce whatever laws that do exist are in need of attention. Efforts will have to be made by the Arab countries at the policy, legislative and enforcement levels if greater compliance is to be achieved with WTO/TRIPS.

IV. THE FUTURE

The need to recognize the opportunities presented, as well as the challenges posed, by recent international agreements will be the essential prerequisite for future action on the part of the industry and concerned authorities alike. In essence, the issue is that of identifying appropriate policy measures to maximize benefits and diminish harmful impacts.

Drug consumption in the region is destined to rise due to population growth and enhanced health standards. Qualitative changes in consumption patterns will also be fuelled by socio-economic and demographic changes in the region. Major expansion into new therapeutic categories is contingent upon local developments with respect to IPRs regimes and compliance with TRIPs regulations.

In the mean time, the viability of numerous operators in the region, hinges upon a multitude of factors. The stance adopted by foreign patent holders, as well as the bargaining position of domestic producers, will be instrumental in deciding the fate of production activity that is unprotected by licensing agreements. Otherwise, an ability to switch to alternative product repertoires will be paramount in determining chances of domestic industries' survival. This, in turn will be contingent upon the acquisition of more advanced technological capabilities in production, packaging and distribution. Additionally, R and D capabilities will be of the utmost importance for securing the long-term future of the pharmaceutical industry in the region. Initiating R and D and distribution alliances with established international operators, difficult as it certainly is, will also be of considerable benefit in improving the industry's chances for survival.

Endogenous industry-specific R & D capabilities, in the region, need to be created and strengthened with emphasis on adaptive R & D endeavor. Limited original activities on natural products, and NCES derived therefrom, could produce long-term dividends. Conducting such activities in alliance with established R & D partners, both in and outside the region, should produce decided benefits. To this end, emphasis needs to be placed upon R & D cooperation at the national, regional and international levels and fresh government/industry initiatives have to be launched. Box 6, includes a list of R & D priorities for the pharmaceuticals industry in the region.

Establishing modern distribution networking on the basis of regional and sub-regional industry alliances may well be rewarded at two levels: greater complementarity at regional and sub-regional levels, as well as possibilities for interfacing with larger global networks, thus, facilitating and reducing the cost of both import and export of pharmaceuticals.

Box 6. R and D priorities for the pharmaceuticals industry in the region

- Adaptive R and D activity aimed both at formulations and active material development and modification. R and D in the latter category may be aimed at the introduction of incremental structure changes into molecules of known physiological properties with a view to altering its side effects, absorption characteristics, etc.
- Adaptation of new delivery systems and new modalities for administering.
- Safety and preservation studies, as well as packaging and site-specific delivery systems constitute other related areas of activity.
- Production process improvements targeting generic drugs, including the introduction of higher degrees of automation and computerisation in production and quality control.

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IMPACT OF WTO ON NON-WTO MEMBERS IN THE ESCWA REGION

by

Michael Davenport

I. INTRODUCTION AND OVERVIEW

The Uruguay Round finally reached a conclusion - at least insofar as most negotiating groups were concerned - at Marrakesh in April 1994. The Final Act was ratified by a sufficient number of the legislatures of the participating countries that implementation began from the beginning of 1995. The effects of the Uruguay Round on developing countries can be divided into market access effects for trade in both goods and services, effects on trade-related issues such as investment and intellectual property rights, and trade regulation effects, including new rules for antidumping procedures, countervailing actions, safeguards and disputes settlements.

The Round was notable for extending multilateral trade negotiations in two directions, in terms of counting participation and in terms of the extension of the subject matter for negotiation. As regards the first of these, a record number of countries took part, with the developing countries taking a vital role. Thirty-one new members joined GATT during the Round and many of them participated fully in it. For the developing countries, the Round marked their deeper integration into the world market system, their appreciation of their exposure to external economic and policy decisions, and their realization that the GATT -or, now, the WTO - is the best means available for safeguarding their interests. The participation of the developing countries has had very significant effects. Some of the largest tariff reductions have been by Asian and Latin American countries.

The Round was also noteworthy for extending the bounds of negotiation to areas that had hither-to been considered the province of national governments. These include trade in services, which is Generally regulated by national statutes, rules on foreign direct investment (FDI) and rules on the protection of intellectual property. The broadening of the GATT remit has already brought demands that the next round of negotiations should include trade-related aspects of environmental and labour policies.

This report mainly considers the market access effects in goods and services on the non-WTO members in the ESCWA region - Iraq, Lebanon, Palestine, the Syrian Arab Republic and Yemen.[1] It also considers those aspects of the Uruguay Round

[1] The Lebanese Council of Ministers has approved the application for Lebanon's membership in the WTO.

Final Act which do not relate directly to trade liberalization - safeguards, antidumping actions, subsidies, TRIMS, TRIPS or dispute settlement procedures. These areas could be of considerable importance - and benefit - to WTO-member countries, and, thus, represent a lost opportunity for non-members.

In general terms, one might expect the direct trade effects of the Uruguay Round on the ESCWA to be small because hydrocarbons, per se, did not feature in the negotiations. For the four countries for which adequate data are available - Iraq, Lebanon, the Syrian Arab Republic and Yemen - petroleum and petroleum products make up some 93 per cent of total exports in 1992.[2] This means that for these four countries together, trade diversion - that is the shift of imports to WTO-member states as tariffs are reduced - will be mainly limited to petro-chemicals, though for Lebanon which is not an oil exporter and has a broad range of industrial exports, trade diversion might be serious.

However the Uruguay Round will not only impact on the access to the markets of member countries for member countries but will also effect the prices of traded goods on world markets as well as giving a boost to the overall volume of world GDP and world trade. This will affect all non-WTO members.

II. TRADE EFFECTS OF THE URUGUAY ROUND: MERCHANDISE

This paper looks at the net effects of (i) trade diversion following the reduction in I'VF, N-tariffs resulting from the Uruguay Round on the industrial exports of non-WTO ESCWA countries; (ii) the effects of higher world prices, for both agricultural and industrial goods. Some tentative estimates of the overall impact on the balance of payments of the non-member countries will be presented. The extent to which the liberalization of merchandise trade in manufactures and in agriculture of the Uruguay Round impacts on these countries will depend on the structure of trade.

A. THE STRUCTURE OF TRADE OF NON-WTO ESCWA COUNTRIES

Tables 1, 2 and 3 show the composition of trade of the four countries under various headings. Clearly Iraq's exports, and to a somewhat lesser extent those of Yemen, are dominated by oil. Some seventy per cent of Syria's exports consist of oil and oil products, while one fifth is made up of agricultural products and just under 10 per cent manufactures. Lebanon's exports are much more diversified with over eighty per cent consisting of a wide range of manufactured goods, including textiles and clothing, metal manufactures, machinery and vehicles.

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[2] See Appendix on Data Sources.

The pattern of imports among the four countries, is, as would be expected, more similar. However Yemen is more dependent on food imports than the others and also is an importer of oil products. Iraq on the other hand is largely self-sufficient in food and fuels and its imports are more concentrated in manufactures, in particular machinery. (It is not possible to know to what extent these discrepancies could be explained by the fact that the data for Iraq are now very outdate).

TABLE 1. DISTRIBUTION OF TRADE BY SITC CATEGORY, VARIOUS YEARS

	Year	Total	All food	Agric. raw materials	Fuels	Ores and metals	Manuf.	Of which chemicals	Other	Machinery and transport equip't	Un-allocated
Exports		$ mill.				percent.					
Iraq	1980	26346.5	0.4	0.2	99.1	0.0	0.3	0.2	0.0	0.1	0.0
Lebanon	1996	1020.0	15.7	0.8	a/	0.7	81.3	6.2	62.4	12.8	1.5
Syria	1992	3093.1	13.2	6.6	69.6	1.5	9.2	0.2	8.7	0.3	0.0
Yemen	1992	112.6	5.3	2.7	87.4	0.8	3.6	0.4	0.5	2.7	0.3
Imports											
Iraq	1980	11534.0	13.3	1.7	0.3	1.0	83.5	6.0	27.8	49.6	0.3
Lebanon	1996	7575.2	19.9	0.4	a	9.6	68.0	10.3	28.2	29.5	2.2
Syria	1992	3490.3	19.0	2.2	3.9	1.6	72.5	12.8	28.2	31.5	0.7
Yemen	1980	1853.0	28.4	0.2	7.2	0.5	63.3	5.1	30.4	27.7	0.5

Source: see Appendix 1.

a/ included in chemicals.

TABLE 2. DISTRIBUTION OF TRADE BY SELECTED SITC CATEGORY, VARIOUS YEARS

	Year	Fertilizers	Crude petroleum	Petroleum products	Medical pharmaceutical	Textiles and clothing	Metals, metal manuf.	Non-elect. machinery	Electrical machinery	Transport equipment
SITC		271+56	331	332	54	26+65+84	67+68+69	71	72	73
Exports										
Lebanon	1996					9.0	6.6	7.6		5.1
Syria	1992	1.4	59.8	9.7	0.0	12.7	0.3	0.2	0.1	0.0
Imports										
Iraq	1980	0.1		0.2	1.2	4.2	14.4	21.9	9.0	18.8
Lebanon	1992					6.2	8.6	17.7		11.8
Syria	1992	2.3		2.9	1.1	7.6	14.2	13.6	5.5	12.5
Yemen	1980	0.1		7.1	1.9	4.5	10.1	8.2	7.8	11.8

Source: see Appendix 1.

N.B. Blank cells indicated data not available.

TABLE 3. AGRICULTURAL IMPORTS AS PER CENT OF TOTAL IMPORTS, 1993

Country	Meat	Dairy	Cereals	Of which: wheat[a]	Rice	Coarse grains	Fruit and veg.	Sugar and honey	Cocoa, tea, coffee	Tobacco	Oilseeds	Natural rubber[c]	Textile fibres	Fish and products	Forest products	Total
Exports																
Iraq (1980)	0.01	0.00	0.00	0.00	0.00	0.00	0.22	0.00	0.00	0.00	0.00	0.00	0.02	0.00	0.00	0.24
Lebanon	0.62	0.31	0.62	0.00	0.00	0.62	15.63	0.46	0.15	0.46	0.15	0.00	0.00	0.00	0.00	18.42
Syria	3.08	0.16	0.60	0.06	0.00	0.54	6.64	0.19	0.00	0.86	0.29	0.00	5.34	0.00	0.00	17.16
Yemen	0.00	0.00	0.23	0.00	0.00	0.23	1.99	0.12	1.29	0.35	0.00	0.00	0.00	1.99	0.00	5.96
Imports																
Iraq (1980)	2.73	1.81	9.39	6.10	2.49	0.80	1.37	4.25	0.83	0.70	0.07	0.05	0.38	0.00	1.80	23.38
Lebanon	3.55	1.69	2.92	1.24	0.41	1.27	3.53	0.82	0.57	5.41	0.43	0.00	0.06	0.00	0.88	19.86
Syria	1.74	0.80	5.05	2.49	1.06	1.52	0.51	2.49	1.18	0.36	0.07	0.05	0.05	0.00	1.18	13.48
Yemen	1.83	1.21	10.75	8.55	1.47	0.73	1.83	5.17	0.22	3.01	0.26	0.00	0.04	0.07	0.29	24.70

Source: FAO.

a/ Includes live animals;

b/ Includes wheat flour;

c/ Includes gums.

As regards trade in agricultural goods, exports of fruit and vegetables from Lebanon and of meat, fruit and vegetables and cotton from Syria are significant. The general pattern of agricultural imports is similar. Iraq and Yemen are major importers of cereals while Lebanon and to a lesser extent Yemen are major importers of tobacco. Lebanon is largely self-sufficient in sugar.

B. URUGUAY ROUND EFFECTS ON PRICES OF TEMPERATE AGRICULTURAL GOODS

Protection of their domestic farmers by the western industrialized countries has resulted in major distortions in the world markets for temperate agricultural products - meat, dairy products and cereals. Because they are competitive with goods produced in those countries this has also been true of a number of products that might have been considered as being in the comparative advantage of the developing countries, for example sugar. Guaranteed prices and non-tariff barriers restricting imports have greatly increased output in the industrialized and the excess output has largely been sold on world markets at whatever price could be realized. Countries which were traditionally importers of these products have become exporters and world prices have been significantly reduced.

The agricultural policies of the developed countries have had adverse and far-reaching effects on the developing countries. Low world prices have discouraged domestic production. Exports have been undermined by subsidized produce from Europe and North America. In some cases traditional patterns of production and trade have been subverted.

The principal features of the agreement in agriculture are:

1. The tariffication of non-tariff border barriers. Initially the tariffs will provide substantially the same level of protection but they are to be reduced by an average 36 per cent with a minimum reduction of 15 per cent for each tariff line over six years, or by 24 per cent over 10 years for developing countries.

2. Domestic support to the agricultural sector is to be reduced by 20 per cent over the same period, or 13.3 per cent for developing countries, subject to a number of exclusions. These include de minimis provisions below which the rules do not apply - where imports are less than 5 per cent of production, 10 per cent in the case of developing countries - measures deemed to have minimal trade-distorting effects, including environmental payments and general agricultural development services, and deficiency payments ('decoupled' from production decisions).

3. Export subsidies are to be reduced to a level 36 per cent below the 1986-90 base and the quantity of subsidized exports by 21 per cent, both over the same implementation period.

The instruments to be phased out include price-support policies, income-support policies linked to production, or other subsidies discriminating against imports. Those to be 'bound' in the GATT sense and subject to negotiated reductions include investment grants and subsidized loans. Income-support policies not linked to output, environmental programmes and domestic food aid would be permitted.

The package is likely to have modest inflationary effects on world prices and the pattern of trade in those goods where protection among the western industrialized countries has been substantial - grains, in particular wheat, but also rice and coarse grains, 'red' meats (beef, sheep meat and pig meat), dairy products and sugar. The Final Act will lead to a reduction in exports of these products by the western countries. The main effects on non-WTO members will be higher costs for agricultural imports and higher prices for agricultural exports.

The WTO-member developing countries will be also affected through their own obligations under the Final Act. These are limited by special provisions. For example, the minimum reductions in subsidies and tariffs are spread out over ten rather than six years and the depth of the cuts is lessened. Reductions in export subsidies are to be two-thirds those applying to the developed countries. In all cases, trade barriers. Domestic support measures and export subsidies are closely defined.

There has been little consensus about the effects of the Uruguay Round package on trade in temperate agricultural goods. This is partly because there are major problems in assigning specific liberalization moves to the Uruguay Round. The 1992 CAP reform was partly undertaken in order to anticipate some of the likely requirements of a Uruguay Round agreement. But there was, in any event, considerable budgetary pressure for reform. Clearly it is impossible to attribute a specific share to the Uruguay Round. Page and Davenport (1994) simulated the full Final Act requirements in cooperation with the OECD and using the OECD RUNS (Rural-Urban North South) model, even- though in many cases, not only in the EU but also in the US and many developing countries, those requirements were largely already implemented.

The price changes derived from the simulation were as follows:

Wheat	3.6 per cent
Rice	0.9
Coarse grain	1.9
Sugar	7.9
Beef, veal and sheep	3.7
Other meats	0.5

These are the final, 'steady state', effects. They measure the differences between the projected price levels without the Uruguay Round with those taking account of the Round - after all the lags have worked out. In general the developing countries experience real net export increases from the higher prices they receive from exports; or because they have to pay more for imported foods. Most are net food importing countries so these net export increases are largely the result of lower food imports because of higher world prices. Thus there may be significant losses in economic welfare.

Since the signing of the Final Act it has become clear that the spirit of the Round was less than respected by many of the larger industrialized countries, including the EU and the USA. In particular in order to preserve as much protection as possible for their own agricultural producers, they indulged in "dirty tariffication". In other words the tariff equivalents of the various types of border protection were exaggerated. This implies that the Uruguay Round will have less of an impact on agricultural trade and world prices than was previously expected. The figures proposed above for the effects on world prices, and thus the figures for the impact on the ESCWA non-member countries, should be taken as upper estimates of the final effects.

C. NON-TEMPERATE AGRICULTURAL AND MANUFACTURED GOODS

As regards trade in non-temperate agricultural goods and manufactures the non-WTO members will be affected by the Uruguay Round in two principal ways: trade diversion and price effects. Trade diversion arises because, when tariffs on the imports from a particular set of suppliers are cut, these suppliers will then become relatively cheaper. Imports are then shifted in favour of these suppliers, even though they would in fact be higher cost suppliers were it not for their preferential tariff regime. The price effects stem from the increased trade, generated by tariff cuts, which pushes up marginal costs of production and the world price rises.

In order to assess the magnitude of the effects of the trade diversion, outside of temperate agriculture and textiles and apparel, partial equilibrium analysis was used. Partial equilibrium analysis is unable to cope with changes in factor prices and the reallocation of factors of production. Its strength ties in its ability to grasp complex details of trade regimes and look at the direct effects of changes in those regimes on prices and trade flows. Certain primary products, e.g. non-ferrous ores and pig iron, are excluded as, with zero MFN tariffs, there can be no trade diversion. The MFN tariff cuts for each product group, weighted by imports from the developing countries, were taken from GATT (1994), and trade diversion was estimated.[3] We did not explicitly take into account the Generalized System of Preferences (GSP).

[3] When one exporting country (or set of countries), a, is excluded from a reduction in the tariff imposed on imports from another country (or set), b, entering a third country (or set), c, trade diversion will be a simple function of the tariff cut, the substitutability between the exports of a and the exports of b, and the share of a in the imports of c. Since our four countries are small in terms of the total imports of all the WTO-member states lumped together, and their exports are largely standardized commodities such as fruit and vegetables or agricultural raw materials, the coefficient of substitution will be high - we

The GSP schemes cover a relatively small share of the dutiable exports of the beneficiary countries. In 1992 the OECD GSP schemes together covered 48 per cent of dutiable imports from the beneficiary countries, of covered imports 49 per cent received GSP treatment, and, as a result, of dutiable imports only 24 per cent received GSP treatment (Davenport, 1994). Of European Union dutiable imports, 33 per cent received preferential treatment, of US imports 19 per cent and of Japanese imports 16 per cent. In the US scheme, for which the calculation was done, the actual savings in tariff payments for all beneficiary countries was only $ 683 million, 0.7 per cent of US imports from these countries. With full coverage of all imports the savings would have been seven times greater. There is no reason to suppose that for the GSP schemes taken together the factor would have been greatly different (Davenport, 1994).

The principal products excluded in the EU scheme are agricultural products subject to the Common Agricultural Policy, primary industry products and ferrous and non-ferrous metals up to the ingot stage and in the US scheme, textile and leather products, some chemicals and may agricultural products. Few products are not covered under the Japanese scheme. There are a number of reasons for the low proportion of covered imports receiving GSP treatment these include the exclusion of beneficiaries under the various "graduation" mechanisms attached to the OECD GSP schemes, specific product exclusions, quotas or ceilings applied to particular beneficiaries under the various safeguard clauses, competitive need criteria and so on, the sometimes onerous rules of origin. Ignorance of the availability of GSP treatment and, not least, the transactions costs attached to the bureaucratic procedures required to obtain what may be a very slight margin of preference.

Apart from the problem of lack of detailed data, there is a further reason for choosing to ignore GSP treatment. This is that the GSP schemes are by their nature concessions and can be withdrawn or varied at any time. The EU has recently made some substantial changes to its GSP scheme which has significantly limited its value, in particular to the higher-income developing countries, for the purposes of the calculation of trade diversion. Then, the change in the average MFN tariff on developed country imports for each category of products is taken as the measure of increased discrimination against non-WTO members. This is likely to be reasonably close to the actual trade-weighted average Change in MFN tariff discrimination on the export markets of the four countries[4]. To the extent that it ignores exports receiving

assume it equal to unity - and in this case the per centage of exports lost to WTO-member states will simply equal the change in intra-WTO MFN tariff rates. The elasticities of substitution were judged as close to unity for agricultural exports. For manufactured exports they were set at 0.75 (see Cline et al. 1987).

[4] Ideally the calculation of trade diversion would use a multilateral non-linear model wherein the individual tariff chance for each product on each export market would be made explicit. Such a model would be highly complex and require sophisticated solution routines and would not be justified by the additional predictive power.

GSP treatment both from WTO-member and non-member developing countries, and the changes in GSP tariffs are likely to be lower than those of MFN tariffs – because most manufactures enter the developed countries duty-free under the GSP – this will give a "high side" estimate of likely trade diversion.

The main MFN tariff reductions that emerge for the Round are summarized in Tables 4 and 5. On average MFN tariffs are reduced by a sizeable 38 per cent. However the data support the contention that the higher the tariff rates the smaller proportionately the reduction. Textiles and apparel, leather, rubber, footwear and travel goods and transport equipment all have well above average pre-Uruguay Round tariffs rates and all will experience below average proportionate cuts. But the case is less clear as regards tariff reductions in absolute terms and it is these that determine the amounts of trade creation and trade diversion.

TABLE 4. TARIFF AND TARIFF-EQUIVALENT REDUCTIONS BY DEVELOPED ECONOMIES ON AGRICULTURAL PRODUCTS
(Million of US dollars and percentages)

Product categories price	Value of imports	Reduction in tariffs/tariff equivalents	Estimated change in world
Coffee, cocoa	n.a.	34	a/
Fruits and vegetables	14 575	36	3.0 b/
Oilseeds, fats and oil	12 584	40	1.3
Other agriculture products	15 585	48	1.9
Animals and products	9 596	32	3.7
Tobacco	3 086	36	1.9
Grains	5 310	39	c/
Dairy products	1 317	26	7.2
All agricultural products n.a.	84 240	37	

Source: GATT (1994), Page and Davenport (1994).

a/ 0.8 for coffee and 1.0 for cocoa, based on Page et al, 1991.

b/ Fruit and vegetables were not included explicity in the RUNS model. The price change was estimated by analogy with other goods with a similar average tariff change and similar elasticities of demand, supply and substitution.

c/ The estimates for wheat, rice and coarse grains were 3.6, 0.9 and 1.9 per cent respectively.

The highest pre-Uruguay Round tariffs applied to textiles and apparel. Textiles and apparel or, at least exports of these from the developing countries to the developed countries have for many years been exempt from the normal GATT rules and trade, have been managed through a complex web of bilateral quotas under the general umbrella of the MultiFibre Arrangement.[5] The gradual dismantling of the MFA will go further than the tariff cuts to open the markets of the western industrialized countries to exports from the developing countries.

TABLE 5. MFN TARIFF REDUCTIONS OFFERED BY THE DEVELOPED COUNTRIES BY INDUSTRIAL PRODUCTS GROUP (EXCLUDING PETROLEUM)
($ billions, and %)

Product category	Imports from devel. countries	Average tariff		Estimated changes in price
		Pre-round	Post-round	
All prods. exc. petrol	736.9	6.3	3.9	n.a.
Textiles and clothing	66.4	15.5	12.1	n.a.
Metals	69.4	3.7	1.5	1.7
Minerals, precious stones, metals	72.9	2.3	1.1	
Electric machinery				1.7
Leather, rubber footwear, travel goods	31.7	8.9	7.3	1.5
Wood, pulp, paper and furniture	40.6	3.5	1.1	2.3
Non-electric machinery	118.1	4.8	2.0	2.7
Chemicals and photo supplies	61.0	6.7	3.9	2.6
Transport equipment	96.3	7.5	5.8	1.6
Manufactures nes	76.1	5.5	2.4	2.3

Source: GATT (1994), Page and Davenport (1994).

Certain countries, presently quota-constrained, have clear labour-cost advantages, large labour supplies, experience and appropriate institutions for marketing and good transport arrangements to the market economies. The most threatening are China and India, with potentially Pakistan and Vietnam. They will react to quota relaxation over the transition period without supply or competitiveness limits. Some of the earlier large-scale low-cost producers, Hong Kong, Taiwan, South Korea, now find themselves less competitive because of higher labour costs. They are now investing in or subcontracting supplies from China, Africa and the Caribbean.

Page and Davenport (1994) take 2 percept to 5 per cent per year as the plausible range in which developing countries' exports of textiles and apparel could grow with

[5] The present agreement is the fourth in the series - NFFA IV - It should have expired in 1991 but was repeatedly renewed while the Uruguay Round was still unresolved. It takes the form of bilateral quota arrangements negotiated between the importing country – all OECD members - and the developing countries suppliers.

the gradual phasing out of quotas over the transition period, that is from the beginning of 1995 to the end of 2004.[6] If Lebanon and Syria were to maintain their market shares this would imply that additional exports of textile products could ultimately contribute between 2 and 5.7 per cent of total current exports for Lebanon and between 2.8 and 8 per cent for Syria. On the other hand, if competition from low-cost producers, in particular China and India, meant the erosion of 50 per cent of the market share of Lebanon and Syria while, at the same time, world market growth continued at 2 per cent per year, 3.5 and 1.2 per cent respectively of total current export earnings in Lebanon and Syria would be lost by the end of the transition process. These numbers are inevitably arbitrary, given that little can be said about future trends in competitiveness in this sector. This, however, is the central scenario adopted in Page and Davenport (1994). Here again it is taken as the most reasonable estimate of the change in the contribution of textiles and clothing to export earnings in the two countries in question.

TABLE 6. ESTIMATES OF URUGUAY ROUND TRADE EFFECTS, $ MN AND PER CENT OF BASE IMPORTS

	Total imports (base year)	Temperate agriculture prices	Textiles clothing agreement	Trade in other agriculture and manufactures		Total trade balance deterioration	Share of total imports
				Trade diversion	Price effects		
	$Mn.						Per cent
Iraq	11534	85.5	0.0	2.9	38.0	126.4	1.1
Lebanon	7575	37.9	3.5	21.4	13.9	76.7	1.0
Syria	3490	2.3	1.2	13.8	4.0	21.3	0.6
Yemen	1853	16.1	0.0	0.1	35.9	52.1	2.8

The total estimated loss varies from to 0.6 per cent in Syria to 2.8 per cent in Yemen. Iraq, whose imports largely consist of temperate agricultural products, in particular grains, the price increases associated with trade liberalization and subsidy cuts in the developed countries contribute almost three-quarters of the total estimated cost of the Uruguay Round. In Yemen the impact of the price rises on imports of manufactures is relatively significant. Trade diversion hardly matters in Iraq or Yemen in which exports are dominated by oil. In Syria, however, the most important factor is trade diversion, especially in manufacturing and, in Lebanon, it also plays a significant role.

Overall the effects are relatively minor, around one per cent of total imports, except in the case of Yemen where they are almost 3 per cent. As suggested earlier

[6] No distinction is made between changes in the volume and changes in the value. The price effect of the increases in demand is assumed offset by reduction in quota rents and improved productivity from scale effects.

the methodology tends to yield estimates towards the top end of the likely range, because exports benefiting from the GSP have not been factored in and because the estimated prices effects on temperate agricultural goods do not take account of excess tariffication.

Data on Palestine's pattern of trade are not sufficiently detailed to allow a similar analysis. However on the basis of what is available certain tentative conclusions may be drawn. Table 7 gives the agricultural and industrial exports for Gaza and the West Bank in 1990. Agricultural exports make up some third of the total. These are largely fruit and vegetables and Palestine should benefit from the increase in the world price of these by about 3 per cent. However this is largely offset by higher prices for agricultural imports. As regards industrial exports Palestine is likely to suffer some trade diversion of the order of 2 to 2 1/2 per cent. There could also be a significant displacement of Palestinian clothing and textile exports by those of low-cost Asian producers, though lack of data makes this impossible to quantify. The effects of higher prices of manufactured imports could be equivalent to 1 1/2 to 2 per cent of total base year imports. Overall the effect of the Uruguay Round could be quite serious for the Palestinian economy, amounting to $ 11 to 16 million or between 1 1/2 and 2 per cent of total imports.

TABLE 7. AGRICULTURAL AND INDUSTRIAL TRADE, GAZA AND THE WEST BANK, 1990

	Exports			Imports		
	Agric	Industrial	Total	Agric	Industrial	Total
Gaza	45.1	47.3	92.4	43.3	294.0	337.3
West Bank	27.8	94.0	121.8	67.0	381.0	448.0
Total	72.9	141.3	214.2	110.3	675.0	785.3

Source: UNCTAD (1994), Main Features.

III. THE NEW WTO REGULATORY SYSTEM

A. ANTI-DUMPING AND COUNTERVAILING ACTIONS

Even where tariffs are largely irrelevant, protectionism through antidumping (AD) and Countervailing (CV) measures, safeguard clause and other unilateral and power-based rather than rule-based action will continue. The difficulties in limiting the scope for "contingent protection" were seen in the failure of the negotiations to significantly trim national discretion in rules governing AD actions.

Until the 1980s, antidumping actions were used largely by the developed market economies (DMES) to protect industries threatened by highly competitive imports from Japan and the newly industrialized economies (NIEs). Then they became widely seen as a quick and relatively costless (at least when the consumer interest is ignored) alternative to safeguards actions for protection over a broad range of sectors by an increasing number of countries, including the developing countries. The GATT code was undemanding about the procedures or evidence required to find exporters guilty of selling below 'normal cost'. Provisional duties - or export constraint agreements - could be imposed immediately, and, even if these were not upheld in the final determination, at worst the duties had to be refunded. Often the threat of AD actions was sufficient to deter exporters from competing on price.

The Uruguay Round has done little to tighten up the rules, in particular no stronger evidence of 'predatory' pricing, the original justification for AD actions, is required. Arbitrary use of the AD instrument. Eventually they agreed not to disagree in the negotiations with the result that some of the most biased of the EU rules were effectively generalized. A five-year review can extend the duties, grounds for contesting AD actions are further circumscribed, clothing and textiles even where controlled by MFA quotas are now covered and the concept of cumulative damage allows injury to be established more easily. The complaints, in excess of 100, brought by the exporting countries, largely Japan and the NIES, were mostly dismissed. Some improvements making the determination of the 'normal value' more transparent and predictable were adopted, as was the 'sunset' clause which requires that a duty is automatically reviewed after five years.

The developing countries are still mainly to be found among the defendants in AD and CV actions. Over the period 1985 to 1992 473 out of 1148 investigations referred to developing country exporters. Only III of those investigations were undertaken by developing country governments, of which Mexico was responsible for 84, Brazil 13, Korea 9 and India 5. 93 of the 180 CV investigations referred to developing countries exporters. Only 26 were initiated by the developing countries, Chile accounting for 18 and Brazil 8.

Clearly, however, the developing countries are learning by example of the DMES. Most of the AD and CV investigations they have undertaken have come in the latter half of the period. But in initiating AD or CV actions, firms in a developing country may be at a disadvantage relative to firms in a developed country. With often only a nascent industry in the developing country, the Government may not be prepared to sacrifice the cheaper imports in order to preserve a limited number of jobs, particularly if the imports are themselves inputs into local industries. Moreover in developing countries, the business lobby is often relatively weak. For the government, there are major institutional difficulties in bringing AD or CV actions. Unless the investigations follow the rules precisely, they may be successfully challenged through the WTO (or in the past GATT) which can imply lengthy or costly legal processes. However the attitude of the WTO to AD and CV actions seems to have underdone a subtle change. Instead of generally disapproving of these forms of safeguards. The WTO is keen to offer advice and training to developing countries in this area.

In respect of AD and CV actions, non-WTO member countries might suffer two disadvantages vis-a-vis the member states: firstly they are neither protected by WTO rules nor do they have access to the WTO disputes mechanism; secondly, simply because they are not protected by WTO rules, they could be subject to harassment through AD and CV actions designed for protection of domestic industries among their trading partners. It should be said however that this problem is likely to be much more severe for major non-member exporters, such as China, than for small countries such as the non-WTO members of the ECSWA region.

B. THE DISPUTES SETTLEMENT PROCEDURE

Major improvements have been effected in the regulatory system relative to the old GATT system, particularly as regards disputes settlement. In August of this year the WTO received its hundredth request for consultation under the disputes settlement mechanism. This was after a mere 2 1/2 years in existence whereas GATT only dealt with three times as many disputes in nearly fifty years. The most important of the improvements involve the automatic procedures - a 60-day consultation period, automatic establishment of panels on the second request, binding panel decisions. These have also increased the incentive to settle out of court (Financial Times, 24 September 1997).

The two biggest traders, the US and the EU, have been the major users of the new system. The US has brought 35 cases and has been defendant in 20. The EU has brought 21 cases and has defended 14. Developing countries have been bringing more cases than under the old system. And unlike the situation under GATT they are often winning.

Costa Rica and India have both won against the US in disputes over textiles and have succeeded in having certain quotas removed. The US has lost cases involving oil products to Brazil and Venezuela (FT, op. cit.). These gains could not have been won through bilateral negotiation.

C. THE TRADE POLICY REVIEW MECHANISM

Another new feature is the Trade Policy Review Mechanism. Under this, each country's trade policy is critically reviewed, its protective measures scrutinized and evaluated with respect to economic growth. The reviews include services, intellectual property and other new WTO areas. There are major benefits to tile country under examination in that an comprehensive and objective review of its trading policies, their internal consistence and sometimes counterproductive aspects is rarely undertaker internally due to time and other constraints. The government, if it is so inclined, may also use the review as a method of resolving political disputes about liberalization moves at home. There are also benefits to the trading partners for whom the details of a country's trade policies and commercial regulations may not be transparent.

IV. SERVICES, TRIMS AND TRIPS

A. THE GENERAL AGREEMENT ON TRADE IN SERVICES

Data on **trade in services** is not readily available for the countries in question. Net balances in overall services and in the transport and travel components are available in the IMF Balance of Payments statistics but the details are not supplied. It is clear, however, than among the non-WTO ESCWA countries, tourism is particularly important for Yemen and Syria. For these countries tourism has been making an increasingly important contribution to current account balances for some time. In the past it was also important for Lebanon.

The negotiations for GATS were complicated by the conflict of interests between the developing and the developed countries. Developed countries were particularly interested in the right to establish a commercial presence in other developed and developing countries, whereas developing countries were more interested in the liberalization of labour-intensive services exports. Up till now many developing countries have had restrictions on the imports of services from developed countries to protect national institutions and to keep national independence on rule setting in the sector. Especially in the financial services sector, developing countries are concerned that liberalization will intensify the competition to the extent that foreign suppliers of services will take over their national markets. On the other hand the developed countries are concerned about the implications for the movement of labour in the liberalization of trade in labour-intensive services.

The process of negotiation was through voluntary commitments to keep certain services sectors open to foreign competition. Participating countries could, and can still, decide whether to make an offer or not for a particular service. If an offer is made, a country can register restrictions on market access, limitations on national treatment of suppliers or derogations from the MFN rule. Restrictions may be specified as 'bound' or not.

The approach has had two important side-effects, one benign and one hostile to trade in services. On the one hand, for services which are offered and for which the regulations are registered and bound, the information now found in many of the services offers will remove one of the major de facto barriers, lack of an accessible way for exporters to know what the restrictions are. On the other hand, inviting countries to list restrictions, could also be to invite regulation where it had not hitherto existed.

Negotiations continue in two sectors, financial and maritime services. The first is mainly of interest to developing countries on the import side. The US wanted a code approach, that is, open access would be limited to those countries entering reciprocal commitments. This was rejected but the US is still threatening that, unless sufficient numbers of countries open their financial sectors, it will restrict national treatment to countries offering reciprocity. Shipping services were also treated differently because of US reluctance to liberalize. Here all offers are still provisional.

For non-WTO member countries, liberalization of trade in services within the WTO could mean that some of their exports of services are diverted to WTO states. Take tourism, for example. International hotel companies might redirect their investment towards those countries where pressure to liberalize has resulted in reduced restrictions on foreign investment in that industry. Of course there is nothing except domestic pressures to stop a non-WTO member form unilateral liberalization but that country might still be at a relative disadvantage. First the government cannot use the multilateral negotiating process as an alibi to force the private sector to accept liberalization or existing commitments under the GATS as a way of preempting any subsequent moves to restrict openness. Secondly there is no opportunity for exacting reciprocal liberalization from partner countries through the negotiating process. Thirdly the publicity value of having commitments on trade in services recorded within the GATS forum is unavailable.

B. TRIMS

The Uruguay Round does impose disciplines on Trade Related Investment Measures RIMS) which seek to prohibit, *inter alia*, regulations on the use of local inputs and requirements on the proportion of output exported. The TRIMS section in the Final Act only relates to investments concerned with traded goods. Investment in the services sector is regulated through the GATS. The TRIMS agreement also requires that countries offer national treatment to overseas investors, though there is a five year transition period for developing countries. In effect the agreement does little more than clarify the existing Articles III and XI, adding an illustrative list of measures that would he inconsistent with these articles (Page and Davenport, 1994, pp. 88-89).

It is not likely that the non-WTO member states of the ESCWA region will be much affected by the TRIMS agreement. Developing countries are in any event permitted temporary exemptions under balance-of-payments protection conditions. And since most of the outlawed practices were already clearly illegal under the GATT and countries who practised them were not subject to a large number of complaints, it is unlikely that repeating that they are illegal, and de facto legitimizing them during the adjustment periods, will encourage countries or companies to take them more readily to disputes procedures.

C. TRIPS

The agreement on Trade Related Intellectual Property (TRIPS) is more radical and being free of its obligations might give a minor advantage to non-WTO states though at the cost of major friction with certain developed countries. TRIPS were included in the Round because of complaints about exports of counterfeit goods, from software to designer clothing, from some South-East Asian countries and about local production of pharmaceutical products without payment of licence fees to the Western. Mainly US, companies who had developed them (Page and Davenport, 1994, p. 85 ff.).

The agreement requires that member states accept the substance of the Berne Convention on copyright and of the Paris Convention on patents, while extending the range of items subject to copyright or patenting (for example to computer software) and specifying minimum periods for protection. It opens the way for the use of the WTO disputes procedures and enforcement mechanisms to be used where complaints are made. Limited concessions are made in favour of the developing countries, mainly in respect to the length of the transition period.

The extra costs imposed on the WTO members, particularly the low-income developing countries, include the costs of buying the technology and of introducing and operating the required legal and administrative mechanisms. The non-WTO states can save on the costs only at the risk of triggering disputes with, and perhaps inviting unilateral retaliation from, Western governments, in particular the United States which is the most forceful in its attachment to the TRIPS principles. These risks may appear worth taking where the loss of revenue to the Western companies is small and arguably insufficient for them to provoke their governments into action.

V. SUMMARY AND CONCLUSIONS

In this paper we have built up the overall effects of the Uruguay Round agreement on the non-WTO countries of the ESCWA region by considering the effects sector by sector. Efforts at a broad quantification have been made for trade in merchandise. What we have not done is to take into account any gains for these countries which might arise from the multiplier/accelerator (or "dynamic) effects of the Round on world investment, on world GDP growth and on world trade. These effects are difficult to measure, not least because it is so difficult to pin down just what the Uruguay Round achieved as opposed to what would have happened in any event. We have attributed to the Round the liberalization of temperate agricultural trade in the developed countries. It could forcefully be argued that such liberalization was on the cards in any event, simply because of the budgetary costs of agricultural support, particularly in Europe. Likewise we have attributed to the Round all the multilateral reductions in tariffs on merchandise trade included in the member states' offers tabled at Marrakesh. However it was clear that many developing countries - and some developed countries-had, in the course of the Round, become to appreciate the gains from unilateral trade liberalization, though not surprisingly they tended to insist that such unilateral moves be included within their offers under the negotiating process.

In fact the quantified effects on the four countries under examination are small, except arguably those for Yemen, and, to the extent that quantification was possible, Palestine. It may be that the dynamic effects, if they could be defined, would outweigh the negative effects of non-membership. However that would still leave the non-member ESCWA states relatively worse off than their neighbours. But from the point of view of WTO-members the improved regulatory system, including the marginally more rational rules on antidumping and countervailing actions, but - much more crucial - the new disputes procedure, may be in the long run as, or more, important than the cuts in tariffs and liberalization of agricultural trade. As tariff and non-tariff barriers are eroded, domestic producer interests may have more recourse to contingent protection. This in itself implies more trade disputes. On the other hand the disputes settlement procedure will reduce the inherent uncertainty of trade by increasing the regulatory muscle of the WTO, as well as restraining protectionist instincts in general. It is likelv that developing countries in general, and the smaller developing countries in particular, will gain more from the improved regulatory system than they lose by any increased tendency towards protection. In this respect non-members can only be losers.

Nor have we attempted to estimate the effects of the services agreement - GATS - and the agreements on TRIMS and TRIPS. GATS is probably on balance positive for the developing countries for reasons outlined above. The non-member ESCWA may suffer from not being party to this agreement but they could minimize that by simply establishing a foreign investment code par excellence. They do, however, lose the opportunity for negotiating the opening of other countries' service sectors.

Finally how will the WTO adapt in the future and what will be the implications for non-members? More and more issues are being, raised within the WTO as trade-related - investment, labour conditions, competition policy, the environment. WTO-members will find that domestic policy becomes increasingly the handmaid of international trade commitments. Member states will be increasingly constrained and their production costs forced up as they are required to adopt best practices in these fields. But this does not give non-members any competitive edge. Again they will lose from the lack of a regulatory framework. And small, developing countries will always be easy targets for unilateral action by the larger industrial importers.

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APPENDIX ON DATA

It was not possible to assemble a set of data for the five countries with a single - and recent -base year. Nor would it have been appropriate given that the Iraqi economy has been distorted by sanctions for sometime. In each case the most recent trade data with sufficient SITC disaggregation was used. In the case of Iraq those were for 1980, for Syria and Yemen 1992 and for Lebanon 1996, except, in the case of imports, the latest data for Yemen was strangely 1980. In the former three cases the source was UNCTAD. For Lebanon national sources were used. Although the data used were in most cases quite out-of-date, the important point is that they represent the underlying trade structure, undistorted by such factors as war, civil disturbance or economic sanctions.

In some cases the SITC classification was more detailed than in others. Where possible trade data corresponding to tariff change and price change estimates given in Tables 4 and 5 were used. In some cases a broader classification was inevitable. This was particularly so in the case of Palestine for which the only available data covering both the Gaza Strip and the West Bank simply disaggregated trade into agricultural and industrial goods.

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WHAT CAN ECONOMIC BLOCS ACHIEVE FOR ESCWA MEMBER COUNTRIES UNDER THE NEW TRADE AGREEMENTS

by

*Edwini Kwame Kessie**

"While regionalism can provide an important complement to the multilateral system, it cannot provide a substitute. The solution is to globalize regionalism, not to regionalize globalization" (WTO Director-General Renato Ruggiero)[1]

I. INTRODUCTION

For nearly fifty years, trade relations between most countries in the world have been overseen by the General Agreement on Tariffs and Trade (GATT) and its successor the World Trade Organization, which was established on 1 January 1995 following the successful conclusion of the Uruguay Round of Multilateral Trade Negotiations. The Round was launched at Punta del Este, Uruguay in 1986 to address concerns that existing GATT rules and procedures had become obsolete by not keeping pace with developments in the global economy. The GATT was an agreement which covered only trade in goods and did not have effective rules to govern trade in agriculture and textiles and clothing – incidentally two of the most important sectors for developing countries. It also did not have disciplines regulating trade in services and trade-related aspects for intellectual property. The defects of the GATT system united trading nations to explore how the multilateral trading system could be strengthened to serve their interests.

The negotiations ended on 15 December 1993, and the results were formally endorsed by Uruguay Round participants at Marrakesh on 15 April 1994. Governments subsequently submitted the Marrakesh Agreement Establishing the World Trade Organization for approval to the relevant domestic authorities. The Implementation Conference held on 8 December 1994 confirmed 1 January 1995 for the entry into force of the World Trade Organization, at which time eighty-one GATT

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[1] Speech entitled "Regional Initiatives, Global Impact : Cooperation and the Multilateral Trading System", delivered to the 3rd Conference of the Transatlantic Business Dialogue in Rome on 7 November 1997.

contracting parties had completed the ratification process. Currently, there are 132 Members of the WTO, with thirty-two countries including China, Russia and Saudi Arabia engaged in accession negotiations.

The results of the Round were unprecedented in the history of international trade relations among countries. Not only did the Round enact tighter disciplines for trade in goods, but also it extended the principles underpinning the multilateral trading system to trade in services and trade-related aspects of intellectual property, two of the fastest growing areas in international trade. The areas of Agriculture and Textiles and Clothing have now been brought within the framework of the WTO, and are subject to tighter multilateral rules. Tariffs on industrial products, on the average, were reduced by 40 per cent. After the full implementation of the Round, tariffs on industrial products in OECD countries will fall to 3.8 per cent from 6.3 per cent, which was the average rate when negotiations started in 1986. The reduction in tariffs coupled with the high level of tariff bindings are expected to increase certainty and predictability, which are the very elements needed by the governments and the business community to make the necessary investment decisions required for growth and prosperity. In addition, the Uruguay Round strengthened the GATT dispute settlement mechanism. Under the new rules, Members have undertaken not to resort to unilateral trade measures, but to seek recourse to the procedures for adjudicating disputes under the WTO Agreement. It is no longer possible for a party to a dispute to frustrate the system by blocking the establishment of a panel or the adoption of a panel report.

The liberalization package, which covers trade in goods, services and intellectual property, is expected to benefit all Members of the WTO in terms of encouraging economic reform, increased revenue earnings from the export of goods and services, and increased foreign direct investment, which in turn are expected to increase employment. The rules encourage governments to adopt appropriate economic policies which would ensure long-term growth and sustainable development.

Notwithstanding the strengthening of the multilateral trading system by the Uruguay Round, regional trading arrangements are proliferating suggesting that there might be no co-relation between the two. In other words, it was not only the defects in the GATT system which motivated Members to form or join regional trading arrangements. Between 1992 and 1996 alone, 77 trade agreements were notified to the GATT/WTO. The very fact that these agreements were notified during the Uruguay Round Negotiations and after the coming into force of the WTO is as curious as it is interesting. Are Members of the WTO losing faith in the multilateral trading system, and thinking that bilateralism and regionalism offer a better route to global trade liberalization; or could the proliferation of regional trade agreements be explained by the dissatisfaction with the pace of liberalization of trade and investment at the multilateral level?

The view has also been expressed that the proliferation of regional trading arrangements should not give cause for alarm, as the two approaches to global free trade are not mutually exclusive. Regionalism, according to its most ardent supporters, has provided the impetus for the adoption of multilateral disciplines in areas like intellectual property and government procurement. It has acted as a laboratory for the testing of rules and principles with the view of their implementation at the international level. Support for the latter view has been expressed by some economists who argue that a division of the world into three trading blocs-Europe, the Americas, and East Asia- is the fastest road to multilateral free-trade. Whereas, it may be difficult to disparage this view given the protracted nature of multilateral trade negotiations, it would also be equally hard to disparage the claim that if the world were to be split into three trading blocs, it could significantly undermine the effectiveness of the multilateral trading system and marginalize weaker countries who do not participate in these groupings.

In any event, the fact that WTO Members are creating new trading blocs seems to suggest that they are convinced that these blocs could complement the multilateral trading system by removing barriers to trade on a bilateral/regional basis, indeed, studies conducted by the WTO Secretariat and other bodies such as the World Bank and the OECD have all concluded that existing regional trading arrangements have complemented the multilateral trading system. The challenge therefore is to ensure that regional trading arrangements would continue to complement the multilateral trading system.

The objective of this paper is to explore what an economic bloc can achieve United Nations Economic and Social Commission for Western Asia (ESCWA) member countries under the new multilateral trading regime. Theoratically, an economic bloc comprising ESCWA members should be able maximize benefits from the Round on behalf of its members, but in reality, the benefits to be obtained would depend on the sort of policies pursued by the economic bloc. An open regional trading arrangement is more likely to generate benefits for its members than a closed regional arrangement which pursues discriminatory policies.

The paper is divided into four sections. The first section reviews the relevant provisions of the WTO Agreement that permit countries to form regional economic blocs. The rationale behind those rules is examined. The second section briefly reviews the Agreement establishing the Gulf Cooperation Council (GCC) in the light of the relevant provisions of the WTO Agreement. The third section explores the potential benefits that could be obtained by an economic bloc on behalf of ESCWA members, should it pursue outward-oriented policies. The last section summarizes the salient points made in the paper, and stresses the need for regional economic groupings to operate in accordance with the principles underpinning the multilateral trading system.

II. RELEVANT MULTILATERAL RULES ON REGIONAL INTEGRATION AGREEMENTS

The non-discrimination principle is the bedrock of the multilateral trading system. The first limb of this principle is the "Most-Favoured Nation" (MFN) clause, which is articulated in Article I of GATT 1994. This clause basically provides that any advantage or benefit granted to a Member of the WTO (or a non-Member) should unconditionally be extended to other Members of the WTO. If carried to its logical conclusion, it would disallow the conclusion and implementation of regional trade agreements, as the guiding principle in such agreements is discrimination. Whereas parties to the trade agreement are permitted to exchange tariff and other preferences between themselves, they are under no legal obligation to extend the benefits to other Members of the WTO.[2]

Notwithstanding its potential to fragment the multilateral trading system, the WTO Agreement contains a number of provisions which permit Members to form regional economic groupings. These are Article XXIV of GATT 1994, the Decision of the CONTRACTING PARTIES on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries, otherwise known as the "Enabling Clause", Article XXV and Article V of the General Agreement on Trade in Services. These provisions are discussed below.

A. ARTICLE XXIV OF GATT 1994

Article XXIV is the main GATT provision which provides legal cover for Members of the WTO to form or join customs unions or free trade areas. Given the fact that regional trade agreements are an affront to the MFN principle, the Article imposes a number of conditions which must be satisfied by Members forming regional trading arrangements intending to have recourse to it. The guiding principle is spelled out in Article XXIV: 4 of GATT 1994, which provides that "the purpose of a customs union or a free trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories". Thus, from the view point of the WTO, regional trading arrangements are acceptable, so far as the intention of the parties is to increase trade between themselves, and not to restrict the trade of third countries through the pursuit of discriminatory trade policies. Article XXIV imposes three main conditions which have to be satisfied by parties wanting to form customs unions. All the conditions apply to free-trade areas with the exception of the first one.

[2] The second limb of the non-discrimination principle is the national treatment principle, which provides that Members of the WTO should not discriminate against imported goods, once they have cleared customs procedures, and the duties on them have been paid. In other words, Members are prevented from subjecting imported products to domestic rules or regulations which do not apply to like domestic products.

1. *Adoption of "substantially the same duties and other regulations of commerce"*

The requirement that parties to a customs union should adopt "substantially the same duties and other regulations of commerce" marks the distinction between customs unions and free trade areas ; in a free trade area, the contituent territories are obliged to eliminate duties and other restrictive regulations of commerce only on trade among themselves. In other words, each contituent member of a free trade area has the right to retain its external tariffs on the trade on third countries. This requirement has not proved controversial in practice, as parties to customs unions have, for practical reasons, adopted a common external tariff in their trade with third countries. Should they not maintain uniform rates, third countries would access the customs union through the member with the lowest tariff rates. While this could be combatted by the other participating countries, it would be costly and time-consuming.

2. *General incidence of duties and other regulations of commerce should not be more restrictive*

Consistent with its objective to ensure that third countries do not incur any significant losses as a result of the formation of a customs union, Article XXIV:5 (a) relevantly provides that, "the duties and other regulations of commerce imposed at the institution of any such union shall not on the whole be higher or more restrictive than the general incidence of the duties and regulations of commerce applicable in the constituent territories prior to the formation of such a union". This provision generated a lot of debate before the Uruguay Round as to its proper scope. At the heart of the dispute surrounding the interpretation of this requirement is how to calculate the general incidence of duties and other regulations of commerce, and make the determination whether they are on the whole higher or more restrictive.

According to the Understanding, the assessment shall be based upon on overall assessment of weighted average tariff rates and of customs duties collected. If further provides that the assessment shall be based on import statistics for a previous period to be supplied by the customs union, on a tariff line basis and in values and quantities, broken down by WTO country of origin.[3] Before the understanding went into force, it had been suggested that a simple average of pre-customs union tariffs was sufficient for purposes of the Article, and that the benchmark tariff rate to be taken into account was the bound rate as opposed to the duty actually applied.[4]

If in the process of adjusting its tariff schedule to conform to the CET, a participating country increases the level of the its former tariffs on some products, the

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3 See paragraph 2 of the Understanding on the Interpretation of Article XXIV.

4 Dam Kenneth, The GATT: Law and International Economic Organization (Chicago:University of Chicago Press; 1970) p. 277.

customs union would be liable to provide compensation to the country whose trading interests have been affected by such a measure, unless the increases are offset by decreases in duties previously imposed on the same product by the other parties to the trading arrangement. Although parties to a free-trade area are not obliged to have a CET, there is a similar requirement against increasing tariffs and making other regulations of commerce more restrictive.[5]

3. *The substantial all trade requirement*

Parties to a customs union or a free-trade area are obliged to eliminate "duties and other restrictive regulations... with respect to substantially all the trade between the constituent territories of the union or at least with respect to substantially all trade in products originating in such territories".[6]

The purpose of this requirement is said to be a "public choice one": it is an attempt to ensure that participants in regional liberalization efforts go all the way.[7] It is as such designed to constrain the ability of participating countries to violate their MFN obligations selectively. Generally, customs unions and free trade areas are thought to be welfare-enhancing, while preferential trading arrangements, in which only a few sectors are liberalized, are generally perceived to be protectionist and not in the interest of the multilateral trading system. In his seminal work on customs unions, Jacob Viner introduced the terms "trade-creation" and "trade-diversion". Trade creation, according to his theory, was likely to occur if members of a regional trading arrangement substantially liberalized their economies. On the contrary, if there was liberalization in a few sectors, there was the likelihood of trade diversion resulting from the trading arrangement.[8]

The question which has sharply divided trade ambassadors, lawyers and economists is how much liberalization should occur before the constituent territories could be considered to have satisfied the test in Article XXIV:8. Two distinct schools of thought have emerged in relation to the proper interpretation of the Article. According to one school of thought, the test requires a quantitative analysis to be undertaken to assess the degree of liberalization. In other words, if the volume of trade between the constituent territories is substantial, then the arrangement would be consistent with the terms of the Article.

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[5] See Article XXIV: 6 of GATT 1994, and paragraphs 5 and 6 of the Understanding on the Interpretation of Article XXIV.

[6] See Article XXIV: 8 of GATT 1994.

[7] Hoekman Bernard, "Trade laws and Institutions: Good Practices and the World Trade Organisation" (Washington: World Bank Discussion Paper) p. 51.

[8] Viner Jacob, The Customs Union Issue, (New York: Carnegie Endowment for International Peace; 1950) pp. 41-56.

Disagreement, however, exists as to which percentage of trade should be liberalized. In the examination of the Treaty Establishing the European Economic Community, some members of the Working Party expressed the view that the test would be satisfied, if the volume of liberalized trade reached 80 per cent of total trade. The majority dissented from that view. The other school of thought is of the view that the Article also requires a qualitative analysis to be undertaken to assess the degree of liberalization.[9] Put simply, no major sector of economic activity has to be excluded from the coverage of the agreement establishing the customs union or the free-trade area. On this view, it would mean that most regional integration arrangements that are currently in force would be inconsistent with Article XXIV, as the agricultural sector is usually exempted from the ambit of the agreements. The Working Party established to examine the Agreement (Stockholm Convention) establishing the European Free Trade Area (EFTA) made it quite clear that the "substantially" test requires both quantitative and qualitative analyses to be undertaken.[10]

This view that no major sector of economic activity should be excluded seems to have been implicitly endorsed by the Understanding on the Interpretation of Article XXIV, which provides in its preamble that "Recognizing also that such contribution is increased if the elimination between the constituent territories of duties and other restrictive regulations extends to all trade, and diminished if any major sector of trade is excluded".

Other conditions

4. *Interim agreements for the formation of customs unions and free trade areas*

Parties to interim agreements for customs unions or free-trade areas are obliged to phase out barriers to trade among themselves within a reasonable period of time. To ensure that Members do not renege on their commitments, Article XXIV:5 (c) of GATT 1994 obliges them to annex a "plan and schedule" to their interim agreement for the creation of a customs union or a free trade area indicating when the barriers to their trade will be removed.

In the past, the word "reasonable" provoked a lot of controversy. The Understanding resolves this issue by providing that the "reasonable length of time" ... should exceed ten years only in exceptional cases.

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9 See GATT, Basic Instruments and Selected Documents (BISD) 1958 Sixth Supplement, para 34 at p.100.

10 See GATT, Basic Instruments and Selected Documents (BISD) 1961 Ninth Supplement, para 49 at 84.

5. *Procedural-notification requirement*

A reading of paragraph 7 (a) of Article XXIV would seem to indicate that the parties to the agreements should notify their agreements before implementing them. If the Members are not given the opportunity to examine the agreements before they are implemented, it is hared to imagine how they can fulfil their mandate of making "such reports and recommendations to the ... parties as they deem appropriate". Of what use will the reports and recommendations of Members be, if the parties to the regional integration have already implemented their agreement?

Notwithstanding the logic underlying the requirement in paragraph 7 (a), most agreements are still implemented before they are notified to the WTO. Several reasons have been proffered as to why it is impractical to meet this condition. It has been suggested that because agreements signed by governments often require legislative or popular approval (for example, by a referendum), if notification occurred at a point prior to entry into force, the contracting parties would, in some cases, review agreements which were eventually rejected by one or more of the countries involved. Alternatively, if agreements are examined only after a protracted and perhaps difficult process of domestic legislative approval, the prospect of amending an agreement to reflect the concerns of GATT contracting parties presents its own difficulties.

The Understanding did not tackle this issue, but it is one of the systemic issue being considered by the Committee on Regional Trade Agreements.

B. *Agreements NOTIFIED UNDER THE ENABLING CLAUSE*

The Decision of the CONTRACTING PARTIES on Differential and More Favourable treatment, Reciprocity and Fuller Participation of Developing Countries, otherwise known as the Enabling Clause, emerged from the Tokyo Round of Multilateral Trade Negotiations. This clause basically permits developed countries to accord differential and more favourable treatment to developing countries, without according such treatment to other contracting parties. In other words, it provided legal cover for, most notably, trade concessions granted to developing countries under the Generalized System of Preferences (GAP) of 25 June 1971, by waiving the provisions of Article I, in its application to developing countries. Paragraph 2 (c) of the clause extends such treatment to regional or global arrangements entered into by developing countries for the mutual reduction or elimination of tariffs and non-tariff measures.

Before the enactment of the "Enabling Clause", developing countries invoked Part IV of the General Agreement to enter into such preferential trading arrangements. The enactment of the Enabling Clause in November 1979, however, provided developing countries with a solid legal bases for the formation of preferential trading arrangements. The members of ASEAN, who had notified their preferential trading arrangement under Part IV in 1978, re-notified their agreement under the "Enabling

Clause". Notifications made pursuant to the Enabling Clause should be addressed to the Committee on Trade and Development instead of the council for Trade-in-Goods.

1. *Requirements under the enabling clause*

Developing countries wishing to invoke the "Enabling Clause" to form preferential trading arrangements are required to comply with a limited number of conditions. The first is that the arrangement should be designed to facilitate and promote the trade of developing countries and not to raise barriers to or create undue difficulties for the trade of any other contracting parties. This requirement closely resembles that spelt out by paragraph 4 of Article XXIV of the General Agreement. Thus from the view point of the WTO, regional trading arrangements entered into by developing countries are acceptable, so far as the intention of the parties is to increase trade between themselves, and not to restrict the trade of third countries through the pursuit of discriminatory trade policies. If trade is not created but diverted from countries which are much more competitive, then regional trading blocs would cease to be welfare-enhancing and become tools for discriminating against other Members of WTO.

The Enabling Clause expects developing countries entering into preferential trading arrangements to reduce both tariffs and non-tariff barriers to the trade of partner countries. Whereas, it provides guidance on how non-tariff barriers may be reduced or eliminated, it does not do the same for tariffs.[11] Under Article XXIV, developing countries are not expected eliminate duties and other regulations of commerce on substantially all trade. In other words, the provisions of the Enabling Clause permits the exchange of a few tariff preferences.

This provision has raised a broader issue in the WTO, and that is if developing countries can rely on the provisions of the Enabling Clause to form a customs union or a free trade area. The view of some developed Members of the WTO is that where the arrangement is quite significant such as a customs union or a free trade area, then the appropriate legal basis is Article XXIV. Developing countries disagree, and have insisted on their right to rely on the provisions of the Enabling Clause to form any conceivable regional trading arrangement. COMESA, which intends to establish a common market among the countries of Eastern and Southern African States was notified pursuant to the Enabling Clause.

C. AGREEMENTS NOTIFIED UNDER ARTICLE XXV (WAIVERS)

Article XXV allowed contracting parties to the GATT to obtain a waiver from the CONTRACTING PARTIES, if they were incapable of discharging their

[11] WTO Secretariat, Regionalism and the World Trading System (Geneva: WTO; April 1995) p. 18.

obligations under the General Agreement.[12] It could, therefore, be invoked by contracting parties, who in breach of Article I of the General Agreement, wanted to enter into preferential trading arrangement. A waiver to enter into a regional trading arrangement would typically be requested if the parties to the arrangement could not comply with the terms of Article XXIV or the Enabling Clause. In the first two decades of GATT, a number of developed countries invoked it to form preferential trading arrangements. In 1948, France requested and obtained a waiver for a proposed customs union with Italy, which was not at that time a member of the GATT. The founding members of the European Coal and Steel Community (Belgium, Netherlands, Luxembourg, Germany, France and Italy) obtained a waiver for their agreement on free-trade in coal and steel. The limited product coverage of the agreement meant that they could not invoke Article XXIV of the General Agreement. Similarly, the United States and Canada had to obtain a waiver for their agreement on free-trade in automobiles in 1965.

However, out of the thirty or so waivers which have been granted for the formation of regional trading arrangements, a majority have involved preferences granted by developed countries to developing countries, on a non-reciprocal basis. Most of such arrangements drew inspiration from Part IV of the General Agreement which is intended to aid the development of the poorer countries of the GATT. Examples of non-reciprocal agreements are the Australian preferences to products of Papua New Guinea (1953), Canada's preferences to imports from the Caribbean Basin (1968) and the United States preferences granted to Caribbean countries under the Caribbean Basin Economic Recovery Act (1985). Recent waivers granted by the CONTRACTING PARTIES include the preferences granted by the United States under the Andean Trade Preference Act in 1992 and those granted by the European Union under the Lomé Convention to countries belonging to the African-Caribbean and Pacific group (ACP) in 1994.[13]

With the going into force of the Understanding in Respect of Waivers of Obligations under the General Agreement on Tariffs and Trade, it is quite doubtful if Members of the WTO will be able to obtain a waiver to enter into a preferential arrangement very easily. Paragraph 1 of the Understanding provides that "a request for a waiver or for an extension of an existing waiver shall describe the measures which the Member proposes to take, the specific policy objectives which the Member seeks to pursue and the reasons which prevent the Member from achieving its policy

[12] Article IX:3 of the WTO Agreement provides that "in exceptional circumstances, the Ministerial Conference may decide to waive an obligation imposed on a member by this Agreement or any of the Multilateral Trade Agreements, provided that any such decision shall be taken by three fourths of the Members unless otherwise provided for in this paragraph...".

[13] The European Union did not obtain a waiver for the first three Lomé Conventions. It was not until the legal basis of the Convention was challenged and found to be inconsistent with Article I of the GATT that the signatory states decided to obtain a waiver for the fourth Lomé Convention.

objectives by measures consistent with its obligations under GATT 1994". Paragraph 2 of the Understanding tightens the restrictions by providing that all waivers existing as at the time the WTO Agreement went into force (1 January 1995) shall lapse on that day or not later than two years, unless extended by the CONTRACTING PARTIES in accordance with the provisions of Article IX of the WTO Agreement.

D. AGREEMENTS NOTIFIED UNDER ARTICLE V OF GATS

The counterpart of Article XXIV of GATT 1994 is Article V under the GATS. Before the going into force of the WTO Agreement, the services component of regional trading arrangements were not examined, as Article XXIV deals exclusively with trade in goods. Given the increasing share of services in world trade, it was thought this was a serious defect of the GATT system, as it virtually gave parties to a regional trade arrangement a carte blanche to pursue discriminatory policies in the field of services.

The provisions of Article V of the GATS mirror that of Article XXIV, although it does not utilize the expressions customs unions or free trade areas. It uses the term economic integration instead, reflecting the fact that the GATS covers all four modes of delivery. The guiding principle is set out in Article V:4 which provides that any economic integration agreement "shall be designed to facilitate trade between the parties to the agreement and shall not in respect of any Member outside the agreement raise the overall level of barriers to trade in services within the respective sectors or subsectors compared to the level applicable prior to such an arrangement". Thus, from the view point of the WTO, economic integration agreements entered into by Members are, in principle, acceptable if the intention of the parties to the agreement is to liberalize at a pace faster than they would do in the multilateral context, and not as a medium to pursue discriminatory policies.

With its emphasis on "respective sectors or subsectors", it is generally thought that Article V offers more protection for non-participating countries that in Article XXIV. It has been suggested that as a result of the more desegregated (i.e. sub-sectoral) focus taken in Article V, a contracting party cannot argue-in contrast to GATT that the average level or "general incidence" of protection has not changed, regardless of what might occur at the level of individual products (sub-sectors).[14]

Like Article XXIV, Article V of the GATS make provision for non-participating members to compensated, if the participants of an economic integration withdraw or modify specific market access and/or national treatment commitments. Before amending their previously negotiated concessions, the parties to the agreement are required to notify the council for trade in Services of their intention at least three months before implementing the proposed amendments. They will then be obliged to

[14] Hoekman, supra note 8 at p. 54.

hold consultations with the view of compensating any Member whose interests would be negatively affected by proposed amendments to the concessions. This provision is broader that its equivalent under the GATT, where compensation negotiations under Article XXVIII are required to be held with countries with initial negotiating rights and those with a principal supplying interest. The effect of such a rule is to deny compensation to smaller countries whose market shares are usually minuscule. Another difference between the provisions of Article V and Article XXIV is that, under the former, it is explicitly provided in Article XXI: 2 (b) that "compensatory adjustments shall be made on an MFN basis". Furthermore, under Article V, there is no provision which entitle the parties to claim credit for relaxing conditions governing a particular sector or sub-sector. It should be added that the GATS allows questions relating to compensation to be submitted to binding arbitration. The other conditions are as follows:

1. *Substantial sectoral coverage*

Like Article XXIV: 8, Article V:1 (a) requires economic integration agreements to have "substantial sectoral coverage", which should be understood in terms of the "number of sectors, volume of trade and modes of supply". An agreement would not be consistent with the terms of Article V, if it provides for the a priori exclusion of one of the modes of supply. The reason behind this rule is to prevent Members from entering into narrow discriminatory agreements, which are generally thought not to be welfare-enhancing from the view point of the multilateral trading system. Members wishing to form an economic integration must be prepared to go beyond the liberalization commitments under the GATS, if their agreement is to conform to the provisions of Article V.

Article V:1 (b) underscores this point by providing that the agreement should "provide for the absence or elimination of substantially all discrimination... between or among the parties, in the sectors covered under subparagraph (a) through [the] elimination of existing discriminatory measures, and/or prohibition of new or more discriminatory measures". It would, however, appear that Article V:1 is limited in its terms, if you compare it to the provisions of Article XXIV:8, which obliges Members to eliminate duties and other regulations on substantially all trade, which on one view means that no major sector of economic activity should be excluded from the coverage of the agreement. Under the GATS, there is no such requirement, as the parties are only required to eliminate existing restrictions, or in the alternative they can maintain the existing restrictions, provided they do not introduce new ones or make the existing ones more restrictive.[15]

[15] Ibid.

2. *Interim agreements for the formation of economic integration agreements*

Parties to interim agreements are obliged under Article V:7 (b) to submit periodic reports to the Council of Trade in Services (CTS) on their implementation. Unlike Article XXIV, there is no requirement that the parties should annex a plan and schedule nor an indicative time-frame, by which time the parties should have eliminated substantially all restrictions.

3. *Procedural-notification requirement*

A reading paragraph 7 (a) of Article V requires parties to economic integration agreements to promptly notify such agreements, any enlargement or modification to the CTS. It is not clear whether the Article experts Members to notify the Agreement or proposed changes before implementation.

It should be noted that following a decision of the General Council of the WTO in February 1996, all regional trading arrangements, whether notified to the CTG, CTS or the CTD, are to be examined by the Committee on Regional Trading Arrangements (CRTA) with a view of evaluating their consistency with the relevant multilateral rules. The decision whether an agreement has to be examined by the CRTA still rests with the three principal bodies, namely the CTG, CTS and the CTD.

III. ANALYSIS OF THE AGREEMENT ESTABLISHING THE GULF COOPERATION COUNCIL

It is clear from the foregoing that if the countries belonging to ESCWA (Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Syria, United Arab Emirates and Yemen) want to form a comprehensive regional trading arrangement which would be able to take advantage of the opportunities offered by the Uruguay Round, such an arrangement would have to comply with a number of conditions.

A number of Western Asian countries are parties to at least one regional economic agreement. The Gulf Cooperation Council, for example, groups together Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. All these countries also participate in the League of Arab States and also the Organization of Islamic Conference. Some also participate in the Arab Common Market, which was one of the earliest attempts at regional integration in the Middle East and Northern Africa. While the Arab Common Market has not functioned as originally envisaged, there are attempts to revive it. Other groupings such as the Gulf Cooperation Council (GCC) have taken some steps towards achieving their goals. The members of the GCC recently announced that a common external tariff (CET) would be introduced next year, which would transform the organization into a customs union.

Whereas regional trade agreements are proliferating, not all of them have managed to achieve positive economic gains for their members. The success of a regional trading arrangement is dependent on a number of factors including its interaction with third countries. A regional trading arrangement which pursues non-discriminatory policies is more likely to successful in achieving its objectives than one which discriminates against third countries. In other words, it is important for every regional trading arrangement to operate in accordance with the multilateral rules. Whereas the Unified Economic Agreement establishing the GCC could be said to satisfy a number of requirements of Article XXIV, it is doubtful if Article 4 (2) of the Agreement, which provides that "one of the objectives of the uniform customs tariff shall be the protection of national products from foreign competition" is consistent with Article XXIV:4 of GATT 1994, which relevantly provides that "the purpose of a customs union or a free-trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories". As Article 4 (2) openly advocates protectionism, it might be construed as not being consistent with the provisions of the WTO, unless of course, the CET is fixed at the same level as, or below, the pre-union applied tariff levels.

Similarly, Article 4 (1) may raise some problems as far as the provisions of Article XXIV:5 (a) are concerned. It will be recalled that this provision requires the CET and other regulations of commerce not to be on the whole higher or more restrictive than the pre-union levels. The Understanding on the Interpretation of Article XXIV also makes it clear that in calculating the general incidence of duties, regard would be had to the average weighted applied rates. Thus, in setting the CET, there are clear rules which have to be followed.

IV. POSSIBLE BENEFITS TO BE DERIVED FROM AN ECONOMIC BLOC

A. TRADITIONAL BENEFITS OF REGIONAL TRADE AGREEMENTS[16]

As previously noted, there may be several reasons which motivate members of the WTO to form regional trading arrangements. It is clear that some are motivated by political and social considerations, while others are influenced predominantly by economic reasons. Among the potential benefits that could be derived by ESCWA members from a regional trading arrangement are the following:

1. *Confidence building*

If countries belonging to ESCWA should decide to form a customs union, it would necessitate both the abolition of barriers of their intra-trade and the adoption of a common trade policy including a CET. For purposes of the WTO Agreement, a

[16] See generally Serra Jaime et al., Reflections on Regionalism: Report of the Study Group on International Trade (Washington: Carnegie Endowment for International Peace; 1997).

customs union is defined as "the substitution of a single customs territory for two or more customs territories". Goods will have free circulation within the customs territory with very limited exceptions such as public health and morality. The destiny of the countries will become more and more intertwined. Political tensions would be reduced, and would eventually be replaced with good neighbourliness. This confidence-building role of regional trade agreements is necessary for economic growth and prosperity. The European Economic Community was formed primarily because of the desire to reduce tensions between European countries, particularly Germany and France and avoid the breaking out of hostilities again. An essential element of the common currency project is to bind the European countries and peoples ever closer together. Some analysts expect that the introduction of the single European currency would lead the way to political and economic union.

2. *Easy accession and administration*

To date over 160 regional trade agreements have been notified to the GATT/WTO. One reason why countries are interested in joining regional trading arrangements is the relative ease at which they can accede to such arrangements, and the possibility of reaching agreements on a broad number of subjects within a relatively short space of time. Negotiations conducted in the WTO are often very complex with more than 100 countries participating in them, making it extremely difficult to reach agreement. "Like-minded" countries such as ESCWA members are more likely to reach agreement which would further their interests than countries from very different backgrounds. It was because of the difficulty to achieve an agreement on investment at the multilateral level, which gave the impetus for the OECD countries to negotiate an agreement among themselves and later explore the possibilities of concluding a multilateral agreement under the auspices of the WTO. Given the shared history and religion of ESCWA members, agreement could reached a number of disparate subjects more readily, than if they were to negotiate with others from different parts of the world.

3. *Trade expansion*

Another economic effect of regionalism is the substitution of a high cost producer with a low-cost producer. While this process may result in a negative impact on third countries, it brings a number of advantages to members of a regional economic grouping. The volume of trade among members increases, consumers gain from lower prices as a result of elimination of tariffs and enjoy a wider variety of goods. Competition among firms will intensify prompting restructuring and rationalization of operations. For example, information supplied to the WTO by parties to MERCOSUR indicate that there has been a significant increase in intra-trade among them.

As some of these benefits may be short-term, there is the need for parties to regional trading arrangements to maintain outward-oriented policies. This will include extending the benefits to other Members of the WTO. The very fact that there is increased trade between the participating countries does not necessarily mean that the arrangement is welfare-enhancing. The very elimination of tariffs on the products originating in the "single customs territory" will increase trade, especially when tariffs maintained against the outside world are very high. A switch from a relatively low-cost producer (a third country) to a high-cost producer because of tariff preferences has the potential of decreasing welfare and having a negative impact on world efficiency, as was demonstrated in the classical analysis of Jacob Viner. For ESCWA members to derive maximum benefit under the Uruguay Round Agreements, it is necessary for them to adopt outward-oriented policies. Should they do that, the gains could be immeasurable, as such policies promote competition and attract foreign direct investment.

4. *Increasing returns and increased competition*

One potential benefit of a regional trading arrangement, which could also benefit the ESCWA member countries, is that it increases returns on investment and promotes competition between firms. The increased size of the market would intensify competition, as firms position themselves to increase their market share, which would in turn lead to greater productive efficiency for any industry with economies of scale. It has been suggested that the EEC succeeded, because of the "huge intra-industry trade in manufactures, and the associated rationalization of production, that the Treaty of Rome made possible". There is the opportunity of ESCWA countries to replicare the European example if they adopt the appropriate policies which foster competition and encourage investment.

5. *Means of attracting Foreign Direct Investment (FDI)*

The presence of an integrated market, the adoption of outward-oriented policies and other conducive macroeconomic policies are some of the key determinants of foreign direct investment. A carefully planned regional trading arrangement could be a powerful tool for attracting investment. As Raquel Fernandez notes, a regional trading arrangement could

"Stimulate investment flows both between its constituent member countries, and from outside the RTA, in a number of ways; by reducing distortions in production within the two countries, it could increase the overall quantity of investment made by investors in member countries; by increasing the size of the potential market, it could increase the quantity of investment made both by domestic and outside investors. This effect is particularly important for "lumpy" investments like a factory, that might only be economic above a certain size; and in the case of a customs union, by creating a single market within a common external tariff wall, it may increase the incentive for foreign investors to engage in "tariff jumping", if the common external tariff is higher than preexisting tariff for some individual member."[17]

The Uruguay Round Agreements, if properly utilized, could assist countries to attract investment. This applies also to a regional trading arrangement. The GATS, the TRIPS Agreement and other agreements could facilitate the transfer of technology and investment. The Uruguay Round has strengthened the multilateral trade rules by increasing certainty and predictability, which are the very elements needed by businesses to make informed investment decisions. Should ESCWA members establish a regional trading arrangement which binds all its tariffs at very competitive rates, this would encourage investment. A strengthened regime for the protection of intellectual property rights could also produce benefits to the participating countries. Not only would it increase investment, domestic and international, but it would also generate jobs and increase confidence in the economy.

With huge natural and human resources at their disposal, ESCWA member countries could see a dramatic increase in foreign direct investment, should they adopt the appropriate policies which would generate confidence among local and foreign investors.

B. NON-TRADITIONAL BENEFITS OF REGIONAL TRADING ARRANGEMENTS

The continued proliferation of regional trading arrangements, notwithstanding the achievements of the Uruguay Round, has forced commentators to look beyond the traditional reasons for an explanation of the present trend. In fact, at the height of the Uruguay Round negotiations, there was a dramatic increase in the number of RTAs which were notified to the GATT. It has been suggested that the proliferation owed very much to the fear that the negotiations were going to collapse, as it had seemed throughout the negotiations. If this explanation is plausible, then one might ask why has the trend continued? It would have been reasonable to expect a staggering towards the process of regionalism, now that the results of the Uruguay Round have been implemented. Recent initiatives which have been proposed, including Asia Pacific Economic Cooperation (APEC), the Free Trade Agreement of the Americas (FTAA) and the Trans-Atlantic Free Trade Area linking the European Union and the North American Free Trade Agreement seem to cast doubt on this theory. As observed by the Director-General of the WTO in a recent speech to the 3rd Conference of the Transatlantic Business Dialogue in Rome:

"The central argument for regionalism has always been that smaller groups of countries may be able to move further and faster towards integration than in a much wider multilateral system. But does this logic still lie behind the vast regional arrangements we see unfolding around [the world]? For one thing, it is very difficult to

[17] Fernandez Raquel, "Returns to Regionalism: An Evaluation of Non-Traditional Gains from Regional Trade Agreements, (Washington:World Bank Policy Research Working Paper; 1997) pp. 6-7.

make the argument that liberalization is any easier in, say, APEC, the FTAA or between the EU and the Mediterranean countries, than in the WTO. Many of these new regional arrangements contain countries as different in outlook, economic size and level of development as any countries in the multilateral trading system. And the points of trade friction are no less 18 vexing. For example, are negotiations between Japan and the United States really any easier in APEC than in the WTO? Can Europe resolve the issue of agricultural liberalization any more swiftly transatlantically with MERCOSUR, or across the Mediterranean with the countries of the Middle East and North Africa ".[18]

As this statement indicates, it is difficult to ascertain what is driving the formation of regional trading arrangements in contemporary times. It could well be a mix of the traditional and non-traditional reasons. Among the non-traditional benefits which can be realized by ESCWA members are the following:

1. *Credibility to domestic reforms*

The 1980s witnessed the adoption of unilateral trade liberalization measures by a significant number of developing and smaller countries.[19] To give credibility to their domestic reform programmes, a number of these countries sought to anchor their reforms to the GATT system or to that of a regional trading arrangement. The reason behind this approach was that it would convince actual and potential trading partners that the country was committed to reform. Whereas it may be easy for an individual country to turn its back on its reform programme, the pressure not to so is greater in the regional or multilateral context, as a turnaround could provoke retaliation. A regional group including all the member states of ESCWA would send a signal that the participating countries were serious and committed to reform, especially when they have implemented outward-oriented policies. The results would take the form of increased investment and confidence in the region's economy.

2. *Locking in of domestic reforms*

Increasingly, a number of developing countries are entering into regional trading arrangements with developed countries, such as Mexico joining Canada and the United States in NAFTA, and Papua New Guinea joining Japan, Canada, the United States, Australia, New Zealand and advanced developing countries including Singapore and the Republic of Korea in APEC. By virtue of being the "junior" partners, these countries are more likely to respect the rules of the regional trading arrangement, as they cannot afford to provoke crisis in the arrangement. Such an arrangement emboldens them to resist demands of lobbyists by pointing out that they have entered into a legally binding agreement whose provisions must be respected, lest action be taken against them by the other members of the trade arrangement.

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[18] Renato Ruggiero, supra note 2.

[19] See generally Bhagwati Jagdish, "Fast Track to Nowhere", appearing in the 18 October 1997 edition of the Economist. See further Serra Jamie, supra note 17.

Furthermore, countries who realise the benefits from trade liberalization are emboldened to further liberalise their markets.[20]

Since ESCWA members are at different stages of development, a regional arrangement including all the countries could assist the smaller and weaker ones to resist opposition to domestic reforms. The bigger and economically stronger countries have an interest in ensuring their partners pursue outward-oriented policies.

3. *Increased negotiating leverage in the WTO and other fora*

A regional trading arrangement comprising all the member states of ESCWA could increase the members' negotiating influence not only in economic and trade matters, but also in political matters. Individually, each country's influence is bound to be limited as not to make any difference in the outcome of multilateral negotiations. If they should be united under a regional trading arrangement, it would be difficult to ignore their position on a number of subjects. Together, they could request for technical assistance provided by the WTO and other international institutions including the World Bank, UNCTAD and the ITC. Such assistance could be provided to help them meet their notification obligations under the WTO Agreement, and also their obligations under a number of agreements including those on TRIPS, GATS, Technical Barriers to Trade and Sanitary and Phytosanitary Measures. International institutions and donor countries would find it more cost-effective to provide assistance at the regional level than on a national level.

In summary, ESCWA members can benefit tremendously from the Uruguay Round Agreements, if they form a regional trading arrangement which is committed to the pursuit of outward-oriented trade and economic policies.

V. CONCLUSION

It is clear that the multilateral trading system needs to be responsive to the new challenges posed by the globalization of the world economy, otherwise the momentum for trade and investment liberalization would be shifted away from the WTO to regional trading blocs. Such a development would be counter-productive and jeopardize the achievements that have been made over the past five decades. The spread of regional trading arrangements, if not properly managed, could ignite trade tensions between the various competing blocs with each erecting barriers to the trade of the other. This would be unfortunate considering that the principle of non-discrimination, which has been the bedrock of the multilateral trading system, has served the world so well. It has been able to deliver growth and prosperity, and managed to reduce tensions among countries.

[20] Ibid.

To strengthen the multilateral trading system and the ability of the WTO to carefully manage the complex evolving relationship between it and the various regional trading arrangements and among the trading arrangements themselves would require the strengthening of principal rules of the WTO dealing with regional trading arrangements, namely Article XXIV of GATT 1994, Article V of the GATS and the Enabling Clause. Currently, a number of the rules are ambivalent enabling parties to regional trading arrangements to pursue discriminatory policies. The WTO's ability to remain centre-stage in the conduct of world trade would be greatly enhanced if it should have rules on subjects that are not currently being regulated effectively at the international level, but which nevertheless significantly impact on trade and are covered by most of these bilateral and regional agreements. Subjects such as investment, competition policy and labour standards are but a few examples. While it is appreciated that negotiations on these subjects would be difficult, it is imperative that progress be made. If steps are not taken in that direction, it would be difficult to persuade like-minded countries not to proceed and negotiate bilateral or regional agreements on subjects of common interest. A comprehensive multilateral trading system would reduce the incentives for forming/joining regional trading arrangements.

As the negotiations on these new areas in the WTO are bound to be long-drawn and difficult, the way forward would seem to be to encourage parties to regional trading arrangements to later extend the benefits that may be derived unconditionally to other Members of the WTO. In other words, reciprocity should not be a condition precedent for the extension of benefits to non-participating countries. The pursuit of non-discriminatory policies would not only improve the competitiveness of the members of the trading arrangement, but would also enhance the welfare of non-participating countries. Studies have proven that a regional trading arrangement which pursues discriminatory policies would not gain a much benefits from the liberalization of trade and investment, as the one which pursues outward-oriented policies. A healthy multilateral trading system is to the advantage of each country and regional trading arrangement. A fragmented system, on the contrary, would shift decision-making to economically stronger countries and in the process marginalize weaker and poorer countries.

In summary, the crucial challenge facing policy-makers including those of the ESCWA countries is to ensure that existing and future regional trading arrangements operate in accordance with the principles underpinning the multilateral trading system. ESCWA member countries should resist the temptation to design a narrow trading arrangement, as such an arrangement would constrain their abilities to derive significant benefits from the Uruguay Round Agreements. The adoption of outward-oriented policies by ESCWA members would not only improve their competitiveness in terms of effective domestic resource allocation, but also would enhance their abilities to attract foreign direct investment into the sectors in which they enjoy a comparative advantage.

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DISCUSSION OF PAPERS: SUMMARY AND CONCLUSION OF THE MEETING'S DISCUSSIONS

A. DISCUSSION ON MS. T. AL-KHALIDI'S PAPER

Mr. Adil Abdulla (API): considered the study valuable but not unique since almost all the issues had been considered at the conference in Bahrain with the WTO and UNCTAD. The paper lacked a discussion of productivity and output capacity, as well as any comparison of export performance by ESCWA countries or any discussion of the rapidly changing trade pattern of the region. Two main problems were on the agenda – the removal of GSP status (other than for Saudi Arabia) and the challenge to subsidies to producers of petroleum products and petro-chemicals. It was important that the ESCWA members gear up to using WTO rules and disputes procedures to defend themselves. Other criticisms included the lack of consideration of the benefits of a regional customs union, given the similarity of export mix, or of the question of when should a country encourage inward investment and when it should restrain it. Quite different policies were being used in the region regarding foreign direct investment.

Mr. Abdullah O. Al Sadhan (SABIC) pointed out that Saudi Arabia would enjoy EU GSP status till 1998. He used the past experience of exports of ethane, methane and LPG to illustrate the complexity of dual pricing and the subsidy problem. Dual pricing was not per se WTO-inconsistent. He drew attention to the Chemical Tariff Harmonisation Agreement which has not attracted many members and would thus be largely ineffectual. He further pointed out that oil exporters would not benefit proportionally from the Uruguay Round since tariffs on oil were not bound. Those tariffs should be included in future agreements.

Dr. Mohsen Ahmed Helal (ESCWA) emphasised the implications of the Venezuela-US dispute for the region. Dr. Mohammad Mamoun Abdul-Fatah (Egypt) argued that the issue was one of antidumping rather than countervailing duties. He pointed out that WTO members can make use of the injury test, a safeguard not available to non-members. He though that in the future the main problem would be high taxes in the developed countries adopted on environmental grounds.

Mr. Salah Al-Din Hussein (Egypt) questioned the role of OPEC in the future, given the inconsistency of the goals of OPEC and the WTO. Mr. Jaseim Al Komar (OAPEC) considered OPEC's goals would continue to be the stabilisation of the market through output controls. He also objected to the classification of products in Ms. T. Al-Khalidi's paper. He also stressed the importance of tax in the EU as a barrier to trade, and wondered how the issue could best be tackled. Mr. S.A. Adeyeye (OPEC) wondered what producers could do under WTO rules to stop the discrimination against oil, while some of those countries are subsidising the production of "like" commodities such as coal. He wondered whether it was not time for oil producers to increase their representation on the Committee on Trade and the

Environment. Mr. Abdul Muhsin Taki Muzaffar (OAPEC) argued against one of the recommendations in the paper – that is the establishment of additional legal capacity to deal with WTO issues. Citing the Arab League as one example, he suggested that the region had sufficient institutions capable of dealing with the problems already.

Dr. Helal agreed with many of the suggestions such as that the issue of dual pricing might be eventually treated as one of anti-dumping and that the classification of products in the paper needed reconsideration. He suggested that a study done in cooperation with the WTO on the taxation question was required.

B. DISCUSSION ON MR. MAHMOUD ABULEYOUN'S (KUWAIT) PAPER OF TRADE IN FINANCIAL SERVICES

Mr. Jamal Eddine Zarrouk (Arab Monetary Fund) complained about the lack of policy analysis in Mr. Abuleyoun's paper. In particular he failed to address three questions:

1. Why should a country adopt a policy of multilateral liberalisation in financial services – he suggested competition and efficiency from foreign competitors, attracting FDI and securing access to foreign markets as the answers.

2. What tools are available to link unilateral and multilateral liberalisation, to which he suggested that the depth of market opening is variable, and

3. Was there a regional, in particular an ESCWA, dimension, to which he suggested that first opening up on a regional basis would be a good introduction to further multilateral liberalisation.

Mr. Belcasem Laabas (API) argued that the gains from liberalisation needed quantification, not taken for granted. It was not clear that the ESCWA region had a comparative advantage in financial services. The experience of other developing countries, at present those of East Asia, was certainly relevant. Macro-economic stabilisation was certainly needed prior to liberalisaiton, but he was not sure that enough stabilisation had yet been achieved so that liberalisaition could be pursued without triggering a crisis. The sequencing of reforms also needed study and sets of alternative scenarios prepared.

Mr. Jim Brandon (UNCTAD) viewed the GATS agreement as somewhat schizophrenic – it wants you to join in, while allowing you to be just as liberal or illiberal as you fancy. He explained that he had prepared an "information system" on an Excel spreadsheet on commitments to financial services liberalisation. It would be made available to participants. Mr. Muzaffar wondered whether opening up one's financial services sector was a precondition of WTO membership, while Mr. Essa al Ghazzali (API) wondered where Islamic banking fitted in. Mr. Edwini Kessie (WTO) suggested that you could use the GATS framework as an alibi to counter domestic pressure groups opposed to liberalisation. Mr. A.M. Al Fadhli (Saudi Arabia) complained that there had been no discussion of the insurance sector in the paper, while Ms. Tamam Al Goul (Jordan) argued that credit limits were themselves prudential measures and should not be easily abandoned. Mr. Natik Sekouti (Kuwait) suggested that the infant industry argument could be deployed to allow sufficient time for the ESCWA region to adapt its financial sector to increased competition. He argued that prior to liberalisation, internal reform and consolidation were needed and drew attention to the impact of speculators ("predators") in East Asia. ESCWA should devise ways to avoid these problems.

Mr. Abuleyoun answered that financial services liberalisation was not a prerequisite for joining the WTO, that Islamic banks should be treated as any other banks and that, of course, internal reform should precede liberalisation. He explained that only the banking sector had been included for reasons of time. Interest rates were a preferable means to controlling credit than were ceilings. Finally Mr. Zarrouk argued in favour of experimenting with liberalisation on a regional basis before taking on the whole world.

C. DISCUSSION ON MR. AHMED HUMEIDA'S PAPER

In a fax from the FAO in Rome, Mr. D.K.Abdou made a number of points. The most important were that:

1. ESCWA should concentrate on preparing a negotiating position for the 1999 mini-round of negotiations on agriculture, foreseen in the Uruguay Round agreement.

2. The paper should have looked at the question of the effects of regional integration on trade in agriculture, particularly the Arab FTA.

3. It would also have been of interest to examine the pros and cons of the way different ESCWA members presented their commitments.

4. Further some discussion of additional adjustments required in such areas as border tariffs, domestic support, sanitary measures by the ESCWA members would have been valuable; the paper should have examined Egypt's commitments outside of tariffs.

5. The effects of other agreements – such as on textiles, on TRIPS, on technical barriers – on trade in agriculture would have been useful.

6. The actual implementation of the agreement on agriculture could have been examined.

Mr. Abdul Fatah attributed the special rules for agriculture largely to the EU's Common Agricultural Policy. This, and also US farm policy, had led to massive export subsidies, which gave significant benefits to food importing countries. Tariffication under the Uruguay Round, he argued, was irrelevant to most ESCWA countries. Only Egypt, Lebanon, Syria and Jordan were substantial food exporters. On the other hand further cut backs in export subsidies would lead to increases in food import bills. He argued that the developing countries should receive compensation for higher world food prices, as was foreseen in the Uruguay Round agreement, and that the WTO rules should be amended so that subsidies on exports to countries with incomes below a certain threshold be permitted.

Dr. Michael Davenport (UK) questioned whether the new preferential agreement between the EU and Egypt had yet been signed, to which Mr. Abdul-Fatah replied in the negative. He questioned whether the effects of the Uruguay Round on subsidies were quite as dramatic as Mr. Abdul-Fatah suggested. Most of the US export subsidies had already been abolished. Mr. Abuleyoun took up the point of how best to approach the problem getting compensation for higher food prices. Mr. Al Sadhan questioned whether subsidised world prices were such a good thing for a country, since they eliminate the incentive to farmers to become efficient producers, while Ms. Al Goul made the point that, since the ESCWA countries were generally short of water, agriculture is not necessarily a sector to be encouraged. Mr. Kessie thought that to some extent countries entering bilateral arrangements with the EU – permissible under Article 24 – might be foregoing opportunities to insist on WTO disciplines, which could cost them more than the gains from the agreement. The disciplines in some areas/sectors are more stringent under the WTO Agreement than in some bilateral agreements. More analysis is required in this area. Mr. Zarrouk suggested that agricultural trade is more important that the paper had suggested and went on to emphasise the opportunities for liberalising intra-ESCWA trade in agriculture.

In his summing up, Mr. Humeida emphasised the importance of ESCWA competitiveness, but finding markets was also important. Already Egypt is producing a surplus of off-season fruit and vegetables.

D. THE DISCUSSION FOLLOWING THE PAPERS BY MS. AL GOUL AND MS. NISREEN AHMED

Mr. Kessie congratulated Ms. Al Goul on a comprehensive presentation. He pointed out that, as regards market access, small countries could compete on a level playing ground as a result of the achievements of the Uruguay Round in terms of the strengthening of disciplines and securing about 40 per cent average tariff cut on industrial products, and a higher level of tariff binding on both agricultural and industrial products. Decisions under the Disputes Settlement mechanism cannot be blocked by the country at fault as happened under GATT. He reminded the meeting that developing country status is by self-selection, and that member countries were quite concerned about the growth of regional trade agreements. The situation in Palestine was extremely difficult. The territory had to abide by WTO rules as a but gained few of the benefits, because it was not yet an autonomous customs territory.

Mr. Wenguo Cai (Canada) argued that being a member of a customs union with Israel might not reflect Palestine's best interests.

Mr. Zarrouk emphasised the importance of involving the private sector in the process of a country's accession to the WTO. Mr. Al Fadhli asked whether a single member state could block a country's accession. Mr. Sadhan pointed out the anomalies in the use of developing country status. South Korea and Israel both acceded as developing countries while South Africa, with a considerably lower per caput income, was denied that status, as is Jordan in its current accession negotiations. Mr. Jaber Marhoun Al Wahibi (Oman) agreed that many of the questions asked at the working party stage were repetitive or barbed or simply showed the questioner's ignorance of the applicant country, but he stressed the educational value of the process, not least for the officials from the applicant country. Mr. Sekouti asked if any Arab grouping was recognised. Mr. Abdul-Fatah stressed the importance of an applicant country lobbying other developing countries for their support and of a coordinated approach. Ms. Al Goul stressed the importance that the United States attaches to TRIPs.

Mr. Kessie explained that decisions on applicants were in effect taken by consensus and that the two-thirds rule had never been tested. The self-selection process led to inconsistent results. Whereas South Africa is recognised in the WTO as a developed country, Singapore is recognised as a developing country. He pointed out that only one RTA had been accepted as being in full conformity with the requirements of Article XXIV – the Czech-Slovak customs union – and that all others had either not been rejected or accepted as WTO consistent. He said that the whole question of RTAs was being examined.

E. Discussions on the Papers of Mr. Cai and Ms. Yamout

Mr. Abdul-Fatah wondered what would be the future for foot-loose firms who came to the region to evade quota restrictions at home. He argued that the elimination of quotas is largely irrelevant for the region, given that they were almost always unfilled. The Chairman (Mr. Kessie) argued that competition from the low-cost Asian producers implied the need to find niche markets. Ms. Yamout agreed, but in the meantime the ESCWA producers could take advantage of the present system to expand their exports where the quotas were not binding. Mr. Sekouti pleaded for more help on the policy implications of all the factual information.

There was an extended discussion on rules of origin. Mr. Kessie explained that there was no agreement to date on non-preferential (i.e. MFN) rules of origin. Ms. Nasreen Ahmed (Palestine) pointed out that the rules of origin in the EU made it an impossible market for Palestinian producers. They had turned to the US market. Mr. Abdul-Fatah suggested that representatives of individual countries should sit separately with experts to thrash out the problem of rules of origin. He suggested that

ESCWA countries should decline to sign agreements with the EU under its rules of origin.

Mr. Al-Said Kassim argued that one of the new issues in trade negotiations would be labour standards and that would have implications for the industry. Ms. Yamout said that the environment was also a potential problem for textiles and clothing exports. Germany was already concerned. Mr. Kessie thought the new issues could come in through unilateral action restricting the various GSP schemes before they were agreed in the WTO.

F. DISCUSSIONS ON MR. BIZRI'S PAPER

Mr. Maher Al Mouasher (Jordan) focussed on the technology transfer problem. ESCWA's output of pharmaceuticals was largely generic (70 – 90 percent). The US took intellectual property rights very seriously and were trying to reduce the transition period for developing countries. The US has demanded application within three years of the TRIPs agreement of Jordan as a condition for its accession. The US was making application a precondition for a bilateral investment treaty with any country. The EU were moving in the same direction and Jordan had accepted a three-year transition. He considered that the cost of developing new pharmaceutical products was too high for the ESCWA countries - $ 600 to 700 million to develop and take a new product to market. He suggested the region had a comparative advantage in delivery techniques, "cocktail" treatments, biotechnology, clinical trials and small and difficult markets. It should concentrate on these.

Mr. Kessie argued that there was an upside to TRIPS: the protection of intellectual property rights could encourage foreign direct investment. Mr. Helal though that unilateral pressure would force acceding states and non-WTO members to accept shorter, probably three-year transition, periods. He argued that the legal situation should be reviewed product by product and the possibility of integration of pharmaceutical production across the region should be considered.

Mr. Sekouti said that Kuwait had already been monitored by the US and was considered an infringer, even though it protected process patents. It was threatened with action under the Super 301 Act. He wanted to know if this was legal under the WTO. Mr. Mouasher answered that process patents were inadequate. They did not give the protection that product patents gave. In answer to Mr. Sekouti, Mr. Kessie said that under the WTO agreement, all Members had agreed to eschew unilateral action, but the US insists on its rights to take retaliatory action under Super 301. The issue is yet to be tested through the disputes procedures. Mr. Kassim explained that under the act countries are put on a watch list, which may lead to a bilateral settlement. If not the US Trade Representative can impose trade sanctions on the country.

Mr. Bizri explained that patents are so broadly drafted that there was little scope for small variations on a patented pharmaceutical. He did not believe that the R and D opportunities suggested by Mr. Mouasher added up to much. There were no easy solutions but he thought that the region should go in for developing serious new products. Then TRIPs becomes an advantage rather than a problem, but, in this respect joint ventures with outside enterprises may be required.

G. DISCUSSION OF DR. DAVENPORT'S PAPER

Mr. Ibrahim Tabsh (Lebanon) was concerned with the data, with the lack of the assumptions used in the models and the degree of aggregation employed. Mr. Abdul-Fatah said there was no question that market access would be damaged, though in Lebanon's case that might be offset by the new Partnership Agreement with the EU. As regards AD actions it is the lack of the injury test that is most harmful to non-members of the WTO. Mr. Kessie pointed out that it was the security and predictability of market access that was the gain to members as regards services. He said the extent that countries use AD actions for harassment was often exaggerated. Mr. Tabsh argued that with a strong investment code GATS is not necessary.

Ms. Ahmed asked Mr. Kessie what WTO could do for Palestine, given that Israel subsidises exports to the territory. Mr. Kessie answered that it was not clear whether WTO rules governed free trade agreements entered into by a Member of the WTO and a non-member. In the past, contracting parties to the GATT had relied on Article XXIV: 10 to deal with such situations.

H. DISCUSSION ON MR. KESSIE'S PAPER

Mr. Helal said more information on Article V of GATS would be welcomed. How does it affect previous agreements like the GCC ? There used to be the idea of extending the Arab Common Market to services. He asked for WTO's interpretation of the Enabling Clause. Mr. Abuleyoun asked whether there should be an FTA covering the ESCWA countries before there were any further applications for WTO membership from the region. GCC could be expanded to ESCWA and then to other Arab countries. Mr. Zarrouk pointed out that intra-Mercosur trade developed in five years – surely evidence of trade diversion caused by high external tariffs.

A discussion of the appropriate form of further integration in the region followed. The hub and spoke approach whereby one country enters bilateral trade agreements with a number of its trading partners was criticised as a way to capture the gains from trade creation by the hub country. It was emphasised that such an approach could weaken the multilateral rules. It was also pointed out that such an approach could lead to a customs union eventually.

Mr. Kessie made the point that Mercosur was notified under the Enabling Clause and not under Article XXIV, as the parties claimed developing country status.

There was no conclusive evidence to establish whether or not MERCOSUR had diverted trade from non-participating countries. Mercosur members deny that there has been trade diversion, although some economists believe that the sharp increase in intra-trade suggest that there has been trade diversion from efficient third countries. Although Members of the WTO are obliged to notify any preferential agreements that they enter into, some had not complied with their notification obligations. There was, however, no sanctions for non-notification of these agreements. If an agreement is significant, it would certainly attract attention. Countries could challenge the operation of a trade agreement under the Dispute Settlement Understanding. As the WTO did not have an agreement on trade in services, the issue was not considered under Article XXIV. Following the Uruguay Round and the subsequent coming into force of the GATS, agreements granting preferential treatment in services would be examined under Article V of the GATS. Currently, the WTO Committee on Regional Trade Agreements are examining two agreements involving services, namely NAFTA and the European Union Enlargement to include Austria, Sweden and Finland. It was not known whether the Enabling Clause provided legal cover for preferential trade agreements in services. It is, however, probable that it only covers goods. ASEAN wants to expand its RTA to include services, but it is not clear whether a fresh notification has to be made under Article V of GATS, since it is the only explicit provision dealing with preferential trade in services. It will be a subject for the RTA Committee to decide.

I. Discussion on Dr. Helal's paper

Mr. Abdul-Fatah insisted that WTO-members and observers must intervene to help set the agenda, in such important areas as the environment, textiles, petroleum, safeguards in services, subsidies and so on. Mr. Kassim argued that the ESCWA countries must negotiate as a group. Mr. Sekouti said that more assistance was needed for the ESCWA members in such areas as geographical indicators and safeguards in services. Dr. Helal recalled the suggestion for a permanent ESCWA committee on WTO matters which would hold regular meetings. He assured the group that ESCWA would listen to the suggestions of the members.

Some discussion of the role of safeguards followed. Mr. Kessie explained that under the new Agreement on Safeguards, a safeguard measure has to be generally applied on an MFN basis, except under very specific conditions. The issue of safeguards in GATS is still under study. Mr. Adeyeye asked about whether OPEC could participate in the Trade and Environment Committee [as an observer]. Mr. Kessie answered that since its interests were clearly relevant, its application would receive a sympathetic consideration in the Committee on Trade and Environment.

Mr. Zarrouk drew attention to three areas of future negotiation that were major issues for the region competition, since the role of monopolies in many ESCWA states is still considerable, government procurement, since contracts are often reserved for domestic enterprises, and trade facilitation which involves the removal of red tape as in licensing, rules of origin and so forth.

J. SUMMARY AND CONCLUSION

Oil, petroleum products and petro-chemicals: There are no tariffs on oil, nor on petroleum products or petrochemicals exported from the ESCWA region to the main developed markets under the GSP schemes. Hence there will be little to gain in market access. The main issues discussed were:

1. The "binding" of the zero tariffs on oil.

2. Dual pricing and the threat of anti-dumping actions on products.

3. Discriminatory taxation on environmental grounds, including subsidies to coal, especially in the EU.

4. The future of OPEC, which has not yet been referred to the WTO, but arguably is against the spirit of trade liberalisation.

5. The US-Venezuela case which is a worrying precedent for oil-exporting countries, but it was resolved satisfactorily through the disputes procedures.

6. And the Chemical Tariff Harmonisation Agreement which has few signatories so far. Has it a role to play?

Financial Services: The paper and discussions raised a number of issues:

1. Why should a country want to liberalise financial services. Three reasons were suggested (a) to encourage competition and efficiency through the establishment of foreign financial institutions (b) the inflow of foreign direct investment to finance current account deficits, and (c) securing market access abroad.

2. Whether an individual country's financial institutions could withstand competition from foreign firms, and whether internal reform and consolidation is not a prerequisite. The importance of the right "sequencing" of reform was stressed.

3. Should liberalisation not be linked to internal restructuring rather than implemented as shock therapy ? Opening to foreign firms can initially be limited, say, to the region.

4. The liberalisation can be used as a means to force reform on a reluctant sector, and

5. The recent lessons from East Asia should not be forgotten.

Agriculture: The impact of the agreement was not as powerful as earlier expected owing to its implementation, in particular the "dirty" tariffication. As a result there will be limited gains through improved market access in the developed countries. The rises in world prices for temperate agricultural commodities will be in general modest, but does not mean that compensation for food-importing countries is not appropriate. However the wording of the agreement in this respect is vague. Moreover the ESCWA WTO-member countries will themselves have to open their markets through tariff cuts and reduce internal subsidies.

Possible reasons to the situation were discussed, including:

1. Increasing productivity and diversifying, but the question remains whether the region has a comparative advantage in agricultural products given the shortage of water in most countries.

2. Agreements with the EU are of limited help. They give the EU considerable discretion over tariff levels, and there is a danger that the value of WTO disciplines will be lost.

3. Eventually the Euro-Mediterranean Agreement may offer opportunities to some countries in the region to specialise further.

4. The preparation of a coordinated strategy for the new negotiations which start in 2000.

5. An Arab FTA could help competitiveness and stimulate intra-regional trade.

Accession: The lessons to be learnt from Jordan's experience include:

1. The enormity of the time and the task involved, which however does allow the applicant an opportunity for a thorough review of its economic policies as a whole.

2. The value of rallying support from existing members, finding out their demands and assessing the possibilities for flexibility in the accession terms.

3. RTAs must be WTO-consistent, as do any commitments made to international organizations in structural adjustment programmes of the like.

4. Special attention must be afforded to TRIPs about which the US is not flexible.

5. The URA transition periods might be overruled in favour of shorter periods.

6. The private sector should be involved from the start.

There was also discussion of the anomalies in the granting of developing country status, of the need for consensus rather than the 2/3 majority in the accession decision and of RTAs, which are discussed below.

The situation of Palestine: The major issue was the relation of Palestine with the WTO, given that Palestine is not an autonomous customs territory and has a customs union with Israel which is a WTO member. It effectively has the obligations of a WTO member without (a) the advantage of protection through the disputes procedure or rules on contingent protection; (b) the right to claim MFN treatment, or (c) the right to participate in the trade policy decisions of Israel.

Textiles and clothing: The gradual elimination of the Multifibre arrangement is of interest for several ESCWA countries. The discussion concentrated on the following:

1. Market access will be little enhanced by the ATC, given that, for ESCWA exporters, MFA export quotas are rarely reached.

2. The issue is primarily one of increased competition from lower-cost East and South Asia producers once the lifting of MFA quotas reaches its final stages.

3. For that reasons it is important to identify niche markets where ESCWA producers can remain, or become, competitive.

4. There was considerable discussion about rules of origin, particularly complex, for MFA goods, and quota-hopping which is a problem for certain ESCWA countries.

5. Labour standards and environmental rules will eventually be of importance to ESCWA exporters of textiles and clothing.

Pharmaceuticals: This is a small dynamic industry in certain ESCWA countries. Various points were made, especially

1. Tariffs are low and market access gains from their reduction under the Uruguay Round agreement will be limited. On the other hand exports will gain from the elimination of Technical Barriers to Trade in partner countries.

2. However the industry is threatened by the strict application of the TRIPs agreement. This will affect the transfer of technology and R and D in the region. The US unilaterally aims to reduce the WTO agreement transition periods for the introduction of the TRIPs agreement from 5 to 10 years to 3. Patents, trade marks and copyright will all be enforced more rigorously. It was pointed out that protection of process patents is much less important than that of product patents.

3. Most production currently consists of generic – post-patent – drugs using imported generic components. The TRIPs agreement will make it harder to move to higher value-added products.

4. Given the high cost of developing and marketing new pharmaceuticals - $600 to 700 million – it was suggested that the ESCWA countries had a comparative advantage in delivery techniques, "cocktail" treatments, biotechnology and clinical trials. There was some dispute as to whether there was much future in those. Perhaps it was better to play at the high stakes table and try to develop significant new products, perhaps in cooperation with external enterprises. There was little scope for small variations in existing drugs since the patents were drawn so broadly.

5. On the positive side the enforcement of TRIPs protection could lead to more investment.

6. As regards policy, a detailed inventory of products made in each country together with an analysis of their position vis-à-vis TRIPs was necessary.

7. Joint ventures among firms in different ESCWA countries would be one way of dealing with the problem.

8. Some discussion of the legal status of the US law Super 301 concluded that, though apparently inconsistent with WTO rules, it might still be used to enforce the intellectual property right protection, and was rightly of concern to ESCWA producers.

Non-WTO members: The following critical points were made:

1. The market access effects of lower tariffs would be negative for non-WTO ESCWA countries because of trade diversion. They would also suffer higher world prices of both agricultural goods and manufacturers. Both these effects would be different between different non-WTO countries but would in general be limited.

2. Exclusion from the new WTO regulatory regime would likely be more important – in particular lack of access to the trade dispute mechanism and access to safeguards on contingent protection, such as the injury defence in the case of anti-dumping cases.

3. Non-members could be targeted as importing countries seek to satisfy industry demands for protection.

4. In services they would lack the security and predictability of access for exports to markets where commitments had been made, as well as the opportunities for negotiating market openings among fellow members and the value of using the agreement as a way of pre-empting vested interests.

Trading blocs: There is some evidence that up to the present the growth of trading blocs has not stymied the development of the multilateral trading system. However there are concerns that the recent sharp increase in the number < of RTAs could lead to damaging effects, in particular trade diversion from excluded countries. Mercosur was cited in this respect, though the facts are disputed. Details of the relevant articles in GATT (1994) and GATS were explained. There was some discussion about the meaning of "substantial" coverage, in particular whether a RTA which excluded agricultural trade was WTO-consistent. The advantages to ESCWA of forming an RTA would be as follows:

1. The boost to political confidence and reduction in tensions that such a grouping would bring.

2. The gains from trade creation could be secured more rapidly than might be possible through > the multilateral route, along with the "dynamic" effects, such as economies of scale and inward investment.

3. The ability to pre-empt the demands of vested interest groups and lock in domestic reforms.

4. Increased negotiating leverage in the WTO and other international fora.

There was considerable debate about the pros and cons of a renewed effort to re-establish the Arab Common Market or an enlarge GCC as opposed to the "hub and spoke" approach of a set of bilateral agreements. The latter was criticised as tending to concentrate the gains from trade towards the hub.

The question of WTO-consistency of RTAs was discussed. It was clear that notification to the WTO was important, including the extension of an RTA into services, though whether that was required by the WTO agreement is not absolutely clear. The WTO has no sanctions to prevent the development of RTAs and has only accepted one as WTO-consistent. However the whole issue is now being reconsidered. As long as an RTA is not accepted as WTO-consistent, there is nothing to prevent an excluded WTO-member, who feels he is being disadvantaged by the RTA, from taking a case to the disputes procedure.

Future Trade Negotiations: Two sets of issues are set for negotiation. These include the unfinished business for the Uruguay Round, and the New Trade Areas. Among the former are:

1. The renewal of negotiations on agricultural trade starting in the year 2000.

2. The completion of the TRIPs agreement, in particular the question of geographical indicators.

3. And government procurement practices.

Among the new areas are:

1. Trade and environment. The Trade and Environment Committees will consider a 7-fold mandate. From the ESCWA point of view the question of taxes on oil and its products may seem most urgent, but other issues include, for example, eco-labelling and domestically forbidden products.

2. The extension of the GATS agreement to deal with safeguards, procurement, subsidies and various sectoral issues including telecoms and financial services.

3. Trade and investment – two working groups have been established, one to consider the relationship between trade and investment and the other to consider the relationship between trade and competition and to study the areas which might merit WTO consideration.

It should be noted that the Singapore Ministerial Declaration gives almost unlimited scope for future reviews and, by implications, negotiations on the Uruguay Round agreements.

The importance of WTO-members and observers from the ESCWA region participating in agenda-setting was stressed. Now that two-yearly Ministerial meetings are to some extent replacing the role of the WTO Secretariat in setting the agenda there is more opportunity than before. It was emphasised that WTO committees are open to all members and observers. Outside bodies, such as OPEC, can request observers status and they will not be refused if their concerns are relevant.

The proposal to establish a permanent ESCWA committee to deal with WTO-related issues, possibly together with a number of sectoral committees, was aired.

RECOMMENDATIONS OF THE MEETING

Below the recommendations of the Meeting are listed under seven headings.

(1) *Information and training*: The understanding of existing agreements and their implications before entering further negotiations, or the WTO-accession process, may involve technical assistance. This is offered by the WTO and several other international organisations, national governments and public or private institutes. ESCWA should play a role in supplying and organising training through seminars and workshops. It should be stressed that international organisations and national governments can only act on the request of a country.

(2) *Establishing priorities in the ESCWA region*: in particular choices have to be made over the future of regional integration, and the implications for the region in terms of the future of global negotiations. ESCWA has a clear role in bringing its member states together to examine the optimal path and sequencing of different stages. A permanent ESCWA committee with regular meetings could play a valuable part in this endeavour.

(3) *Establishing a joint ESCWA pro-active negotiating stance*: for sectoral (e.g. agriculture, financial services) or horizontal (e.g. safeguards in GATS, trade and the environment) issues, ESCWA should endeavour to establish a common negotiating position. A set of subject committees may be required for this purpose. The first goal of each committee would be to establish the region's objectives in the negotiations so that WTO-members could adopt a pro-active stance in future negotiations, rather than merely adopting a defensive position.

Taking textiles and clothing as an example of a sectoral issue, the committee would be:

(a) To ascertain the all the appropriate data for the negotiatiors was available;

(b) To ensure that the negotiators were fully cognizant of the existing agreements and their implications for the region and fully understood the relevant rules of origin;

(c) Identified the products which were, or could be, competitive;

(d) Agreed detailed priorities and possible concessions in future negotiations.

(4) *Developing a strong legal capacity in WTO anti-dumping, subsidies and safeguards rules*: It is through such "contingent" protective devices that countries will seek to protect their industries and services in the coming years. Each ESCWA country needs a specialised legal team in this area. It also needs a committee which can identify future problems in these areas and take pre-emptive action. These

committees should coordinate their work across the region as they are likely to face many of the same problems in this domain. ESCWA should play a role in this coordination, as well as in arranging technical assistance and the training of lawyers in these fields.

(5) *The special status of Palestine*: The Palestine Authority is in a particularly anomalous position in that it has the burdens of WTO membership without the advantages. ESCWA should endeavour to help Palestine to the full extent possible through studies and training in the field of international trade. Moreover the ESCWA members countries should lobby and speak loudly on Palestine's behalf in international fora, and, in particular, in the WTO, where Palestine is denied a voice of its own.

(6) *Building technological capacities*: The technical standards required by importing countries of traded goods are rising across the board. This is in part justified for the protection of health, other consumer interests or the environment. To some extent higher standards required of imports may reflect a form of hidden protection. In any event it is important that the ESCWA exports be able to meet the higher standards when they are justified, or have the technical expertise to challenge them when they are not. Furthermore the introduction of a high degree of intellectual property protection is going to require that more research and development is undertaken in the ESCWA region. ESCWA, in concert with the member states, should embark on a programme to identify priorities in this area and assist in organising the technical assistance and training required in a coordinated way across the region.

(7) *The participation of the private sector*: This is required at every level. The private sector should be provided with all information and invited to participate in every aspect of regional and individual country trade policy formulation. This should extend to training seminars and technical assistance. Where possible this participation should extend to the trade negotiations themselves in whatever fora they take place. ESCWA should continue, and intensify, its efforts to ensure private sector participation at its meetings and in its committees.

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